CIPFA The Chartered Institute of Public Finance & Accountancy

report

CL 06 11-15

Board	CIPFA/LASAAC Local Authority Accounting Code Board
Venue	CIPFA Scotland Edinburgh
Date	4 November 2015
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Subject	Analysis of Responses to Consultation on the 2016/17 Code – Main Consultation

Purpose

To report on the responses to the consultation on the Draft 2016/17 *Code of Practice on Local Authority Accounting in the United Kingdom* and seek approval of the 2016/17 Code for the main consultation.

1 Introduction

1.1 CL 05-11-15 summarised the number of responses received to the 2016/17 *Code of Practice on Local Authority Accounting in the United Kingdom* (Code) consultation and analysed the first four questions.

1.2 The responses to the remaining questions are summarised in the this report with more detailed analysis in Appendix A, section by section, followed by the Secretariat's comments and suggestions. Issues of principle are considered in the main body of the report. The statistical analysis of all the responses and individual comments are included in Appendix A. Minor corrections or other minor issues are not included in this analysis but may be included in amendments to the Exposure Draft of the Code. As with report CL-05-11-15 the commentaries on the respondents do not refer to the entities by name.

2 The Review of the Accounting and Reporting by Pension Funds Section of the Code

Pension Fund Account Statement

2.1 The responses to the consultation were largely supportive of the amendments to the Pension Fund Account Statement. A number of respondents expressed concern about management expenses being included in the sub total "net additions/ withdrawals from dealings with members" as these expenses were not all related to dealings with members. The Secretariat concurs with this view and has separated management expenses into a separate sub-total in the Statement. It has made this minor amendment and not taken up other proposals for the placement of these costs to remain as consistent as possible with the *Financial Reports of Pension Schemes – A Statement of Recommended Practices* (2015 Pension SORP).

2.2 A small number of respondents also raised concerns about the line "net rents from properties". The Secretariat agrees that this would not be consistent with provisions in the rest of the Code and therefore has removed references to "net".

Net Assets Statement

2.3 No substantial comments were made in relation to this question and therefore no further changes are proposed to the Code for the Net Assets Statement.

Adaptation of IFRS 13 for Pension Fund Plan Assets

2.4 Respondents were very supportive of the proposals to adapt the Code to include the IFRS 13 *Fair Value Measurement* disclosures for pension fund plan assets. One authority who apparently agreed with the plan appeared also to be saying that it did not think that the Code should go further than IFRS on this. The Secretariat does not consider that this overrides the arguments in the Invitation to Comment (ITC) about adapting the scope exclusion in the Code and also considers that the arguments in the basis of conclusions in IFRS 13 for the scope exclusion does not relate to pension fund arrangements for local authorities (see for more detail item 7.2 in Appendix A).

As this introduces a new adaptation to the Code CIPFA/LASAAC are requested to confirm that they want to maintain the adaptation to remove the scope exclusion in Section 2.10 so that fair value disclosures apply where relevant to pension fund assets (see CD3, paragraph 2.10.1.3)

Reporting of the Actuarial Present Value of Promised Retirement Benefits

2.5 The overwhelming majority of respondents supported maintaining the status quo in the Code ie for retaining the 3 options for reporting the Actuarial Present Value of Promised Retirement Benefits. Evidence from the consultation responses indicated that only a small number of authorities chose option A. A number of respondents referred to the cost of moving to option A. An audit body commented that it considered that the Code should be changed. However, CIPFA/LASAAC spent some considerable time agreeing the exact wording of the text at paragraph 6.5.2.8 when it made the changes in 2013/14 and the Secretariat would not recommend changing the text as it provides CIPFA/LASAAC's view.

Disclosure of transaction costs for investment management

2.6 This proposal attracted the most commentary by respondents for this section of the ITC. A number of respondents commented on the lack of clarity of definition for transaction costs and therefore the Secretariat has clarified that the definition of transaction costs is the same as in Section 7.1 of the Code ie as defined in IAS 39 *Financial Instruments: Recognition and Measurement*. Commentary was provided on some of the detail of the disclosure in relation to its placement and the reference has been removed to allow authorities to take their own decisions on this issue. CIPFA/LASAAC was keen for this recommended disclosure to be included in the Code and therefore it has been retained in Section 6.5.

New Annex to the Accounting and Reporting by Pension Fund Section

2.7 Two firms considered that the Annex should not be included. One setting out their rationale commented "the references to "includes the reporting requirements for…." might suggest that the other reporting requirements are not necessary". Overall there appears to be support from local authority pension fund preparers. The Secretariat has therefore retained the Annex. It has, however, added the caveat that direct reference to the relevant section of the Code is necessary. The Secretariat has also made a number of other minor amendments to the Annex.

Reporting Requirements for Scottish Administering Authorities

2.9 Minor commentary was made by a Scottish audit body relating to the Annex. The Secretariat has made the relevant amendments.

CIPFA/LASAAC is requested to agree the amendments to Section 6.5 of the Code (ref CD3).

3. Narrow Scope Amendments to IFRS

Amendments to IAS 1 Presentation of Financial Statements, Disclosure Initiative

3.1 The respondents agreed with the amendments in relation to IAS 1 *Presentation of Financial Statements Disclosure Initiative*.

3.2 A FRAB Member commented that "at a minimum" had been removed from the format requirements for the balance sheet and not for the Comprehensive Income and Expenditure Statement. The Secretariat agrees, subject to the Board's views, that this could be changed and is consistent with the approach to the amendments in IAS and has removed "at a minimum" from paragraph 3.4.2.38.

3.3 The FRAB Member also commented that it seems circular to explain a significant policy by reference to it having a significant effect. He noted that at the IASB's meeting, they discussed accounting policy disclosures and how they could be improved. He also noted that he was surprised to see cash and cash equivalents and considered that this was not an accounting policy. The Secretariat considers that these are very useful comments.

3.4 The Secretariat is of the view that the accounting policy listing was probably included to assist local authorities with the move to IFRS and might usefully be subject to review. It suggests that this might be an issue for further development and consultation. Application guidance might also reduce the volume of accounting policy notes. In relation to cash and cash equivalents IAS 7 *Statement of Cash Flows* paragraph 46 requires that "*an entity discloses the policy which it adopts in determining the composition of cash and cash equivalents*." Therefore currently the relevant paragraph 3.4.2.67 remains unchanged.

CIPFA/LASAAC is requested to agree the amendments to Section 3.4 of the Code for IAS 1 *Presentation of Financial Statements*, Disclosure Initiative (ref CD1).

