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Paper CL 09 11-12

Committee	CIPFA/LASAAC
Venue	Robert Street, London
Date	6 November 2012
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Subject	Post Implementation Review (PIR) – Final Report

The purpose of this report is to present the final report from the Post-Implementation Review Group to CIPFA/LASAAC

1 Introduction and Background

1.1 This report sets out the recommendations of the post implementation review group (the PIR Group) to CIPFA/LASAAC for its consideration and comment. The report of the PIR Group is appended to this report.

1.2 The report includes an overview of the process the PIR Group has undertaken and sets out its key findings and recommendations.

1.3 The report also sets out the PIR Group's position on the financial statements but suggests that CIPFA/LASAAC may want to timetable a review of the financial statements following the 2012/13 financial year allowing a three year bedding in period. This recommendation has been included in the report.

1.4 The PIR Group considered that the Board might wish to communicate the outcomes of the Post Implementation Review to practitioners and other key stakeholders. It invites the Board to consider whether it wishes to do this and what mechanism it might wish to use.

1.5 The PIR Group concurred with the Secretariat that the review has completed its work programme. The outstanding issues will be picked up by CIPFA/LASAAC or the Local Authority Accounting Panel. The PIR Group has invited CIPFA/LASAAC to seek regular updates on the progress of the PIR's recommendations.

Recommendations

CIPFA/LASAAC is invited to consider the issues above and the PIR report (including its Appendix B) and whether it wishes to:

i) Agree with the report of the Post Implementation Review Group

ii) Communicate the Outcomes of the Review to Practitioners, and
iii) Consider whether it agrees that the work of the PIR Group is complete.

POST IMPLEMENTATION REVIEW

Report to CIPFA/LASAAC on its Findings

October 2012

Introduction

1. CIPFA/LASAAC initiated a Post Implementation Review process at its June 2011 meeting following the first full year of implementation of the Code of Practice on Local Authority Accounting in the United Kingdom (the Code) and in doing so included appropriate questions in the consultation on the 2012/13 Code. The Terms of Reference for the Post Implementation Review are included in Appendix A to this report. The Post Implementation Review Group met a number of times from April to September 2012.

Process

2. The Post Implementation Review used as its evidence base the summary audit reports issued by the Audit Commission[1] and the Wales Audit Office[2] and information from Audit Scotland[3]. It also used the feedback from the consultation responses and commentary received as a result of an article on the Code in Public Finance which featured the Post Implementation Review. The membership of the Post Implementation Review Group also provided a means of feedback as it included representation from practitioners including the Vice Chair of the Local Authority Accounting Panel (LAAP) and auditors covering each of the administrations across the UK.

3. The Post Implementation Review considered the issues raised by the evidence available to it.

Summary Findings

4. The Post Implementation Review Group considered that the overall implementation of the IFRS based Code was successful, particularly as there were no IFRS-based qualifications to audit opinions. The Review Group was aware that there were a number of late filings and issues where practitioners had difficulties.

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[1] *Auditing the accounts 2010/11* , Audit Commission, December 2011
[2] *Local Authority Accounts 2010/11*, Wales Audit Office February 2012
[3] *An overview of local government in Scotland* Audit Scotland March 2012

Areas for Review

5. From the evidence base set out above the Post Implementation Review Group considered that the following areas should be prioritised for further review:

- Component Accounting
- Property, plant and equipment – recognition and measurement
- Leases and Lease Type Arrangements
- Accounting for government grants
- Non-current Assets Held For Sale
- Joint Committees and other joint or partnership operations
- The use of the term exceptional Items
- Segmental Reporting
- Valuations of council dwellings at EUV-SH.

6. Following the review of the above areas the Post Implementation Review Group considered that there were no major areas of concern in the Code but identified a number of areas where there could be augmentation of the Code provisions and a number of areas where detailed application guidance could be reviewed, provided or augmented. These issues are identified in Appendix B to this report.

The Financial Statements

7. Following analytical discussion and debate about the main financial statements, the PIR Group was of the view that there would be merit in considering issues relating to two out of the four of the primary statements (the Movement in Reserves Statement and the Comprehensive Income and Expenditure Statement) to evaluate whether there were any areas where recommendations for improvement might be made.

8. This Review identified a number of issues for further discussion, the most notable of these being that the Movement in Reserves Statement is a complex statement. The Post Implementation Review Group concluded that all the statements achieved their purposes and that there was no merit at this juncture for undertaking a further review. The Post Implementation Review Group considered instead that resources would be better committed to seeking best practice. It therefore made this recommendation to CIPFA/LASAAC.

