

Audit Committee

4 April 2013



Changes to the Code of Practice for Local Authority Accounting in the UK for 2012/13

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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 2012/13 accounts.
- 2 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'**.
- 3 Appendix 2 provides a summary of all changes and their relevance to the Council.

Background

- 4 The Code is based on International Financial Reporting Standards (IFRS), and has been developed by the CIPFA/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.
- 5 The Code also draws on approved accounting standards issued by the International Public Sector Accounting Standards Board and the UK Accounting Standards Board where these provide additional guidance. The latest edition of the Code applies for accounting periods commencing on or after 1 April 2012. It supersedes the 2011/12 Code.
- 6 In England and Wales, the Code constitutes a 'proper accounting practice' under the terms of section 21(2) of the Local Government Act 2003.

Changes to the Code

- 7 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. Consultation on the Code included an Update to the Code, principally relating to Housing Revenue Account (HRA) self financing, the Carbon Reduction Commitment Energy Efficiency Scheme Assets for allowances held and other items of legislation and policy.
- 8 In the case of HRA self financing, this is a legislative change and the Code has been updated to reflect this, although direct reference should be made to the relevant statutory sources.
- 9 An update has been issued to provide accounting guidance in respect of the Carbon Reduction Commitment Energy Efficiency Scheme Assets for allowances held, which is, at the time of publication of the original Code was the subject of consultation.
- 10 Guidance on other legislative developments has also been covered in an update in 2012/13.

Recommendations and reasons

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

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Appendix 1: Implications

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 County Council's financial affairs

Staffing -

None

Risk -

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

Equality and Diversity / Public Sector Equality Duty -

None

Accommodation -

None

Crime and Disorder -

None

Human Rights -

None

Consultation -

None

Procurement -

None

Disability Discrimination Act -

None

Legal Implications -

None

Appendix 2: Changes to the Code of Practice for Local Authority Accounting in the UK for 2012/13

The table below provides a summary of the changes in the 2012/13 CIPFA Code and their applicability to Durham County Council.

| | Change | Relevant to Durham County Council |
|---|---|--|
| 1 | The 2012/13 Code includes changes in relation to the objective of the financial statements and the qualitative characteristics of financial information as a result of the publication of the first phase of the International Accounting Standards Board's (IASB's) <i>The Conceptual Framework for Financial Reporting 2010</i> (the Conceptual Framework) (see section 2.1). | Yes |
| 2 | The 2012/13 Code includes an encouragement for local authorities to prepare the Explanatory Foreword taking into consideration the requirements of the Government's <i>Financial Reporting Manual (FReM)</i> (see section 3.1). | Yes |
| 3 | The 2012/13 Code includes the amendments in relation to IFRS 7 <i>Financial Instruments: Disclosures</i> (transfers of financial assets) (see paragraph 7.4.2.4). This amendment will need to be considered for disclosure against the requirements of paragraph 3.3.4.3, i.e. the requirement to disclose information relating to the impact of an accounting change. | Yes |
| 4 | The 2012/13 Code Update (and the 2013/14 Code), includes amendments in relation to the Local Government Finance Act (Northern Ireland) 2011, its associated regulations and statutory guidance in relation to the introduction of the new prudential capital finance system in Northern Ireland. The amendments included changes to the recommended wording in the Statement of Responsibilities in section 3.2, the statutory accounting requirements in chapter four Non-current Assets and Part 2 of Appendix B Sources and Legislation. | No – applies only to Local Authorities in Northern Ireland |

