

### **3 FINANCIAL STATEMENTS**

#### **3.1 Explanatory Foreword**

##### ***3.1.1 Introduction***

3.1.1.1 The purpose of the foreword is to offer interested parties an easily understandable guide to the most significant matters reported in the accounts.

3.1.1.2 It shall provide an explanation in overall terms of the authority's financial position, and assist in the interpretation of the accounting statements, including the Group Accounts. It shall also contain a commentary on the major influences affecting the authority's income and expenditure and cash flow, and information on the financial needs and resources of the authority. It is not the purpose of the foreword to comment on the policies of the authority, rather to explain the financial facts. Content and style are left to local judgment.

##### ***3.1.2 Accounting Requirements***

3.1.2.1 Information provided in the explanatory foreword shall reflect the accounting requirements of the Code.

##### ***3.1.3 Statutory Accounting Requirements***

3.1.3.1 There are no statutory accounting requirements in respect of the explanatory foreword.

##### ***3.1.4 Disclosure Requirements***

3.1.4.1 It is recommended that the foreword include the following items that are likely to be significant to the understanding of the accounts (these recommended topics are not intended to restrict the content of the foreword):

- a) An explanation of which statements follow, their purpose and the relationship between them.
- b) Service expenditure, interest payable and other operating costs, income from grants, local taxpayers and other sources, compared in overall terms to the budget.
- c) A brief note of any material assets acquired or liabilities incurred. If these are unusual in scale, having regard to the normal activities of the authority, or for any other reason, the circumstances shall be explained.
- d) A brief note explaining the significance of any pensions liability or asset disclosed.
- e) An explanation of any material and unusual charge or credit in the accounts. This shall be provided whether the charge is made as part of the cost of services or as an adjustment to the cost of services.
- f) Any significant change in accounting policies. The reason for the change, and the effect on the accounts, shall be explained.

- g) Any major change in statutory functions, eg local government reorganisation, which has a significant impact on the accounts. In addition, a comment on planned future developments in service delivery, including a summary of revenue and capital investment plans, distinguishing between expenditure intended to maintain existing levels of service provision and that intended to expand existing services or develop new services.
- h) A brief note of the authority's current borrowing facilities and capital borrowing, outlining the purpose and impact of financing transactions entered into during the year and major fixed asset acquisitions and disposals.
- i) A summary of the authority's internal and external sources of funds available to meet its capital expenditure plans and other financial commitments including PFI schemes.
- j) Details of significant provisions or contingencies and material write-offs. To cover new items and any significant changes to existing items.
- k) Details of any material events after the reporting date (up to the date the accounts are authorised for issue).

### **3.1.5     *Statutory Disclosure Requirements***

- 3.1.5.1    There are no statutory disclosure requirements in relation to the explanatory foreword.

### **3.1.6     *Changes since SORP 2009***

- 3.1.6.1    There are no changes to the requirements in SORP 2009.

## **Transition Arrangements**

There are no transition arrangements in relation to the explanatory foreword.

## **3.2 Statement of Responsibilities**

### **3.2.1 Introduction**

3.2.1.1 A local authority shall provide a Statement of Responsibilities setting out the responsibilities of the authority and the Chief Financial Officer in respect of the statement of accounts.

### **3.2.2 Accounting Requirements**

3.2.2.1 The Statement of Responsibilities shall confirm that the statement of accounts has been prepared in accordance with the requirements of the Code.

### **3.2.3 Statutory Accounting Requirements**

3.2.3.1 There are no statutory accounting requirements in respect of the explanatory foreword.

### **3.2.4 Disclosure Requirements**

3.2.4.1 A local authority shall set out the responsibility of the authority and the Chief Financial Officer in respect of the statement of accounts. The following wording is recommended but not mandatory:

*England, Wales and Scotland*

#### ***The Authority's Responsibilities***

The authority is required to:

- make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this authority, that officer is the Chief Financial Officer
- manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets
- approve the Statement of Accounts (England and Wales only).

#### ***The Chief Financial Officer's Responsibilities***

The Chief Financial Officer is responsible for the preparation of the authority's Statement of Accounts in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom (the Code).

In preparing this Statement of Accounts, the Chief Financial Officer has:

- selected suitable accounting policies and then applied them consistently
- made judgements and estimates that were reasonable and prudent
- complied with the local authority Code.

The Chief Financial Officer has also:

- kept proper accounting records which were up to date
- taken reasonable steps for the prevention and detection of fraud and other irregularities.

The Chief Financial Officer should sign and date the Statement of Accounts, stating that it gives a true and fair view of the financial position of the authority at the reporting date and of its expenditure and income for the year ended 31 March 20xx.

*Northern Ireland*

### ***The Council's Responsibilities***

Under section 54 of the Local Government Act (Northern Ireland) 1972 the council shall make safe and efficient arrangements for the receipt of money paid to it and the issue of money payable by it, and those arrangements shall be carried out under the supervision of such officer of the council as the council designates as its Chief Financial Officer.

The council is required to approve the Statement of Accounts

### ***The Chief Financial Officer's Responsibilities***

Under Article 4 of the Local Government (Accounts and Audit) Regulations (Northern Ireland) 2006 the Chief Financial Officer is responsible for the preparation of the council's Statement of Accounts in the form directed by the Department of the Environment (NI).

The accounts must give a true and fair view of the expenditure and income and cash flows for the financial year and the financial position as at the end of the financial year.

In preparing this Statement of Accounts, the Chief Financial Officer is required to:

- observe the Accounts Direction issued by the Department of the Environment (NI) including compliance with the Code of Practice on Local Authority Accounting in the United Kingdom
- follow relevant accounting and disclosure requirements and apply suitable accounting policies on a consistent basis, and
- make judgements and estimates that are reasonable and prudent.

The Chief Financial Officer is also required to:

- keep proper accounting records which are up to date, and
- take reasonable steps for the prevention and detection of fraud and other irregularities.

The Chief Financial Officer should sign and date the Statement of Accounts, stating that it gives a true and fair view of the financial position of the authority at the reporting date and of its expenditure and income for the year ended 31 March 20xx.

**3.2.5 *Statutory Disclosure Requirements***

3.2.5.1 There are no statutory disclosure requirements in relation to the explanatory foreword.

**3.2.6 *Changes since SORP 2009***

3.2.6.1 There are no changes to the requirements in SORP 2009.

**Transition Arrangements**

There are no transition arrangements in relation to the statement of responsibilities.

### **3.3 Accounting Policies, Changes in Accounting Estimates and Errors**

#### **3.3.1 Introduction**

3.3.1.1 Authorities shall select accounting policies, and account for changes in accounting policies, changes in accounting estimates and errors in accordance with *IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors*, except where interpretations or adaptations to fit the public sector are detailed in the Code. *IPSAS 3 Accounting Policies, Changes in Accounting Estimates and Errors* is based on *IAS 8*, and introduces no additional accounting requirements, although it provides additional guidance for public sector bodies.

3.3.1.2 *IAS 8* requires entities to disclose the expected impact of new standards that have been issued but not yet adopted. Future editions of the Code may therefore prescribe retrospective disclosure requirements relating to changes to accounting policies.

#### **3.3.2 Accounting Requirements**

##### *Definitions*

3.3.2.1 *Accounting policies* are the specific principles, bases, conventions, rules and practices applied by an entity in preparing and presenting financial statements.

3.3.2.2 *A change in accounting estimate* is an adjustment of the carrying amount of an asset or a liability, or the amount of the periodic consumption of an asset, that results from the assessment of the present status of, and expected future benefits and obligations associated with, assets and liabilities. Changes in accounting estimates result from new information or new developments and, accordingly, are not correction of errors.

3.3.2.3 *Impracticable*. Applying a requirement is impracticable when the entity cannot apply it after making every reasonable effort to do so. Further guidance can be found in *IAS 8* and *IPSAS 3*.

3.3.2.4 *Material*. Omissions or misstatements of items are material if they could, individually or collectively, influence the decisions or assessments of users made on the basis of the financial statements. Materiality depends on the nature or size of the omission or misstatement judged in the surrounding circumstances. The nature or size of the item, or a combination of both, could be the determining factor.

3.3.2.5 *Prior period errors* are omissions from, and misstatements in, the entity's financial statements for one or more prior periods arising from a failure to use, or misuse of, reliable information that:

- (a) Was available when financial statements for those periods were authorised for issue; and
- (b) Could reasonably be expected to have been obtained and taken into account in the preparation and presentation of those financial statements.

Such errors include the effects of mathematical mistakes, mistakes in applying accounting policies, oversights or misinterpretations of facts, and fraud.

3.3.2.6 *Prospective application* of a change in accounting policy and of recognising the effect of a change in an accounting estimate, respectively, are:

- (a) Applying the new accounting policy to transactions, other events and conditions occurring after the date as at which the policy is changed; and
- (b) Recognising the effect of the change in the accounting estimate in the current and future periods affected by the change.

3.3.2.7 *Retrospective application* is applying a new accounting policy to transactions, other events and conditions as if that policy had always been applied.

3.3.2.8 *Retrospective restatement* is correcting the recognition, measurement and disclosure of amounts of elements of financial statements as if a prior period error had never occurred.

#### *Accounting Policies*

3.3.2.9 When the Code specifically applies to a transaction, other event or condition, the accounting policy or policies applied to that item shall be determined by applying the Code. Those policies need not be applied when the effect of applying them is immaterial. Where the Code does not specifically apply to a transaction, other event or condition, management shall use its judgment in developing and applying an accounting policy that results in information that is:

- a) relevant to the decision-making needs of users; and
- b) reliable, in that the financial statements:
  - (i) represent faithfully the financial position, financial performance and cash flows of the entity;
  - (ii) reflect the economic substance of transactions, other events and conditions and not merely the legal form;
  - (iii) are neutral i.e., free from bias;
  - (iv) are prudent; and
  - (v) are complete in all material respects.

3.3.2.10 In making the judgment management shall refer to, and consider the applicability of, the Code requirements dealing with similar and related issues; and definitions, recognition and measurement criteria for assets, liabilities, revenue and expenses described in elsewhere in the Code. Management may also consider the most recent pronouncements of standard-setting bodies and accepted public or private sector practices to the extent, but only to the extent, that these do not conflict with the requirements of the Code.

- 3.3.2.11 An authority shall select and apply its accounting policies consistently for similar transactions, other events and conditions, unless the Code specifically requires or permits categorisation of items for which different policies may be appropriate. If the Code requires or permits such categorisation (for example different classes of property, plant and equipment), an appropriate accounting policy shall be selected and applied consistently to each category.
- 3.3.2.12 An authority shall change an accounting policy only if the change is required by the Code or results in the financial statements providing reliable and more relevant information about the effects of transactions, other events and conditions on the entity's financial position, financial performance or cash flows.
- 3.3.2.13 Where an authority changes an accounting policy it shall apply the changes retrospectively unless the Code specifies transitional provisions that shall be followed. A change in accounting policy shall be applied retrospectively by adjusting the opening balance of each affected component of net worth for the earliest period presented and the other comparative amounts disclosed for each prior period presented as if the new accounting policy had always been applied, except to the extent that it is impracticable to determine either the period specific effects or the cumulative effect of the change.

#### *Changes in Accounting Estimates*

- 3.3.2.14 As a result of the uncertainties inherent in delivering services, conducting trading or other activities, many items in financial statements cannot be measured with precision but can only be estimated. Estimation involves judgments based on the latest available, reliable information. The use of reasonable estimates is an essential part of the preparation of financial statements and does not undermine their reliability.
- 3.3.2.15 An estimate may need revision if changes occur in the circumstances on which the estimate was based or as a result of new information or more experience. By its nature, the revision of an estimate does not relate to prior periods and is not the correction of an error. A change in the measurement basis applied is a change in an accounting policy and is not a change in an accounting estimate.
- 3.3.2.16 The effect of a change in an accounting estimate (other than a change to which paragraph 3.3.2.15 applies), shall be recognised prospectively by including it in surplus or deficit in:
- (a) the period of the change, if the change affects the period only; or
  - (b) the period of the change and future periods, if the change affects both.
- 3.3.2.17 To the extent that a change in an accounting estimate gives rise to changes in assets and liabilities, or relates to an item of net worth, it shall be recognised by adjusting the carrying amount of the related asset, liability or net worth item in the period of change.