9. The Post Implementation Review Group recommended that CIPFA/LASAAC revisit the financial statements following the 2012/13 financial year, allowing a three year period by which time the statements should be established.

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Review of Disclosures

10. The Post Implementation Review Group was aware that the Review was being undertaken against the backdrop of the Financial Reporting Council's work on Cutting Clutter in Annual Reports and specifically against the Audit Commission's comments in its January 2012 report Let's Be Clear.

11. The Post Implementation Review Group therefore recommended that a review took place of the disclosures in the Code that were not supported by a direct statutory requirement to include the note in the financial statements or by accounting or financial reporting standards. It should be noted that some of these requirements arise as a result of a direct reporting need (eg the audit fees disclosure) and some of the requirements arise as a result of the Whole of Government Accounts requirements. The Invitation to Comment on the consultation on the 2013/14 Code notes at this juncture that these disclosures have been recommended for retention but will be considered as a part of CIPFA/LASAAC's future work programme.

12. These disclosures were included as an Appendix in the Invitation to Comment on the consultation of the 2013/14 Code and will be evaluated as a part of the normal annual review and update of the Code's provisions.

Conclusions and Recommendations

13. Overall the Post Implementation Review considered that the implementation of the IFRS-based Code was successful in local authorities, this being due in no small part to the hard work of local authority practitioners. It considers that from its evidence base there are no requirements to make major changes to the Code at this juncture but there are areas where the Code's provisions can be improved and additional detailed guidance issued to assist practitioners with the application of the Code's provisions. The detailed recommendations and actions to date are included at Appendix B to this report.

14. The Post Implementation Review Group recommended that following the 2012/13 financial year close that CIPFA/LASAAC undertakes a review of the operation and functionality of the financial statements.

15. The Post Implementation Review recommended that CIPFA/LASAAC receives updates on progress of the issues considered in the Review and set out in Appendix B.

CLPIR
October 2012

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APPENDIX A

CIPFA/LASAAC Post Implementation Review of the

Code of Practice on Local Authority Accounting in the United Kingdom

Post Implementation Review

Terms of Reference

Introduction

1.1 In 2011 CIPFA/LASAAC indicated in the August - September consultation on the Code of Practice on Local Authority Accounting in the United Kingdom (the Code) that it wished to undertake a post-implementation review of the Code of following the first full year implementation of the new IFRS - based Code. It included a number of consultation questions on the issue. It agreed at its November 2011 meeting to establish a full post-implementation review.

Background to the Review

2.1 The first year adoption of IFRS for local authorities under the Code was very successful. There were no principally IFRS based qualifications of the audit opinion of the financial statements throughout the United Kingdom. However, first year adoption cannot be said to have been problem free – there were some late filings and other issues raised by auditors. These issues are covered in the summary reports of audit findings from the Audit Commission, Accounts Commission and the Wales Audit Office.

2.2 In addition the review will need to be undertaken against a backdrop of initiatives in the UK and internationally to "cut clutter" in annual reports[4]. The same principles can be adopted in the analysis of local authority financial statements. It should be noted that during the development of the Code, CIPFA/LASAAC has adopted an approach to ensure that only the reporting requirements relevant to local authorities are included in the Code.

2.3 The need to reduce clutter was also raised by the "Let's be Clear" publication issued by the Audit Commission in January 2012. The Audit Commission report also focussed on the length of the financial statements under IFRS and the perceived complexity of the financial statements. However, the Audit Commission did note the CIPFA's initiatives that have already taken place to promote effective financial reporting.

2.4 As it is likely that the outcomes of the review will also refer to detailed application guidance and other aspects relating to the application of the Code (particularly relating to issues that

[4] This particularly refers to the Financial Reporting Council (FRC) publication *Cutting Clutter, Combatting Clutter in Annual Reports* – FRC, April 2011

will assist in cutting clutter) two members of the Local Authority Accounting Panel have been invited to join the post-implementation review group.

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Membership

- **Chair of CIPFA/LASAAC (Chair of the Review)**
- David Aldous *Audit Commission*
- Rodney Allen *Northern Ireland Audit Office*
- Peter Davies *Monmouthshire County Borough Council*
- Conrad Hall *London Borough of Lewisham*
- Greg McIntosh *KPMG*
- Paul O'Brien *Audit Scotland*
- Dean Pletts *Basingstoke and Deane Borough Council*
- Stephen Sheen *PricewaterhouseCoopers*
- Bruce West *Argyle and Bute Council*
- Wales Audit Office Representation

Secretariat Attendance:

- Director, CIPFA, Policy and Technical
- Assistant Director, CIPFA, Professional Standards and Central Government
- CIPFA/LASAAC Secretary
- Other CIPFA officers as required

Objectives for the Review

3.1 The overall aim of the review is to consider the provisions of the Code and whether or not these can be improved to assist effective financial reporting for the users of the financial statements.

