

report

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Committee	CIPFA/LASAAC Local Authority Code Board
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Subject	Disclosure Notes of Draft 2010 IFRS-Based Code

DETAIL

Background

1. At its meeting held on 15 April 2008, CIPFA/LASAAC agreed the format and structure of the IFRS-based Code of Practice. The format and structure of each section of the Code include sub-sections in relation to 'Disclosure Requirements' and 'Statutory Disclosure Requirements'.
2. The disclosures included in the sections of the draft Code follow those required by the relevant IFRS/IAS and also include a number of SORP disclosure notes which are not covered by the Standards, but are considered still relevant in terms of regulation and accountability (and follow the outcome of the Back to Basics consultation). The i-FReM follows the disclosure requirements of IAS/IFRS, with interpretations and disclosure requirements not covered by the Standards that are specifically required for the central government context.
3. It was considered important to review the disclosure requirements of the IFRS/IAS to ensure the disclosures are relevant to local authorities and the information needs of users of the accounts.
4. This report considers the disclosure requirements of the IFRS-based Code of Practice on an exceptions basis, with the justification for the differences from IAS/IFRS, highlighted for consideration.
5. CIPFA/LASAAC is asked to consider and approve the exceptions shown in the table below, or suggest amendments.

Disclosure Notes not included in the draft Code

Disclosure Note	Reason for not including Note in draft Code
<i>Property, Plant & Equipment (IAS 16):</i>	
<p>73 (e). A reconciliation of the carrying amount at the beginning and end of the period showing:</p> <p>(iii) acquisitions through business combinations.</p> <p>(viii) the net exchange differences arising on the translation of the financial statements from the functional currency into a different presentation currency, including the translation of a foreign operation into the presentation currency of the reporting entity.</p>	<p>Not expected to be relevant to local authorities:</p> <p>(iii) acquisitions through business combinations are unlikely to take place;</p> <p>(viii) authorities are unlikely to hold assets outside the UK.</p>
<p>74. The financial statements shall also disclose:</p> <p>(a) the existence and amounts of restrictions on title, and property, plant and equipment pledged as security for liabilities.</p> <p>(d) if it is not disclosed separately in the Statement of Comprehensive Income, the amount of compensation from third parties for items of property, plant and equipment that were impaired, lost or given up that is included in profit and loss.</p>	<p>Not expected to be relevant to local authorities:</p> <p>(a) legislation does not allow authorities to pledge assets as security;</p> <p>(d) not considered to affect decisions made by readers of the accounts.</p>
<p>77. If items of property, plant and equipment are stated at revalued amounts, the following shall be disclosed:</p> <p>(d) the extent to which the items' fair values were determined directly by reference to observable prices in an active market or recent market transactions on arm's length terms or were estimated using other valuation techniques;</p> <p>(e) for each revalued class of property, plant and equipment, the carrying amount that would have been recognised had the assets been carried under the cost model;</p> <p>(f) the revaluation surplus, indicating the change for the period and any restrictions on the distribution of the balance to shareholders.</p>	<p>Not expected to be relevant to local authorities:</p> <p>(d) will be covered in valuation statement;</p> <p>(e) not considered to affect decisions made by readers of the accounts;</p> <p>(f) change in period will be reported as part of Movement in Reserves Statement or notes; restrictions on the distribution of the balance to shareholders does not apply to local authorities.</p>