#### *Errors*

- 3.3.2.18 Except to the extent that it is impracticable to determine either the period specific effects or the cumulative effect of the error, an authority shall correct

material prior period errors retrospectively in the first set of financial statements authorised for issue after their discovery by:

- (a) restating the comparative amounts for prior period(s) presented in which the error occurred; or
- (b) if the error occurred before the earliest prior period presented, restating the opening balances of assets, liabilities and net worth for the earliest prior period presented.

3.3.2.19 When it is impracticable to determine the period specific effects of an error on comparative information for one or more prior periods presented, an authority shall restate the opening balances of assets, liabilities and net worth for the earliest period for which retrospective restatement is practicable (which may be the current period).

### **3.3.3 Statutory Accounting Requirements**

3.3.3.1 There are no statutory accounting requirements in relation to accounting policies, changes in accounting estimates and errors.

### **3.3.4 Disclosure Requirements**

#### *Accounting Policies*

3.3.4.1 An authority shall disclose information about its accounting policies as required by section 3.3 of the Code. Accounting policies that relate to statutory accounting requirements are accounted for in the same manner as other accounting policies.

3.3.4.2 Where a change of accounting policy is required by the Code, an authority shall disclose the information required by the Code. For other changes in accounting policy, an authority shall disclose:

- (a) The nature of the change in accounting policy;
- (b) The reasons why applying the new accounting policy provides reliable and more relevant information;
- (c) For the current period and each prior period presented, to the extent practicable, the amount of the adjustment for each financial statement line item affected;
- (d) The amount of the adjustment relating to periods before those presented, to the extent practicable; and
- (e) If retrospective application is impracticable for a particular prior period, or for periods before those presented, the circumstances that led to the existence of that condition and a description of how and from when the change in accounting policy has been applied.

Financial statements of subsequent periods need not repeat these disclosures.

- 3.3.4.3 An authority shall disclose information relating to the impact of an accounting change that will be required by a new standard that has been issued but not yet adopted.

*Changes in Accounting Estimates*

- 3.3.4.4 An authority shall disclose the nature and amount of a change in an accounting estimate that has an effect in the current period or is expected to have an effect on future periods.

*Errors*

- 3.3.4.5 Where a prior period error is corrected, an authority shall disclose the following:

- (a) the nature of the prior period error;
- (b) for each prior period presented, to the extent practicable, the amount of the correction for each financial statement line item affected; and
- (c) the amount of the correction at the beginning of the earliest prior period presented.

Financial statements of subsequent periods need not repeat these disclosures.

**3.3.5 Statutory Disclosure Requirements**

- 3.3.5.1 There are no statutory disclosures required in relation to accounting policies, changes in accounting estimates and errors. Accounting policies that relate to statutory accounting requirements are disclosed in the same manner as other accounting policies.

**3.3.6 Changes since SORP 2009**

- 3.3.6.1 SORP 2009 requires authorities to correct prior period errors where the errors are fundamental. The Code, in line with IAS 8 and IPSAS 3, requires restatement for material errors, which may lead to restatements being required more frequently.
- 3.3.6.2 The Code requires disclosure of future changes to accounting policies that is not required by the SORP.

## **Transition Arrangements**

There are no transition arrangements in relation to accounting policies, changes in accounting estimates and errors. Changes to accounting policies are instead disclosed as part of the transition to IFRS.

### **3.4 Presentation of Financial Statements**

#### **3.4.1 Introduction**

3.4.1.1 Authorities shall prepare financial statements in accordance with *IAS 1 Presentation of Financial Statements*, *IAS 7 Statement of Cash Flows* and *IFRS 8 Operating Segments*, as interpreted by this section of the Code.

3.4.1.2 *IPSAS 1 Presentation of Financial Statements* is based on *IAS 1*, and *IPSAS 2 Cash Flow Statements* is based on *IAS 7*. These standards provide additional guidance for public sector bodies.

##### *Interpretation and adaptation for the Public Sector Context*

3.4.1.3 *IAS 1* specifies the information to be included in the financial statements, but does not prescribe a format. *IAS 1* also specifies information that must be disclosed either on the face of the financial statements or in the notes to the financial statements. *IAS 1* permits the terminology used to be adapted to suit the reporting entity.

3.4.1.4 The Code interprets the requirements of *IAS 1* by specifying the format of the statements, disclosures and terminology that are appropriate for local authorities. In doing so, the Code adopts the interpretation of *IAS 1* included in *IPSAS 1 Presentation of Financial Statements* that 'function of expenses' is equivalent to a service analysis. The Code adopts the principle of specifying the minimum level of detail for the financial statements, whilst permitting authorities to include more detail where it is appropriate to do so.

3.4.1.5 Where an authority prepares group accounts, the Code requires the authority to prepare authority-only accounts and group accounts incorporating all financial statements. Authorities may elect to present the group accounts alongside the authority-only accounts (i.e. a columnar approach) or as separate statements. An authority need not apply the same approach to each statement.

3.4.1.6 The requirements of *IFRS 8* in relation to reporting segment assets are based on a presumption that entities will be reporting segment assets internally. This is often not the case in local authorities, and the Code requirements therefore do not include this assumption. Instead, the Code requires segment assets and / or liabilities to be presented in the financial statements only where they are reported internally.

#### **3.4.2 Accounting Requirements**

##### *Definitions*

3.4.2.1 *Cash* comprises cash on hand and demand deposits.

3.4.2.2 *Cash Equivalents* are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

3.4.2.3 *Cash flows* are inflows and outflows of cash and cash equivalents.

- 3.4.2.4 *Financing activities* are activities that result in changes in the size and composition of the principal, received from or repaid to external providers of finance.
- 3.4.2.5 *Impracticable* Applying a requirement is impracticable when the entity cannot apply it after making every reasonable effort to do so.
- 3.4.2.6 *Investing activities* are the acquisition and disposal of long-term assets and other investments not included in cash equivalents
- 3.4.2.7 *Material*. Omissions or misstatements of items are material if they could, individually or collectively, influence the decisions or assessments of users made on the basis of the financial statements. Materiality depends on the nature or size of the omission or misstatement judged in the surrounding circumstances. The nature or size of the item, or a combination of both, could be the determining factor.
- 3.4.2.8 *Notes* contain information in addition to that presented in the movement in reserves statement, comprehensive income and expenditure statement, balance sheet and cash flow statement. Notes provide narrative descriptions or disaggregations of items presented in those statements and information about items that do not qualify for recognition in those statements.
- 3.4.2.9 *Other comprehensive income and expenditure* comprises items of expense and income (including reclassification adjustments) that are not recognised in the surplus or deficit on the provision of services as required or permitted by the Code. Examples include changes in revaluation surplus; actuarial gains and losses on defined benefit plans; and gains and losses on remeasuring available-for-sale financial assets.
- 3.4.2.10 *Operating activities* are the activities of the entity that are not investing or financing activities.
- 3.4.2.11 *Reclassification adjustments* are amounts reclassified to surplus or deficit on the provision of services in the current period that were recognised in other comprehensive income and expenditure in the current or previous periods.
- 3.4.2.12 *Surplus or deficit on the provision of services* is the total of income less expenses, excluding the components of other comprehensive income and expenditure.
- 3.4.2.13 *Total comprehensive income and expenditure* comprises all components of 'surplus or deficit on the provision of services' and of 'other comprehensive income and expenditure'.

#### *Cash and Cash Equivalents*

- 3.4.2.14 Cash & cash equivalents shall include bank overdrafts that are an integral part of an authority's cash management.
- 3.4.2.15 Cash equivalents shall include short term investments (e.g. short maturity of 3 months or less from the date of acquisition). There are no strict criteria to follow relating to the nature and maturity of items treated as cash equivalents and as

such an authority shall disclose the policy that it adopts in determining the composition of cash equivalents.

#### *Financial Statements*

- 3.4.2.16 The objectives of financial statements are to provide information about the financial position, financial performance and cash flows of an authority that is useful to a wide range of users in making and evaluating decisions about the allocation of resources. Specifically, the objectives of financial reporting in the public sector should be to provide information useful for decision making, and to demonstrate the accountability of the authority for the resources entrusted to it.
- 3.4.2.17 A complete set of financial statements comprises:
- a) Movement in reserves statement for the period;
  - b) Comprehensive income and expenditure statement for the period;
  - c) Balance sheet as at the end of the period;
  - d) Cash flow statement for the period;
  - e) Notes, comprising a summary of significant accounting policies and other explanatory information; and
  - f) Balance sheet as at the beginning of the earliest comparative period when an authority applies an accounting policy retrospectively or makes a retrospective restatement of items in its financial statements, or when it reclassifies items in its financial statements.
- 3.4.2.18 Authorities shall present with equal prominence all of the financial statements in a complete set of financial statements. The order of the first four statements above is recommended but not required. Authorities shall present the statements in the order that best enables users to understand the statements.
- 3.4.2.19 Financial statements shall give a true and fair presentation of the financial position, financial performance and cash flows of an authority. A true and fair presentation requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the Code. Compliance with the Code is presumed to result in financial statements that achieve a true and fair presentation.
- 3.4.2.20 An authority cannot rectify inappropriate accounting policies either by disclosure of the accounting policies used or by notes or explanatory material.
- 3.4.2.21 In the extremely rare circumstances in which management concludes that compliance with a requirement of the Code would be so misleading that it would prevent the financial statements achieving a true and fair view, an authority shall depart from that requirement. In doing so, an authority shall disclose that:

- a) management has concluded that the financial statements present a true and fair view of the entity's financial position, financial performance and cash flows;
  - b) it has complied with the Code, except that it has departed from a particular requirement to achieve a true and fair presentation;
  - c) the nature of the departure, including the treatment that the Code would require, the reason why that treatment would be so misleading in the circumstances that it would prevent the financial statements presenting a true and fair view, and the treatment adopted; and
  - d) for each period presented, the financial effect of the departure on each item in the financial statements that would have been reported in complying with the requirement.
- 3.4.2.22 A local authority's financial statements shall be prepared on a going concern basis; that is, the accounts should be prepared on the assumption that the functions of the authority will continue in operational existence for the foreseeable future. Transfers of services under machinery of government changes (such as local government reorganisation) do not negate the presumption of going concern.
- 3.4.2.23 A local authority shall prepare its financial statements, except for cash flow information, using the accrual basis of accounting, i.e. the authority recognises items as assets, liabilities, income and expenses (the elements of financial statements) when they satisfy the definitions and recognition criteria for those elements in the Code.
- 3.4.2.24 A local authority shall present separately each material class of similar items. A local authority shall present separately items of a dissimilar nature or function unless they are immaterial.
- 3.4.2.25 A local authority need not provide a specific disclosure required by the Code if the information is not material.
- 3.4.2.26 A local authority shall not offset assets and liabilities or income and expenses, unless required or permitted by the Code.
- 3.4.2.27 A local authority shall present a complete set of financial statements (including comparative information) annually.
- 3.4.2.28 Except when the Code permits or requires otherwise, a local authority shall disclose comparative information in respect of the previous period for all amounts reported in the current period's financial statements.
- 3.4.2.29 When a local authority changes the presentation or classification of items in its financial statements, the authority shall reclassify comparative amounts unless reclassification is impracticable. When comparative amounts are reclassified, the authority shall disclose:
- a) the nature of the reclassification;

- b) the amount of each item or class of items that is reclassified; and
  - c) the reason for the reclassification.
- 3.4.2.30 When it is impracticable to reclassify comparative amounts, an authority shall disclose:
- a) the reason for not reclassifying the amounts, and
  - b) the nature of the adjustments that would have been made if the amounts had been reclassified.
- 3.4.2.31 A local authority shall retain the presentation and classification of items in the financial statements from one period to the next unless:
- a) it is apparent, following a significant change in the nature of the authority's operations or a review of its financial statements, that another presentation or classification would be more appropriate having regard to the criteria for the selection and application of accounting policies in the Code; or
  - b) the Code requires a change in presentation.
- 3.4.2.32 A local authority shall present group accounts in addition to its single entity accounts where required by Chapter 9 of the Code.
- 3.4.2.33 When presenting group accounts, an authority that recognises its interest in a jointly controlled entity using proportionate consolidation shall either:
- combine its share of the assets, liabilities, income and expenses of the jointly controlled entity with the similar items, line by line, in its financial statements; or
  - include separate line items for its share of the assets, liabilities, income and expenses of the jointly controlled entity in its financial statements.

