Audit Committee

26 February 2019

Changes to the Code of Practice for Local Authority Accounting in the UK for 2018/19

John Hewitt, Corporate Director of Resources

Electoral division(s) affected:

Countywide

Purpose of the Report

1 The purpose of the report is to provide the Audit Committee with a summary of the key accounting changes in the latest edition of the Code of Practice for Local Authority Accounting in the UK (the Code). These changes apply to the 2018/19 accounts.

Executive summary

2 In preparing the annual Statement of Accounts we closely follow CIPFA's Code of Practice for Local Authority Accounting in the UK, which is based upon approved accounting standards.

3 The 2018/19 Statement of Accounts will be prepared in accordance with the CIPFA Code of Practice for Local Authority Accounting in the UK 2018/19. The main changes to the Code from 2017/18 to 2018/19 are outlined in Appendix 2. The two key changes are as follows:

(a) Adoption of IFRS 15 Revenue from Contracts with Customers – this International Financial Reporting Standard has been introduced to ensure that income is accounted for in the year in which the product / service has been provided. The impact is not anticipated to have a material impact upon our accounts.

(b) Adoption of IFRS 9 Financial Instruments – this standard introduces changes to the way in which we classify financial instruments. It will mainly impact upon how we account for our equity holdings and for impairment.

Recommendation

4 Members are asked to note the changes detailed in Appendix 2.

Background

5 The report is presented in accordance with paragraph 4.2.3 of the Committee's operational terms of reference which requires it 'to maintain an understanding of internal and external reporting requirements'.

6 The Code is based on International Financial Reporting Standards (IFRS) and has been developed by the joint CIPFA/Local Authority (Scotland) Accounts Advisory Committee (LASAAC) Code Board overseen by the Financial Reporting Advisory Board. It is based on approved accounting standards issued by the International Accounting Standards Board and interpretations of the International Financial Reporting Interpretations Committee, except where these are inconsistent with specific statutory requirements.

7 The Code also draws on approved accounting standards issued by the International Public Sector Accounting Standards Board and the UK Financial Reporting Council where these provide additional guidance. The latest edition of the Code applies for accounting periods commencing on or after 1 April 2018. It supersedes the 2017/18 Code.

8 In England and Wales, the Code constitutes a 'proper accounting practice' under the terms of section 21(2) of the Local Government Act 2003.

9 The CIPFA/LASAAC Code Board, overseen by the Financial Reporting Advisory Board, is in a position to issue mid-year updates to the Code. This will only be done in exceptional circumstances.

Main implications

10 Appendix 2 provides a summary of the changes and their relevance to the council. The two key changes are as follows:

(a) Adoption of IFRS 15 Revenue from Contracts with Customers – this International Financial Reporting Standard has been introduced to ensure that income is accounted for in the year in which the product / service has been provided. The standard is more relevant to the private sector. The impact is not anticipated to have a material impact upon our accounts as we account for income and expenditure on an accruals basis. However we are in the process of reviewing the council's income from contracts in order to comply with this revised standard.

(b) Adoption of IFRS 9 Financial Instruments – this standard introduces changes to the way in which we classify financial instruments. It will mainly impact upon how we account for our equity holdings and for impairment. Work is ongoing to determine the classification of individual financial instruments.

Other useful documents

- Code of Practice on Local Authority Accounting in the United Kingdom 2018/19 (CIPFA 2018)
- Audit Committee, 31 July 2018 – Statement of Accounts for the Year Ended 31 March 2018

Contact:	Anita Hawkins	Tel: 03000 266242
	Beverley White	Tel: 03000 261900

Appendix 1: Implications

Legal Implications

It is a requirement of the Local Government Act 2003 and the Accounts and Audit (England) Regulations 2015 for the Statement of Accounts to be produced in accordance with proper accounting practices.

Finance

There are no direct financial implications arising for the council as a result of this report, although by implementing the changes in the Code in our financial reporting we are demonstrating efficient arrangements for the proper administration of the council's financial affairs.

Consultation

None.

Equality and Diversity / Public Sector Equality Duty

None.

Human Rights

None.

Crime and Disorder

None.

Staffing

None.

Accommodation

None.

Risk

This report requires no decision and so a risk assessment has not been carried out.

Procurement

None.

Appendix 2: Changes to the Code of Practice for Local Authority Accounting in the UK for 2018/19

The table below provides a summary of the changes in the 2018/19 CIPFA Code and their applicability to Durham County Council.

	Change	**Relevant to Durham County Council**
1	Additional guidance on the principles of revenue recognition in section 2.1 (Concepts)	Yes
2	A completely revised section 2.7 (Revenue from Contracts with Service Recipients) following the adoption of IFRS 15 Revenue from Contracts with Customers. There are also consequential amendments to sections: − 5.1 (Inventories), to reflect the changes to the measurement of work in progress − 5.2 (Work in Progress (Construction Contracts)) has been withdrawn as a result of the withdrawal of IAS 11 Construction Contracts − 5.2 (Debtors), to reflect the new definition of income, and − 8.1 (Creditors), again to reflect the new definition of income as a result of the adoption of IFRS 15.	Yes

	Change	Relevant to Durham County Council
3	Amendments to section 3.4 (Presentation of Financial Statements) to reflect the disclosure requirements under IAS 7 Statement of Cash Flows (Disclosure Initiative)	Yes
4	An augmented section 3.4 to clarify the reporting requirements for debtors and creditors following removal of the disclosure requirements for the analysis of debtors and creditors across public sector organisations	Yes
5	Amendments to section 3.4 to clarify the segmental reporting arrangements under the Code	Yes
6	Amendments to section 4.1 (Property, Plant and Equipment) to reflect changes as a result of The Item 8 Credit and Item 8 Debit (General) Determination from 1 April 2017	No – this relates to housing
7	Amendments to the new section 5.2 of the Code to introduce the incurred loss model for the impairment of non-contractual debts including relevant disclosure requirements as a consequence of the expected credit loss model for impairment being introduced by the adoption of IFRS 9	Yes
8	Amendments to section 5.2 (Debtors) to remove the requirement to disclose the analysis of debtors across public sector bodies	Yes
9	A fully revised chapter seven (Financial Instruments) to reflect the Code's adoption of IFRS 9 Financial Instruments. There have also been consequential amendments to section 3.4 to reflect the amendments to the Comprehensive Income and Expenditure Statement as a result of the adoption of the standard	Yes

	Change	Relevant to Durham County Council
10	Amendments to section 8.1 (Creditors) to remove the requirement to disclose the analysis of creditors across public sector bodies	Yes