<p>79. Users of financial statements may also find the following information relevant to their needs:</p> <p>(a) the carrying amount of temporarily idle property, plant and equipment;</p> <p>(b) the gross carrying amount of any fully depreciated property, plant and equipment that is still in use;</p> <p>(c) the carrying amount of property, plant and equipment retired from active use and not classified as held for sale in accordance with chapter 4 section 9; and</p> <p>(d) when the cost model is used, the fair value of property, plant and equipment when this is materially different from the carrying amount.</p>	<p>Disclosure recommended but not required by IFRS. Omitted in line with Back to Basics objective of minimising size of financial statements.</p>
<p><i>Leases (IAS 17):</i></p>	
<p>Lessees – Finance Leases:</p> <p>31 (e). A general description of the lessee's material leasing arrangements including, but not limited to, the following:</p> <p>(i) the basis on which contingent rent payable is determined;</p> <p>(ii) the existence and terms of renewal or purchase options and escalation clauses; and</p> <p>(iii) restrictions imposed by lease arrangements, such as those concerning dividends, additional debt, and further leasing.</p>	<p>Expected to be covered by the accounting policies where material</p>
<p>Lessees – Operating Leases:</p> <p>35 (d). A general description of the lessee's material leasing arrangements including, but not limited to, the following:</p> <p>(i) the basis on which contingent rent payable is determined;</p> <p>(ii) the existence and terms of renewal or purchase options and escalation clauses; and</p> <p>(iii) restrictions imposed by lease arrangements, such as those concerning dividends, additional debt, and further leasing.</p>	<p>See above</p>
<p><i>Investment Property (IAS 40):</i></p>	
<p>75. An entity shall disclose:</p> <p>(a) Whether the authority applies the fair value model or the cost model.</p> <p>(c) When classification is difficult the criteria it uses to distinguish investment property from owner-occupied property and from property held for sale in the ordinary course</p>	<p>Not expected to be relevant to local authorities:</p> <p>(a) fair value model mandatory, and will be covered by accounting policies;</p> <p>(c) interpretation of definition of "investment property" as solely to generate</p>

<p>of business.</p> <p>(d) The methods and significant assumptions applied in determining the fair value of investment property, including a statement whether the determination of fair value was supported by market evidence or was more heavily based on other factors (which the authority shall disclose)</p> <p>(e) The extent to which the fair value of investment property (as measured or disclosed in the financial statements) is based on a valuation by an independent valuer who holds a recognised and relevant professional qualification and has recent experience in the location and category of the investment property being valued. If there has been no such valuation, that fact shall be disclosed.</p> <p>(f) (iv) The amounts recognised in profit and loss for: the cumulative change in fair value recognised in profit or loss on a sale of investment property from a pool of assets in which the cost model is used into a pool in which the fair value model is used.</p>	<p>rental income or capital appreciation is expected to avoid difficulties in classification arising;</p> <p>(d) & (e) expected to be covered by the valuation statement;</p> <p>(f)(iv) not relevant as cost mode is not permitted</p>
<p>76. A reconciliation between the carrying amounts of investment property at the beginning and end of the period, showing the following:</p> <p>(b) additions resulting from acquisitions through business combinations.</p> <p>(e) the net exchange differences arising on the translation of the financial statements into a different presentation currency, and on translation of a foreign operation into the presentation currency of the reporting entity.</p>	<p>Not expected to be relevant to local authorities:</p> <p>(b) acquisitions through business combinations are unlikely to take place;</p> <p>(e) authorities are unlikely to hold investment property outside the UK.</p>
<p>77. When a valuation obtained for investment property is adjusted significantly for the purpose of the financial statements, for example to avoid double-counting of assets or liabilities that are recognised as separate assets and liabilities as described in paragraph 50, the entity shall disclose a reconciliation between the valuation obtained and the adjusted valuation included in the financial statements, showing separately the aggregate amount of any recognised lease obligations that have been added back, and any other significant adjustments.</p>	<p>Not expected to apply to local authorities.</p>
<p>78. In the exceptional cases referred to paragraph 53, when an entity measures investment property using the cost model in</p>	<p>Not expected to apply to local authorities as it is expected that investment property held by authorities will be capable of being</p>