*Structure and Content of Financial Statements*

- 3.4.2.34 A local authority shall clearly identify the financial statements and distinguish them from other information in the same published document.
- 3.4.2.35 An entity shall clearly identify each financial statement and the notes. In addition, a local authority shall display the following information prominently, and repeat it when necessary for the information presented to be understandable:
- a) the name of the authority;
  - b) the date of the end of the reporting period or the period covered by the set of financial statements or notes; and
  - c) the level of rounding used in presenting amounts in the financial statements.

***Movement in Reserves Statement***

- 3.4.2.36 A local authority shall present a Movement in Reserves Statement. Where a local authority presents group accounts as well as authority-only accounts, the authority shall present either separate Movement in Reserves Statements for the authority-only accounts and the group accounts, or a single Movement in Reserves Statement showing both the authority-only and group reserves.
- 3.4.2.37 The statement shall include a description of the purpose of the statement. The following description is recommended but not mandatory.

*This Statement shows the movement in the year on the different reserves held by the authority, analysed into 'usable reserves' (ie those that can be applied to fund expenditure or reduce local taxation) and other reserves. The 'Surplus or (deficit) on the provision of services' line shows the true economic cost of providing the authority's services, more details of which are shown in Comprehensive Income and Expenditure Statement. These are different from the statutory amounts required to be charges to the General Fund Balance and Housing Revenue Account for Council Tax setting and dwellings rent setting purposes. The 'Net increase /Decrease before transfers to earmarked reserves' line shows the statutory General Fund Balance and Housing Revenue Account Balance before any discretionary transfers to or from earmarked reserves undertaken by the Council..*

- 3.4.2.38 The Movement in Reserves Statement shall show, for each classification of reserves:
- a) Balance as at the end of the previous reporting period
  - b) Surplus or (deficit) on the provision of services (accounting basis)
  - c) Other comprehensive income and expenditure
  - d) Total comprehensive income and expenditure
  - e) Adjustments between Group accounts and Authority accounts (group accounts only)
  - f) Net Increase / Decrease before Transfers (group accounts only)
  - g) Adjustments between accounting basis and funding basis under regulations
  - h) Net increase or decrease before transfers to earmarked reserves (England and Wales) or Other statutory reserves (Scotland)
  - i) Transfers to or from earmarked reserves (England and Wales) or Other statutory reserves (Scotland)
  - j) Increase or (decrease) in year
  - k) Balance as at the end of the current reporting period
- 3.4.2.39 A local authority shall present, either in the Movement in Reserves Statement or in the notes, an analysis of the amounts included in items c), e) g) and i) of the

statement. The analysis of item g) shall include the following items where relevant:

- Depreciation and impairment of fixed assets (in England this should exclude depreciation charged to HRA services)
- In England only the excess of depreciation charged to HRA services over the Major Repairs Allowance element of Housing Subsidy
- Government Grants Deferred amortisation matching depreciation and impairments [NOTE: depends on decisions on Government Grants]
- Amounts treated as revenue expenditure in accordance with the Code but which are classified as capital expenditure by statute
- Net gain or loss on sale of fixed assets
- Amount by which finance costs calculated in accordance with the Code are different from the amount of finance costs calculated in accordance with statutory requirements
- Amount by which pension costs calculated in accordance with the Code (i.e. in accordance with IAS 19) are different from the contributions due under the pension scheme regulations
- Amount by which council tax income and residual community charge adjustment included in the Comprehensive Income and Expenditure Statement is different from the amount taken to the General Fund in accordance with regulation (England only)
- Statutory provision for repayment of debt
- Capital expenditure charged to the General Fund Balance
- Transfer from Capital Receipts Reserve equal to the amount payable into the Housing Capital Receipts Pool (in England and Wales only)
- Any voluntary provision for repayment of debt
- Net transfer to or from earmarked reserves

3.4.2.40 The classification of reserves presented in the Movement in Reserves Statement shall include, as a minimum, the following items:

- a) General fund balance (in Scotland, includes earmarked portion of general fund balance)
- b) Earmarked general fund reserves (not Scotland)
- c) Housing revenue account balance (in Scotland, includes earmarked portion of housing revenue account balance)
- d) Earmarked housing revenue account reserves (not Scotland)
- e) Capital receipts reserve (England and Wales); Other statutory reserves (Scotland; this includes the capital reserve and insurance reserve)
- f) Total usable reserves
- g) Unusable Reserves
- h) Total reserves of the authority
- i) Authority's share of the reserves of subsidiaries, associates and joint ventures (group accounts only)

j) Total reserves (group accounts only)

3.4.2.41 A local authority shall present, either in the Movement in Reserves Statement or in the notes, an analysis of the amounts included in items a) (Scotland only), b), d), e) (Scotland only) and g) of the classification of reserves. This analysis shall separately identify the total reserves held by schools.

***Comprehensive Income and Expenditure Statement***

3.4.2.42 A local authority shall present a Comprehensive Income and Expenditure Statement. Where a local authority presents group accounts as well as authority-only accounts, the authority shall present either separate Comprehensive Income and Expenditure Statements for the authority-only accounts and the group accounts, or a single Comprehensive Income and Expenditure Statement showing both the authority-only and group transactions. The statement shall include a description of the purpose of the statement. The following description is recommended but not mandatory.

*This Statement shows the accounting cost in the year of providing services in accordance with generally accepted accounting practices, rather than the amount to be funded from taxation. Authorities raise taxation to cover expenditure in accordance with regulations; this may be different from the accounting cost. The taxation position is shown in the Movement in Reserves Statement.*

3.4.2.43 As a minimum, the Comprehensive Income and Expenditure Statement shall include line items that present the following amounts for the period:

- a) Gross expenditure, gross income and net expenditure of continuing operations, analysed by service. Authorities shall present the service analysis on the basis of the *Best Value Accounting Code of Practice*.
- b) Other operating expenditure (comprising precepts (paid to non-principal authorities in England and all authorities in Wales) and levies; payments to the housing capital receipts pool; and gains or losses on the disposal of fixed assets).
- c) Financing and investment income and expenditure (comprising interest payable and similar charges; pensions interest cost and expected return on pensions assets; interest income; income, expenditure, depreciation and impairment of investment properties; and other investment income).
- d) Profit or loss on discontinued operations.
- e) Taxation and non-specific grant income (comprising council tax income; NNDR distribution; and non-ringfenced government grants)
- f) Surplus or deficit on the provision of services.
- g) Associates and joint ventures accounted for on an equity basis (group accounts only)
- h) Tax expenses (group accounts only)

- i) Group surplus or deficit (group accounts only)
- j) Surplus or deficit on revaluation of fixed assets.
- k) Surplus or deficit on revaluation of available for sale financial assets.
- l) Actuarial gains or losses on pension assets and liabilities.
- m) Share of other comprehensive income and expenditure of associates and joint ventures (group accounts only).
- n) Other comprehensive income and expenditure.
- o) Total comprehensive income and expenditure.

3.4.2.44 Where a local authority presents group accounts, the authority shall disclose separately those amounts of surplus or deficit on the provision of services and other comprehensive income and expenditure that are attributable to the local authority and those that are attributable to any minority interest.

3.4.2.45 A local authority shall present, either in the Comprehensive Income and Expenditure Statement or in the notes, an analysis of the amounts included in items b), c) and e) of the statement.

3.4.2.46 An authority shall not present any items of income or expense as extraordinary items, either in the Comprehensive Income and Expenditure Statement or in the notes.

*Surplus or deficit on the provision of services*

3.4.2.47 An authority shall recognise all items of income and expense in a period in surplus or deficit on the provision of services unless the Code requires or permits otherwise.

*Other comprehensive income and expenditure for the period*

3.4.2.48 Where an authority prepares group accounts, the authority shall disclose the amount of income tax relating to each component of other comprehensive income and expenditure, including reclassification adjustments, either in the Comprehensive Income and Expenditure Statement or in the notes.

3.4.2.49 An entity may present components of other comprehensive income and expenditure either:

- a) net of related tax effects, or
- b) before related tax effects with one amount shown for the aggregate amount of income tax relating to those components.

3.4.2.50 An authority shall disclose reclassification adjustments relating to components of other comprehensive income and expenditure.

*Information to be presented either in Comprehensive Income and Expenditure Statement or in the Notes*

- 3.4.2.51 When items of income or expense are material, an authority shall disclose their nature and amount separately. Examples include:
- a) disposals of items of property, plant and equipment;
  - b) disposals of investments; and
  - c) other reversals of provisions.

***Balance Sheet***

- 3.4.2.52 A local authority shall present a Balance Sheet. Where a local authority presents group accounts as well as authority-only accounts, the authority shall present either separate Balance Sheets for the authority-only accounts and the group accounts, or a single statement showing both the authority-only and group Balance Sheets. The statement shall include a description of the purpose of the statement. The following description is recommended but not mandatory.

*The Balance Sheet shows the value as at the Balance Sheet date of the asset and liabilities recognised by the authority. The net assets of the authority (assets less liabilities) are matched by the reserves held by the authority. Reserves are reported in two categories. The first category of reserves are usable reserves, i.e those reserves that the authority may use to provide services, subject to the need to maintain a prudent level of reserves and any statutory limitations on their use (for example the capital receipts reserve that may only be used to fund capital expenditure or repay debt). The second category of reserves are those that the authority is not able to use to provide services. This category of reserves includes reserves that hold unrealised gains and losses (for example the revaluation reserve), where amounts would only become available to provide services if the assets are sold; and reserves that hold timing differences shown in the Movement in Reserves Statement line "Adjustments between accounting basis and funding basis under regulations".*

- 3.4.2.53 As a minimum, the Balance Sheet shall include line items that present the following amounts:
- a) Property, plant and equipment
  - b) Investment property
  - c) Intangible assets
  - d) Long-term investments (including net pensions asset)
  - e) Investments in associates and joint ventures
  - f) Long-term debtors
  - g) Deferred tax asset (group accounts only)

- h) Long-term assets (sub-total)
- i) Short-term investments
- j) Stock
- k) Short-term debtors
- l) Cash and cash equivalents
- m) Assets held for sale
- n) Current tax asset (group accounts only)
- o) Current assets (sub-total)
- p) Bank overdraft
- q) Short-term borrowing
- r) Short-term creditors
- s) Liabilities in disposal groups
- t) Current tax liability (group accounts only)
- u) Current liabilities (sub-total)
- v) Long-term creditors
- w) Provisions
- x) Long-term borrowing
- y) Other long-term liabilities (comprising net pensions liability, grants and contributions deferred, deferred liabilities and any other long-term liabilities)
- z) Deferred tax liability (group accounts only)
- aa) Long-term liabilities (sub-total)
- ab) Net assets (total)
- ac) Usable reserves
- ad) Unusable Reserves
- ae) Total reserves (total)

3.4.2.54 An authority shall present other lines (for example, biological assets) where relevant.

- 3.4.2.55 An authority shall present additional line items when such presentation is relevant to an understanding of the authority's financial position. For example, an authority may separately disclose one or more categories of property, plant and equipment.

*Current Assets*

- 3.4.2.56 An authority shall classify an asset as current when:
- a) it expects to realise the asset, or intends to sell or consume it, in its normal operating cycle (the normal operating cycle for a local authority shall be assumed to be twelve months, however the normal operating cycle of other group members may be different);
  - b) it holds the asset primarily for the purpose of trading;
  - c) it expects to realise the asset within twelve months after the reporting period; or
  - d) the asset is cash or a cash equivalent unless the asset is restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

An authority shall classify all other assets as long-term.

*Current Liabilities*

- 3.4.2.57 An authority shall classify a liability as current when:
- a) it expects to settle the liability in its normal operating cycle (the normal operating cycle for a local authority shall be assumed to be twelve months, however the normal operating cycle of other group members may be different);
  - b) it holds the liability primarily for the purpose of trading;
  - c) the liability is due to be settled within twelve months after the reporting period; or
  - d) the authority does not have an unconditional right to defer settlement of the liability for at least twelve months after the reporting period.

