



MINUTES

Committee	CIPFA/LASAAC LOCAL AUTHORITY SORP BOARD	
Date	6 March 2009	
Time	10:30am	
Venue	CIPFA, 3 Robert Street, London WC2N 6RL	
Members	Nick Bennett (Chair) David Aldous John Buchanan Peter Davies Tim Day Robert Dowey Paul Dransfield Russell Frith Lynn Hine David Jones Grant Macrae Ian Robbie	<i>Scott Moncrieff Audit Commission Local Government Audit – NI Monmouthshire CC Independent Consultant Newry and Mourne DC Birmingham City Council Audit Scotland PricewaterhouseCoopers Wales Audit Office KPMG Henderson, Loggie</i>
Observers	Larry Pinkney Alan O'Connor Graham Fletcher Hazel Black	<i>HM Treasury ASB CLG Scottish Government</i>
In attendance	Colin Stratton (Secretary) Ian Carruthers Paul Mason Dave Baldam Gareth Davies Julian Smith (minutes)	<i>CIPFA CIPFA CIPFA CIPFA CIPFA Scotland CIPFA</i>

1 APOLOGIES

Apologies were received from Angela Brown, Lynn Brown and Bruce West.

2 MINUTES

The minutes of the meeting held on 15 December 2008 were approved.

3 MATTERS ARISING

3.1 The CLG observer was invited by the Chair to report on the outcome of the public consultation on proposed amendments to the England Accounts and Audit Regulations. Discussion focussed on the form of the Chief Financial Officer's certificate/audit report and the remuneration report.

3.2 With regard to the form of the Chief Financial Officer's certificate, the CLG observer reported that it had been decided to implement changing the form of the wording of

from 'presents fairly' to 'true and fair' in 2009/10. The proposal had been to make the change in 2008/09; but mainly because of the Audit Commission's view that it would be difficult to implement a similar wording change in the form of the audit certificate in England in 2008/09, it had been decided to implement the change in 2009/10 to allow the external auditors in England time to prepare for changing the form of the Audit Certificate to 'true and fair'.

- 3.3 The Welsh Assembly Government observer commented that his jurisdiction would also not be changing the wording of the Chief Financial Officer's certificate to 'true and fair' in 2008/09, but that work was proceeding aimed at implementing the change in 2009/10, subject to ministerial agreement and consultation. The Northern Ireland Audit Office member commented that the same changes were anticipated to be brought in for Northern Ireland in 2009/10. The Audit Scotland member commented that the change would not require legislation in Scotland and the Accounts Commission in Scotland had already approved the change for 2008/09. The firm intention was therefore to implement the change both in the wording of the Chief Financial Officer's certificate and audit certificate in 2008/09.
- 3.4 Regarding the remuneration report, CLG had undertaken an exercise to obtain stakeholder views on whether and how remuneration reporting should be changed rather than putting forward specific proposals. This would lead on to a consultation when CLG had developed its proposals. About 60 responses to the initial exercise had been received and most felt change was warranted. Any changes would not take place before 2009/10.

4 ANALYSIS OF THE RESPONSES TO THE 2009 SORP PUBLIC CONSULTATION

- 4.1 There were 70 responses to the public consultation on the draft 2009 SORP. Respondents heavily supported most proposals. The proposals concerning accounting for PFI and accounting for Council Tax in England, were rather less heavily supported, but were still supported by over 70% of respondents. The Secretariat's paper reporting on responses to the 2009 SORP public consultation and suggesting amendments to the consultation Exposure Draft was considered by the SORP Board section by section as follows.

Accounting for PFI and Similar Contracts

- 4.2 The key proposal that the accounting requirements for PFI and similar contracts should be based on the iFreM's interpretation of IFRIC 12 from 1 April 2009 was supported by 76% of respondents. The Audit Commission was one of the 11 respondents that disagreed. The three other external audit bodies that replied and the CLG and HM Treasury supported the proposal. The Audit Commission's submission on the matter, which was included in full in Appendix B to the report was discussed focussing on:
- the Commission's in principle objection that the proposal *"would result in the SORP being based on UK GAAP but selectively following the principles set out in the International Financial reporting Standards (IFRS) for PFI and related contracts. The financial reporting framework should be based on a coherent set of accounting standards."*
 - the Commission's view that *"in the absence of the 'Treasury Note No. 1' there would be little practical difference between the accounting entries required by FRS 5 and those required by IFRIC 12."*
 - The Commission's comment that as acknowledged in the ITC *"the ASB might need to comment on the matter in their statement of negative assurance or even qualify their statement."*