3.2 The review will:

- Consider the issues raised by the Audit Commission, Accounts Commission and the Wales Audit Office following the first year of implementation of IFRS.
- Consider responses to the consultation questions included in the August - September consultation on the Code in relation the post-implementation review and responses to the article on Code developments in March Public Finance.
- Consider whether the general provisions of the Code can be improved to assist practitioners in relation to the preparation of the financial statements.

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- Review the Code's provisions relating to the reporting requirements of the complete set of financial statements[5] to ensure that they enable the financial statements of local authorities to effectively demonstrate their financial performance, position and cash flows (the review might wish to prioritise the Movement in Reserves and Group Movement in Reserves Statement as these are the most complex of the complete set of financial statements).

- Review the disclosure requirements of the Code to ensure the disclosures continue to meet the needs of the users of the financial statements (the review group might wish to prioritise the disclosures that are not required by IFRS or statutory reporting requirements).

- Consider the issues raised by of Let's Be Clear and Cutting Clutter[6] within the context of the post-implementation review and whether or not any of these can be taken forward by CIPFA/LASAAC.

- Consider any other initiatives it might wish to promote in relation to effective financial reporting (where clutter is avoided) in local authority financial statements including possible workshops at the Annual Conference.

- Make recommendations to the Local Authority Accounting Panel (via CIPFA/LASAAC) where the group has identified that there are areas where additional detailed application guidance will assist practitioners.

Secretariat support

4.1 Secretariat support will be provided by the Secretary to CIPFA/LASAAC.

Operation of the meetings

5.1 The meetings will operate under the operational procedures included in the Terms of Reference for CIPFA/LASAAC.

Recommendations

6.1 The final recommendations to CIPFA/LASAAC will require approval by the majority of the group.

June 2012

[5] See 2012/13 Code, paragraph 3.4.2.17
[6] *Cutting Clutter Combatting Clutter in Annual Reports* - see footnote 1

APPENDIX B

Issues Identified for Consideration by the Post Implementation Review and Recommendations Resulting from the Review

Issue Identified	Recommendation and Action
1. Component Accounting	
It was generally considered that the Code effectively adopts component accounting prospectively from 1 April 2010. Extensive application guidance also is available in the Code Guidance Notes[7] and in LAAP Bulletin 86[8]. However, from the evidence available the PIR concluded that practical application issues still existed.	The Post Implementation Review Group suggested that component accounting is more difficult to apply on a valuation basis than a historical cost basis. It considered that some of the practical issues that arise from the application of component accounting for revalued assets may not have been anticipated by IAS 16 *Property, Plant and Equipment*. It agreed that there should be a review of the application guidance from this perspective. The CIPFA Secretariat recommends that this should be by means of a small Local Authority Accounting Panel (LAAP) Review Group. **Current position LAAP is considering the review.**
2. Property, Plant and Equipment: Recognition	
The review process has identified that the paragraphs on property, plant and equipment recognition use the term "enhancement" in a way that is not used in IAS 16. This may have caused some confusion for practitioners used to applying the SORP, where enhancement was a defined criterion for capitalisation.	The Post Implementation Review Group recommended that references to enhancement be removed and the consultation on the 2013/14 Code proposes the removal of this term in Section 4.1 of the Code. The amendments to the Code contain proposed minor clarifications that serve to align the Code more closely to the provisions of IAS 16 which does not refer to enhancements or restoration in the same way. **Current position: The proposed amendments to the Code will be evaluated as a part of the 2013/14**

[7] Code of Practice on Local Authority Accounting in the United Kingdom Guidance Notes For Practitioners 2011/2012 Accounts (the 2012/13 edition is now available)

[8] Componentisation of Property, Plant & Equipment under the 2010/11 IFRS-based Code – June 2010