An authority shall classify all other liabilities as long-term.

*Information to be presented either in the Balance Sheet or in the Notes*

- 3.4.2.58 An entity shall disclose, either in the balance sheet or in the notes, further sub-classifications of the line items presented, classified in a manner appropriate to the authority. Examples include:
- a) items of property, plant and equipment are disaggregated into classes;

- b) receivables are disaggregated into amounts receivable from trade customers, receivables from related parties, prepayments and other amounts; and
- c) provisions are disaggregated into provisions for employee benefits and other items.

3.4.2.59 An authority shall disclose either in the Balance Sheet, Movement in Reserves Statement, or in the Notes a description of the nature and purpose of each reserve, the carrying amount of each reserve as at the balance sheet date and the movement in the reserve in the period.

#### ***Cash Flow Statement***

3.4.2.60 A local authority shall present a Cash Flow statement. Where a local authority presents group accounts as well as authority-only accounts, the authority shall present either separate Cash Flow statements for the authority-only accounts and the group accounts, or a single Cash Flow statement showing both the authority-only and group cash flows. The statement shall include a description of the purpose of the statement. The following description is recommended but not mandatory.

*The Cash Flow statement shows the changes in cash and cash equivalents of the authority during the reporting period. The statement shows how the authority generates and uses cash and cash equivalents by classifying cash flows as; operating, investing and financing activities. The amount of net cash flows arising from operating activities is a key indicator of the extent to which the operations of the authority are funded by way of taxation and grant income or from the recipients of services provided by the authority. Investing activities represent the extent to which cash outflows have been made for resources which are intended to contribute to the authority's future service delivery. Cash flows arising from financing activities are useful in predicting claims on future cash flows by providers of capital (ie borrowing) to the authority.*

- 3.4.2.61 An authority shall report cash flows from operating activities using either:
- a) The direct method, whereby major classes of gross cash receipts and gross cash payments are disclosed; or
  - b) The indirect method, whereby net surplus or deficit on the provision of services is adjusted for the effects of transactions of a noncash nature, any deferrals or accruals of past or future operating cash receipts or payments, and items of revenue or expense associated with investing or financing cash flows.
- 3.4.2.62 As a minimum, the Cash Flow statement prepared using the direct method shall include line items that present the following amounts:
- a) Operating Activities
  - b) Investing Activities
  - c) Financing Activities

- d) Net increase or decrease in cash and cash equivalents
- e) Cash and cash equivalents at the beginning of the reporting period
- f) Cash and cash equivalents at the end of the reporting period

3.4.2.63 The amounts to be included (where relevant) in lines a), b) and c) above are as follows:

Operating Activities

- a) Taxation
- b) Grants
- c) Housing Rents (housing authorities only)
- d) Sales of goods and rendering of services
- e) Interest received
- f) Other receipts from operating activities
- g) Cash inflows generated from operating activities
- h) Cash paid to and on behalf of employees
- i) Housing benefit paid out (housing authorities only)
- j) National non-domestic rate payments to national pool (billing authorities only)
- k) Precepts paid (billing authorities only)
- l) Payments to the Capital Receipts Pool (in England and Wales only)
- m) Cash paid to suppliers of goods and services
- n) Interest paid
- o) Other payments for operating activities
- p) Cash outflows generated from operating activities
- q) Net cash flows from operating activities

Investing Activities

- a) Purchase of property plant and equipment, investment property and intangible assets
- b) Purchase of short term (not considered to be cash equivalents) and long term investments (includes investments in associates, joint ventures and subsidiaries)

- c) Other payments for investing activities
- d) Proceeds from the sale of property plant and equipment, investment property and intangible assets
- e) Proceeds from short term (not considered to be cash equivalents) and long term investments (includes investments in associates, joint ventures and subsidiaries)
- f) Other receipts from investing activities
- g) Net cash flows from investing activities

#### Financing Activities

- a) Cash receipts of short and long term borrowing
- b) Other receipts from financing activities
- c) Cash payments for the reduction of the outstanding liability relating to a finance lease and on-balance sheet PFI contracts
- d) Repayments of short and long term borrowing
- e) Other payments for financing activities
- f) Net cash flows from financing activities

3.4.2.64 A local authority shall consider presenting the detail of the amounts of major classes of gross cash receipts and gross cash payments rising from operating, investing and financing activities (see paragraph 3.4.2.63) in the Cash Flow statement based on the direct method where such presentation is relevant to an understanding of the authority's cash flow position, or otherwise in the notes.

3.4.2.65 Cash flows from interest and dividends received and paid (dividends paid will only be applicable to group accounts), shall be disclosed separately either in the Cash Flow statement and classified as operating activities or in the notes. In the rare event that cash flows of a local authority (or group accounts) arise from transactions in a foreign currency, the cash flows shall be recorded in pounds sterling by applying to the foreign currency amount the exchange rate at the time of the cash flow.

3.4.2.66 Where an authority presents a Cash Flow statement prepared using the indirect method, as a minimum the statement shall include line items that present the following amounts:

- a) Net surplus or deficit on the provision of services
- b) Adjust net surplus or deficit on the provision of services for noncash movements
- c) Adjust for items included in the net surplus or deficit on the provision of services that are investing and financing activities

- d) Net cash flows from Operating Activities
- e) Investing Activities
- f) Financing Activities
- g) Net increase or decrease in cash and cash equivalents
- h) Cash and cash equivalents at the beginning of the reporting period
- i) Cash and cash equivalents at the end of the reporting period

3.4.2.67 The amounts to be included (where relevant) in lines b), c), e) and f) above are as follows:

Adjust net surplus or deficit on the provision of services for noncash movements

- a) Depreciation
- b) Impairment and downward valuations
- c) Amortisation
- d) Increase in impairment provision for bad debts
- e) Increase in creditors
- f) Increase in debtors
- g) Decrease in stock
- h) Pension Liability
- i) Carrying amount of fixed assets sold
- j) Other non-cash items charged to the net surplus or deficit on the provision of services

Adjust for items included in the net surplus or deficit on the provision of services that are investing and financing activities

- a) Purchase of short term (not considered to be cash equivalents) and long term investments (includes investments in associates, joint ventures and subsidiaries)
- b) Proceeds from short term (not considered to be cash equivalents) and long term investments (includes investments in associates, joint ventures and subsidiaries)
- c) Proceeds from the sale of property plant and equipment, investment property and intangible assets

Investing Activities

- a) Purchase of property plant and equipment, investment property and intangible assets
- b) Purchase of short term (not considered to be cash equivalents) and long term investments (includes investments in associates, joint ventures and subsidiaries)
- c) Other payments for investing activities
- d) Proceeds from the sale of property plant and equipment, investment property and intangible assets
- e) Proceeds from short term (not considered to be cash equivalents) and long term investments (includes investments in associates, joint ventures and subsidiaries)
- f) Other receipts from investing activities
- g) Net cash flows from investing activities

#### Financing Activities

- a) Cash receipts of short and long term borrowing
- b) Other receipts from financing activities
- c) Cash payments for the reduction of the outstanding liability relating to a finance lease and on-balance sheet PFI contracts
- d) Repayments of short and long term borrowing
- e) Other payments for financing activities
- f) Net cash flows from financing activities

- 3.4.2.68 A local authority shall consider presenting the detail of the amounts of major classes of gross cash receipts and gross cash payments rising from operating, investing and financing activities (see paragraph 3.4.2.63) in the Cash Flow statement based on the indirect method where such presentation is relevant to an understanding of the authority's cash flow position, or otherwise in the notes.
- 3.4.2.69 In the rare event that cash flows arise from obtaining and losing control of subsidiaries or other businesses, authorities should refer to *IAS 7*.
- 3.4.2.70 Where an authority prepares group accounts, the authority shall also include (where relevant) lines in relation to; operating activities - preference dividend paid to minority interest, equity dividends paid, income tax paid, investing activities - net overdraft acquired with subsidiary, net cash acquired with subsidiary, financing activities - purchase/ redemption of share capital, issue of share capital and any other lines that may be relevant, and disclosed separately where material in the Cash Flow statement or in the notes. cash flows between the reporting authority and an associate or joint venture should be included under the appropriate cash flow heading for the activity giving rise to the cash

flow. None of the other cash flows of an associate or joint venture should be included in the Cash Flow statement of the group account.

- 3.4.2.71 Operating, investing and financing transactions that do not require the use of cash and cash equivalents shall be excluded from an authority's (or group) Cash Flow statement.
- 3.4.2.72 An authority (and group accounts) shall disclose the components of cash and cash equivalents in the Cash Flow statement or in the notes.

***Notes to the Financial Statements***

- 3.4.2.73 A local authority shall present Notes to the Financial Statements. Where a local authority presents group accounts as well as authority-only accounts, the authority shall present either separate Notes to the Financial Statements for the authority-only accounts and the group accounts, or Notes to the Financial Statements showing both authority-only and group information. The notes shall:
  - a) present information about the basis of preparation of the financial statements and the specific accounting policies used;
  - b) disclose the information required by the Code that is not presented elsewhere in the financial statements; and
  - c) provide information that is not presented elsewhere in the financial statements, but is relevant to an understanding of any of them.
- 3.4.2.74 An authority shall, as far as practicable, present notes in a systematic manner. An authority shall cross-reference each item in the Movement in Reserves Statement, Comprehensive Income and Expenditure Statement, Balance Sheet and Cash Flow Statement to any related information in the notes.
- 3.4.2.75 An authority shall disclose in the summary of significant accounting policies:
  - a) the measurement basis (or bases) used in preparing the financial statements; and
  - b) the other accounting policies used that are relevant to an understanding of the financial statements.
- 3.4.2.76 An authority shall disclose, in the summary of significant accounting policies or other notes, the judgements, apart from those involving estimations, that management has made in the process of applying the authority's accounting policies and that have the most significant effect on the amounts recognised in the financial statements.
- 3.4.2.77 The summary of significant accounting policies shall include the following items where they have a significant effect on the amounts recognised in the financial statements:
  - a) accruals of expenditure and income;
  - b) acquired operations;

- c) area based grant (England only);
- d) back pay arising from unequal pay claims;
- e) business improvement district schemes (England, Scotland and Wales);
- f) cash and cash equivalents;
- g) contingent assets;
- h) contingent liabilities;
- i) discontinued operations;
- j) employee benefits;
- k) events after the balance sheet date;
- l) exceptional items and prior period adjustments;
- m) foreign currency translation;
- n) government grants and other contributions;
- o) intangible assets;
- p) landfill allowances schemes;
- q) leases (separate policies required for operating and finance leases);
- r) overheads;
- s) PFI schemes
- t) property, plant and equipment;
- u) provisions;
- v) reserves;
- w) revenue expenditure funded from capital under statute;
- x) stocks and long-term contracts; and
- y) value added tax.

3.4.2.78 A local authority shall disclose information about the assumptions it makes about the future, and other major sources of estimation uncertainty at the end of the reporting period, that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the next financial year. In respect of those assets and liabilities, the notes shall include details of:

- a) their nature; and

b) their carrying amount as at the end of the reporting period.

- 3.4.2.79 These disclosures are not required for assets and liabilities measured at fair value based on recently observed market prices. Such fair values might change materially within the next financial year but these changes would not arise from assumptions or other sources of estimation uncertainty at the end of the reporting period.

