IFRS-based Code of Practice on Local Authority Accounting

Code Update (3): 28 April 2009

This Code Update includes all decisions on the preparation of the IFRS-based Code of Practice on Local Authority Accounting made up to and including the last CIPFA/LASAAC meeting on **6 March 2009**. Changes since the last Code Update Report are shaded (note that the date column has been amended as dates for future meetings have now been set).

Next CIPFA/LASAAC Meeting: **15 May 2009**

Accounting Standards and impact on Code of Practice

IASB Standard	**IPSASB Standard***	**Summary of Decisions Made to Date****	**Target Date for CIPFA/LASAAC to consider section of the Code**	**Summary of Requirements and differences from SORP**	**Current Local Authority Action Required**
IAS 1 Presentation of financial statements	*IPSAS 1 Presentation of Financial Statements*	The format of the statement of accounts (based on the recommendations of the working group) was agreed in principle, subject to consideration of the draft section of the Code in May 2009	May 2009	IAS 1 amends the layout of the current standards and introduces the Statement of Changes in Equity as a new statement.	For the first accounts to be published in 2010/11, authorities will also need to restate the 2009/10 accounts. This will require an opening balance sheet as at 1 April 2009 to be prepared (in effect the closing 2008/09 balance sheet will need to be restated) and **published as part of the 2010/11 accounts.** Authorities are advised to plan to collect the required

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					data alongside the 2008/09 closure of the accounts.
IAS 2 Inventories	IPSAS 12 Inventories		Agreed	IAS 2 is similar to SSAP 9. However, IPSAS 12 introduces different measurement requirements in two specific sets of circumstances – where the authority will distribute the inventory at no or nominal cost, and when the authority obtained the inventory at no or nominal cost.	Identify the inventories that will be distributed at no or nominal cost and inventories obtained at no or nominal costs, and restate the amounts accordingly, if material
IAS 7 Cash flow statements	IPSAS 2 Cash flow statements	Presentation of the cash flow statement to be considered in the light of the 'Back to Basics' consultation	Agreed – cash and cash equivalents as a balance sheet item May 2009 – Cash Flow Statement	IAS 7 requires movements in cash and cash equivalents to be reported.	Balance Sheet presentation – reclassify short term investments as cash equivalents
IAS 8 Accounting polices, changes in estimates and	IPSAS 3 Accounting polices, changes in estimates and		May 2009	IAS 8 does not make a distinction between fundamental errors and other material errors; all	

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errors	errors			material errors have to be corrected by retrospective restatement. 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.	
IAS 10 Events after the balance sheet date	IPSAS 14 Events after the reporting date		May 2009	No significant differences from existing SORP treatment	
IAS 11 Construction contracts	IPSAS 11 Construction contracts		Agreed	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.	There are expected to be no transition issues arising from Construction Contracts

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IAS 12 Income Taxes SIC 21 Income Taxes – Recovery of Non-depreciable Assets SIC 25 Income Taxes – Changes in the Tax Status of an Entity or its Shareholders	N/A (see IPSAS 23)		May 2009	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. May be relevant to Group accounts
IAS 16 Property, plant and equipment	IPSAS 17 Property, plant and equipment	Revaluation bases (including EUV-SH and DRC) will remain largely as per the SORP (subject to ongoing consultation with RICS regarding to the implications of valuations based on fair value); infrastructure assets and community assets will continue to be carried at depreciated historical cost. Revaluation period retained at 5 years (subject to more frequent	Agreed	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. IAS 16 has a greater 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	Discuss fair value and residue values with valuers Review procedures: 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)

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		reviews where significant and volatile changes in fair value), in line with the SORP. Renewals accounting no longer permitted The Code adopts the component accounting and derecognition requirements of IAS 16 Decisions made and draft Code approved 15 December 2008		to be derecognised. IAS 16 requires entities to select either the cost model or the revaluation model as its accounting policy for each class of asset. The Code specifies the model to be used for each class of asset. Where the revaluation model is used, assets are carried at fair value. This is normally based on market values, and may be different to the valuations used under the current SORP (i.e. EUV). 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 on the reserve falls to zero. Accounting for depreciation	2) will need to be able to revalue components of an asset 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) 4) will need to be able clear distinguish between revaluation losses and impairment losses (and asset management software will need to be able to handle the distinction)