| | Change | Relevant to Durham County Council |
|---|---|--|
| 5 | The 2012/13 Code does not include either of the voluntary options suggested in the consultation on the 2012/13 Code to measure transport infrastructure assets on a depreciated replacement cost (DRC) basis. CIPFA/LASAAC will revisit options for future adoption of this measurement basis following consideration of the progress of the provision of DRC information (based on the CIPFA <i>Code of Practice on Transport Infrastructure Assets</i>) as a part of the Whole of Government Accounts process. | Yes – for future adoption |
| 6 | The 2012/13 Code (following the amendments introduced in the 2011/12 Code Update) provides clarification in relation to the recognition of Business Rate Supplements income and other minor amendments. It also includes additional minor amendments and clarification in relation to the recognition of the Community Infrastructure Levy (see section 2.2). | Yes |
| 7 | The 2012/13 Code (following the amendments introduced in the 2011/12 Code Update) includes reference to the Local Authority Accounts (Scotland) Amendment Regulations 2011 (SSI 2011/64) which introduced a requirement for Scottish local authorities to produce a remuneration report as a part of the statutory Statement of Accounts (see paragraph 3.4.5.2). | No – applies only to Local Authorities in Scotland |
| 8 | The 2012/13 Code (following the amendments introduced in the 2011/12 Code Update) incorporates the new requirements of the Housing Revenue Account (Accounting Practices) Directions 2011 (see section 3.5). | Yes |
| 9 | The 2012/13 Code (following the amendments introduced in the 2011/12 Code Update) incorporates the requirement introduced in the Accounts and Audit (England) Regulations 2011 that the statement of the effectiveness of the system of internal control is the Annual Governance Statement (see paragraph 3.7.1.1). | Yes |

| | Change | Relevant to Durham County Council |
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| 10 | The 2012/13 Code (following the amendments introduced in the 2011/12 Code Update) incorporates the Accounts and Audit (England) Regulations 2011 including the changes regarding the dates at which the financial statements are required to be approved by members and clarifying the impact on the authorised for issue date in England (see section 3.8) and also the featuring changes to the relevant bodies that may be permitted or required by the regulations to follow the Code (see paragraph 1.2.4). | Yes |
| 11 | The 2012/13 Code (following the amendments introduced in the 2011/12 Code Update) includes the November 2009 amendments to the definition of a related party, related party transactions, close members of the family of a person, the guidance on the treatment of a related party and other minor amendments (see section 3.9) | Yes |
| 12 | The 2012/13 Code (following the amendments introduced in the 2011/12 Code Update) includes a revision to the Accounts Direction – Northern Ireland district councils’ requirements in relation to the treatment of short-term accumulated compensated absences. The Direction now requires that the accrued element of short-term accumulating compensated absences is to be held within the Accumulated Absences Reserve until the liability is discharged (see paragraph 6.2.5.1). | No – applies only to Local Authorities in Northern Ireland |
| 13 | The 2012/13 Code (following the amendments introduced in the 2011/12 Code Update) incorporates the requirements of the Scottish Government Finance Circular 1/2011 <i>Accounting for Local Authority Pension Funds</i> (Scotland). The Code sets out in accordance with the circular that administering authorities in Scotland are no longer required to include the pension fund accounts in the local authority financial statements but are required instead to make the disclosures stipulated by the circular (see section 6.5). | No – applies only to Local Authorities in Scotland |

| | Change | Relevant to Durham County Council |
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| 14 | The 2012/13 Code (following the amendments introduced in the 2011/12 Code Update) includes reference in Appendix B to the new statutory guidance issued by the Scottish Government including Scottish Government Finance Circulars <i>Accounting for Investments – Icelandic Banks</i> (Circular 5/2011), <i>Accounting for Grants Contributions and Donated Assets</i> (Circular 6/2011) and <i>Accounting for Investment Properties</i> (Circular 7/2011). | No – applies only to Local Authorities in Scotland |
| 15 | The 2012/13 Code does not include the changes anticipated in the consultation on the Code relating to the amendments to IAS 12 <i>Income Taxes (Deferred Tax: Recovery of Underlying Assets)</i> as at the date of approval for publication it appeared that this standard would not be adopted by the EU by its effective date and the effective date applicable to the 2012/13 Code. | No |
| 16 | The 2012/13 Code also does not include the accounting requirements in relation to Housing Revenue Account reform in England. It is anticipated these will be included in a 2012/13 Code Update. | Yes |
| 17 | The 2012/13 Code Update (and the 2013/14 Code), includes requirements for the accounting treatment of allowances in respect of the Carbon Reduction Commitment (CRC) Energy Efficiency Scheme in section 2.4. | Yes |
| 18 | The 2012/13 Code (following the amendments introduced in the 2011/12 Code Update) removes references to 'Area Based Grant'. | Yes |