### ***Segment Reporting***

- 3.4.2.80 The aim of segment reporting is to disclose information to enable users of its financial statements to evaluate the nature and financial effects of the activities in which it engages and the economic environments in which it operates.
- 3.4.2.81 An authority shall present information on reportable segments within the Notes. Reportable segments shall be based on an authority's internal management reporting, for example departments, directorates or portfolios. Where more than one presentation is used for internal management reporting, the authority shall select the presentation most commonly used by the individual or group within the authority (for example cabinet, board or senior directors) when considering the allocation of financial resources. Segments may include support services.
- 3.4.2.82 An authority need not report all segments. A segment shall be reported where its expenditure is 10% or more of the gross expenditure within the net cost of services; or its income is 10% or more of the gross income within the net cost of services. An authority may report segments that do not meet these criteria, either individually or combined with other segments.
- 3.4.2.83 Where the reportable segments identified by applying the criteria above do not include at least 75% of the expenditure within the net cost of services, additional segments or combinations of segments shall be treated as reportable segments until the reportable segments include at least 75% of the expenditure within the net cost of services.
- 3.4.2.84 For each reportable segment, an authority shall present an analysis of the income and expenditure for that segment (i.e. a subjective analysis); to include those items of income and expenditure that are reported as part of internal management reporting. Authorities should note that this analysis may include items that do not form part of the Comprehensive Income and Expenditure Statement (for example, that statutory provision for the repayment of debt) and exclude items that do form part of the Comprehensive Income and Expenditure Statement (for example, depreciation).
- 3.4.2.85 Production of the segment reporting analysis is not intended to be onerous, and it is expected that in most cases authorities will be able to use existing information (for example, outturn reports) as the basis of the analysis.
- 3.4.2.86 An authority shall present a reconciliation between the segment reporting analysis and the net cost of services in the Comprehensive Income and Expenditure Statement. The reconciliation will be dependent on the information included in the segment reporting analysis, but is expected to include items from the following areas:

- additional segments not included in the analysis;
- amounts not included in the analysis but included in the Comprehensive Income and Expenditure Statement (for example, pension costs calculated in accordance with IAS 19);
- amounts included in the analysis but not included in the Comprehensive Income and Expenditure Statement (for example, pension contributions payable to the pension fund).

3.4.2.87 An authority shall present a reconciliation between the segment reporting analysis and an analysis of total income and expenditure (i.e. a subjective analysis). The analysis of total income and expenditure shall be prepared on a group accounts basis where the authority prepares group accounts and shall include as a minimum the following lines:

- a) Fees, charges & other service income;
- b) Surplus or deficit on associates and joint ventures;
- c) Interest and investment income;
- d) Income from council tax;
- e) Government grants and contributions;
- f) Employee expenses;
- g) Other service expenses;
- h) Support Service recharges;
- i) Depreciation, amortisation and impairment;
- j) Interest Payments;
- k) Precepts & Levies;
- l) Payments to Housing Capital Receipts Pool;
- m) Gain or Loss on Disposal of Fixed Assets;
- n) Surplus or deficit on the provision of services.

3.4.2.88 The reconciliation will be dependent on the information included in the segment reporting analysis, but is expected to include items from the following areas:

- additional segments not included in the analysis;
- amounts not included in the analysis but included in the Comprehensive Income and Expenditure Statement (for example, pension costs calculated in accordance with IAS 19);

- amounts included in the analysis but not included in the Comprehensive Income and Expenditure Statement (for example, pension contributions payable to the pension fund);
- Allocation of support service recharges;
- Allocation of lines in the segment reporting analysis that include items from more than one line of the analysis of total income and expenditure;
- Amounts reported below the net cost of services in the Comprehensive Income and Expenditure Statement.

3.4.2.89 The analysis of total income and expenditure also satisfies the requirement in *IAS 1* to present information regarding the nature of expenses.

3.4.2.90 If an authority reports segment assets and / or liabilities internally, it shall present an analysis of segment assets and / or liabilities in the financial statements. This analysis shall be on the same basis as that used to report internally (i.e. assets and / or liabilities that are not reported on a segment basis internally are not presented in the analysis in the financial statements). Where an analysis of segment assets and or liabilities is presented in the financial statements, the authority shall also present a reconciliation of segment assets and / or liabilities to the total assets and / or liabilities included in the balance sheet.

### **3.4.3 Statutory Accounting Requirements**

3.4.3.1 There are no statutory accounting requirements regarding the presentation of financial statements in England, Scotland and Wales. In Northern Ireland, the format of the statements is prescribed by the Department for the Environment, and authorities should follow those requirements.

### **3.4.4 Disclosure Requirements**

3.4.4.1 Authorities shall disclose the information in the financial statements as required by this section. Having regard to paragraph 3.5.2.25 of this section of the Code, authorities shall disclose the notes as set out in the other sections of the Code in addition to the following:

- (1) The nature of any acquired or discontinued operations and details of any outstanding liabilities in respect of discontinued operations.
- (2) The nature, turnover, and profits/losses of any significant trading operation and for Scottish local authorities the cumulative surplus or deficit for the current year and two preceding financial years in accordance with the requirements of the Local Government in Scotland Act 2003.
- (3) The nature and amount of any significant agency income and expenditure.
- (4) A brief explanation of the nature of any scheme under the Transport Act 2000 or Transport (Scotland) Act 2001, including the gross income and expenditure of the scheme, and the net proceeds of the scheme (including, for joint schemes the apportionment of such proceeds).
- (5) Sufficient information on any partnership schemes under s31 of the Health Act 1999 and under the Community Care and Health (Scotland) Act 2002 to allow for the understanding of the authority's financial affairs. As a

- minimum this includes the purpose of the partnership, the identities of partner bodies, the gross income and expenditure of the partnership and the authority's contribution.
- (6) The totals of members' allowances [and expenses] paid in the year. In Scotland all elements of members remuneration and reimbursement of actual expenditure under the heads of salaries, allowances and expenses.
  - (7) Number of officers whose remuneration in the year was greater or equal to £50,000 (or other minimum level specified in regulations), grouped in rising bands of £10,000 (or other bands specified in regulations), and any other disclosures as required by legislation (Scotland & Northern Ireland).
  - (8) The following amounts for the year: format
    - (a) Fees payable to auditors appointed by the Audit Commission or the Auditor General for Wales with regard to external audit services carried out by the appointed auditor under the Audit Commission's Code of Audit Practice or Auditor General for Wales' Code of Audit and Inspection Practice in accordance with s5 of the Audit Commission Act 1998 or s16 of the Public Audit (Wales) Act 2004.
    - (b) Fees payable to auditors appointed by the Audit Commission or the Auditor General for Wales in respect of statutory inspection under s10 of the Local Government Act 1999.
    - (c) Fees payable to auditors appointed by the Audit Commission or the Auditor General for Wales for the certification of grant claims and returns by the appointed auditor under s28 of the Audit Commission Act 1998 or s2 of the Public Audit (Wales) Act 2004.
    - (d) Fees payable to Audit Scotland in respect of external audit services undertaken in accordance with the Code of Audit Practice.
    - (e) In Northern Ireland, the amount payable to the Comptroller and Auditor General for Northern Ireland in respect of external audit services.
    - (f) Fees payable in respect of any other services provided by the appointed auditor over and above the duties described in notes 9 (a) to (e) above.
  - (9) In Wales, the following information is also to be disclosed:
    - (a) The total non-domestic rateable value at the year-end and the national non-domestic rate multiplier for the year.
    - (b) The calculation of the council tax base, ie the number of chargeable dwellings in each valuation band (adjusted for dwellings where discounts apply) converted to an equivalent number of band D dwellings.
    - (c) The name of each authority which made a significant precept or demand on the account and the amount included for each authority.
  - (10) In Northern Ireland, disclosure of details of the rates receivable by the authority (ie rate in the pound for domestic and non-domestic properties).
  - (11) A breakdown of the movement of the amounts shown in the Movement in Reserves Statement that are adjustments between accounting basis and funding basis under regulations to be debited or credited to the General Fund and Housing Revenue Account for the year and the transfers to/ from reserves.
  - (12) A disclosure that demonstrates whether the Dedicated Schools Grant (made under section 14 of the Education Act 2002) has been deployed in accordance with regulations made under sections 45A, 45AA, 47, 48(1) and (2) and 138(7) of, and paragraph 1(7)(b) of Schedule 14 to, the School Standards Framework Act 1998 (England).

### *Cash flow statement*

- (13) An analysis of the components of cash and cash equivalents.
- (14) An analysis of the amounts of major classes of gross cash receipts and gross cash payments rising from operating, investing and financing activities of the Cash Flow statement where such presentation is relevant to an understanding of the authority's financial performance.
- (15) A description of the banking arrangements of the authority.

### **3.4.5 Statutory Disclosure Requirements**

3.4.5.1 There are no statutory disclosure requirements in relation to the presentation of financial statements. Authorities shall disclose the statutory notes as set out in the other sections of the Code in addition to the following:

- (1) Number of officers whose remuneration in the year was greater or equal to £50,000 (or other minimum level specified in regulations), grouped in rising bands of £10,000 (or other bands specified in regulations), and any other disclosures as required by legislation (England & Wales).

### **3.4.6 Changes since SORP 2009**

3.4.6.1 The Code introduces the Movement in Reserves Statement. This statement, along with any related notes, replaces the Statement of Movement on the General Fund Balance and the note on the movement in reserves.

3.4.6.2 The Code introduces the Comprehensive Income and Expenditure Statement, which replaces the Income and Expenditure Account and the Statement of Total Recognised Gains and Losses.

3.4.6.3 The format of the Balance Sheet and the Cash Flow Statement are different under the Code than under the SORP.

3.4.6.4 The Code requires 'cash and cash equivalents' to be presented in the Balance Sheet and reported as cash flows in the Cash Flow Statement. The SORP (following *FRS 1 Cash Flow Statements*) did not use the concept of cash equivalents and required the movement of cash (cash in hand and deposits repayable on demand, less overdrafts) to be reported in the cash flow statement.

3.4.6.5 The Code requires an authority to present a balance sheet as at the beginning of the earliest comparative period (i.e. a third balance sheet) when it applies an accounting policy retrospectively or makes a retrospective restatement of items in its financial statements, or when it reclassifies items in its financial statements. The SORP did not include this requirement.

3.4.6.6 The Code has different requirements to the SORP in relation to the notes to the financial statements.

3.4.6.7 The Code introduces segment reporting, which requires a subjective analysis to be included in the notes.

- 3.4.6.8 The Code does not permit authorities to present any items of income or expenditure as 'extraordinary'.

### **Transitional Arrangements**

Amounts disclosed in the financial statements will need to be restated in accordance with other sections of the Code. Authorities will need to prepare comparative segment information (including a subjective analysis) to be presented in the financial statements.

### **3.5 Housing Revenue Account**

#### **3.5.1 Introduction**

3.5.1.1 The Housing Revenue Account (HRA) reflects a statutory obligation to maintain a revenue account for local authority housing provision in accordance with Part 6 of the Local Government and Housing Act 1989 (England and Wales) or the Housing (Scotland) Act 1987.

3.5.1.2 It includes the credit and debit items required to be taken into account in determining the surplus or deficit on the HRA for the year. The amounts included in the HRA differ from the amounts in respect of HRA services included in the Comprehensive Income and Expenditure Statement for the authority as a whole, which includes income and expenditure in accordance with the Code rather than that required by statute and non-statutory proper practices. For this reason the HRA statement has two parts:

- Movement on the Housing Revenue Account Statement – which shows how the HRA Income and Expenditure Account surplus or deficit for the year reconciles to the movement on the Housing Revenue Account Balance for the year; and
- HRA Income and Expenditure Statement - which shows in more detail the income and expenditure on HRA services included in the whole authority Surplus or Deficit on Provision of Services (comprising as well as the amounts included in the whole authority Net Cost of Services for the HRA, the HRA's share of amounts included in the whole authority Net Service Cost but not allocated to individual services and the HRA's share of operating expenditure and income such as Pension Interest Costs and Expected Return on Pension Assets).

#### **3.5.2 Accounting Requirements**

3.5.2.1 The HRA Income and Expenditure Statement shall be prepared on the same basis as the whole authority Surplus or Deficit on provision of services, following all the provisions of the Code. However, the HRA Income and Expenditure Statement shall be presented in accordance with the statutory accounting requirements.

#### **3.5.3 Statutory Accounting Requirements**

3.5.3.1 A housing authority shall present a HRA Income and Expenditure Statement. The statement shall include a description of the purpose of the statement. The following description is recommended but not mandatory.

The HRA Income and Expenditure Statement shows the economic cost in the year of providing housing services in accordance with generally accepted accounting practices, rather than the amount to be funded from rents and government grants. Authorities charge rents to cover expenditure in accordance with regulations; this may be different from the accounting cost. The increase or decrease in the year, on the basis on which rents are raised, is shown in the Movement on the Housing Revenue Account Statement.

