CIPFA The Chartered Institute of Public Finance & Accountancy

report

Paper CL 08 06-18

Board	CIPFA/LASAAC
Venue	CIPFA Scotland, Edinburgh
Date	5 June 2018
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Subject	IFRS Post Implementation Review - Responses

Purpose

To consider responses and feedback received from the IFRS Post Implementation Review (PIR) request for evidence.

1 Responses Received

1.1 Five responses were received specifically relating to the PIR. An additional comment paper was also received and is included in this analysis for information and consideration of action.

1.2 The analysis of respondents is:

Audit Firm	3
Independent Consultant	1
Local Authority	1
Individual Practitioner	1
Total responses	**6**

1.3 CIPFA-LASAAC will wish to note its thanks to all those respondents who submitted comments to inform the improvement of the Code.

2 Analysis of Responses

2.1 A summary of the responses received, which summarises the comments made and potential considerations for CIPFA-LASAAC, is provided at Appendix A.

2.2 For ease of reference an abbreviated version of the tables, which indicate the key topic and recommended actions, is provided below.

Employee Benefits		
Ref	**Topic Area**	**Recommendation**
E.1	Pension Guarantees Balance Sheet Presentation	**A) Undertake initial assessment work for possible consideration as part of development plan for 20/21.** **and** **B) Consider the IAS 19 Amendments implementation proposals for 2019/20 which will affect staff transfers and other events**
E.2	Post-Employment Benefits – Disclosures Reduction	**Liaise with LAAP regarding whether guidance would assist disclosure practices**
E.3	Termination Benefits Disclosure Removal	**No further action pending a future wider review of termination benefit accounting.**
E.4	Benefits payable during employment: Removal of 'holiday pay' accrual	**CIPFA-LASAAC should seek the views of government observers on CIPFA-LASAAC**
E.5	Scottish Statutory Reference for 'holiday pay' Accrual	**Planned change for 19/20 Code**
E.6	Post-Employment Benefits: Defined Contribution Plans Employer Contribution rate	**Subject to CIPFA/LASAAC consideration, no further action.**

Service Concession Arrangements (PFI/PPP)		
Ref	**Topic Area**	**Recommendation**
S.1	Service Concessions – Future Payments Analysis (inclusion of inflation)	**Subject to CIPFA-LASAAC discussion, no further action.**
S.2 S.3, and S.4	Service Concessions – Operator Right to Earn Revenue	**Undertake initial assessment work for possible consideration as part of development plan for 20/21.**
S.5	Service Concessions – IFRS 16 Leases	**Review feedback to Leases consultation**

Group Accounts		
Ref	**Topic Area**	**Recommendation**
G.1	Group Accounts - Inconsistency in disclosures	**For all three aspects a consistent approach is recommended:** **(A) Liaise with LAAP regarding whether guidance would assist application and disclosure practices** **OR** **(B) Undertake initial assessment work for possible consideration as part of development plan for 20/21.**
G.2	IFRS 3 Business Combinations	
G.3	Group Accounts – Purpose of Group Accounts	

Other Items Raised		
Ref	**Topic Area**	**Recommendation**
O.1	Local Government Re-organisations	**Review 19/20 Code development proposals relating to IPSAS 40 Public Sector Combinations.**
O.2	Going Concern: Disclose material uncertainties	**Subject to CIPFA-LASAAC discussion, no further action.**
O.3	Depreciated Replacement Cost: Specification of valuation practice	**A) Request further valuation professional feedback eg invitation to a future CIPFA-LASAAC meeting** **And** **B) Liaise with RICS public sector valuation working group**
O.4	Capital Outturn - Hybrid EFA / MiRS Statement	**Consider as part of the proposed future review of 'Telling the Story' for 20/21 Code development**

With reference to the above and the details in Appendix A, CIPFA/LASAAC is requested to approve or amend the recommendations above concerning actions following the IFRS Post-Implementation Review.