CIPFA/LASAAC is requested to consider whether it wants to include accounting policy review in the development programme for the Code.

IAS 19 Employee Benefits, Defined Benefit Plans: Employee Contributions

3.5 No comments of substance were made to change CIPFA/LASAAC's proposals in relation to IAS 19 Employee Benefits Defined Benefit Plans: Employee Contributions (but see also item 13.1 in Appendix A).

CIPFA/LASAAC is requested to agree the approach to amendments the Code for IAS 19 *Employee Benefits*, Defined Benefit Plans: Employee Contributions.

Annual Improvements to IFRS 2010 - 2012 Cycle

3.6 The majority of respondents supported the accounting treatment of the various amendments to standards under the Annual Improvements IFRS 2010 – 2012 Cycle. The main issue raised was in relation to the treatment of the Board's proposed adaptation for the treatment of accumulated depreciation under IAS 16 *Property, Plant and Equipment* ie where the Board decided that for property, plant and equipment items it would remove the option where the gross carrying amount is adjusted in a manner that is consistent with the revaluation of the carrying amount ie where accumulated depreciation is not eliminated.

3.7 One firm stated that it was unfortunate that this treatment was decided at the same time as the Board mandating the option where the gross carrying amount is adjusted for the Highways Network Asset. This issue has been covered in report CL 05-11-15. A second firm stated that it considered that the Code should only include adaptations where absolutely necessary. The Secretariat considers that for local authorities the non-elimination method only works for DRC valuations as it is both counterintuitive and an accounting construct to gross up formal valuations to adjust accumulated depreciation. CIPFA/LASAAC itself decided that it was not appropriate to use different methodologies within the same class of assets and therefore decided that the Code should permit only the elimination option for property, plant and equipment assets that are not a part of the Highways Network Asset.

CIPFA/LASAAC is invited to confirm whether it is content to proceed with their adaptation to the Code at paragraph 4.2.1.33 and permit only the elimination option for property, plant and equipment assets that are not a part of the Highways Network Asset.

3.8 A firm considered that there was inconsistency in the treatment of the changes and consequential changes arising from *Accounting for contingent consideration in a business combination* under IFRS 3 *Business Combinations.* However, the Secretariat was aware of this but had to include the amendments otherwise the definitions at the relevant paragraphs would be incorrect.

CIPFA/LASAAC is requested to agree the approach to amendments to the Code for Annual Improvements to IFRS 2010 - 2012 Cycle (refs CD 1 (Aggregation of Operating Segments), 2 (Treatment of Accumulated Depreciation), 4 (Related Party Disclosures) and 8 (Accounting for a Contingent Consideration in a Business Combination)).

Annual Improvements to IFRS 2012 - 2014 Cycle

3.9 There were no comments of substance about the approach in the ITC for Annual Improvements to IFRSs 2012 – 2014 Cycle. There are no proposed changes to the Code for this set of Annual Improvements.

3.10 A firm suggested that it would be useful if each year the Code contained an Appendix of the amendments that were introduced and applied to the Code. This does take place in the Foreword to the Code. However, a fuller list of the applicable standards in an Appendix to the Code would be useful. This has been added at Appendix F to the Code. This Appendix will need to be considered after 1 January 2016 to ensure the relevant standards have been EU adopted.

CIPFA/LASAAC is requested to agree the approach to amendments to the Code for Annual Improvements to IFRS 2012 - 2014 Cycle Contributions.

CIPFA/LASAAC is requested to consider whether it agrees with the introduction of a new Appendix setting out the new standards or amended standards that have been added to the Code each year (Ref CD9).

IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets, Clarification of Acceptable Methods of Depreciation and Amortisation

3.11 No respondents disagreed with the proposals that these amendments applied to local authorities and as the relevant paragraphs to which the amendments to the standard apply are not included in the Code no amendments are required. The ITC indicated that authorities do not use this form or depreciation and there have been no opposing comments in the consultation responses. No amendments are therefore proposed to the Code.

CIPFA/LASAAC is requested to agree the approach to amendments to the Code for IAS 16 *Property, Plant and Equipment* and IAS 38 *Intangible Assets*, Clarification of Acceptable Methods of Depreciation and Amortisation.

IFRS 11 Joint Arrangements, Accounting for Acquisitions of Interests in Joint Operations IFRS 11 Joint Arrangements

3.12 There were no comments of substance for the proposed amendments to the Code and therefore no further amendment has been made.

CIPFA/LASAAC is requested to agree with the amendments in the Code for *IFRS 11 Joint Arrangements, Accounting for Acquisitions of Interests in Joint Operations* (ref CD 5).

IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures (2011), Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

3.12 In July 2015 the IASB decided to propose postponing the effective date of this amendment indefinitely pending the outcome of its research project on the equity method of accounting. Therefore although respondents were supportive of these changes they will not be included in the 2016/17 Code.

CIPFA/LASAAC is invited to agree with the approach to IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures (2011), Sale or Contribution of Assets between an Investor and its Associate or Joint Venture in the Code.

IAS 27 Separate Financial Statements (2011), Equity Method in Separate Financial Statements

3.13 The ITC clearly set out that the Code would not adopt these amendments to the standard, they were not introduced as a result of a technical accounting requirement. In addition the Board decided to postpone further amendment to the Code until the ITC research project on the equity method of accounting was complete. The ITC did not include a question on this issue and only one respondent commented. The respondent, a firm, agreed that it was a sensible option to postpone the decision until the IASB review. However, it commented "in our experience many local authorities do not understand the requirements to hold investments in subsidiaries, joint ventures or associates at fair value where group accounts are not being produced". The Secretariat considers that this latter point is an item for application and not for the Code and will refer this item to LAAP.

CIPFA/LASAAC is invited to consider whether it agrees to confirm its interpretation of IAS 27 *Separate Financial Statements* Equity Method in Separate Financial Statements and not include the equity option in the Code (see CD5).

Augmentation of the Code's Provisions on Concepts – The IPSASB Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities

3.14 This proposals augmented the Code's provisions on Concepts in Section 2.1 primarily to reflect the needs of local authority users of the financial statements. The proposals were generally received positively with only one response that disagreed. A firm made a number of minor comments and the Code has been updated where relevant (see item 19.1 in Appendix A) amendments were made to paragraph 2.1.2.4 of CD6.

3.15 Two authorities (see items 19.2 and 19.3 at Appendix A) did not agree with the words of the IPSASB *Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities* (IPSASB Conceptual Framework). However, the words are those from IPSASB Conceptual Framework and there are no particular application issues for local government and therefore the Secretariat does not propose any changes (see paragraph 2.1.2.3 first sentence and paragraph 2.1.2.18 of CD6).

