

Local Authority IFRS-based Accounting Code of Practice

Update as at: **21 August 2008**

Last CIPFA/LASAAC Meeting: **23 June 2008**

Next CIPFA/LASAAC Meeting: **12 September 2008**

Note: IPSASB standards shown in italics are not based on the latest IASB standard; minor changes may be required to other IPSASs as a result of the IPSASB convergence programme

IASB Standard	IPSASB Standard	Summary of Requirements and differences from SORP	Local Authority Action Required	Target Date for Code	Summary of Decisions Made to date. These are subject to final agreement with FRAB
IAS 1 Presentation of financial statements	<i>IPSAS 1 Presentation of Financial Statements</i>	IAS 1 amends the layout of the current standards and introduces the Statement of Changes in Equity as a new statement.		April 2009 (Circulate for comments in January 2009)	Presentation of financial statements to be considered in the light of the 'Back to Basics' consultation
IAS 2 Inventories	IPSAS 12 Inventories	IAS 2 is similar to SSAP 9. Where there are deferred payment terms, interest is recognised as an expense.			
IAS 7 Cash flow statements	IPSAS 2 Cash flow statements	IAS 7 requires movements in cash and cash equivalents to be reported.		April 2009 (Circulate for comments in January 2009)	Presentation of the cash flow statement to be considered in the light of the 'Back to Basics' consultation
IAS 8 Accounting polices, changes in estimates and	IPSAS 3 Accounting polices, changes in estimates and	IAS 8 does not make a distinction between fundamental errors and other material errors; all		April 2009	

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errors	errors	<p>material errors have to be corrected by retrospective restatement.</p> <p>More detailed disclosures are required including the impact of changes to accounting policies that will be required to implement new accounting standards that have been issued but not yet come into effect.</p>			
IAS 10 Events after the balance sheet date	IPSAS 14 Events after the reporting date	No significant differences from existing SORP treatment			
IAS 11 Construction contracts	IPSAS 11 Construction contracts	<p>IAS 11 applies the 'percentage of completion' method. The SORP follows a similar approach once the authority has obtained the right to consideration as a result of performing an identifiable element of its contractual obligations. IAS 11 may allow for earlier recognition of income.</p> <p>The balance sheet presentation of assets is</p>			

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		different.			
<p>IAS 12 Income Taxes</p> <p>SIC 21 Income Taxes – Recovery of Non-depreciable Assets</p> <p>SIC 25 Income Taxes – Changes in the Tax Status of an Entity or its Shareholders</p>	N/A (see IPSAS 23)	Different presentation of current tax required, and different approach to deferred taxation.	Not relevant to single entity accounts of a local authority, and therefore no impact on General Fund and HRA balances.		
IAS 16 Property, plant and equipment	IPSAS 17 Property, plant and equipment	<p>Under IAS 16, assets are measured at recognition at cost, as is the case with FRS 15. The definition of the elements of cost is effectively the same as FRS 15.</p> <p>Where payment is deferred, interest is recognised and the cost of the asset will be lower than the payment made (subject to IAS 23).</p> <p>IAS 16 has a greater</p>	<p>Discuss fair value with valuers</p> <p>Review procedures:</p> <p>1) will need to be able to identify components when enhancements take place (and asset management software will need to be able to handle component accounting)</p> <p>2) will need to be able to</p>	December 2008	

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		<p>emphasis on component accounting than FRS 15, and when parts of an asset are replaced when the asset is enhanced, IAS 16 requires the parts that are replaced to be derecognised.</p> <p>IAS 16 requires entities to select either the cost model or the revaluation model as its accounting policy for each class of asset.</p> <p>Where the revaluation model is used, assets are valued at fair value. This is normally based on market values, and may be different to the valuations used under the current SORP. Depreciated replacement cost can be used for specialised assets, but only where there is no market based evidence of fair value. Losses on revaluation (and impairments) are taken initially to the Revaluation Reserve and only to the Income and Expenditure Account where the balance</p>	<p>revalue components of an asset</p> <p>3) will need to be able to derecognise parts of an asset not previously recognised as an asset (and asset management software will need to be able to handle such derecognitions)</p>		