Appendix A

Employee Benefits

Ref	Respondent	Comments Received (Summarised)	Notes / Recommendation
E.1	A – Audit Firm	**Pension Guarantees Balance Sheet Presentation** Respondent considers that guarantees that assume actuarial or investment risk are not appropriate for treatment as contingent liabilities. If regarded as financial guarantees (even if they are not called guarantees) then IAS 39 Financial instruments would apply; or the arrangement may be an Insurance Contract under IFRS 4. Both are considered to involve a balance sheet liability and impact fund balances.	This appears to be an area of growing interest, and is likely to be a high-profile topic. The implementation of IAS 19 amendments in 19/20 may also increase the focus that is placed on how staff transfers are accounted for; and in particular if there are circumstances in which ongoing pension liabilities should remain with the authority. **Recommendation:** **A) Undertake initial assessment work for possible consideration as part of development plan for 20/21. And** **B) Consider the IAS 19 Amendments implementation proposals for 2019/20 which will affect staff transfers and other events**
E.2	B – Independent Consultant	**Post Employment Benefits – Disclosures Reduction** Relevance of lengthy disclosures queried principally on the basis that employer is not in control of the pension scheme,	CIPFA-LASAAC may consider the objective of the disclosures is to illustrate the nature of the scheme, and risks, that the authority is participating

		this is exercised by the pension fund administering body. Specific examples are cited: • Disclosures on characteristics and risks of the plan • References to 'trustees' and 'boards' which are not a feature of the LGPS • Risks from concentration of assets • Analysis of plan assets • Asset-liability matching strategies • Some disclosures overlap • Full reconciliation of assets and liabilities	in, not whether it is managing the scheme. Simplification and reduction of disclosures may be supported. Potentially in this instance this is best supported through guidance not Code amendment. **Recommendation: Liaise with LAAP regarding whether guidance would assist disclosure practices**
E.3	B – Independent Consultant	**Termination Benefits Disclosure Removal** The respondent suggests that 3.4.4.1 (6) ["Number of exit packages agreed (grouped in rising bands of £20,000 up to £100,000, and bands of £50,000 thereafter), analysed between compulsory redundancies and other departures……"] duplicates the requirements of section 6.3 (termination benefits).	Code 6.3.3.1 however notes "Although this section of the Code does not require specific disclosures about termination benefits, other sections of the Code may require disclosures.." **Recommendation: No further action pending a future wider review of termination benefit accounting**
E.4	B – Independent Consultant	**Benefits payable during employment: Removal of 'holiday pay' accrual** The respondent suggests that given the statutory mitigation that exists; and that the change in accrual from year to year may not be material, the requirement for a 'holiday pay' accrual could be removed.	CIPFA-LASAAC may wish to consider the balance of costs and benefits arising from the existing requirement. One consideration may be whether this would affect the ability of the balance sheet to provide a 'true and fair view' of liabilities as at 31 March. **Recommendation: CIPFA-LASAAC should seek the views of government observers on CIPFA-LASAAC**

E.5	C – Local Authority	**Scottish Statutory Reference for 'holiday pay' Accrual** Scottish statutory adjustment regulations for 'holiday pay' have changed.	**Recommendation: Planned change for 19/20 Code**
E.6	C – Local Authority	**Post Employment Benefits: Defined Contribution Plans Employer Contribution rate** Defined benefit plans disclose the employer's contribution rate. There is no similar requirement for defined contribution plans. Requiring the employer's contribution rate for defined contribution plans would allow comparison.	Although disclosure of the employer's contribution rate is normally helpfully provided, presumably to illustrate the "nature of the benefits provided by the plan" [6.4.3.42 (5) (a) (i)] there is no explicit requirement to disclose this fro defined benefit plans. **Recommendation: Subject to CIPFA/LASAAC consideration, no further action.**

Service Concession Arrangements (PFI/PPP)