CIPFA/LASAAC is invited to consider whether it agrees to confirm its Augmentation of the Code's Provisions on Concepts – The IPSASB Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities in the Code (see CD6).

4. The Local Audit and Accountability Act 2014 and the Accounts and Audit Regulations 2015 (English Authorities)

Amendments to the Code for the Accounts and Audit Regulations 2015

4.1 Respondents were generally supportive of the approach to the amendments in relation to the Accounts and Audit Regulations 2015. These principally focussed on the Introduction Chapter of the Code and a small number of minor comments and a correction has been included in CD7.

4.2 Responses from two firms raised some concerns about the need to reflect the requirements of authorities in each jurisdiction with comments particularly focussing on paragraph 1.7.1. One firm commented that the whole of chapter one should be redrafted to separate out the requirements for each of the four UK jurisdictions. However, Chapter 1 has been drafted on a theme basis and therefore the Secretariat has not redrafted the whole of the chapter but has clarified the publications issues for the four jurisdictions in paragraph 1.7.1

CIPFA/LASAAC is requested to agree the amendments to the Code for the Accounts and Audit Regulations 2015 (Ref CD7).

The approach to the proposed amendments to Section 3.1 of the Code for the narrative statement for local authorities in England

4.3 Respondents were generally supportive of the approach to the amendments for the Narrative Statement. Two firms considered that the Code should not just encourage authorities to follow the FReM but should require authorities to follow it. They further commented that it was confusing that local authorities in England would be required to follow what is effectively a subset of the FReM's requirements. CIPFA/LASAAC has already considered this issue in preparing its proposals and this does not accord with CIPFA/LASAAC's approach as set out in the ITC. CIPFA/LASAAC's view was that it would not be appropriate to substantially change the provisions for a Narrative Report twice in a short period and it wanted to await the outcomes of the pilots from the integrated reporting public sector network. The Code has included provisions on the financial performance elements of the Strategic Report following the FRC's guidance as CIPFA/LASAAC agreed that it would establish the principles for the specific requirements in the Accounts and Audit Regulations 2015 to "*include comment by the authority on its financial performance and economy, efficiency and effectiveness in its use of resources over the financial year*". The Secretariat does not consider that at this juncture it would be possible to change this approach and this would not be consistent with CIPFA/LASAAC's decisions.

4.4 In a sharp contrast to the responses above one authority stated "*We feel that the draft Code goes beyond what is required by the statutory change. The requirement is simply for comment on "financial performance and economy, efficiency and effectiveness in its use of resources*". An independent consultant appeared to be making a similar commentary about the role of the Code. The Secretariat does not consider that the stipulations in Section 3.1 have gone beyond what is required for the statutory provisions as it has used as it base generally accepted guidance in the UK on reporting performance on the narrative report. However, the Code can only interpret the provisions and establish principles. It is a decision for the authority as to whether or not this is consistent with their interpretation as the mandate for these provisions does not emanate from the Code but from the Regulations. The Secretariat would seek the views of CIPFA/LASAAC on this issue.

4.5 An authority sought clarification of the nature of these provisions and whether the Code is mandating use of the FRC's guidance on the Strategic Report. As stated above the Code cannot mandate the requirement but can set out the principles for meeting the requirement as it does for other aspects of the regulations. To assist with this clarification the relevant provisions have been included under the statutory disclosures section, the relevant principles have been established in paragraph 3.1.5.2 and the reason for the inclusion of these principles has been moved to the introductory paragraph at 3.1.1.3.

4.6 An audit body and a firm suggested that the Code should state that the Narrative Report ought to be fair, balanced and understandable. The Secretariat concurs as this is implicit in the current provisions of the Code (understandable is actually explicit) and that this can be added to the provisions of paragraph 3.1.1.3.

4.7 Two firms commented on the use of the term Narrative Report (see item 21.3 in Appendix A). The Secretariat chose this title as this differs from other forms of statutory provision, the previous requirements for the Explanatory Foreword and the FReM to avoid confusion and includes the necessary cross references.

CIPFA/LASAAC is invited to consider the approach outlined above for the Narrative Report and whether or not it is content with the provisions in Section 3.1 of the Draft 2016/17 Code (ref CD1).

Other stipulations in the Narrative Report

4.8 At its 10 June 2015 meeting the Board decided to seek the views of interested parties on whether the Code should contain additional stipulations in the Narrative Report. The consensus of opinion was that that no additional stipulations should be included. An audit body mentioned the Annual Governance Statement (AGS). However, although the AGS required by the relevant Accounts and Audit Regulations in most of the UK jurisdictions to accompany the financial statements it should not be included in the Narrative Report which has a different function and is subject to a separate section in the Code. Further commentary on the AGS is included below.

4.9 Other respondents made commentaries which appeared to the Secretariat to be too prescriptive for inclusion within the Narrative Report and as such it would be a decision for the authority as to whether or not these issues were relevant to their Narrative Report (see items 22.4 and 22.5 in Appendix A).

CIPFA/LASAAC is invited to note the above commentary in relation to other stipulations in the Narrative Report.

4.10 Only minor commentary (see item 23.1 in Appendix A) and one correction were included for sections 3.4 and 3.8 of the Code.

CIPFA/LASAAC is requested to agree the amendments for sections 3.4.and 3.8 of the Code the Accounts and Audit Regulations 2015 (Ref CD7).

5. The Local Government (Accounts and Audit) Regulations (Northern Ireland) 2015

5.1 There were no comments of substance on the question on The Local Government (Accounts and Audit) Regulations (Northern Ireland) 2015 and therefore no further amendments are proposed.

CIPFA/LASAAC is requested to agree the amendments to the Code for the Local Government (Accounts and Audit) Regulations (Northern Ireland) 2015 (Ref CD7).

6. Minor Amendments

6.1 There were a number of drafting comments for the minor amendments. These have been made to paragraphs 8.2.3.2 and 8.2.3.3 of CD8.

CIPFA/LASAAC is requested to agree minor amendments to the Code (Ref CD8).

7 Other Areas of Guidance

7.1 CIPFA/LASAAC is aware that the ITC includes a question on areas where further guidance is required. These responses have been summarised at Appendix B.

