

# Report [Appendix D]

CL 07D 06-19

Board	CIPFA/LASAAC
Venue	National Audit Office, 157-197 Buckingham Palace Road, Victoria, London, SW1W 9SP
Date	4 June 2019
Author	CIPFA Secretariat
Subject	Code Structure and Format

*Note of working group meeting 9 May 2019- Reporting to CIPFA/LASAAC and LAAP*

Discussion Areas	Notes
<p><b>Usable and Helpful</b> For preparers and auditors how usable and helpful is the current Code format and structure?</p> <ul style="list-style-type: none"> <li>If it is not, why is this? What format or structural issues in the Code make it less usable?</li> </ul>	<ul style="list-style-type: none"> <li>Most preparers will initially refer to the Guidance Notes (GNs), not the Code</li> <li>A standard format for the accounts (cf NHS practices, central government models) would be helpful</li> <li>If the GNs do not provide the necessary clarification it will usually be necessary to refer directly to either the underlying standard or the legislation (as appropriate) ie detail in the Code on the accounting standards is not always of 'added value'</li> <li>The Guidance Notes will normally highlight changes which are the key focus</li> </ul>

Discussion Areas	Notes
<p><b>Language and Phrasing</b> Does the language and phrasing in the Code help in appropriately and clearly conveying the financial reporting requirements, for both preparers and auditors?</p>	<ul style="list-style-type: none"> <li>• Code is used as a 'reference' document and language is fine for this purpose. <ul style="list-style-type: none"> <li>• If the Code is to continue to be based on IFRS standards it would be difficult to use completely different language and phrasing since this would actually introduce additional complexity and 'read across' challenges. Independent language and phrasing would only be appropriate if the Code was completely 'stand alone' and did not refer to IFRS (comparison to FRS 102 made).</li> <li>• GD Note: This implies a clear choice of direction: (a) less IFRS detail. More like the FReM with focus on adaptations and interpretations; (b) more direct specification and detail of FRS 102, less cross referencing to IFRS except where specifically applicable</li> </ul> </li> <li>• Code is more readable than the standards</li> <li>• Code does not normally translate the underlying standards into practical application (eg examples)</li> <li>• The additional detail and application explanation in the GNs is useful</li> <li>• Noted that the Code retains some 'outdated' language / terms eg 'balance sheet'. Use of 'debtors' and 'creditors' could also be reviewed.</li> </ul>

Discussion Areas	Notes
<p><b>Detailed Text of IFRS Standards</b> Do preparers and auditors find detailed text regarding IFRS standards implementation in the Code of assistance?</p> <p>eg does it assist and support the finance community in minimising, but not removing, the need to refer to the underlying accounting standards?</p> <p>Is the amount of such text correctly balanced, should there be less detail or more detail provided?</p>	<ul style="list-style-type: none"> <li>• Detail in the Code may be taken to imply that detail is required in the annual accounts</li> <li>• IFRS standards – the bold text in IFRS standards is not in itself sufficient to specify the expected treatment. The non-bold text and the application guidance is also important.</li> <li>• Less IFRS text suggested, with more of a summary of the expectations with cross reference to IFRS details.</li> <li>• More challenge and rigour should be applied to ensure that only IFRS that is relevant to local government accounts readers is cited. Examples of areas for review: <ul style="list-style-type: none"> <li>• IFRS 13 fair value measurement disclosures – less incentive for authorities to inflate values (although NB that in group accounts the same statutory and funding arrangements do not apply to group entities)</li> <li>• Pension liabilities: all the details concerning actuary assumptions are probably not relevant to user decisions/ of interest to readers</li> </ul> </li> <li>• Complex Transactions: will exist and application will require local judgement</li> <li>• One document (eg Code) cannot feasibly be expected to cover every possible scenario for standards application</li> <li>• Code signposting to standards would be sufficient with GNs providing the application detail, especially if they can be more 'user friendly'</li> <li>• The GNs generally provide a helpful direct reference to the standards and legislation (perhaps in more detail / more specific than the Code can be)</li> <li>• Cross-referencing between two documents is time consuming and unhelpful</li> <li>• A single document (Code + GNs combined) might be helpful, with clear identification of what the mandatory requirements are (cf prudential code)</li> <li>• More specific and separate GNs for specific topics (eg new standards) is most relevant (IFRS 9 early guide highlighted as helpful). <ul style="list-style-type: none"> <li>• <i>Possibly therefore some overarching GNs publication but supported by 'satellite' detailed publications for specific applications.</i></li> <li>• <i>Suggested that example financial statements should be moved to separate publication. This could form the basis for the suggested 'standard set of accounts'</i></li> </ul> </li> </ul>

Discussion Areas	Notes
<p><b>Cross references to Other Standards</b>  The Code is based on EU adopted IFRS accounting standards, but will cross-reference to other standards (eg IPSASB) in certain situations. Is this cross referencing, and the Code requirements arising, clearly communicated?</p>	<ul style="list-style-type: none"> <li>• No significant issues, generally the applicable underlying standard can be identified when necessary</li> </ul>
<p><b>Adaptations and Interpretations</b>  Are adaptations and interpretations of standards affecting application for UK local government clearly identified?</p>	<ul style="list-style-type: none"> <li>• Strict adherence to IFRS can be a limitation. The Code should more rigorously consider adapting and interpreting standards (incl disclosures) to be relevant for local government.</li> <li>• IFRS 9 disclosures cited as an example where experience indicates a clearer analysis of which disclosures are most applicable would assist</li> <li>•</li> </ul>
<p><b>Consultation Arrangements</b>  <i>The process for determining the adaptations and interpretations included in the Code was queried. It was noted that the main feedback is via the summer consultation process. Feedback usually about 20% to 25%. CIPFA/LASAAC aware that potentially authorities which may be significantly affected by a new standard may not respond, triggering later calls for statutory adjustments</i></p>	<ul style="list-style-type: none"> <li>• Consultation process itself probably not sufficient to assess need for adaptations / interpretations</li> <li>• Wider engagement needed eg consultation network groups</li> <li>• Awareness of 'consultation fatigue' and authority limited resources</li> <li>• Additional workshops / events etc &amp; engagement may help</li> <li>• CIPFA/LASAAC could highlight key areas of concern</li> <li>• Possible 'Tisonline' type group noted</li> </ul>