Ref	Respondent	Comments Received (Summarised)	Notes / Possible Actions
S.1	A- Audit Firm	**Service Concessions – Future Payments Analysis (inclusion of inflation)** The respondent notes re paragraph 4.3.4.2 (3), that it is "unclear as to whether these disclosures should include an estimate of the effect of inflation". It is suggested that expected inflation should be specified as included, in order to reflect the commitments under the contract.	It should be noted that 4.3.4.3 (2) requires the following disclosure: "significant terms of the arrangement that may affect the amount, timing and certainty of future cash flows (eg the period of the arrangement, re-pricing dates and the basis upon which re-pricing or renegotiation is determined)" Arguably this could be expected to include the future uncertainty relating to (unknown) index price movements. This should allow a user of the accounts to form a judgement regarding the impact of future changes in index rates. The challenges for practitioners in forecasting index rate changes, and for auditors in evidencing and assessing this, may be a consideration. **Recommendation: Subject to CIPFA-LASAAC discussion, no further action.**
S.2	A- Audit Firm	**Service Concessions – Operator Right to Earn Revenue**	This appears to be an area of growing interest in terms of clarification (see

		The respondent notes that, regarding the Code 4.3.2.19, it "requires an authority to account for the benefits that the authority is deemed to receive over the life of the contract. The Code does not specify the required treatment."	below). It may also provoke considerable debate regarding any clarification or change.
S.3	C-Local Authority	**Service Concessions – Operator Right to Earn Revenue** The authority does not currently grant the right to earn revenue. However "the option to do so as part of a service concession arrangement at 4.3.2.19 should be expanded to clearly indicate **the requirement to include any income earned by the operator under such arrangements as income to the local authority**, to be recognised on the Comprehensive Income and Expenditure Statement, offset by the payment to the operator which should be included within the total payments to the operator and disclosed over the term of the arrangement in line with 4.3.4 disclosure Requirements." [bold added for ease of referene]	In relation to the identification of Total Cost SeRCOP 2018/19 2.21.2 states "If the authority has given up rights to the income .." no grossing up should be undertaken. However "grossing up would be expected where the authority retains the right to income, engages the service provider to collect it, and nets the cash collected off any fees payable to the provider for services when payment falls due. In these circumstances the authority would account for the gross fee payable to the provider as expenditure and the income collected as income when preparing total cost."
S.4	E-Audit Firm	**Service Concessions – Operator Right to Earn Revenue** The respondent has provided a detailed review of requirements noting: "[the Code] does not prescribe how to account for userpays service concessions, other than stating that an authority with such an arrangement must consider how to account for the benefits it receives from its control of the underlying property"	See comments above. Additionally the apparent lack of consistency across all sectors may be a cause for caution and thorough investigation. Consideration of FRAB / FReM approach would be appropriate. **Recommendation: Undertake initial assessment work for possible**

		"the Accounting Council did not recommend adopting the grant of a right to the operator model because this may result in entities recording amounts as liabilities which do not meet the definition of a liability. The Accounting Council also advised that there was need for further research on accounting for user-pays service concessions" "PFI project operators usually account for the transaction either under IFRIC 12 or FRS 102 Section 34. Either pronouncement requires operators to record an intangible asset". The respondent notes that the authority can mirror this (i.e. 'sell' the intangible asset) and "then allocate that revenue over the period for which it must grant the right to the operator, or over the contract term." Alternatively the approach in the Further and Higher Education SORP, applicable to student accommodation schemes, could be adopted. This requires a review of the contract to identify if the grantor is acting as principal or agent. The challenges in reaching consistency in judgements is noted. The respondent expresses support for the 'grant of right' (intangible asset) model, unless the property is assessed as a separate cash generating unit.	**consideration as part of development plan for 20/21.**
S.5	B – Independent Consultant	**Service Concessions – IFRS 16 Leases** The respondent is generally supportive of the current requirements and notes that amendment for IFRS 16 Leases implementation will be required.	**Recommendation: review feedback to Leases consultation**