Issue Identified	Recommendation and Action
	Code consultation responses.
3. Property Plant and Equipment: Measurement	
The issue was raised that there has not been a complete understanding of the requirements of the Code as it adopts IAS 16 in relation to frequency of revaluations. There was anecdotal evidence of some misunderstandings on the application of the measurement requirements of the Code where rolling programmes of valuations might have provided indications of material differences in valuations.	The Post Implementation Review Group recommended appropriate clarification to the Code requirements. Additional clarification has therefore been proposed, in the consultation on the 2013/14 Code, to paragraph 4.1.2.35 which clarifies that authorities need to ensure that the asset valuations are materially accurate at the balance sheet date. Clarification has also been added to the paragraph to clarify the treatment of any rolling programmes of valuations of fixed assets. Both these clarifications have been based directly on the provisions of IAS 16. In order to support this clarification the process of formal valuations has also been clarified. A minor clarification of the requirements relating to decreases in the carrying amount of an item of property, plant and equipment in relation to paragraph 4.1.2.34 of the Code has been removed from this paragraph as the qualifying commentary about the non-specific nature of a revaluation decrease is not directly supported by the standard. **Current position: The proposed amendments to the Code will be evaluated as a part of the 2013/14 Code consultation responses**.
4. Leases and Lease Type Arrangements	
The Post Implementation Review Group is aware that some authorities are having difficulties in the interpretation of issues at the inception of a lease or when there are changes in the terms of a lease.	The Post Implementation Review Group recommended some clarification be made in the Code to assist practitioners on this issue. Therefore a number of minor clarifications have been included in the consultation on the 2013/14 Code to Section 4.2 Leases and Lease Type Arrangements of the Code which follow the Code's adoption of IAS 17 *Leases*. The following changes have been proposed: • Definitions of the inception of the lease, the commencement of the lease term and the lease-term have been

Issue Identified	**Recommendation and Action**
	added at paragraphs 4.2.2.4 – 4.2.2.6. • A new paragraph on the classification of leases has been added at 4.2.2.9. • Minor clarification of the wording of paragraph 4.2.2.13 has been added which relates to changes in lease terms – note that this is not a substantial change. **Current position: The proposed amendments to the Code will be evaluated as a part of the 2013/14 Code consultation responses**.
5. Non Commercial Leases	
The Post Implementation Review Group identified that the Code did not assist practitioners where no premium is paid but lease rentals and payments are at a peppercorn ie for non-commercial arrangements. The PIR Group considered that this was a particularly public sector issue.	The Post Implementation Review Group recommended to CIPFA/LASAAC that the Code includes an additional commentary which indicates that the assessment of lease classification of assets transferred to another entity where no lease premium is paid but on the basis of a peppercorn rent would exclude the assessment of the present value of the minimum lease payments being at least substantially all of the fair value of a leased asset. This proposed amendment is included in the consultation on the 2013/14 Code. **Current position: The proposed amendments to the Code will be evaluated as a part of the 2013/14 Code consultation responses**.
6. Lease and Lease Type Arrangements: Detailed Application Guidance	
The Code and IAS 17 *Leases* do not address the issue of lease cancellation in any detail. The review group considered that this issue extended to PFI and PPP contract cancellation.	The Post Implementation Review Group recommended that this area be subject to a review for additional application guidance. **Current position: The current 2012/13 Code Guidance Notes have been reviewed and augmented. However, issues relating to lease cancellation need to be considered against the provisions of the Capital Finance Regulations and with discussions with the relevant administrations, this in**

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Issue Identified	Recommendation and Action
	the process of being taken forward by CIPFA Secretariat. The issue of PFI/PPP cancellation is being considered by LAAP.
7. Non-Current Assets Held for Sale	
The Post Implementation Review Group considered that there was some evidence that the Code's provisions were not clearly understood here. The Code establishes four specific criteria which must be met before an asset can be classified as being held for sale arguably gives these requirements greater weight than in IFRS 5 *Non-Current Assets Held for Sale and Discontinued Operations.*	The Post Implementation Review Group has recommended that the wording of the provisions of the Code be brought closer to that of the Standard. This proposed amendment has been included in the 2013/14 Code consultation. It is likely that this is a matter of emphasis only. **Current position: The proposed amendments to the Code will be evaluated as a part of the 2013/14 Code consultation responses**.
8. Government and Non- Government Grants	
Currently, the Code does not require separate identification of restricted balances of unspent revenue grant but the application guidance recommends that where conditions have been met or there are no conditions such grants should be held in earmarked reserves (or an earmarked portion of General Fund in Scotland) until the money is applied to the purposes of the grant. As these balances can only be applied for the purposes of the grant and/or in specified financial years and are likely to be subject to grant restrictions, it would be inappropriate that these balances are included in the general fund as if they were balances available for general use.	The Post Implementation Review Group recommended that CIPFA/LASAAC mandate the approach that is currently recommended in application guidance ie to create an Earmarked Reserve, or, an earmarked portion of the General Fund in Scotland, to hold the resources until they are applied to the purposes in relation to the restrictions on the grant. On consideration of this recommendation the CIPFA/LASAAC Local Authority Accounting Code Board (CIPFA/LASAAC) considered that it would opt to encourage this approach in the consultation on the 2013/14 Code. **Current position: The proposed amendments to the Code will be evaluated as a part of the 2013/14 Code consultation responses**.
9. Government and Non- Government Grants - Application Issues	
The Post Implementation Review Group considered that it appeared that there was still confusion about the use of the term "condition" as defined by the Code in relation to accounting for government and non-government grants.	The Post Implementation Review Group recommended that additional application guidance be added to confirm that the definition of a condition in the Code might differ from the traditional grant conditions included in grant documentation and from generally understood references to conditions.