Discussion Areas	Notes
<p><b>Preparer and Auditor Assessments</b>  <i>It was noted that auditors were often focused on items such as asset valuations, which were not generally of most importance or relevance to CFOs or elected members.</i></p>	<ul style="list-style-type: none"> <li>• Auditors are likely to be applying a risk management approach, especially given the expectations of the FRC etc in relation to private sector accounts eg asset valuations and pensions liabilities</li> </ul>
<p><b>Publication Formats</b>            Are the current book or pdf format options provided helpful to preparers and auditors?             Are there improvements or alternative publication formats that would be helpful?</p>	<ul style="list-style-type: none"> <li>• Suggested that example set of accounts should be moved to separate publication. This could form the basis for the suggested 'standard set of accounts'.</li> <li>• Important and helpful for code &amp; GNs to highlight the changes (new requirements)</li> </ul>
<p><b>Ambiguity</b>            Do preparers and auditors commonly agree on an understanding of what the Code specifications are, or do instances of ambiguity in the Code arise?</p>	<ul style="list-style-type: none"> <li>• Generally considered that all agree on the requirements, but may differ on implementation judgements</li> <li>• Noted that auditors will often refer more directly to the standards rather than the Code</li> <li>• Not much ambiguity but:               <ul style="list-style-type: none"> <li>• EFA appears to have had an adverse impact</li> <li>• Audit community appears to consider that investment properties treatment is different to that specified in IAS 40 (? <i>GD Note – requires investigation?</i>)</li> <li>• Roles should be more clearly understood and respected (a) authority role to interpret and apply Code requirements (b) auditor role to comment on reasonableness of interpretation.</li> <li>• Potentially auditors apply an interpretation or view of Code requirements based on specification and practices in other sectors rather than what is reasonable for the local government sector.</li> <li>• This is not necessarily wholly something that the Code itself could resolve, but it could clarify the respective role of preparers and auditors</li> <li>• Auditors views should be secondary to the needs of the readers of the accounts.</li> </ul> </li> </ul>

Discussion Areas	Notes
<p><b>Disclosure Requirements</b>            Are the requirements for disclosures appropriately and helpfully specified in the Code?</p> <p>Is the specification (normally based on IFRS) correctly balanced, should there be less detail or more detail provided?</p> <p>Should disclosure requirements simply cross-reference to the relevant standard, so that preparers and auditors can review the requirements in the standard?</p>	<ul style="list-style-type: none"> <li>• Can be considered helpful to specify in the Code as long as this is made more relevant and appropriate for local government</li> <li>• CIPFA/LASAAC could adopt a clearer approach to determining which disclosures are most relevant to meet the principles and objectives for local government purposes (cf more recent IFRS standards which have sought to specify the objectives of the disclosures and then provided a 'menu' of disclosures to do so)</li> <li>• Re IFRs 9 and 15 - work was possible to make the Code disclosure specifications more approachable and focused on the more important issues before having to consider materiality issues that would apply selectively to different authorities.</li> <li>• CIPFA/LASAAC could do more to:               <ul style="list-style-type: none"> <li>• Adapt disclosures for the needs of local government accounts readers</li> <li>• Delete or augment specific disclosures to relate to the above</li> <li>• Edit disclosure requirements to prioritise the matters most relevant to users</li> </ul> </li> </ul>

Discussion Areas	Notes
<p><b>Structure: Chapters</b> Is the following structure appropriate and is the coverage (eg amount and detail) of each chapter helpful?</p> <ol style="list-style-type: none"> <li>1. Introduction <i>(incl Objective, legislative basis, applicability, accounting standards, materiality, purpose etc)</i></li> <li>2. Concepts &amp; Principles <i>(incl Concepts, Income &amp; Expenditure recognition, Grants, revenue, agency, FV measurement)</i></li> <li>3. Financial Statements</li> <li>4. Non-Current Assets</li> <li>5. Current Assets</li> <li>6. Employee Benefits</li> <li>7. Financial Instruments</li> <li>8. Liabilities</li> <li>9. Group Accounts</li> </ol>	<ul style="list-style-type: none"> <li>• In discussion: the Code should be more focused on the role of preparing accounts for <b>users</b> of the accounts, not for auditors and accountants to read</li> <li>• Chapter 2 could be considered to be somewhat cluttered and it mixes concepts and principles with items which are more specific application requirements eg BIDs, landfill, tax income, etc (Could be moved to Chapter 3)</li> <li>• Chapter 7 (financial instruments) noted as having a somewhat different structure / format compared to other chapters</li> <li>• Format and structure of the Code may not be the most fundamental / important aspects – the requirements and adaptations / interpretations are</li> </ul>

	Discussion Areas	Notes
	<p><b>Structure: Appendices</b>            Are the following appendices helpful and appropriately specified?</p> <ul style="list-style-type: none"> <li>A. IFRs with limited application to authorities?</li> <li>B. Sources and legislation</li> <li>C. Changes in accounting policies: disclosures</li> <li>D. New or amended standards in the Code</li> <li>E. Accounting for schools (E &amp; W)</li> <li>F. Accounting Standards referred to in the Code</li> </ul>	
	<p><b>Any other matters</b></p>	