| | Change | Relevant to Durham County Council |
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| 19 | The 2012/13 Code Update (and the 2013/14 Code) includes minor amendments to the HRA Income and Expenditure Statement. It also includes revisions to reflect the changes in the statutory accounting requirements for property, plant and equipment in relation to the transfers to and from the Major Repairs Reserve under the new self-financing arrangements for housing authorities in England. | Yes |
| 20 | The 2012/13 Code Update (and the 2013/14 Code) includes a minor amendment to indicate that in cases where policy development might mean that authorities are not acting as agent for non-domestic rate income then authorities will need to use the principles of section 2.6 of the Code to assess whether or not for elements of the income they are agent or principal in the transaction. | Yes |
| 21 | <p>The 2012/13 Code (following the amendments introduced in the 2011/12 Code Update) clarifies the requirements in a number of areas where uncertainty was identified in the 2010/11 and 2011/12 Codes:</p> <ul style="list-style-type: none"> • The 2012/13 Code (following the amendments introduced in the 2011/12 Code Update) includes clarifications to the recognition requirements and the treatment of general and unringfenced grants (see paragraphs 2.3.2.9 and 2.3.2.10). It also includes the definition of a stipulation from IPSAS 23 <i>Revenue from Non-Exchange Transactions (Taxes and Transfers)</i> (see paragraph 2.3.2.6). • The 2012/13 Code (following the amendments introduced in the 2011/12 Code Update) clarifies the statutory reporting requirements in the Movement in Reserves Statement in respect of the HRA and the Major Repairs Reserve (see paragraph 3.4.2.40). • The 2012/13 Code (following the amendments introduced in the 2011/12 Code Update) includes the clarification that the disclosures relating to partnership schemes should also include schemes under s33 of the National Health Service (Wales) Act 2006 (see paragraph 3.4.4.1). | <p>Yes</p> <p>Yes</p> <p>No – applies only to Local Authorities in Wales</p> |

| | Change | Relevant to Durham County Council |
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| | <ul style="list-style-type: none"> • The 2012/13 Code (following the amendments introduced in the 2011/12 Code Update) includes the statutory requirement to disclose the audited memorandum account of a fund established under section 15(1) (c) of the Community Care and Health (Scotland) Act 2002 (see paragraph 3.4.5.1). • The 2012/13 Code (following the amendments introduced in the 2011/12 Code Update) includes a minor clarification to the Balance Sheet and a number of minor clarifications to the Cash Flow Statement (see section 3.4). | <p>No – applies only to Local Authorities in Scotland</p> <p>Yes</p> |
| | <ul style="list-style-type: none"> • The 2012/13 Code (following the amendments introduced in the 2011/12 Code Update) clarifies that for local authorities in Scotland the Accounts Commission has set a non statutory date for providing the audit opinion on the financial statements. • The 2012/13 Code (following the amendments introduced in the 2011/12 Code Update) includes additional clarification that local authorities in Scotland are able to post capital receipts to a statutory capital fund (see chapter four). • The 2012/13 Code (following the amendments introduced in the 2011/12 Code Update) includes clarification in relation to the accounting treatment of IAS 19 <i>Employee Benefits</i>, IAS 32 <i>Financial Instruments: Presentation</i>, IAS 39 <i>Financial Instruments: Recognition and Measurement</i> and IFRS 7 <i>Financial Instruments: Disclosures</i> in relation to pension funds, particularly in relation to disclosures concerning the financial instruments held by funds (see paragraph 6.5.1.2). • The 2012/13 Code (following the amendments introduced in the 2011/12 Code Update) removes references to Scottish police and fire boards (see paragraph 9.1.2.46). | <p>No – applies only to Local Authorities in Scotland</p> <p>No – applies only to Local Authorities in Scotland</p> <p>Yes</p> <p>No – applies only to Local Authorities in Scotland</p> |