7.2 As indicated in paragraph 4.8 above an audit body noted the changes to the Accounts and Audit England Regulations in relation to the provision of the Annual Governance report which the regulations now require to be provided in accordance with "proper practices in relation to accounts" (Regulation 6 (4) (b)). The audit body commented that "In our view this means that proper practices for the preparation of the Annual Governance Statement should be set out under the Code". Previously the Accounts and Audit (England) Regulations 2011 required that the AGS be provided "…*in accordance with proper practices in relation to internal control…*" (Regulation 4(3)(b)). The Secretariat would agree therefore that there has been a change in the requirements of the Regulations. However, there have been other legislative requirements for example the treatment of interest in *Item 8 Credit and Item 8 Debit (General) Determination from 1 April 2012* (Item 8 Determination) refers to proper practices but it is not an area on which the Code should comment and is left the professional judgement of authorities.

7.3 The Code has always cross referred to the requirements of the *CIPFA/SOLACE Framework Delivering Good Governance in Local Authorities: A Framework (CIPFA/SOLACE Framework)*. It also includes stipulation of the information which needs to be included in an AGS (see paragraph 3.7.4.3). However, it does not contain the direct requirements of an Annual Governance Statement.

7.4 The Secretariat considers that for the current edition of the Code that cross reference to the CIPFA/SOLACE prescriptions should be maintained. However, it would welcome the Board's views and their comments on the future direction of the Code in this regard.

CIPFA/LASAAC's views are sought on whether the Code should include more extensive provisions on the production of the Annual Governance Statement.

7.5 An audit body considered that the wording of a part of paragraph 3.7.4.3 had not been updated in accordance with the CIPFA/SOLACE Framework. However, it had been updated by the Technical Manager responsible for the Framework. The CIPFA/SOLACE Framework is currently being updated following consultation and this paragraph will need to be further updated. This information is not available for the current draft but hopefully will be in time for the Board's final approval of the Draft 2016/17 Code.

7.6 There are a number of items which audit bodies, firms and authorities consider may need further amendment to the Code. These include:

- The treatment of surplus assets in comparison with Assets Held for Sale (item 2);

- Materiality and the Highways Network Asset (item 3);
- The definition of an asset and section 4.1 (item 4);
- Going concern reporting requirements (item 5);
- The treatment of overdrafts (item 6);
- The treatment of third party income (NB this has been considered by the Board numerous times) (item 8);
- The end of the transitional requirements in the item 8 Determination (NB this does not apply to the 2016/17 Code) (item 9);
- The specification of the control decision in Appendix E for local authority schools (item 10);
- Frequency of valuations of property, plant and equipment, (item 11); and
- Accounting for pension prepayments, (item 15).

The Secretariat's proposed actions are included in Appendix B.

CIPFA/LASAAC is invited to consider whether it agrees with the courses of action outlined in Appendix B.

7.7 There are a number of issues that the Secretariat considers should be the subject of application guidance and therefore not for amendment for the Code and that for completeness they should be referred to LAAP. These are listed in the Appendix B see items 4, 7, and 12 to 14 and 16.

CIPFA/LASAAC is invited to consider whether it agrees with the items referred to LAAP as outlined in Appendix B.

8. Draft 2016/17 Code

8.1 In addition to the above issues, further changes will need to be made to the 2016/17 Code to bring it up to date, as follows:

- Appendix C is updated for Changes in accounting policies: disclosures in the 2015/16 and 2016/17 financial statements (this is fully updated so no tracked changes are included **(see CD9)**).
- At the end of each section, areas which have been updated substantially will be noted whilst those which have not changed will be described as such.
- A number of minor amendments identified as a result of the consultation process or final review will be corrected by the Secretariat.

8.2 It is proposed that once all these changes, and changes arising out of CIPFA/LASAAC decisions, have been made, a complete draft of the Code (with changes in mark-up) will be circulated for final approval.

Recommendations

The Board is invited to consider the individual issues brought to its attention above and consider for approval the 2016/17 Code.

SUMMARY OF CONSULTATION RESPONSES

Note – a group of interested parties best described as professional accounting firms that audit local authorities is abbreviated in this Appendix to firm or "firms"

The Review of the Accounting and Reporting by Pension Funds Section of the Code

Question		Agree	Disagree	No Comment
5	Do you agree with the proposed amendments to the (Pension) Fund Account in Section 6.5 of the Code? If not, why not? What alternatives do you suggest?	25 (35%)	4 (6%)	43 (60%)
6	Do you agree with the proposed amendments to the (Pension) Net Assets Statement in Section 6.5 of the Code? If not, why not? What alternatives do you suggest?	28 (39%)	1 (1%)	43 (60%)
7	Do you agree that the Code should adapt IFRS 13 *Fair Value Measurement* and remove the scope exclusion for section 6.5 of the Code for disclosures? If not, why not? What alternatives do you suggest?	27 (38%)	0 (0%)	45 (62%)

Question		Option A	All three options (status quo)	No Comment
8	Do you consider that the Code should only include option A for the reporting of the Actuarial Present Value of Promised Retirement Benefits or should all three options be retained? Please set out the costs and benefits of your preferred option for the users and preparers of pension fund financial statements.	23 (32 %)	1 (1%)	48 (67%)

Question		Agree	Disagree	No Comment
9	Do you agree that the Code should include a recommendation to disclose transaction costs for investment management per the proposals in paragraph 6.5.5.1 v) of the Exposure Draft of the Code? If not, why not? What alternatives do you suggest?	19 (26%)	8 (11 %)	45 (63%)

10	Do you agree with the addition of the Annex to section 6.5 which includes an overview of how the remaining sections and chapters of the Code apply to local authority pension funds? If not, why not? What alternatives do you suggest?	19 (26%)	3 (4%)	50 (70%)
11	Do you agree that the Exposure Draft of section 6.5 of the Code appropriately provides for the requirements for the reporting of Scottish pension funds? If not, why not? What alternatives do you suggest?	6 (9%)	1 (1%)	65 (90%)

	Issue	Secretariat Response
	Question 5 – Amendments to the Pension Fund Account Statement	
5.1	An audit body commented that "the line for net rents from properties states that any material netting off should be disclosed" and raised concerns about netting off.	The Secretariat included the "netting off" references to be consistent with the approach in the *Financial Reports of Pension Schemes – A Statement of Recommended Practice 2015* (2015 Pension SORP). However, it concurs with the audit body that in line with the general prescriptions of the Code that netting off should not be permitted. Appropriate amendment has been made to the Fund Account Statement. **CIPFA/LASAAC is invited to agree with this amendment to the Fund Account Statement.**
5.2	An audit body, a firm and an authority highlighted the issue of management expenses being included in the subtotal: Net additions/(withdrawals) from dealings with members and that as such these expenses were not all related to dealings with members. The firm recommended splitting the management expenses between the relevant elements of the statement.	The Secretariat included management expenses in the sub-total "dealings with members" as this followed the approach in the 2015 Pension SORP. The Secretariat concurs with the respondents and considers that the expenses should be separated from the sub-total of dealings with members (and included as a new subtotal). But to maintain as much consistency as possible the Secretariat has not split management expenses into further sub-classifications or over separate headings. **CIPFA/LASAAC is invited to agree with this amendment to the Fund**