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		<p>on the reserve falls to zero.</p> <p>Accounting for depreciation and impairment under IAS 16 is similar to that under FRS 15, with the exceptions that IAS 16 requires components to be depreciated separately in most cases; and impairment losses are taken initially to the Revaluation Reserve and only to the Income and Expenditure Account where the balance on the reserve falls to zero. Renewals accounting is not permitted under IAS 16.</p>			
<p>IAS 17 Leases</p> <p>SIC 15 Operating Leases – Incentives</p> <p>SIC 27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease</p>	<p>IPSAS 13 Leases</p>	<p>The definitions of operating and finance leases in IAS 17 are similar to those in SSAP 21; however the 90% test in SSAP 21 does not appear in IAS 17.</p> <p>Leases of property are required to be separated into leases of land and leases of buildings, and classified separately. There is a presumption that leases of</p>	<p>New leases – identify land and buildings elements on inception</p> <p>Existing leases – separate land and buildings where required</p> <p>Consider impact of transitional arrangements</p>	<p>November 2008</p>	<p>Treatment in Scotland being investigated</p>

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IFRIC 4 Determining whether an Arrangement contains a Lease		<p>land are operating leases unless title passes at the end of the lease.</p> <p>Income recognition for finance leases may be different to that under the SORP.</p> <p>Transitional arrangements may have an impact on General Fund / HRA balances</p>			
IAS 18 Revenue SIC 31 Revenue – Barter Transactions Involving Advertising Services IFRIC 13 Customer Loyalty Programmes IFRIC 15 Agreements for the Construction of Real Estate	IPSAS 9 Revenue from exchange transactions	No significant differences from existing SORP treatment			

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<p>IAS 19 Employee benefits</p> <p>IFRIC 14 IAS 19 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction</p>	<p>IPSAS 25 Employee benefits</p>	<p>IAS 19 covers short-term employee benefits, post-employment benefits (e.g. pensions), other long-term employee benefits and termination benefits. It therefore covers a wider range of benefits than FRS 17.</p> <p>IAS 19 requires all short term benefits to be accounted for as they are earned. This includes benefits such as holiday pay. IAS 19 distinguishes between accumulating and non-accumulating benefits.</p> <p>IAS 19 allows a wider range of accounting for post-employment benefits than FRS 17.</p> <p>Simplified arrangements apply to other long-term employee benefits.</p> <p>Termination benefits are accounted for on a similar basis to the SORP.</p>	<p>Review existing information on leave entitlements outstanding at year end</p> <p>Consider options (e.g. samples) where information not available</p> <p>Consider implications for HR systems</p>	<p>Conclusions on Holiday Pay by December 2008</p>	<p>Post-employment benefits (i.e. pensions) will be accounted for on a similar basis to FRS 17. The alternative treatment currently allowed under IAS 19 (which IASB is considering removing) will not be allowed under the Code (decision made 23 June 2008)</p> <p>Impact on local authorities of any accruals for short term benefits to be quantified, and issue will be raised with CLG and devolved governments if regulations required to mitigate impact required (decision made 23 June 2008)</p>

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IAS 20 Accounting for government grants SIC 10 Government Assistance – No Specific Relation to Operating Activities	N/A (see IPSAS 23)	IAS 20 uses a similar approach to that used in the SORP. However, an alternative treatment is also permitted under IAS 20, where government grants are offset against the cost of fixed assets.			Offsetting government grants against the cost of fixed assets will not be permitted under the Code (decision made 23 June 2008)
IAS 21 The effect of changes in foreign exchange rates SIC 7 Introduction of the Euro	IPSAS 4 The effect of changes in foreign exchange rates	IAS 21 is almost identical to FRS 23.			
IAS 23 Borrowing costs	<i>IPSAS 5 Borrowing costs</i>	IAS 23 requires borrowing costs associated with the construction of a qualifying asset over a period of time to be capitalised. This is an optional treatment rather than a requirement in the SORP. IAS 23 does not need to be applied to qualifying assets measured at fair value.		November 2008	

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		The Financial Reporting Manual does not permit borrowing costs to be added to the value of any asset.			
IAS 24 Related party disclosures	<i>IPSAS 20 Related party disclosures</i>	IAS 24 contains similar requirements to FRS 8 and the SORP, but does not include most of the exemptions found within FRS 8. As a result additional disclosures may be required.			
IAS 26 Accounting and Reporting by Retirement Benefit Plans	N/A	<p>IAS 26 includes optional accounting treatments that would not be permitted under the current Pension SORP.</p> <p>Application of IAS 26 to Local Authority Pension Schemes under discussion, as these may fall outside the Code if Pensions Accounts are removed from local authority accounts</p>			23 June 2008 – discussion of whether IAS 26 will apply; further discussion required before a decision is reached
IAS 27 Consolidated and separate financial	<i>IPSAS 6 Consolidated and separate financial</i>	IAS 27 is broadly similar to UK GAAP, but there are minor differences to the			

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statements SIC 12 Consolidation - Special Purpose Entities	<i>statements</i>	definition of the group boundary, and the consolidation period. Calculation of the gain or loss on disposal of a subsidiary is different in the treatment of goodwill.			
IAS 28 Investments in associates	IPSAS 7 Investments in associates	The IAS 28 definition of an associate is similar to that used in the SORP. Slightly different terminology is used, which could result in different entities being brought into the group, although this will only apply at the margins.		December 2008	
IAS 29 Financial reporting in hyperinflationary economies IFRIC 7 Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies	IPSAS 10 Financial reporting in hyperinflationary economies	IAS 29 is almost identical to FRS 24.			