<p>IAS 16, the reconciliation required by paragraph 76 shall disclose amounts relating to that investment property separately from amounts relating to other investment property. In addition, an entity shall disclose:</p> <p>(a) a description of the investment property;</p> <p>(b) an explanation of why fair value cannot be determined reliably;</p> <p>(c) if possible, the range of estimates within which fair value is highly likely to lie; and</p> <p>(d) on disposal of investment property not carried at fair value:</p> <p>(i) the fact that the authority has disposed of investment property not carried at fair value;</p> <p>(ii) the carrying amount of that investment property at the time of sale; and</p> <p>(iii) the amount of gain or loss recognised.</p>	<p>measured at fair value.</p>
<p><i>Intangible Assets (IAS 38):</i></p>	
<p>118 (e). a reconciliation of the carrying amount at the beginning and end of the period showing:</p> <p>(vii) net exchange differences arising on the translation of the financial statements into the presentation currency, and on the translation of a foreign operation into the presentation currency of the authority.</p>	<p>Not expected to be relevant to local authorities as they are unlikely to hold intangible assets outside the UK.</p>
<p>122 (d). The existence and carrying amounts of intangible assets whose title is restricted and the carrying amounts of intangible assets pledged as security for liabilities.</p>	<p>Not expected to be relevant to local authorities as regulations do not permit assets to be pledged for security.</p>
<p>126. An authority shall disclose the aggregate amount of research and development expenditure recognised as an expense during the period.</p>	<p>Not expected to apply to local authorities.</p>
<p>128. An entity is encouraged, but not required, to disclose the following information:</p> <p>(a) a description of any fully amortised intangible asset that is still in use; and</p> <p>(b) a brief description of significant intangible assets controlled by the authority but not recognised as assets because they did not meet the recognition criteria (see chapter 4 section 5) or because they were acquired or generated before the version of</p>	<p>Disclosure recommended but not required by IFRS. Omitted in line with Back to Basics objective of minimising size of financial statements.</p>

IAS 38 Intangible Assets issued in 1998 was effective.		
<i>Impairment of Assets (IAS 36):</i>		Impairment
<p>129. An entity that reports segmental information in accordance with IFRS 8 shall disclose the following for each reportable segment:</p> <p>(a) the amount of impairment losses recognised in profit and loss and in other comprehensive income during the period.</p> <p>(b) the amount of reversals of impairment losses recognised in profit and loss, and in other comprehensive income during the period.</p>	<p>Not considered appropriate for local authorities. Significant impairment will be separately disclosed; requiring separate disclosure by segment is not expected to affect decisions made by readers of the accounts and would increase the length of disclosures.</p>	
<p>130 (d) for a cash-generating unit:</p> <p>(i) a description of the cash-generating unit (such as whether it is a product line, a plant, a business operation, a geographical area, or a reportable segment as defined in IFRS 8);</p> <p>(ii) the amount of the impairment loss recognised or reversed by class of assets and, if the entity reports segment information in accordance with IFRS 8, by reportable segment; and</p> <p>(iii) if the aggregation of assets for identifying the cash-generating unit has changed since the previous estimate of the cash-generating unit's recoverable amount (if any), a description of the current and former way of aggregating assets and the reasons for changing the way the cash-generating unit is identified.</p>	<p>Local authorities are not expected to have cash-generating units in the manner anticipated by the standard.</p>	
<p>131. An entity shall disclose the following information for the aggregate impairment losses and the aggregate reversals of impairment losses recognised during the period for which no information is disclosed in accordance with paragraph 130:</p> <p>(a) the main classes of assets affected by impairment losses and the main classes of assets affected by reversals of impairment losses.</p> <p>(b) the main events and circumstances that led to the recognition of these impairment losses and reversals of impairment losses.</p>	<p>Where material, this information is expected to be provided by other disclosures.</p>	
<p>133. If, in accordance with paragraph 84, any portion of the goodwill acquired in a business combination during the period has not been allocated to a cash-generating unit</p>	<p>Goodwill is not expected to be relevant to local authorities.</p>	

<p>(group of units) at the reporting date, the amount of the unallocated goodwill shall be disclosed together with the reasons why that amount remains unallocated.</p>	
<p><i>Assets Held for Sale and Discontinued Operations (IFRS 5):</i></p>	
<p>41. An entity shall disclose the following information in the period in which a non-current asset (or disposal group) has been either classified as held for sale or sold:</p> <p>(a) a description of the non-current asset (or disposal group);</p> <p>(b) a description of the facts and circumstances of the sale, or leading to the expected disposal, and the expected manner and timing of that disposal;</p> <p>(d) if applicable, the reportable segment in which the non-current asset (or disposal group) is presented in accordance with IFRS 8.</p>	<p>Omitted in line with Back to Basics objective of minimising size of financial statements.</p>
<p>42. If either paragraph 26 or paragraph 29 applies, an entity shall disclose, in the period of the decision to change the plan to sell the non-current asset (or disposal group), a description of the facts and circumstances leading to the decision and the effect of the decision on the results of operations for the period and any prior periods presented.</p>	<p>Omitted in line with Back to Basics objective of minimising size of financial statements.</p>
<p><i>Inventories (IAS 2):</i></p>	
<p>36. The financial statements shall disclose:</p> <p>(a) the accounting policies adopted in measuring inventories, including the cost formula used.</p> <p>(h) the carrying amount of inventories pledged as security for liabilities.</p>	<p>(a) Expected to be covered by the accounting policies where material.</p> <p>(h) Legislation does not allow authorities to pledge assets as security;</p>
<p><i>Work in Progress (Construction Contracts) (IAS 11):</i></p>	
<p>42. An entity shall present:</p> <p>(a) the gross amount due from customers for contract work as an asset; and</p> <p>(b) the gross amount due to customers for contract work as a liability.</p>	<p>Where material, this information is expected to be provided by other disclosures.</p>
<p><i>Financial Instruments (IFRS 7):</i></p>	
<p>14. An entity shall disclose:</p> <p>(a) the carrying amount of financial assets it has pledged as collateral for liabilities or contingent liabilities; and</p> <p>(b) the terms and conditions relating to its</p>	<p>Under statute local authorities cannot pledge their assets as collateral.</p>