	Issue	Secretariat Response
		Account Statement.
5.3	A firm commented that it believed "*it would be sensible for the Code to move to requiring disclosure in the notes to the accounts of the categories of management cost set out in CIPFA Guidance - Accounting for Local Government Pension Scheme Management Costs".*"	The Secretariat notes the advantages of these reporting recommendations. However, this has not been subject to consultation by the Board and therefore the Secretariat recommends that this is considered for future editions of the Code. **The Secretariat recommends that amendment might be considered in future editions of the Code.**
	Question 6 – Amendments to the Pension Net Assets Statement	
6.1	No comments of substance were provided for this question and therefore no further change has been recommended.	
	Question 7 – Adaptation for IFRS 13 Disclosures for Pension Fund Plan Assets	
7.1	Two firms and an audit body provided explicit agreement to include the adaptation in the Code. One firm noted that "balance needs to be struck between including additional disclosures in the financial statements not otherwise required by IFRS and consistency with the 2015 Pension SORP in providing information." Another firm suggested that "the disclosure requirements set out in 6.5.5.1 of the Code are re-drafted so that it is clear the scope adaptation applies to investments as a whole rather than just investment property which is specifically drawn out in 6.5.5.1k."	The Secretariat agrees that a balance will need to be sought to ensure that the pension fund statements are not overburdened with too much detail. Future editions of the *Local Government Pension Scheme Fund Accounts 2015/16, Example Accounts and Disclosure Checklist*, CIPFA September 2015 should be able to provide appropriate guidance for this. Although the requirements are made clear in paragraph 6.5.1.2 further commentary on the reporting requirements for IFRS 13 has now been inserted at paragraph 6.5.5.1 e). **CIPFA/LASAAC is invited to agree this amendment.**
7.2	An authority commented: "The IFRS actually excludes the plan assets from scope - for a good reason. The adoption of the IFRS by	The Secretariat considers that the rationale included in paragraphs 49 to 51 of the Invitation to Comment (ITC) still hold true. The IASB's arguments for the scope exclusion are in BC23 and

	Issue	Secretariat Response
	the code will be contrary to the recommendation of the IFRS itself.”	state that: “In its project to amend IAS 19 the IASB decided to require an entity to disaggregate the fair value of the plan assets into classes that distinguish the risk and liquidity characteristics of those assets, subdividing each class of debt and equity instruments into those that have a quoted market price in an active market and those that do not. As a result, the IASB decided that an entity does not need to provide the disclosures required by IFRS 13 for the fair value of plan assets or retirement benefit plan investments.” The information on the fair value of plan assets therefore may be available disaggregated across a number of local authority financial statements but this is not easily accessible to the users of local authority pension fund accounts. **The Secretariat recommends no further action.**
	Question 8 – Reporting of the Actuarial Present Value of Promised Retirement Benefits	
8.1	All of the respondents providing specific comments support the status quo indicating that this provides useful information to the user. A number of the respondents refer to the cost of moving to option A.	**The Secretariat requests that CIPFA/LASAAC note these points.**
8.2	An audit body commented that, the inclusion of a ‘recommendation’ in an accounting code which local authorities are required to follow can be problematic for auditors when assessing compliance with the code’s requirements. Possible actions for CIPFA/LASAAC to consider are (1)	CIPFA/LASAAC debated the wording of the Code in depth when it made its changes in 2013/14, the Secretariat would not recommend changing the Code. **The Secretariat recommends no further amendment to the 2016/17**

	Issue	Secretariat Response
	remove options B and C from the code and retain the one considered to be best practice or (2) retain all three options in the Code but use the Code guidance notes to recommend option A. A number of respondents indicated that very few authorities are following option A (one firm referred to two authorities).	**Code.**
	Question 9 – Disclosure of transaction costs for investment management	
9.1	Three firms, an independent consultant and a number of authorities disagreed and indicated that the Code should not include the recommended disclosure: The reasons for this included: 1) that the disclosure should be required not recommended, 2) this requires inclusion of unnecessary detail, 3) it is difficult to identify and define some transaction costs, 4) it would mean effectively capitalising transaction costs into the value of investments. One firm stated "*In our view until investment management expenses are better understood and addressed, then the Code should neither "recommend" nor "require" disclosures in 6.5.5.1v) of ED3, nor should the recommendation be included within the Code Guidance notes.*"	CIPFA/LASAAC debated the issue of mandating the disclosures and decided that it could not mandate the requirements. It decided that it would emphasise the need for this disclosure and encourage authorities to provide this information. In terms of the level of detail this should be covered by materiality considerations. The definition of transaction costs issue considered in the following item 9.2. This recommended disclosure requirement does not mean that the transaction costs would be capitalised. The Secretariat would note that the definition of transaction costs is the same in both the Pension SORP 2015 and the Code and is defined as in IAS 39 *Financial Instruments; Recognition and Measurement*. Therefore whilst this is a difficult concept it should be an understandable term for accounts preparers and users, though we note that one firm considers that some authorities find this difficult for transactions in pension funds. However, it is noted that this is a recommended disclosure and therefore authorities would not be required to

	Issue	Secretariat Response
		provide the information. **The Secretariat recommends retaining the note as it was particularly supported by CIPFA/LASAAC.**
9.2	A number of respondents cited the need to ensure that the transaction costs are clearly defined.	The Secretariat concurs and has added a footnote to clarify that transaction costs are those defined in section 7.1 of the Code ie in accordance with IAS 39. Note that this has the same definition as the Pension SORP 2015. The last sentence of this recommended disclosure should enable the readers of the financial statements to understand the nature of these costs. **CIPFA/LASAAC is invited to consider whether it agrees with the addition of the footnote.**
9.3	An audit body commented "We agree that transaction costs should be disclosed. However, it is not clear how this proposed disclosure would relate to the existing requirement to disclose transaction costs (as one element of investment management expenses) that local authorities which follow the CIPFA guidance on management expenses are already required to disclose. Additional clarification in the Code would be helpful."	In terms of the relationship between the two disclosure requirements, CIPFA/LASAAC has invited authorities to have "due regard" to the guidance in *Accounting for Local Government Pension Scheme Management Costs* and recommends this specific disclosure for transaction costs. **The Secretariat recommends no further amendment to the Code for this issue.**
	Question 10 – New Annex to the Accounting and Reporting by Pension Fund Section	
10.1	Two firms considered that the Annex should not be provided. One setting out their rationale commented "the references to "includes the reporting requirements for…." might suggest	Overall there appears to be support from local authority pension fund preparers. The Secretariat has therefore retained the Annex. It has, however, added the caveat that direct reference to the