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IAS 31 Interests in joint ventures SIC 13 Jointly Controlled Entities - non-monetary contributions by venturers	IPSAS 8 Interests in joint ventures	IAS 31 has a wider definition of joint ventures than the SORP, and includes joint arrangements that are not entities (JANEs). The consolidation arrangements are different to UK GAAP.		December 2008	
IAS 32 Financial instruments: Presentation IFRIC 2 Members' Shares in Co-operative Entities and Similar Instruments	<i>IPSAS 15 Financial instruments: Disclosure and Presentation</i>	IAS 32 is almost identical to FRS 25.			
IAS 33 Earnings per share	N/A	IAS 33 is almost identical to FRS 22.			
IAS 34 Interim financial reporting IFRIC 10 Interim Financial Reporting and Impairment	N/A	IAS 34 outlines the requirements where an entity elects to provide interim financial statements.			
IAS 36	IPSAS 21	IAS 36 uses a similar	Asset management	November	

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Impairment of assets	Impairment of non-cash – generating assets IPSAS 26 Impairment of cash –generating assets	approach to impairment as that used in UK GAAP. One difference is that impairment and losses on revaluation are charged initially to the Revaluation Reserve, and only when the balance on the reserve in respect of the particular asset is zero to the Income and Expenditure Account. The accounting treatment for goodwill is different.	software will need to handle the amended accounting requirement	2008	
IAS 37 Provisions, contingent liabilities and contingent assets IFRIC 1 Changes in Existing Decommissioning, Restoration and Similar Liabilities IFRIC 5 Rights to Interests arising from Decommissioning, Restoration and	IPSAS 19 Provisions, contingent liabilities and contingent assets	There are no significant differences between IAS 37 and UK GAAP.			

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<p>Environmental Rehabilitation Funds</p> <p>IFRIC 6 Liabilities arising from Participating in a Specific Market - Waste Electrical and Electronic Equipment</p>					
<p>IAS 38 Intangible assets</p> <p>SIC 32 Intangible Assets – Web Site Costs</p>	N/A	<p>IAS 38 recognises a wider range of intangible assets than UK GAAP, including more internally generated intangible assets. All impairments and losses on revaluation are charged initially to the Revaluation Reserve. The rebuttable presumption that asset lives would be less than 20 years under UK GAAP is not included in IAS 38.</p>	<p>Review procedures where recognition of internally generated intangible assets may be appropriate</p>		<p>Internally generated intangible assets will be allowed (decision made 23 June 2008)</p> <p>The Financial Reporting Manual uses a proxy for fair value where there is no active market. CIPFA/LASAAC did not support this approach and will raise the issue with the FRAB. Draft Code approved 23 June 2008 subject to clarification on cost or fair value model</p>
<p>IAS 39 Financial instruments:</p>	N/A	<p>IAS 39 is almost identical to</p>			

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<p>Recognition and measurement</p> <p>IFRIC 9 Reassessment of Embedded Derivatives</p> <p>IFRIC 16 Hedges of a Net Investment in a Foreign Operation</p>		<p>FRS 26.</p>			
<p>IAS 40 Investment property</p>	<p>IPSAS 16 Investment property</p>	<p>IAS 40 includes a definition of investment property; the SORP does not, but the definition is similar to that given in the guidance notes.</p> <p>Investment properties (including investment properties under construction) can be measured at fair value or at cost. The SORP requires them to be carried at market value. Depreciation is not charged on assets measured at fair value, as with the SORP.</p>		<p>December 2008</p>	<p>Investment properties will be defined as properties that are held solely for the purpose of income generation or capital appreciation. Properties held for policy reasons, e.g. economic development will not be classed as investment properties (decision made 23 June 2008)</p> <p>Investment properties will be held at fair value; the cost model under IAS 40 will not be permitted (decision made 23 June 2008)</p>