The statement shall show:

Expenditure (including pension costs in accordance with the Code (IAS 19) basis):

- a) Repairs and maintenance
- b) Supervision and management (in Wales a Management and maintenance item combines items a) and b))
- c) Rents, rates, taxes and other charges (England and Wales)
- d) (Negative) Housing Revenue Account subsidy payable (including in England the MRA element) (England and Wales)
- e) Depreciation and impairments of fixed assets
- f) Debt management costs (England and Wales)
- g) Sums directed by the Secretary of State or Welsh Assembly Government that are expenditure in accordance with the Code (England and Wales)
- h) Any other expenditure (Scotland)

Income:

- i) Dwelling rents (gross)
- j) Non-dwelling rents (gross)
- k) Charges for services and facilities (England and Wales)
- l) Contributions towards expenditure (England and Wales)
- m) Housing Revenue Account subsidy receivable (including in England the MRA element) (England and Wales) or Housing Support Grant (Scotland)
- n) Sums directed by the Secretary of State or Welsh Assembly Government that are income in accordance with UK GAAP (England and Wales)
- o) Any other income (Scotland)

Subtotal: Net Cost of HRA Services as included in the whole authority Comprehensive Income and Expenditure Statement

p) HRA share of Corporate and Democratic Core

q) HRA share of other amounts included in the whole authority Net Cost of Services but not allocated to specific services

Sub-total: Net Cost of HRA Services

HRA share of the operating income and expenditure included in the whole authority Comprehensive Income and Expenditure Statement:

- r) Gain or loss on sale of HRA fixed assets
- s) Interest payable and similar charges
- t) HRA interest and investment income
- u) Pensions interest cost and expected return on pensions assets

Surplus or deficit for the year on HRA services

3.5.3.2 A housing authority shall present a Movement on the Housing Revenue Account Statement. The statement shall show:

- a) Balance on the HRA as at the end of the previous reporting period
- b) Surplus or (deficit) on the HRA Income and Expenditure Statement
- c) Adjustments between accounting basis and funding basis under regulations
- d) Net increase or decrease before transfers to or from reserves
- e) Transfers to or from reserves
- f) Increase or (decrease) in year on the HRA
- g) Balance on the HRA as at the end of the current reporting period

3.5.3.3 A housing authority shall present, either in the Movement on the Housing Revenue Account Statement or in the notes, an analysis of the amounts included in items c) and e), to include the following:

- a) Difference between interest payable and similar charges including amortisation of premiums and discounts determined in accordance with the Code and those determined in accordance with statute (England and Wales)
- b) Difference between any other item of income and expenditure determined in accordance with the Code and determined in accordance with statutory HRA requirements (if any)
- c) Gain or loss on sale of HRA fixed assets
- d) HRA share of contributions to or from the Pensions Reserve
- e) Capital expenditure funded by the Housing Revenue Account
- f) Sums directed by the Secretary of State, Welsh Assembly Government or Scottish Government Minister to be debited or credited to the HRA that are not expenditure or income in accordance with the Code
- g) Transfer to/from the Major Repairs Reserve (England only)

- h) Transfer to/from the Capital Adjustment Account
- i) Transfers to/from Housing Repairs Account (England and Wales)
- j) Transfer to/from the Council Fund (Wales) or General Fund (Scotland)
- k) Transfers from the General Fund as directed by the Minister (Scotland only)

### **3.5.4 Disclosure Requirements**

- 3.5.4.1 The Housing Revenue Account is a statutory memorandum account that forms part of a housing authority's General Fund. No separate HRA balance sheet is maintained. Disclosure of HRA items separately from other General Fund items is not required except for the statutory disclosure in section 9.2.5 of the Code, and any disclosures required under the paragraphs x –x of the Code (service reporting).

### **3.5.5 Statutory Disclosure Requirements**

- 3.5.5.1 Having regard to paragraph 3.4.2.25 of the Presentation of Financial Statements section of the Code, a housing authority shall disclose the following information in the notes to the HRA Statements.

*England:*

- (1) The number and types of dwelling in the authority's housing stock, the total Balance Sheet value of the land, houses and other property within the authority's HRA as at 1 April in the financial year, and the closing Balance Sheet value as at 31 March in the financial year, and the separate values as at 1 April and 31 March in the financial year of:
  - a) operational assets, comprising
    - dwellings
    - other land and buildings, and
  - b) non-operational assets
- (2) The vacant possession value of dwellings within the authority's HRA as at 1 April in the financial year
- (3) An explanation that the vacant possession value and Balance Sheet value of dwellings within the HRA show the economic cost to Government of providing council housing at less than open market rents.
- (4) An analysis of the movement on the Major Repairs Reserve for the financial year showing:
  - a) the balance on the Major Repairs Reserve on 1 April in the financial year
  - b) the amount transferred to the Major Repairs Reserve during the financial year
  - c) any amount transferred from the Major Repairs Reserve to the HRA during the financial year
  - d) the debits to the Major Repairs Reserve during the financial year in respect of capital expenditure on the land, houses and other property within the authority's HRA
  - e) the debits in respect of any repayment, made in the year, of the principal of any amount borrowed where the repayment was met by payment out of the Major Repairs Reserve

- f) debits in respect of the meeting of any liability, in that year, in respect of credit arrangements, other than any liability, which in accordance with proper practices, must be charged to a revenue account, where the meeting of that liability was met by payments out of the Major Repairs Reserve
  - g) the balance on the Major Repairs Reserve on 31 March in the financial year.
- (5) An analysis of the movement on the Housing Repairs Account, where appropriate.
  - (6) A summary of total capital expenditure on land, houses and other property within the authority's HRA during the financial year, broken down according to the following sources of funding:
    - (a) borrowing
    - (b) the Capital Receipts Reserve
    - (c) revenue contributions (ie the debit under Item 2 of Part II of Schedule 4 to the Local Government and Housing Act 1989)
    - d) the Major Repairs Reserve.
  - (7) A summary of total capital receipts from disposals of land, houses and other property within the authority's HRA during the financial year.
  - (8) The total charge for depreciation for the land, houses and other property within the authority's HRA, and the charges for depreciation for:
    - a) operational assets, comprising:
      - dwellings
      - other land and buildings, and
    - b) non-operational assets.
  - (9) The value of, and an explanation of, any impairment charges for the financial year in respect of land, houses and other property within the authority's HRA, calculated in accordance with proper practices.
  - (10) The value of, and an explanation of, any charge calculated in accordance with proper practices in respect of revenue expenditure funded from capital under statute attributable to the HRA.
  - (11) A breakdown of the amount of HRA subsidy payable to the authority for the financial year in accordance with the elements set out in the general formula in paragraph 3.1 of the General Determination of Housing Revenue Account Subsidy for the year.
  - (12) An explanation of the HRA share of contributions to or from the Pensions Reserve.
  - (13) The amount of rent arrears (excluding amounts collectable on behalf of other agencies) and the aggregate Balance Sheet provision in respect of uncollectable debts.
  - (14) Explanation of any sums directed by the Secretary of State to be debited or credited to the HRA.
  - (15) The nature and amount of any exceptional or prior year items not disclosed in the statement.

*Wales:*

- (16) The number and types of dwelling in the authority's housing stock.
- (17) The amount of rent arrears (excluding amounts collectable on behalf of other agencies) and the aggregate Balance Sheet provision in respect of uncollectable debts.

- (18) The nature and amount of any exceptional or prior year items not disclosed in the statement.
- (19) An analysis of the movement on the housing repairs account, where appropriate.
- (20) A summary of total capital expenditure on land, houses and other property within the authority's HRA during the financial year, broken down according to the following sources of funding:
  - (a) borrowing
  - (b) the Capital Receipts Reserve
  - (c) revenue contributions (ie the debit under Item 2 of Part II of Schedule 4 to the Local Government and Housing Act 1989)
  - (d) the Major Repairs Reserve
- (21) A summary of total capital receipts from disposals of land, houses and other property within the authority's HRA during the financial year.
- (22) The total charge for depreciation for the land, houses and other property within the authority's HRA, and the charges for depreciation for:
  - a) operational assets, comprising:
    - dwellings
    - other land and buildings, and
  - b) non-operational assets.
- (23) The value of, and an explanation of, any impairment charges for the financial year in respect of land, houses and other property within the authority's HRA, calculated in accordance with proper practices.
- (24) The value of, and an explanation of, any charge calculated in accordance with proper practices in respect of deferred charges attributable to the HRA.
- (25) An explanation of the HRA share of contributions to or from the Pensions Reserve.
- (26) Explanation of any sums directed by the Welsh Assembly Government to be debited or credited to the HRA.

*Scotland:*

- (27) The number and types of dwelling in the authority's housing stock.
- (28) The amount of rent arrears (excluding amounts collectable on behalf of other agencies) and the provision considered to be necessary in respect of uncollectable debts.
- (29) The nature and amount of any exceptional or prior year items not disclosed in the statement

### **3.5.6 Changes since SORP 2009**

- 3.5.6.1 The format of the HRA statements has changed to match the introduction of the Movement in Reserves Statement and Comprehensive Income and Expenditure Statement elsewhere in the Code.
- 3.5.6.2 There are no other changes to the presentation and disclosure requirements for the HRA in this section of the Code. However changes elsewhere in the Code may require transactions to be accounted for or presented differently.

## **Transition Arrangements – Housing Revenue Account**

Authorities will need to present information relating to the Housing Revenue Account in accordance with the new formats set out in the Code. There are no other transition arrangements in relation to the HRA statements. Authorities should follow the transition arrangements for specific assets, liabilities, expenditure, income and reserves where these apply to the HRA.

### **3.6 Collection Fund (England)/Council Tax Income Account (Scotland)/Non-Domestic Rate Account (Scotland)**

#### **3.6.1 Introduction**

##### *Collection Fund (England)*

3.6.1.1 The Collection Fund Statement is an agent's statement that reflects the statutory obligation for billing authorities to maintain a separate Collection Fund in accordance with section 89 of the Local Government Finance Act 1988 (as amended by the Local Government Finance Act 1992).

3.6.1.2 The Collection Fund shows the transactions of the billing authority in relation to the collection from taxpayers and distribution to local authorities and the Government of council tax and non-domestic rates. There is no requirement for a Collection Fund Balance Sheet since the assets and liabilities arising from collecting non-domestic rates and council tax belong to the bodies (ie major preceptors, the billing authority and the Government) on behalf of which the billing authority collects these taxes.

##### *Council Tax Income Account (Scotland)*

3.6.1.3 The Council Tax Income Account (Scotland) shows the net income raised from council taxes levied under the Local Government Finance Act 1992. The net income is transferred to the Comprehensive Income and Statement of the authority.

##### *Non-Domestic Rate Account (Scotland)*

3.6.1.4 The Non-Domestic Rate Income Account (Scotland) is an agent's statement that reflects the statutory obligation for billing authorities to maintain a separate Non-Domestic Rate Account that shows the net income from the rates levied under the Local Government (Scotland) Act 1975 as amended by the Local Government Finance Act 1992 on non-domestic property. The net income is paid to the Scottish Government as a contribution to the national non-domestic rate pool. There is no requirement for a Collection Fund Balance Sheet since the assets and liabilities arising from collecting non-domestic rates belong to the Scottish Government on behalf of which the billing authority collects Non-Domestic Rates.

#### **3.6.2 Accounting Requirements**

3.6.2.1 Even though taxation debtors are non-contractual debts and are excluded from the scope of IAS 39, the accounting requirements in the Collection Fund (England), Council Tax Income Account (Scotland) and Non-Domestic Rate Account (Scotland), in respect of the write-off of uncollectable and allowance for impairment of doubtful debts follow the impairment provisions of Chapter 7 (paragraphs 7.3.3.1 to 7.3.3.6) of the Code. However, the statements shall be presented in accordance with the statutory accounting requirements.

#### **3.6.3 Statutory Accounting Requirements**

##### *Collection Fund (England)*

- 3.6.3.1 The statement shall include a description of the purpose of the statement. The following description is recommended but not mandatory.