4.3 The key comments were as follows

- (a) Members did not consider the selective use of IFRS in one area for one year before full implementation of IFRS based on pragmatic considerations as being significantly detrimental to the integrity of the SORP. The matter had been one of the key issues discussed when CIPFA/LASAAC originally deliberated the proposed an iFreM-based approach to accounting for PFI.
- (b) Members were not persuaded that the withdrawal of Technical Note No. 1 would mean that there would be little practical difference between accounting under FRS 5 and IFRIC 12.
- (c) The ASB observer confirmed the ASB's support for the proposal to base accounting for PFI on iFreM/IFRIC 12 on the grounds it would represent an improvement in financial reporting. The ASB expected to refer in its Statement of Negative Assurance to the fact that part of the SORP was based on IFRS rather than UK GAAP: something that was made clear in the ITC. The precise wording of the Statement had yet to be agreed but was likely to be in the form of an "except for" opinion.

4.4 The following main points emerge from a more general discussion of the PFI accounting consultation responses.

- (a) A key concern raised by consultation respondents and also by some members was that all the effects of the change in accounting for PFI on authorities resourcing should be identified as early as possible, in order that ameliorating regulation/statutory guidance could be considered. The effects on MRP calculations (particularly past years' MRP calculations and whether these could be amended) and the HRA subsidy were specifically mentioned. All agreed that this was a key issue.
- (b) The position with regard to statutory guidance/regulation to address any impact on authorities' funding positions was discussed. This had been issued by England and Wales and was not needed in Northern Ireland because PFI was insignificant. The CLG observer commented that the statutory guidance already introduced was quite flexible and further statutory guidance could be introduced more quickly than would be the case for regulation if further issues emerged. The Welsh Assembly Government observer said that this also reflected the position in Wales, which would consider further regulation statutory guidance if it were needed. With regard to Scotland, statutory guidance had been developed, which subject to final ministerial approval would be exposed for public consultation shortly.
- (c) The question of how issues that only affected a few authorities should be dealt with was discussed. While further statutory guidance was a possibility, it might be possible to address these in other ways using existing powers if the number of authorities affected was limited.
- (d) A large increase in borrowing limits approved by authorities would be needed when the borrowing associated with and PFI scheme came on balance sheet on recognition of the PFI property. It was concluded that this was a matter that authorities need to be aware of and plan for but it was not a really a problem.

4.5 The Exposure Draft SORP contained text in square brackets at paragraphs 18, and 23 of the PFI section concerning expected statutory guidance in Scotland to address the impact on authorities' funding positions of the change in basis of accounting for

PFI. A suggested text to replace the bracketed text was tabled by CIPFA in Scotland Secretariat. **It was agreed that the text should be considered further by the Secretariat.**

- 4.6 **The Board approved the amendments to the consultation Exposure Draft proposed in the report and would consider the further revision of the consultation Exposure Draft to amend the square bracketed text concerning statutory guidance for Scotland.**

Accounting for NNDR

- 4.7 **The Board approved the secretariat's proposals for amending the consultation Exposure Draft on NNDR as contained in section Q8 paragraph 11 of the report.**

A member commented that there might be some inconsistency in phraseology concerning the use of 'include', 'not include' and 'including'. **The Secretary undertook to consider the phraseology with regard to this point.**

Accounting for Council Tax in England

- 4.8 **The Board approved the secretariat's proposals for amending the consultation Exposure Draft on the Council Tax in England as contained in Appendix E.**

Accounting for Council Tax in Wales

- 4.9 **The Board approved the secretariat's proposals for amending the consultation Exposure Draft on Council Tax in Wales as contained in section Q14 paragraph 1 of the report.**

Accounting for Council Tax in Scotland

- 4.10 **The Board approved the secretariat's proposals for amending the consultation Exposure Draft on Council Tax in Scotland as contained in section Q16 of the report.**

Accounting for Rates in Northern Ireland

- 4.11 **The Board agreed with the reports conclusions that no amendments should be made to the consultation Exposure Draft section on Rates in Northern Ireland.**

Removal of larger parishes and community councils from the application of the SORP

- 4.12 **The Board agreed that:**
- (a) **No amendments were required to the consultation Exposure Draft section on the removal of larger parishes and community councils from the application of the SORP.**
 - (b) **The SORP Board agreed to include as a 2010 Code development, the suggestion of two consultation respondents that the application of the SORP should be removed from those other miscellaneous bodies such as Joint Committees, Port Health Authorities and Conservation Boards, for which the SORP represents proper accounting practices.**