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				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 clear distinction between revaluation losses and impairment losses, with revaluation losses treated in the same way as impairment losses i.e. 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. The draft Code requires residual values to be based on current prices at the balance sheet date. In the current SORP, residual values are based the date of the acquisition (or revaluation) of the asset and do not take account of expected future price changes. This difference is	

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				likely to have little impact on the depreciation of assets carried at current value; it may make a difference to depreciation charges in respect of assets carried at historical cost.	
IAS 17 Leases SIC 15 Operating Leases – Incentives SIC 27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease IFRIC 4 Determining whether an Arrangement contains a Lease	IPSAS 13 Leases	Leases on land and buildings will need to be separated in all cases (decision made 12 September 2008) Treatment of finance leases in Scotland being investigated Draft Code approved 12 September 2008 subject to clarification of accounting for finance leases in Scotland	Agreed	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. 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 land are operating leases unless title passes at the end of the lease. Income recognition for finance leases may be different to that under the SORP. Transitional arrangements	New leases – identify land and buildings elements on inception Existing leases – separate land and buildings where required Valuers should refer to the RICS publication "Land And Buildings Apportionments for Lease Classification Under International Financial Reporting (Valuation Information Paper Number 9)" Consider impact of transitional

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				may have an impact on General Fund / HRA balances	arrangements
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		Agreed	No significant differences from existing SORP treatment	There are expected to be no transition issues arising from; Revenue Recognition, Trade and Other Receivables, and Trade and Other Payables
IAS 19 Employee benefits IFRIC 14 IAS 19 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and	IPSAS 25 Employee benefits	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	Agreed	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	Review existing information on leave entitlements outstanding at year end **(2008/09)** Consider options (e.g. samples) where information not

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their Interaction		Code (decision made 23 June 2008) Impact on local authorities of accruals for short term benefits (e.g. holiday pay) expected to be significant, and the issue will be raised with CLG and devolved governments so that mitigation can be considered (decision made 15 December 2008) Long-term disability benefits can be accounted for as post-retirement benefits in certain circumstances (decision made 15 December 2008) Sections covering Benefits Payable During Employment and Termination Benefits Sections of Draft IFRS-Based Code approved 15 December 2008		17. 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. IAS 19 allows a wider range of accounting for post-employment benefits than FRS 17. Simplified arrangements apply to other long-term employee benefits. Termination benefits are accounted for on a similar basis to the SORP.	available Consider implications for HR systems
IAS 20 Accounting for government	N/A (see IPSAS 23)	Offsetting government grants against the cost of	May 2009	IAS 20 uses a similar approach to that used in the	

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grants SIC 10 Government Assistance – No Specific Relation to Operating Activities		fixed assets will not be permitted under the Code (decision made 23 June 2008). CIPFA is currently working with HM Treasury to agree a consistent approach across the two sectors, with regard to accounting for Government & Non-Government Grants/ Contributions (including Donated Assets)		SORP. However, an alternative treatment is also permitted under IAS 20, where government grants are offset against the cost of fixed assets. A different approach would be adopted under IPSAS 23	
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		May 2009	IAS 21 is almost identical to FRS 23.	
IAS 23 Borrowing costs	*IPSAS 5 Borrowing costs*	CIPFA/LASAAC considered the Code at its December 2008 meeting but subsequent events mean this may need to be reconsidered.	May 2009	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	

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				to be applied to qualifying assets measured at fair value, only those carried at historical cost (the Code adapts this requirement, and does not permit any borrowing costs to be capitalised). A revised version of IPSAS 5 is expected to be considered by IPSASB during 2009; this may adopt a variation of the treatment required by IAS 23.	
IAS 24 Related party disclosures	*IPSAS 20 Related party disclosures*		May 2009	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	Pension Fund accounts will be produced under the Local Authority IFRS-based Code, not the Pensions SORP (decision made 15 December 2008)	Agreed subject to clarification of issued raised at FRAB	IAS 26 includes optional accounting treatments that would not be permitted under the current Pension SORP.	