	Issue	Secretariat Response
	that the other reporting requirements are not necessary".	relevant section of the Code is necessary. **CIPFA/LASAAC is invited to consider whether it agrees with this course of action.**
10.2	A number of respondents made specific commentary on elements of the Annex.	Where appropriate, the Secretariat has included relevant corrections or clarifications.
10.3	An authority commented: "The applicability of requirements to disclose officer remuneration in pension fund accounts to be raised with CIPFA and agreement sought between auditors since the institute and auditors have a differing views on this issue."	Ultimately remuneration reporting requirements are set by statute. As local authority employees are not employed directly by the pension fund this is not an issue for Section 6.5. The example *Local Government Pension Scheme Fund Accounts 2015/16, Example Accounts and Disclosure Checklist* includes appropriate cross references to the remuneration disclosures in the main financial statements. **The Secretariat considers that no further amendment to the Code should be made.**
	Question 11 – Reporting Requirements for Scottish Administering Authorities	
11.1	Minor commentary was provided by a Scottish audit body.	Amendments made in accordance with the audit body's suggestions.

Narrow Scope Amendments: IAS 1 Presentation of Financial Statements, Disclosure Initiative

Question		Agree	Disagree	No Comment
12	Do you agree with the approach to the adoption of the Amendments to IAS 1 (Disclosure Initiative) in the Code? If not, why not? What alternatives do you suggest?	54 (75%)	2 (3%)	16 (22%)

	Issue	Secretariat Response
	Question 12 – Amendments to IAS 1	
12.1	A firm commented that "we have also seen examples of authorities giving inadequate and sometimes non-existent explanations of the major financial issues for the year."	The Secretariat agrees that the financial reporting consequences of major financial issues should be included in the financial statements even if there is not a specific reporting requirement in a standard. CIPFA/LASAAC has responded to similar commentary from this firm previously and has amended the Code to include provisions at paragraph 3.4.2.20 of the 2015/16 Code. **The Secretariat does not consider further amendments to the Code are required.**

Narrow Scope Amendments: IAS 19 Employee Benefits, Defined Benefit Plans: Employee Contributions

Question		Agree	Disagree	No Comment
13	Do you agree with the approach to the adoption of IAS 19 *Employee Benefits* (Defined Benefit Plans: Employee Contributions) in the Code? If not, why not? What alternatives do you suggest?	54 (75%)	0 (0%)	18 (25%)

	Issue	Secretariat Response
	Question 13 – Narrow Scope Amendments: IAS 19: Employee Contributions	
13.1	An independent consultant commented: "It is unclear from the ITC how this approach might apply to the accounting treatment for top-up grant receivable to police and fire pension funds. CIPFA may wish to consider providing [clarification] guidance for police and fire authorities."	It is not quite clear what the respondent is referring to. It is possibly that as a contribution should top-up grant be considered differently. The Secretariat does not consider that this amendment would require changes to the specifications for police and fire pension funds or how this might apply to top-up grant which is not an

	Issue	Secretariat Response
		employee contribution. **The Secretariat does not consider further amendments to the Code are required.**

Narrow Scope Amendments: Annual Improvements to IFRSs

Question		Agree	Disagree	No Comment
14	Do you agree with the approach to the adoption of the Annual Improvements to IFRS 2010 - 2012 Cycle in the Code? If not, why not? What alternatives do you suggest?	47 (65%)	3 (4%)	22 (31%)
15	Do you agree with the approach to the adoption of the Annual Improvements to IFRS 2012 - 2014 Cycle in the Code? If not, why not? What alternatives do you suggest?	42 (58%)	0 (0%)	30 (42%)

	Issue	Secretariat Response
	Question 14 – Annual Improvements to IFRS 2010 - 2012 Cycle	
14.1	A firm responded: "In our experience, most local authorities use the elimination method following a formal valuation. Due to the volatile property market in recent years, most local authorities also supplement formal valuations with the use of indices to keep valuations current at the balance sheet date. We find there is mixed practice as to whether depreciation is eliminated or not following the application of indices and some clarification of CIPFA/LASAAC's view on this matter would be welcome."	CIPFA does not support the use of indices in valuations and has indicated this in LAAP Bulletin 98 Closure of the 2013/14 Accounts and Related Matters. This commented that "Indices should only be used by appropriate valuations experts, in support of their professional judgement, when determining the measurements of items of property, plant and equipment." The Secretariat would argue that IAS 16 doesn't support the annual indexation of valuations. This would contrast with the measurement of the Highways

	Issue	Secretariat Response
		Network Asset where indices are used but these are applied to individual rates and not overall valuations and these rates are required under the Transport Code to be applied under appropriate professional judgement. **The Secretariat does not consider further amendments to the Code are required.**
14.2	A firm commented: "We have noted some inconsistencies in how changes to IFRS are reflected in the Code. For example in 7.1.8.1 and 8.2.1.4 the Code includes narrative to reflect changes in IFRS 3 although the Code does not include the detailed requirements of IFRS 3 as its use is considered not commonly occurring."	The Secretariat did consider this issue in drafting and agrees that there is less emphasis on IFRS 3 *Business Combinations* in the Code. However, it made those amendments as they were specific to definitions or scope exclusions within the Code and would otherwise be incomplete. **The Secretariat does not consider further amendments to the Code are required.**
14.3	It also commented that: "We consider that it would be more useful and support the professional knowledge and development of local authority finance teams if the Code instead included an appendix of changes to IFRS applicable in that year (similar to Appendix A and B of the ITC)."	The Secretariat considers that this might be a useful edition to the Code and has included a new Appendix to allow for this. This Appendix will need to be updated for EU adoption of some of the amendments by 1 January 2016. **New Appendix added to the Code**.
14.4	The same firm also commented: "In our view the Code should limit the use of adaptations and interpretations of the IFRS to those which are necessary to reflect the local authority context. Given the current practice we are not convinced that an adaptation to IAS 16 withdrawing the option that the "gross carrying amount is adjusted in a manner that is consistent with the revaluation of the carrying amount of the asset…"	The Secretariat considers that CIPFA/LASAAC does limit the use of adaptations and interpretations to those necessary. The Board decided itself to use this approach as local authorities largely only use the elimination approach and therefore the Board considered that it would not be useful for the readers of local authority financial statements if authorities mixed this approach within a class of property, plant and