Accounting for reorganised local authorities

- 4.13 The SORP Board agreed in principal with the amendment to paragraph 3.65a proposed by the Secretariat but considered that further consideration of the draft was needed. **It was agreed that the Secretariat should submit an amended paragraph 3.65a to the SORP Board.**

Financial reporting standards

- 4.14 **The SORP Board approved the secretariat's proposals for amending the consultation Exposure Draft in respect of the ASB's recently issued 'Improvements to Financial Reporting Standards' as contained in section Q25 paragraph 3 of the report.**

Unapplied Grants Reserve

- 4.15 **The SORP Board approved to the secretariat's proposals on Unapplied Grants Reserve as contained in section Q26 paragraph 2 of the report.**

Matters not covered by the 2009 Invitation To Comment

- 4.16 Question 27, invited respondents to suggest amendments to the SORP on matters not covered by the 2009 SORP ITC. Seven amendments to the consultation draft text were considered under this head. The amendments concerning:

- (a) authorised for issue date in Scotland;
- (b) disclosure of members' allowances in Scotland;
- (c) a typographic error needing correction at paragraph 5.35 Note 43(iv); and
- (d) the removal of notes to the core financial statements 5 to 7 and 10 and 11;

were approved without amendment.

- 4.17 It was also agreed that the removal of the 5 notes at (d) above should be implemented in 2008/09, if possible. This would require a SORP bulletin amending the 2008 SORP to be issued, which under normal ASB 'SORP body' due process might take some months and would be too late to be useful to practitioners. **It was agreed that the Secretariat should consult with the ASB about whether the due process for issuing a 2008 SORP Bulletin could be accelerated to allow the SORP bulletin to be issued more quickly.**

- 4.18 **The SORP Board decided that the suggested amendment concerning Investment Property accounting should no be implemented.**

- 4.19 The suggested amendments to the consultation Exposure Draft of:

- (a) note 15 to the core financial statements concerning officers' remuneration; and
- (b) the presentation in the accounts in current liabilities of the accrued interest element of the carrying amount of financial liabilities

were approved in principle but the SORP Board asked the Secretariat to look again at the wording, which the SORP Board considered could be made clearer or simpler. **It was agreed that amended drafts should be submitted to the SORP Board for comment.**

- 4.20 **It was agreed that the Charity Commission's proposed amendments to the consultation Exposure Draft 2009 SORP concerning the consolidation of charities into local authority group accounts would not be made; and that the matter would be taken forward jointly with the other public sector bodies and external audit agencies to which the Charity Commission had made similar representations.** FRAB was monitoring the matter and had concluded at its February 2009 meeting that joint discussions between the Charity Commission and the several public sector bodies and external audit agencies to which it had made representations, might be the best way of achieving a consistent approach to the matter. It was expected that a meeting with the Charity Commission would be arranged shortly.

5 SORP CLEARANCE PROCESS

It was agreed that the amended consultation Exposure Draft to be considered by CAPE on 12 May would be approved by correspondence. The Secretariat would send the SORP Board the amended document for comment with the suggested changes from the document considered at the meeting shown in mark-up.

6 ANY OTHER BUSINESS

- 6.1 An aspect of LAAP Bulletin 78 on the Icelandic banks situation was discussed. Audit Scotland were concerned that based on paragraph 18 of the LAAP bulletin some authority treasurers had indicated that they expected to disclose the impairment of their investment with Icelandic banks as a contingent liability in their 2008/09 accounts on the grounds that they could not reliably measure the impairment. In Audit Scotland's view such an approach was not permitted by FRS 26, which required an estimate of the impairment to be made. The SORP Board agreed that paragraph 18 might mislead authorities into thinking that the impairment could be dealt with by note disclosure only, rather than by recognising an impairment in the statement of accounts. The LAAP Secretary, who was at the meeting, was asked to raise the SORP Board's concerns with LAAP and to consider how the potentially misleading impression conveyed by paragraph 18 should be addressed.
- 6.2 It was expected to be the SORP Board's last meeting, since remaining SORP business would be concluded by correspondence. Ian Carruthers passed on his personal thanks and the gratitude of the SORP Board to Nick Bennett for his service as Chair over the last five years. It had been a period of rapid and far-reaching developments in local authority financial reporting and many difficult issues had been addressed successfully, thanks in no small measure to Nick. The Chair thanked past and present members of the Board and the secretariat for their support, including Ian Carruthers, Paul Mason and especially Colin Stratton, for their efforts of putting the detail of complex standards into clear language. The Chair also thanked Alan O'Connor for his involvement and that of the ASB in the work of the SORP Board, as this constructive dialogue had helped all parties to make progress with improving local authority financial reporting.