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		Format of the accounts will be similar to that of the Pensions SORP		It is expected that the Code requirements will be similar to those of the Pensions SORP	
IAS 27 Consolidated and separate financial statements SIC 12 Consolidation - Special Purpose Entities	*IPSAS 6 Consolidated and separate financial statements*	Following the Back to Basics responses, authorities will still produce single entity accounts (decision made 12 September 2008)	May 2009	IAS 27 is broadly similar to UK GAAP, but there are minor differences to the 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		May 2009	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.	
IAS 29 Financial reporting in hyperinflationary	IPSAS 10 Financial reporting in		May 2009	IAS 29 is almost identical to FRS 24.	

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economies IFRIC 7 Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies	hyperinflationary economies				
IAS 31 Interests in joint ventures SIC 13 Jointly Controlled Entities - non-monetary contributions by venturers	IPSAS 8 Interests in joint ventures		May 2009	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.	
IAS 32 Financial instruments: Presentation IFRIC 2 Members' Shares in Co-operative Entities and Similar Instruments	*IPSAS 15 Financial instruments: Disclosure and Presentation*		May 2009	IAS 32 is almost identical to FRS 25.	

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IAS 33 Earnings per share	N/A		May 2009	IAS 33 is almost identical to FRS 22.	
IAS 34 Interim financial reporting IFRIC 10 Interim Financial Reporting and Impairment	N/A		May 2009	IAS 34 outlines the requirements where an entity elects to provide interim financial statements.	
IAS 36 Impairment of assets	IPSAS 21 Impairment of non-cash – generating assets IPSAS 26 Impairment of cash –generating assets	Impairment losses will be charged initially to the Revaluation Reserve (decision made 12 September 2008). Draft Code approved 12 September 2008	Agreed	IAS 36 uses a similar approach to impairment as that used in UK GAAP. One difference is that impairment 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.	Asset management software will need to handle the amended accounting requirement
IAS 37 Provisions, contingent liabilities and	IPSAS 19 Provisions, contingent		May 2009	There are no significant differences between IAS 37	

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contingent assets IFRIC 1 Changes in Existing Decommissioning, Restoration and Similar Liabilities IFRIC 5 Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds IFRIC 6 Liabilities arising from Participating in a Specific Market - Waste Electrical and Electronic Equipment	liabilities and contingent assets			and UK GAAP.	
IAS 38 Intangible assets SIC 32 Intangible Assets – Web Site	N/A	Internally generated intangible assets will be allowed (decision made 23 June 2008)	Agreed	IAS 38 recognises a wider range of intangible assets than UK GAAP, including more internally generated intangible assets. All	Review procedures where recognition of internally generated intangible assets may be appropriate

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Costs		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		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.	
IAS 39 Financial instruments: Recognition and measurement IFRIC 9 Reassessment of Embedded Derivatives IFRIC 16 Hedges of a Net Investment in a Foreign Operation	N/A		May 2009	IAS 39 is almost identical to FRS 26.	
IAS 40 Investment	IPSAS 16 Investment	Investment properties will be defined as properties	Agreed	IAS 40 includes a definition of investment property; the	

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property	property	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) Investment properties will be held at fair value; the cost model under IAS 40 will not be permitted (decision made 23 June 2008) 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)		SORP does not, but the definition is similar to that given in the guidance notes. 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. IAS 40 applies the derecognition principles of IAS 16. 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.	