	Issue	Secretariat Response
		equipment. **The Secretariat does not consider further amendments to the Code are required.**
14.5	A firm commented: "Under the Annual Improvements to 2010-2012 IAS 16 has been adapted in 4.1.1.6 to remove the option under IAS 16 for authorities to adjust the gross carrying amount on revaluation to arrive at the revised carrying amount for non-highways PPE. As the ITC acknowledges most authorities already adopt the option in IAS 16 of eliminating accumulated depreciation on revaluation and this change merely codifies what is already happening. As noted above it is unfortunate that this change is taking place at the same time as the alternative option of adjusting the gross carrying amount has been mandated for the Highways Asset and we believe that the reasons for this change could be better explained in the Code." This reflects the views of a small number of other respondents as is noted in report CL 5-11-15.	See comments on this issue in report CL 5-11-15.
	Question 15 – Annual Improvements to IFRS 2012 - 2014 Cycle	
15.1	No comments of substance were provided for this question.	**The Secretariat does not consider further amendments to the Code are required.**

Narrow Scope Amendments: IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets, Clarification of Acceptable Methods of Depreciation and Amortisation

Question	Agree	Disagree	No Comment

16 Do you agree with the approach to the adoption of the Amendments to IAS 16 and IAS 38 Clarification of Acceptable Methods of Depreciation and Amortisation in the Code? If not, why not? What alternatives do you suggest?	50 (69%)	0 (0 %)	22 (31%)

	Issue	Secretariat Response
	Question 16 – Narrow Scope Amendments (IAS 16 and IAS 38) Clarification of Acceptable Methods of Depreciation and Amortisation	
16.1	No comments of substance were provided for this question.	**The Secretariat does not consider further amendments to the Code are required.**

Narrow Scope Amendments: IFRS 11 Joint Arrangements, Accounting for Acquisitions of Interests in Joint Operations

Question	Agree	Disagree	No Comment
17 Do you agree with the approach to the adoption of the Amendments to IFRS 11 *Joint Arrangements,* Accounting for Acquisitions of Interests in Joint Operations in the Code? If not, why not? What alternatives do you suggest?	39 (54%)	1 (1%)	32 (45%)

	Issue	Secretariat Response
	***Question 17 – Narrow Scope Amendments* IFRS 11 *Joint Arrangements,* Accounting for Acquisitions of Interests in Joint Operations**	
17.1	No comments of substance were provided for this question.	**The Secretariat does not consider further amendments to the Code are required.**

Narrow Scope Amendments: IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint

Ventures (2011), Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

Question		Agree	Disagree	No Comment
18	Do you agree with the approach to the adoption of the Amendments to IFRS 10 *Consolidated Financial Statements* and IAS 28 *Investments in Associates and Joint Ventures* (2011) - Sale or Contribution of Assets between an Investor and its Associate or Joint Venture in the Code? If not, why not? What alternatives do you suggest?	38 (53%)	1 (1%)	33 (46%)

	Issue	**Secretariat Response**
	Question 18 – Narrow Scope Amendments: IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures (2011), Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	
	The IASB is consulting on deferring these narrow scope amendments but there were no comments of substance to this question.	
18.1	A firm commented: "We have noted that the ITC does not include a question on Narrow Scope Amendments to IAS 27 and the proposal to remove the option in the narrow scope amendment to allow the use of the equity method to account for investments in subsidiaries, joint venture and associates on the basis it was included for regulatory rather than accounting reasons and due to the importance of single entity statements in local government. We would agree with the proposals by CIPFA in this area reflected in 9.1.1.3 and that it would be sensible to defer any decision pending the outcome of the IASB review. However, in our experience many local	**The Secretariat concurs with this response.**

	Issue	Secretariat Response
	authorities do not understand the requirements to hold investments in subsidiaries, joint ventures or associates at fair value where group accounts are not being produced."	

Augmentation of the Code's Provisions on Concepts - The IPSASB Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities

Question		Agree	Disagree	No Comment
19	Do you agree with the approach to the adoption of the Amendments to IFRS 11 *Joint Arrangements,* Accounting for Acquisitions of Interests in Joint Operations in the Code? If not, why not? What alternatives do you suggest?	47 (66 %)	1 (1%)	24 (33%)

	Issue	Secretariat Response
	Question 19 – IPSASB Conceptual Framework	
19.1	A firm commented: "Overall we agree with the approach and amendments in ED 6 as a result of changes to the IPSASB Conceptual Framework. On points of detail: ED 6: 2.1.2.4 refers to the financial position being "accurately recorded" whereas in Chapter 1 and other sections of Chapter 2 reference is made to "true and fair" which we would consider more appropriate 2.1.2.31 should refer to "operational" property, plant and equipment 2.1.2.32 should be updated for HNA Footnote 3 appears to equate fair value and current value Intangible assets - should refer to current value Assets Held for Sale - it may be useful to clarify expectations around timing of RTB	The Secretariat concurs with the proposed amendments to "true and fair" The other minor amendments have been included where appropriate. However, the Secretariat would note: ▪ current value is an overarching description for the measurement of all property, plant and equipment with fair value being one of the current value measurement bases. ▪ intangible assets - the current value concept has only been applied to property, plant and equipment. ▪ the Secretariat is not sure what clarification the respondent considers necessary other than the expectations should follow the

	Issue	Secretariat Response
	classification as assets held for sale.2	requirements of section 4.9 of the Code.
19.2	An authority commented: "I think the wording "*who do not possess the authority to require local authorities to disclose the information they need for accountability and decision-making purposes*" should be removed. This caveat adds nothing helpful and in theory, anyone can require local authorities to disclose anything through FOI arrangements."	The Secretariat does not concur, the wording "who do not possess the authority to require local authorities to disclose the information they need for accountability and decision-making purposes" is an essential part of the description of a user of public sector general purpose financial statements in the IPSASB Conceptual Framework. **The Secretariat does not consider further amendments to the Code are required.**
19.3	An authority commented: "The amendments seem too open ended, it is not clear to me whether we are proposing to include more data or say to readers that they will need to get professional advice."	The Secretariat is not quite sure what the respondent is referring to but assumes that it refers to "some users may need to seek the aid of an advisor to assist in their understanding of them". Again this is relating to the point that information cannot be excluded from the financial statements because it is too complex. Again this wording emanates from the IPSASB Conceptual Framework and makes an important point that many of the respondents agree with. **The Secretariat does not consider further amendments to the Code are required.**