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		<p>IAS 40 applies the derecognition principles of IAS 16.</p> <p>Where the fair value model is used, IAS 40 requires gains and losses on valuation to be taken to the Income and Expenditure Account. This is not a requirement under the SORP or SSAP 19.</p>			<p>Gains and losses will be taken to the Income and Expenditure Account. These will then be reversed out through the equivalent to the Statement of Movement on General Fund Balances and will not impact on the General Fund or on Council Tax (decision made 23 June 2008)</p>
IAS 41 Agriculture	N/A	<p>There is no equivalent UK standard, although SSAP 9 will apply to stocks. The standard deals with agricultural activity (defined as the transformation of biological assets – plants and animals – into agricultural produce, other biological assets or for sale). Biological assets are held at fair value; changes in value are charged to the Income and Expenditure Account.</p>			
IFRS 1 First time adoption of IFRS	N/A	<p>Covers transition arrangements. Changes are applied retrospectively</p>			<p>Transition arrangements will be approved with each section of the Code</p>

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		unless an exemption is available and used.			
IFRS 2 Share-based payment IFRIC 8 Scope of IFRS 2 IFRIC 11 IFRS 2 - Group and Treasury Share Transactions	N/A	IFRS 2 is almost identical to FRS 20.			
IFRS 3 Business combinations	N/A	IFRS 3 prohibits the use of merger accounting, and business combinations are required to be accounted for using acquisition accounting.			IFRS 3 will not apply to the single entity accounts. Local Government reorganisations will therefore not require acquisition accounting. IFRS 3 may be relevant to Group Accounts (decision made 23 June 2008)
IFRS 4 Insurance contracts	N/A	IFRS 4 applies to any entity that issues insurance contracts. Accounting for insurance contracts in the UK is covered by the Companies Act 1985, the ABI SORP and FRS 27.			

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IFRS 5 Non-current assets held for sale and discontinued operations	N/A	<p>IFRS 5 introduces the concept of a 'disposal group'. Assets held for sale or included in a disposal group are not depreciated; this is a different treatment to that under FRS 15.</p> <p>The treatment of discontinued operations is different to that under the SORP, and may lead to operations being classified as discontinued earlier than would be the case under the SORP.</p>		December 2008	
IFRS 7 Financial instruments: Disclosures	N/A	IFRS 7 is almost identical to FRS 29.			
IFRS 8 Operating segments	<i>IPSAS 18 Segment reporting</i>	IFRS 8 requires disclosure of information on operating segments. These are based on internal management arrangements.		April 2009 (Circulate for comments in January 2009)	To be considered in the light of the 'Back to Basics' consultation
IFRIC 12 Service concession	Consultation paper issued	Significant changes, with the probability that most if not all assets relating to local	Review contracts and identify assets / arrangements covered by		Early adoption in 2009 SORP to be considered.

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<p>arrangements</p> <p>SIC 29 Service Concession Arrangements: Disclosures</p>		<p>authority PFI schemes will be included in the authority's balance sheet. As a consequence of this, the charges to the Income and Expenditure Account will be different to those under UK GAAP where the scheme is currently off balance sheet.</p>	<p>IFRIC 12</p> <p>Identify cost of relevant assets</p> <p>Identify past transactions</p> <p>Restatement of 2008/09 accounts will be required if adopted in the 2009 SORP</p> <p>Where liabilities are recognised on the balance sheet, these will form part of the Capital Financing Requirement, and will need to be included in the Prudential Indicators and MRP Statements (England and Wales)</p>		<p>'Mirror' approach to IFRIC 12 to be adopted – if not on private sector balance sheet, should be on public sector balance sheet.</p> <p>Approach will be consistent with Financial Reporting Manual</p>
N/A	N/A	<p>Accounting for revenue expenditure funded from capital under statute is based on the various regulations rather than either UK GAAP or IFRS</p>			<p>No changes from the existing treatment – account under GAAP / IFRS and then adjust fund balances to reflect regulatory position</p> <p>Draft Code approved 23 June 2008</p>

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N/A	IPSAS 22 Disclosure of financial information about the general government sector	Applies only where governments elect to provide information on the general government sector and only to the government's consolidated accounts. Not relevant to local authorities			
N/A	IPSAS 23 Revenue from non-exchange transactions (taxes and transfers)	No equivalent UK standard. Will apply to the accounting requirements for local taxation, but not expected to be significantly different to SORP requirements			
NA	IPSAS 24 Presentation of budget information in financial statements	No equivalent UK standard. Requires organisations that publish budget information to include that information in the financial statements			Presentation of financial statements to be considered in the light of the 'Back to Basics' and 'Telling the Whole Story' consultations