*The Collection Fund (England) is an agent's statement that reflects the statutory obligation for billing authorities to maintain a separate Collection Fund. The statement shows the transactions of the billing authority in relation to the collection from taxpayers and distribution to local authorities and the Government of council tax and non-domestic rates.*

The accounting statement shall show:

Amounts required by statute to be credited to the Collection Fund

- a) Council tax (showing the amount receivable, net of benefits, discounts for prompt payments and transitional relief)
- b) Transfers from General Fund
  - Council tax benefits
  - Transitional relief
  - Discounts for prompt payment
- c) Income collectable from business ratepayers
- d) Contributions
  - Towards previous year's Collection Fund deficit
  - Adjustment of previous years' community charges

Amounts required by statute to be credited to the Collection Fund

- e) Precepts and demands from major preceptors (specify) and the authority
- f) Business Rate
  - Payment to national pool
  - Costs of collection
- g) Impairment of debts/appeals
  - Write offs of uncollectable amounts
  - Allowance for impairment
- h) Contribution
  - Towards previous year's estimated Collection Fund surplus
  - Adjustment of previous years' community charges

- i) Movement on fund balance

*Council Tax Income Account (Scotland)*

- 3.6.3.2 The statement shall include a description of the purpose of the statement. The following description is recommended but not mandatory.

*The Council Tax Income Account (Scotland) shows the gross income raised from council taxes levied and deductions made under Statute. The resultant net income is transferred to the Comprehensive Income and Expenditure Statement of the authority.*

The accounting statement shall show:

- a) Gross council tax levied and contributions in lieu
- b) Council tax benefits (net of government grant)
- c) Discounts for prompt payment
- d) Other discounts and reductions
- e) Write-off of uncollectable debts and allowance for impairment
- f) Adjustment to previous years' community charge and council tax
- g) Transfers to General Fund

*Non-Domestic Rate Account (Scotland)*

- 3.6.3.3 The statement shall include a description of the purpose of the statement. The following description is recommended but not mandatory.

*The Non-domestic Rate Account (Scotland) is an agent's statement that reflects the statutory obligation for billing authorities to maintain a separate Non-Domestic Rate Account. The statement shows the gross income from the rates and deductions made under statute. The net income is paid to the Scottish Government as a contribution to the national non-domestic rate pool.*

The accounting statement shall show:

- a) Gross rates levied and contributions in lieu
- b) Reliefs and other deductions
- c) Payment of interest
- d) Write offs of uncollectable debts and allowance for impairment
- e) Net non-domestic rate income
- f) Adjustments for year prior to introduction of national non-domestic rate pool

g) Contribution to national non-domestic rate pool

### **3.6.4 Disclosure Requirements**

3.6.4.1 Disclosure of accounting policies in relation to impairment of debts is required (see section 3.4 of the Code).

### **3.6.5 Statutory Disclosure Requirements**

3.6.5.1 Having regard to paragraph 3.4.2.25 of the Presentation of Financial Statements section of the Code, authorities shall disclose the following notes in relation to Collection Fund (England), Council Tax Income Account (Scotland) and Non-Domestic Rate Account (Scotland):

#### *Collection Fund (England)*

- (1) The total non-domestic rateable value at the year-end and the national non-domestic rate multiplier for the year.
- (2) The calculation of the council tax base, ie the number of chargeable dwellings in each valuation band (adjusted for dwellings where discounts apply) converted to an equivalent number of band D dwellings.
- (3) The name of each authority which made a significant precept or demand on the fund and the amount included for each authority.

#### *Council Tax Income Account (Scotland)*

- (4) The calculation of the council tax base, ie the number of chargeable dwellings in each valuation band (adjusted for dwellings where discounts apply) after providing for nonpayment, as an equivalent number of band D dwellings and the level of non-payment provided for.
- (5) An explanation of the nature and actual amount of each charge fixed.

#### *Non-Domestic Rate Account (Scotland)*

- (6) Analysis of rateable values at the beginning of the year.
- (7) An explanation of the nature and amount of each rate fixed.

### **3.6.6 Changes since SORP 2009**

3.6.6.1 There are no changes since the SORP.

### **Transition Arrangements – Collection Fund/ Council Tax Income Account/ Non-Domestic Rate Account**

There are expected to be no transition arrangements arising from the Collection Fund (England), Council Tax Income Account (Scotland) and Non-Domestic Rate Account (Scotland).

### **3.7 Statements Reporting Reviews of Internal Controls or Internal Financial Controls**

#### **3.7.1 Introduction**

3.7.1.1 Regulation 4(2) of the Accounts and Audit Regulations 2003, regulation 4(2) of the Accounts and Audit (Wales) Regulations 2005 and regulation 2A of the Local Government (Accounts and Audit) Regulations (Northern Ireland) 2006 require English, Welsh and Northern Irish authorities to conduct a review at least once in a year of the effectiveness of its system of internal control and include a statement reporting on the review with any Statement of Accounts. Scottish local authorities are not subject to such statutory requirements but may adopt them voluntarily.

#### **3.7.2 Accounting Requirements**

3.7.2.1 The review of internal controls or internal financial controls provides assurance that the statement of accounts gives a true and fair view of the authority's financial position at the reporting date and its financial performance during the year.

#### **3.7.3 Statutory Accounting Requirements**

3.7.3.1 Authorities (except in Scotland) are required to undertake and report on a review of internal controls.

#### **3.7.4 Disclosure Requirements**

*English, Welsh and Northern Irish authorities and Scottish authorities that voluntarily conduct a review of the effectiveness of their system on internal control*

3.7.4.1 A local authority shall undertake a review of its system of internal control in accordance with best practice. *Delivering Good Governance in Local Government*, published by CIPFA and SOLACE, recommends that the review be reported in an Annual Governance Statement.

3.7.4.2 The preparation and publication of an Annual Governance Statement in accordance with *Delivering Good Governance in Local Government* would fulfil the statutory requirement in England, Wales and Northern Ireland for a local authority to conduct a review at least once in each financial year of the effectiveness of its system of internal control and to include a statement reporting on the review with its Statement of Accounts. The statement shall relate to the governance system as it applied during the financial year for the accounts that it accompanies. However, significant events or developments relating to the governance system that occur between the reporting date and the date on which the Statement of Accounts is signed by the responsible financial officer shall also be reported. Where an authority is in a group relationship with other entities and undertakes significant activities through the group, the review of the effectiveness of the system of internal control shall include its group activities.

3.7.4.3 The following information shall be included in the Annual Governance Statement:

- a) An acknowledgement of responsibility for ensuring there is a sound system of governance (incorporating the system of internal control).
- b) An indication of the level of assurance that the systems and processes that comprise the authority's governance arrangements can provide.
- c) A brief description of the key elements of the governance framework, including reference to group activities where the activities are significant.
- d) A brief description of the process that has been applied in maintaining and reviewing the effectiveness of the governance arrangements, including some comment on the role of the authority; the executive; the audit committee/overview and scrutiny committee/risk management committee; standards committee, internal audit and other explicit reviews/assurance mechanisms.
- e) An outline of the actions taken, or proposed, to deal with significant governance issues, including an agreed action plan.

3.7.4.4 It is important to recognise that the governance statement covers all significant corporate systems, processes and controls, spanning the whole range of an authority's activities, including in particular those designed to ensure that:

- the authority's policies are implemented in practice
- high-quality services are delivered efficiently and effectively
- the authority's values and ethical standards are met
- laws and regulations are complied with
- required processes are adhered to
- performance statements and other published information are accurate and reliable
- human, financial and other resources are managed efficiently and effectively.

3.7.4.5 The governance statement shall be approved at a meeting of the authority or delegated committee and signed by the chief executive and a leading member.

*Scottish Local Authorities*

3.7.4.6 Scottish local authorities, which are not required by legislation to conduct a review at least once in a year of the effectiveness of its system of internal control, shall consider doing so voluntarily and preparing an Annual Governance Statement. Authorities that do not voluntarily choose to do this shall include a statement on the system of internal financial control with their Statement of Accounts. This statement sets out the framework within which financial control is managed and reviewed and the main components of the system, including the arrangements for internal audit. Where the authority is in a group relationship with other entities and undertakes significant activities through the group, these activities shall be encompassed within the statement of internal financial control.

The statement reports on significant identified weaknesses and the actions undertaken to rectify these.

- 3.7.4.7 The statement shall relate to the system of internal financial control as it applied during the financial year for the accounts that it accompanies. However, significant events or developments relating to the system of internal financial control that occur between the Balance Sheet date and the date on which the Statement of Accounts is signed by the responsible financial officer shall also be reported.
- 3.7.4.8 The following information shall be included in the statement on the system of internal financial control:
- a) An acknowledgement of responsibility for internal financial control.
  - b) An indication of the level of assurance that a system of internal financial control can provide.
  - c) A brief description of the main features of the system of internal financial control including controls relating to group activities where the activities are significant.
  - d) A brief description of the role of internal audit and the management and reporting arrangements for internal audit.
  - e) Details of any other reviews informing the assessment of the effectiveness and operation of internal financial control undertaken during the year.
  - f) A concise explanation of any identified significant weaknesses in the system of internal financial control, together with the actions undertaken or planned to address these.
- 3.7.4.9 The statement shall be signed, as a minimum, by the chief financial officer (or equivalent) of the authority. Authorities may choose to have the statement signed, in addition, by the chief executive (or equivalent). The following wording may be used but is not mandatory.

***Statement on the System of Internal Financial Control***

- 1 This statement is given in respect of the Statement of Accounts for the XYZ Council. I/We acknowledge our responsibility for ensuring that an effective system of internal financial control is maintained and operated in connection with the resources concerned.
- 2 The system of internal financial control can provide only reasonable and not absolute assurance that assets are safeguarded, that transactions are authorised and properly recorded, and that material errors or irregularities are either prevented or would be detected within a timely period.
- 3 The system of internal financial control is based on a framework of regular management information, financial regulations, administrative procedures (including segregation of duties), management supervision, and a system of delegation and accountability. Development and maintenance of the system

is undertaken by managers within the council. In particular, the system includes:

- comprehensive budgeting systems
  - regular reviews of periodic and annual financial reports which indicate financial performance against the forecasts
  - setting targets to measure financial and other performance
  - the preparation of regular financial reports which indicate actual expenditure against the forecasts
  - clearly defined capital expenditure guidelines, and
  - as appropriate, formal project management disciplines.
- 4 [Note: This paragraph relates to internal audit arrangements. The wording will need to be tailored to reflect the particular way in which internal audit services are provided, but the following areas are those which, as a minimum, should be covered:
- a brief description of the internal audit arrangements
  - confirmation that internal audit operates to defined standards. This might also include references to risk analyses and the reporting arrangements to, for example, the audit committee and the chief executive or responsible financial officer
  - a note of the reporting arrangements undertaken by the chief internal auditor, and
  - a note that the chief internal auditor provides an independent opinion on the adequacy and effectiveness of the system of internal financial control.]
- 5 My/Our review of the effectiveness of the system of internal financial control is informed by:
- the work of managers within the council
  - the work of the internal auditors as described above, and
  - the external auditors in their annual audit letter and other reports.
- 6 [This paragraph should provide either details of the action taken, or proposed, to correct significant identified weaknesses in the system of internal financial control, or an explanation of why corrective action is not considered necessary. The wording should be tailored to reflect the circumstances of the case.]

(Signed) \_\_\_\_\_ (Dated) \_\_\_\_\_

(Chief Financial Officer)

**3.7.5 Statutory Disclosure Requirements**

3.7.5.1 Statutory disclosure requirements will be met by complying with the disclosure requirements set out above.

**3.7.6 Changes since SORP 2009**

3.7.6.1 There are no changes to the requirements in SORP 2009.

**Transition Arrangements**

There are no transition arrangements in relation to statements reporting reviews of internal controls or internal financial controls.

## **3.8 Events after the Reporting Period**

### **3.8.1 Introduction**

3.8.1.1 Authorities shall account for events after the reporting period in accordance with *IAS 10 Events after the Reporting Period*, except where interpretations or adaptations to fit the public sector are detailed in the Code. *IPSAS 14 Events after the Reporting Date* is based on *IAS 10*, and introduces no additional accounting requirements, although it provides additional guidance for public sector bodies.

#### *Interpretation and adaptation for the Public Sector Context*

3.8.1.2 The date the financial statements are authorised for issue is defined in the Code, based on legislative requirements.

3.8.1.3 Transfers of services under machinery of government changes (such as local government reorganisation) do not negate the presumption of going concern.