Group Accounts

Ref	Respondent	Comments Received (Summarised)	Notes / Possible Actions
G.1	A-Audit Firm	**Group Accounts - Inconsistency in disclosures** The respondent notes the growing use of group arrangements by authorities but notes "the disclosure requirements required throughout the Code are not always considered from the group accounts perspective".	The importance of presenting a group position, as well as identifying group risks etc, may be a consideration for CIPFA-LASAAC. It is however not clear that Code changes are being requested. **Recommendation:** **(C) Liaise with LAAP regarding whether guidance would assist disclosure practices** **OR** **(D) Undertake initial assessment work for possible consideration as part of development plan for 20/21**.
G.2	A-Audit Firm	**IFRS 3 Business Combinations** The respondent notes that IFRS 3 Business Combinations, which effectively relate to the acquisition of a business (eg as a concern / activity) is potentially underappreciated especially in the context of more commercial activity by councils. Prominence in the Code and additional guidance is suggested.	**Recommendation:** **(A) Liaise with LAAP regarding whether guidance would assist IFRS 3 application** **OR** **(B) Undertake initial assessment work for possible consideration as part of development plan for 20/21**
G.3	B-Independent Consultant	**Group Accounts – Purpose of Group Accounts** The respondent noted that the Code could provide more	The decision regarding G.1 will probably determine the appropriate action i.e.

		context and explain the purpose of group accounts. Additionally greater use of related party and other disclosures is suggested.	**Recommendation:** **(A) Liaise with LAAP regarding whether guidance would assist disclosure practices** **OR** **(B) Undertake initial assessment work for possible consideration as part of development plan for 20/21**.

Other Items

Ref	Respondent	Comments Received (Summarised)	Notes / Possible Actions
O.1	A-Audit Firm	**Local Government Re-organisations** The respondent indicates there is some difference between the Code requirements (transfer by absorption or transfer by merger) and the FReM requirements (transfer by absorption). Clarification is requested.	The Code does allow both methods however it generally indicates that transfer by merger will be rare, with transfer by absorption more commonly expected (Code 2.5.2.3-4). The work on IPSAS 40 Public Sector Combinations may inform CIPFA-LASAAC views. **Recommendation: review 19/20 Code development proposals relating to IPSAS 40.**
O.2	A-Audit Firm	**Going Concern: Disclose material uncertainties** Following the recent public emphasis on local authority financial sustainability the respondent notes the auditor's responsibilities under IAS 570 and states "ISA 570 also notes that these responsibilities exist even if the financial reporting framework used in the preparation of the financial statements does not include an explicit requirement for management to make a specific assessment of the entity's ability to continue as a going concern (para 6). This is the case with the CIPFA Code." The respondent states "we suggest that the Code clarifies disclosure requirements in relation to going concern and, in our view, be clear that authorities should disclose any material uncertainties where these exist".	CIPFA-LASAAC has previously considered the application of the going concern principle to local government. **Recommendation: Subject to CIPFA-LASAAC discussion, no further action.**

O.3	D- Audit Firm	**Depreciated Replacement Cost: Specification of valuation practice** The respondent notes that since RICS takes a principles based approach to valuation it cannot provide explicit guidance on valuations. It is noted that, to some extent, the Code does include valuation specification. The respondent considers that more explicit guidance on DRC is required, which the Code could provide. The following (NHS) example is given: "A clear example is the trend of NHS Trusts with more than one site to approach valuation through the concept of MEA *[Modern Equivalent Asset]* that in optimising their sites they would only have one with consequent savings on size etc leading to reduced values and depreciation charges. We are seeing, for example, 3 hospitals in one Trust being valued as if one. In principle, this is ok but when you have sites which may have 30+ years of life left, is it right to allow such an artificial assumption." In addition "there will remain very significant variance between valuers as to the target original life of buildings and how to approach the calculation/determination of remaining useful life."	CIPFA-LASAAC may wish to consider the balance of benefits (eg increased consistency of valuation) and potential costs (eg possibly increased valuation resources). Additionally the remit of CIPFA-LASAAC in specifying explicit valuation practices, which will be applied by valuation professionals, may be discussed. **Recommendation:** **A) Request further valuation professional feedback eg invitation to a future CIPFA-LASAAC meeting.** **And** **B) Liaise with RICS public sector valuation working group**
O.4	F-Individual Practitioner	**Capital Outturn - Hybrid EFA / MiRS Statement** The respondent suggested modifications to EFA and MiRS presentation to support a clearer statement of the 'Capital Out-turn'. Additionally it was suggested the term 'account' (eg CAA) should not be used for any reserve; and that reserves should be shown by default as positive figures.	This is not specific to the post-implementation review. **Recommendation: Consider as part of the proposed future review of 'Telling the Story' for 20/21 Code development**