Issue Identified	Recommendation and Action
	It should be noted that there is extensive guidance in the 2011/12 Code Guidance Notes (this guidance had been previously included in the year end LAAP Bulletin). In addition CIPFA included significant detail on this issue in countrywide training events on IFRS implementation. However, in order to re-emphasise this issue, new examples will be included in the 2012/13 year-end LAAP Bulletin and subsequently in the 2013/14 Guidance Notes. **Current position: New examples will be included in the year end LAAP Bulletin and the 2013/14 Guidance Notes.**
10. References to Exceptional Items in the Code	
The Post Implementation Review Group recommended that references to exceptional items should be removed from this requirement as the term "exceptional items" is not used in IFRS.	The term exceptional items are included in the accounting policies note and in HRA disclosures. The recommendation to remove references to the term "exceptional items" was included in the proposed amendments in the 2013/14 Code consultation. **Current position: The proposed amendments to the Code will be evaluated as a part of the 2013/14 Code consultation responses**.
11. Segmental Reporting Note	
A respondent to the consultation noted that the segmental reporting requirements in the Code are complex to complete. This has been supported by anecdotal feedback indicating that although the Code sets out that this disclosure should not be onerous that experience has found that it is.	The Post Implementation Review Group recommended that good practice be sought from local authority practitioners and this be included in suitable application guidance. **Current position: being considered by LAAP.**
12. Joint Committees and Other Forms of Co-operative Arrangements	
The issue of the accounting requirements for Joint Committees was raised in response to the consultation questions included in the ITC for the 2012/13 Code and has been considered by CIPFA/LASAAC on a number of occasions.	The Post Implementation Review Group recommended that there be a review of the application guidance needed for Joint Committees and other forms of co-operative arrangements. The provisions of the 2012/13 Code Guidance Notes were reviewed and

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Issue Identified	Recommendation and Action
	augmented by LAAP in relation to Joint Committees and Other Forms of Co-Operative Arrangements. However, more detailed application guidance can only be provided following identification of the issues causing practitioners difficulty. It is therefore recommended that further evidence is needed for this. In order to obtain such evidence, the CIPFA Finance Advisory Network (FAN) Workshops on Shared Services are canvassing delegates' views on the types of accounting issues causing practitioners difficulty. **Current position: The way forward is currently being considered by LAAP and will be updated when evidence has been received from the above mentioned CIPFA (FAN) Workshops.**
13. Valuations of Council Houses	
The Code is clear that the measurement of Council Houses should be at EUV-SH. There are two methods used by valuers for arriving at this valuation. It was noted that in practice different valuations arise from the use of different methodologies.	The Post Implementation Review Group considered that this was an issue that should be discussed in more detail with the Public Sector Valuation Group (PSVG). **Current position: CIPFA Secretariat to discuss with PSVG. Note that this issue has already been the subject of discussions.**
14.Complete Set of Financial Statements	
The Post Implementation Review Group considered a number of specific issues (see main body of the report) relating to a complete set of financial statement but it considers that at this juncture no further changes be considered to these statements and instead that resources be channelled into finding good practice examples of these statements and disseminating this via application guidance.	The Post Implementation Review Group is aware that the Code Guidance Notes considers alternative examples of statements and disclosures. LAAP may wish to consider whether there are any areas of good practice that might be disseminated. This is a part of the normal update process for the Code Guidance Notes and more good practice examples have been added to the 2012/13 edition. **Current position: Good practice guidance on the presentation of the financial statements is under regular review by LAAP.**

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