### **3.8.2 Accounting Requirements**

#### *Definitions*

3.8.2.1 *Events after the reporting period* are those events, both favourable and unfavourable, that occur between the end of the reporting period and the date when the financial statements are authorised for issue. Two types of events can be identified:

- (a) Those that provide evidence of conditions that existed at the end of the reporting period (adjusting events after the reporting period); and
- (b) Those that are indicative of conditions that arose after the reporting period (non-adjusting events after the reporting period).

#### *Authorised for Issue*

3.8.2.2 The financial statements of an authority are authorised for issue in accordance with the relevant legislation:

- The Accounts and Audit Regulations 2003 (England);
- The Accounts and Audit Regulations (Wales) 2005;
- The Local Government (Accounts and Audit) Regulations (Northern Ireland) 2006;
- Local Authority Accounts (Scotland) Regulations 1985

3.8.2.3 Regulations in England, Wales and Northern Ireland require authorities to prepare a Statement of Accounts before 30 June following the reporting date. In Scotland, regulations require a Statement of Accounts to be presented to the auditor by 30 June following the reporting date. The Responsible Finance Officer (Proper Officer in Scotland / Chief Financial Officer in Northern Ireland) shall

certify that the accounts give a true and fair view of the authority's financial position and financial performance. The Statement of Accounts shall reflect events after the reporting period up to the date the accounts were certified by the Responsible Finance Officer, Proper Officer or Chief Financial Officer. Regulations require this Statement of Accounts to be approved by members and signed by the chair of the relevant approving body.

3.8.2.4 Regulations require an authority to publish its audited Statement of Accounts by 30 September (31 October in Northern Ireland) following the reporting period. Where the audit has not been completed by this date, the authority shall publish its unaudited Statement of Accounts by this date and its audited Statement of Accounts as soon as practicable thereafter.

3.8.2.5 The published Statements of Accounts shall reflect events after the reporting period up to the date the accounts were authorised for issue. The date the accounts were authorised for issue shall be:

- Unaudited accounts - the date on which the Responsible Finance Officer (Proper Officer in Scotland / Chief Financial Officer in Northern Ireland) certifies that the accounts give a true and fair view of the authority's financial position and financial performance in advance of approval (England, Wales and Northern Ireland) or issue (Scotland);
- Audited accounts (where opinion issued in advance of conclusion of audit (England, Wales and Northern Ireland only)) - the date on which the Responsible Finance Officer (Chief Financial Officer in Northern Ireland) re-certifies that the accounts give a true and fair view of the authority's financial position and financial performance. This re-certification shall include a statement on the face of the balance sheet that "These financial statements replace the unaudited financial statements approved at the meeting of [insert committee name or body] on [insert date]";
- Audited accounts (where no opinion issued prior to the conclusion of audit) - the date on which the Responsible Finance Officer (Proper Officer in Scotland / Chief Financial Officer in Northern Ireland) re-certifies that the accounts give a true and fair view of the authority's financial position and financial performance. This re-certification shall include a statement on the face of the balance sheet that "These financial statements replace the unaudited financial statements approved at the meeting of [insert committee name or body] on [insert date]" (England, Wales and Northern Ireland) or "These financial statements replace the unaudited financial statements issued on [insert date]" (Scotland);
- Audited accounts (where opinion previously issued prior to the conclusion of audit (England, Wales and Northern Ireland only)) - the date on which the Responsible Finance Officer (Chief Financial Officer in Northern Ireland) re-certifies that the accounts give a true and fair view of the authority's financial position and financial performance. This re-certification shall include a statement on the face of the balance sheet that "These financial statements replace the financial statements certified by me on [insert date]"

3.8.2.6 Although not required by regulations, it is good practice for the Statement of Accounts to be re-approved by the same committee or body that originally

approved the Statement of Accounts, and for the chair to sign the amended Statement of Accounts.

*Events after the Reporting Period*

3.8.2.7 An authority shall adjust the amounts recognised in its financial statements to reflect adjusting events after the reporting period.

3.8.2.8 An authority shall not adjust the amounts recognised in its financial statements to reflect non-adjusting events after the reporting period.

*Going Concern*

3.8.2.9 An authority shall prepare its financial statements on a going concern basis unless there is an intention by Government that the services provided by the authority will no longer be provided. An intention by Government to transfer services from the authority to another (for example, as part of local government reorganisation) does not negate the presumption that the authority is a going concern.

**3.8.3 Statutory Accounting Requirements**

3.8.3.1 Financial statements are authorised for issue in accordance with legislative requirements (see paragraph 3.8.2.2)

**3.8.4 Disclosure Requirements**

3.8.4.1 An authority shall disclose the following:

- (1) The date when the financial statements were authorised for issue and who gave that authorisation. Where the statements may be amended following audit, the authority shall disclose that fact.
- (2) If an authority receives information after the reporting period, but before the financial statements are authorised for issue, about conditions that existed at the end of the reporting period, the authority shall update disclosures that relate to these conditions, in the light of the new information.
- (3) If non-adjusting events after the reporting date are material, non-disclosure could influence the decisions of users taken on the basis of the financial statements. Accordingly, an authority shall disclose the following for each material category of non-adjusting event after the reporting date:
  - (a) the nature of the event; and
  - (b) an estimate of its financial effect, or a statement that such an estimate cannot be made.
- (4) Where there is an intention by Government to transfer services from the authority to another (for example, as part of local government reorganisation), the authority shall disclose that fact.

**3.8.5 Statutory Disclosure Requirements**

3.8.5.1 There are no statutory disclosure requirements in relation to events after the reporting period.

**3.8.6**      *Changes since SORP 2009*

3.8.6.1      There are no changes to the requirements in SORP 2009.

**Transition Arrangements**

There are no transition arrangements in relation to events after the reporting date.

### **3.9 Related Party Disclosures**

#### **3.9.1 Introduction**

3.9.1.1 Authorities shall identify related party relationships and transactions, identify outstanding balances between the authority and its related parties, and identify the circumstances in which disclosures are required, in accordance with IAS 24 Related Party Disclosures except where interpretations or adaptations to fit the public sector are detailed in the Code.

3.9.1.2 IPSAS 20 Related Party Disclosures is based on IAS 24, and provides additional guidance for public sector bodies.

##### *Interpretation and adaptation for the Public Sector Context*

3.9.1.3 The following interpretation of IAS 24 applies for the public sector context;

- In considering materiality, regard should be had to the definition of materiality, which requires materiality to be judged 'in the surrounding circumstances'. Materiality should thus be judged from the viewpoint of both the authority and the related party

3.9.1.4 IPSAS 20 includes a public sector adaptation which the Code has adopted. The adaptation is as follows;

- Providers of finance in the course of their business in that regard and trade unions; in the course of their normal dealings with an authority by virtue only of those dealings, and an entity with which the relationship is solely that of an agency, are not deemed not to be related parties.

#### **3.9.2 Accounting Requirements**

##### *Definitions*

3.9.2.1 *Close members of the family* of an individual are close relatives of the individual or members of the individual's immediate family who can be expected to influence, or be influenced by, that individual in their dealings with the authority;

- A spouse, domestic partner, dependent child or relative living in a common household;
- A grandparent, parent, nondependent child, grandchild, brother or sister; and
- The spouse or domestic partner of a child, a parent-in-law, a brother-in-law or a sister-in-law.

3.9.2.2 *Key management personnel* are all chief officers (or equivalent), elected members, chief executive of the authority and other persons having the authority and responsibility for planning, directing and controlling the activities of the authority, including the oversight of these activities.

3.9.2.3 *Material*. Omissions or misstatements of items are material if they could, individually or collectively, influence the decisions or assessments of users made

on the basis of the financial statements. Materiality depends on the nature or size of the omission or misstatement judged in the surrounding circumstances. The nature or size of the item, or a combination of both, could be the determining factor.

3.9.2.4 *Oversight* means the supervision of the activities of an authority, with the authority and responsibility to control, or exercise significant influence over, the financial and operating decisions of the authority.

3.9.2.5 *Related party* - parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions or if the related party entity and another entity are subject to common control. Related parties include:

- Entities that directly, or indirectly through one or more intermediaries, control, or are controlled by the authority (ie subsidiaries);
- Associates;
- Joint ventures in which the authority is a venturer;
- An entity that has an interest in the authority that gives it significant influence over the authority
- Key management personnel, and close members of the family of key management personnel; and
- Post-employment benefit plan (pension fund) for the benefit of employees of the authority, or of any entity that is a related party of the authority

3.9.2.6 *Related party transaction* is a transfer of resources or obligations between related parties, regardless of whether a price is charged. Related party transactions exclude transactions with any other entity that is a related party solely because of its economic dependence on the authority or the government of which it forms part.

3.9.2.7 *Remuneration / Allowance* is any consideration or benefit derived directly or indirectly by key management personnel from the authority for services provided in their capacity as elected members or otherwise as employees of the authority.

3.9.2.8 *Significant influence* (for the purpose of this section of the Code) is the power to participate in the financial and operating policy decisions of an authority, but not control those policies. Significant influence may be exercised in several ways, usually by representation on the board of directors or equivalent governing body but also by, for example, participation in the policy making process, material transactions between entities within an economic entity, interchange of managerial personnel or dependence on technical information. Significant influence may be gained by an ownership interest, statute or agreement.

3.9.2.9 The definitions above should be applied to the determination of related parties and hence the associated disclosure requirements.

#### *Related Party Disclosures*

3.9.2.10 In considering each possible related party relationship, attention is directed to the substance of the relationship, and not merely the legal form.

- 3.9.2.11 Where two entities have a member of key management personnel in common, it is necessary to consider the possibility, and to assess the likelihood, that this person would be able to affect the policies of both entities in their mutual dealings. However, the mere fact that there is a member of key management personnel in common does not necessarily create a related party relationship.
- 3.9.2.12 In the context of this section of the Code, the following are deemed not to be related parties:
- Providers of finance in the course of their business in that regard and trade unions; in the course of their normal dealings with an authority by virtue only of those dealings, and
  - An entity with which the relationship is solely that of an agency.
- 3.9.2.13 Related party relationships where control exists should be disclosed irrespective of whether there have been transactions between the related parties.
- 3.9.2.14 The disclosure of related party transactions and balances shall have regard to materiality. In considering materiality, regard should be had to the definition of materiality, which requires materiality to be judged "in the surrounding circumstances". Materiality should thus be judged from the viewpoint of both the entity and the related party.

### **3.9.3 Statutory Accounting Requirements**

- 3.9.3.1 There are no statutory accounting requirements in relation to related party disclosures.

### **3.9.4 Disclosure Requirements**

- 3.9.4.1 Having regard to paragraph 3.4.2.25 of the Presentation of Financial Statements section of the Code, authorities shall disclose the following notes in relation to related party disclosures:

- (1) Information in respect of transactions with related parties, not disclosed elsewhere, including:
  - (a) The description of the nature of the related party relationships;
  - (b) The amount of transactions that have occurred;
  - (c) The amount of outstanding balances; and

Related party relationships where control exists should be disclosed irrespective of whether there have been transactions between the related parties.

Transactions with related parties may be disclosed on an aggregated basis (aggregation of similar transactions by type of related party) unless disclosure of an individual transaction, or connected transactions, is necessary for an understanding of the impact of the transactions on the financial statements of the authority or is required by law.

### **3.9.5 Statutory Disclosure Requirements**

- 3.9.5.1 There are statutory disclosure requirements in relation to officer remuneration in England and Wales. These disclosure requirements are included in section 3.5 Presentation of Financial Statements, of the Code.

**3.9.6 *Changes since SORP 2009***

- 3.9.6.1 The Code has different requirements to the SORP in relation to the disclosure of related party transactions and balances ie the disclosure of outstanding balances.
- 3.9.6.2 The Code does not deem certain parties as related parties ie providers of finance in the course of their normal business in that regard and trade unions; in the course of their normal dealings with an authority by virtue only of those dealings, and an entity with which the relationship is solely that of an agency.

**Transition arrangements – Related Party Disclosures**

The Code requires local authorities to disclose related party transactions in accordance with chapter 3 section 12 of the Code (also see IAS 24). There are additional disclosure requirements which will have to be adopted for 2009/10, ie the disclosure of outstanding balances. In addition providers of finance, trade unions and entities that are agents of the authority are deemed not to be related parties.