pledge.	
<i>Cash Flow Statement (IAS 7):</i>	
<p>50. Additional information may be relevant to users in understanding the financial position and liquidity of the entity. Disclosure of this information, together with a commentary by management, is encouraged and may include:</p> <p>(a) The amount of undrawn borrowing facilities that may be available for future operating activities and to settle capital commitments, indicating any restrictions on the use of these facilities;</p> <p>(b) The aggregate amounts of the cash flows from each of operating, investing and financing activities related to interests in joint ventures reported using proportionate consolidation;</p> <p>(c) The aggregate amount of cash flows that represent increases in operating capacity separately from those cash flows that are required to maintain operating capacity;</p> <p>(d) The amount of the cash flows arising from the operating, investing and financing activities of each reportable segment.</p>	<p>Omitted in line with Back to Basics objective of minimising size of financial statements.</p>
<i>Group Accounts (IAS 27, IAS 28, IAS 31):</i>	
<p>Subsidiaries (IAS 27):</p> <p>42. When separate financial statements are prepared for a parent that, in accordance with paragraph 10, elects not to prepare consolidated financial statements, those separate financial statements shall disclose:</p> <p>(a) the fact that the financial statements are separate financial statements; that the exemption from consolidation has been used; the name and country of incorporation or residence of the entity whose consolidated financial statements that comply with International Financial Reporting Standards have been produced for public use; and the address where those consolidated financial statements are obtainable;</p> <p>(b) a list of significant investments in subsidiaries, jointly controlled entities and associates, including the name, country of incorporation or residence, proportion of ownership interest and, if different, proportion of voting power held; and</p> <p>(c) a description of the method used to account for the investments listed under (b).</p>	<p>Paragraph 10 of IAS 27 covers situations that are not relevant to local authorities.</p>

<p>43. When a parent (other than a parent covered by paragraph 42), venturer with an interest in a jointly controlled entity or an investor in an associate prepares separate financial statements, those separate financial statements shall disclose:</p> <p>(a) the fact that the statements are separate financial statements and the reasons why those statements are prepared if not required by law;</p> <p>(b) a list of significant investments in subsidiaries, jointly controlled entities and associates, including the name, country of incorporation or residence, proportion of ownership interest and, if different, proportion of voting power held; and</p> <p>(c) a description of the method used to account for the investments listed under (b);</p> <p>and shall identify the financial statements prepared in accordance with paragraph 9 of this Standard or IAS 28 and IAS 31 to which they relate</p>	<p>The draft Code includes an interpretation of IAS 27; 'where an authority has investments in associates and/or interests in joint ventures (jointly controlled entities) but no interests in subsidiaries, group accounts that include these interests in associates and joint ventures (jointly controlled entities) shall still be prepared', and therefore in the context of the draft Code, an authority's single entity financial statements are deemed to be separate financial statements and as such the disclosure note is not relevant.</p>
<p>Associates (IAS 28):</p> <p>37. The following disclosures shall be made:</p> <p>(h) the fact that an associate is not accounted for using the equity method in accordance with paragraph 13 (b) and (c).</p>	<p>Paragraph 13 (b) and (c) of IAS 31 cover situations that are not relevant to local authorities.</p>