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		Draft Code approved 15 December 2008			
IAS 41 Agriculture	N/A		Agreed	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.	
IFRS 1 First time adoption of IFRS	N/A	Transition arrangements will be approved with each section of the Code IFRS 1 will apply to local authorities. The restated opening balance sheet (as at 1 April 2009) will be published as part of the first set of IFRS-based accounts. The Code will adopt the	May 2009	Covers transition arrangements. Changes are applied retrospectively unless an exemption is available and used.	Identify any information requirements for opening IFRS balance sheet; identify where information could best be gathered as part of the 2008/09 closedown procedures

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		IFRS 1 exemptions to the retrospective approach in respect of: IFRS 3 Business Combinations to be used in Group accounts; IFRS 2 Share-based Payment in Group accounts; carrying forward of deemed historical cost from SORP; IFRIC 4 Determining whether an Arrangement contains a Lease; IFRIC 1 Changes in Existing Decommissioning, Restoration and Similar Liabilities; IAS 23 Borrowing Costs Decisions taken 15 December 2008			
IFRS 2 Share-based payment IFRIC 8 Scope of IFRS 2 IFRIC 11 IFRS 2 -	N/A		May 2009	IFRS 2 is almost identical to FRS 20.	

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Group and Treasury Share Transactions					
IFRS 3 Business combinations	N/A	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)	May 2009	IFRS 3 prohibits the use of merger accounting, and business combinations are required to be accounted for using acquisition accounting.	
IFRS 4 Insurance contracts	N/A		May 2009	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.	
IFRS 5 Non-current assets held for sale and discontinued operations	N/A	The Code adopts the requirements of IFRS 5 in respect of assets held for sale and disposal groups. Decisions made and draft Code approved 15 December 2008	Agreed	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.	Asset management software will need to be able to handle changes i.e. different valuation method, 'disposal groups'

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				Assets classified as held for sale are measured at the lower of carrying value and fair value less costs to sell. Where the carrying amount is lower, this will lead to a different valuation when compared to the current SORP which requires the asset to be measured at market value less expected selling costs. IFRS 5 includes strict criteria that must be met before an asset is reclassified as held for sale. The current SORP does not include any such criteria.	
IFRS 7 Financial instruments: Disclosures	N/A		May 2009	IFRS 7 is almost identical to FRS 29.	
IFRS 8 Operating segments	*IPSAS 18 Segment reporting*	The requirements for segment reporting (based on the recommendations of the working group) were agreed in principle, subject to consideration of the	May 2009	IFRS 8 requires disclosure of information on operating segments. These are based on internal management arrangements.	

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		draft section of the Code in May 2009			
IFRIC 12 Service concession arrangements SIC 29 Service Concession Arrangements: Disclosures	Consultation paper issued	Early adoption in 2009 SORP to be considered. 'Mirror' approach to IFRIC 12 to be adopted – if not on private sector balance sheet, should be on public sector balance sheet. Approach will be consistent with Financial Reporting Manual SORP exposure draft approved 12 September 2008	Agreed	Significant changes, with the probability that most if not all assets relating to local 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.	Review contracts and identify assets / arrangements covered by IFRIC 12 Identify cost of relevant assets Identify past transactions Restatement of 2008/09 accounts will be required if adopted in the 2009 SORP 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)

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N/A Revenue expenditure funded from capital under statute is a non IFRS issue	N/A	No changes from the existing treatment – account under GAAP / IFRS and then adjust fund balances to reflect regulatory position Draft Code approved 23 June 2008	Agreed	Accounting for revenue expenditure funded from capital under statute is based on the various regulations rather than either UK GAAP or IFRS	
N/A	IPSAS 22 Disclosure of financial information about the general government sector		May 2009	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)	CIPFA is currently working with HM Treasury to agree a consistent approach across the two sectors, with regard to accounting for Government & Non-Government Grants/ Contributions (including Donated Assets)	Agreed (in terms of Revenue Recognition, Trade and Other Receivables, and Trade and Other Payables) May 2009 – in terms of impact on accounting for Government &	No equivalent UK standard. Will apply to the accounting requirements for local taxation, but not expected to be significantly different to SORP requirements	There are expected to be no transition issues arising from; Revenue Recognition, Trade and Other Receivables, and Trade and Other Payables

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			Non-Government Grants/Contributions		
NA	IPSAS 24 Presentation of budget information in financial statements	The format of the statement of accounts (based on the recommendations of the working group) was agreed in principle, subject to consideration of the draft section of the Code in May 2009. It is recommended that budget information is reported in the explanatory foreword.	May 2009	No equivalent UK standard. Requires organisations that publish budget information to include that information in the financial statements	

* 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

** These are subject to final agreement with FRAB