The Local Audit and Accountability Act 2014 and the Accounts and Audit Regulations 2015 (English Authorities)

Question		Agree	Disagree	No Comment
20	Do you agree with the proposed amendments to Chapter 1 of the Code for the application of the Code to the relevant authorities covered by the Accounts and Audit Regulations 2015? If not, why not? What alternatives do you suggest?	36 (50%)	2 (3%)	34 (47%)

21	Do you agree with the approach to the proposed amendments to Section 3.1 of the Code for the narrative statement for local authorities in England? If not, why not? What alternatives do you suggest?	30 (42%)	8 (11 %)	44 (47%)
22	Do you consider that there are any other areas of Narrative Reporting which ought to be stipulated in the Code? Please provide reasons for your response.	6 (8%)	20 (28%)	46 (64%)
23	Do you agree with the proposed amendments to Section 3.4 of the Code as a result of the application of the Accounts and Audit Regulations 2015 to the provisions of Code for English local authorities? If not, why not? What alternatives do you suggest?	31 (43%)	2 (3%)	39 (54%)
24	Do you agree with the proposed amendments to Section 3.8 of the Code as a result of the application of the Accounts and Audit Regulations 2015 to the provisions of the Code for English local authorities? If not, why not? What alternatives do you suggest?	25 (35%)	4 (5%)	43 (60%)

NB Comments in the box below exclude issues that refer to the Telling the Story proposals

	Issue	**Secretariat Response**
	Question 20 – Amendments to the Code for the Accounts and Audit Regulations 2015	
20.1	Two firms and a number of authorities noted that the period for the exercise of public rights should include the first 10 working days of July (see paragraph 1.7.1).	The Secretariat concurs and had spotted this drafting error prior to the consultation close. **The Secretariat has amended the relevant paragraph (see CD7, paragraph 1.7.1)**
20.2	A firm commented: "This Chapter has to accommodate the different statutory requirements for England, Wales, Scotland and Northern Ireland. We recommend that the requirements for each country should be brought together in separate sub-	The Secretariat does not consider that it would be useful to redraft the whole chapter from this perspective, as the chapter is drafted on a basis of themes and not on administrations. It does, however, consider that the wording of paragraph 1.7.1 could be redrafted on

	Issue	Secretariat Response
	sections to make it easier for practitioners to use." A second firm said "the drafting of section 1.7 could be improved by splitting section 1.7.1 into three different sections that individually cover England, Scotland and Northern Ireland to make it clear which jurisdiction is covered by each point made."	a UK administration basis. **CIPFA/LASAAC is invited to agree with the new structure of paragraph 1.7.1 (see CD7)**
20.3	A joint Police and Crime Commissioner respondent suggested that Chief Constables should be referred to in the list at 1.22 of the Code.	Chief Constables are covered in paragraph 1.2.4 and should not be referred to in paragraph 1.2.2. **The Secretariat does not consider further amendments to the Code are required.**
20.4	An authority commented: "Would it be appropriate to make specific reference to the Transport Infrastructure Assets Code in paragraph 1.2.9, given the significant emphasis being placed upon it by Chapter 4 of the 2016/17 Code?"	The changes required for the Highways Network Asset are very important but the substantial changes are highlighted in the Foreword to the Code. **The Secretariat does not consider further amendments to the Code are required (other than the normal changes for the Foreword).**
	Questions 21 – The approach to the proposed amendments to Section 3.1 of the Code for the narrative statement for local authorities in England.	
21.1	A firm commented: "Given the FReM requirements for a Performance Report are based on the Companies Act requirements for the Strategic Report, it is not clear to us why local authorities should be encouraged to follow the FReM but be required to follow the FRC guidance when in substance the requirements should be consistent. We believe it would be clearer if local authorities	CIPFA/LASAAC's desired approach not to change the requirements of the Code twice in a short period of time means that the encouragement option per the requirements of the FReM needs to remain. This has to be with the exception of the provisions to establish the principles to follow the FRC Guidance on the Strategic Report as these emanate from the requirements in the Accounts and Audit Regulations 2015 for English authorities and

	Issue	Secretariat Response
	were required to follow the requirements in FReM, which is already tailored to the public sector, and use the FRC guidance as a source of additional helpful guidance." A second firm also considered that local authorities should be required to follow the FReM.	therefore need to be stipulated. **The Secretariat has included further commentary to clarify this.**
21.2	A firm commented: "In our view narrative reporting is an area where local authorities are behind their public sector counterparts such as local health bodies and government departments and agencies."	CIPFA/LASAAC is invited to note this comment though the Secretariat would note that this would be a good reason to ensure that the new specifications meet local government reporting needs. **No further amendments suggested.**
21.3	Two firms commented on the use of the term "narrative report" with one stating: "We consider the different but similar terms of narrative statement and Narrative Report with different requirements may be confusing for preparers and therefore the Code will need to be very clear on their respective requirements or consider a change in terminology of the Narrative Report (perhaps Performance Report to reflect the requirements of the FREM)."	The Secretariat used the term "narrative report" to differentiate from all other reporting requirements across the UK administrations. Additional clarification has been added to ensure that the statutory reporting requirements for English authorities are clear. **CIPFA/LASAAC is invited to consider whether it is content with the use of the term "Narrative Report".**
21.4	The same firm commented: "CIPFA should consider whether the Accounts and Audit Regulation 2015 requirements in relation to the narrative statement are sufficient to require a Code Update to the 2015/16 Code or whether this should be a subject of a LAAP bulletin. "	CIPFA/LASAAC decided that the new provisions on the Narrative Report for English authorities could be issued in guidance as the Board is establishing the principles only. The mandate for these reporting requirements already exists in statute and the provisions in the Code cannot override this. The Secretariat would recommend that to demonstrate the status of the principles issued in the Code CIPFA/LASAAC

	Issue	Secretariat Response
		should issue a Technical Issue Note (TIN) and guidance on the provisions in the TIN (which will be the same as the Code) can be issued in a LAAP Bulletin. **CIPFA/LASAAC is invited to consider issuing the Code's provisions for the Narrative Report/Statement in a TIN and invite LAAP to issue appropriate application guidance on the TIN in a LAAP Bulletin.**
21.5	A firm commented: "The CIPFA/LASAAC Board should consider whether it would also be beneficial for the Code to specifically require the Narrative Report to provide a fair, balanced and understandable analysis of the authority's performance and for the Statement of the Responsibilities to include a statement to the effect that the Narrative Report and Accounts as a whole is fair balanced and understandable." An audit body also made a similar commentary about the Narrative Report being fair, balanced and understandable.	The Secretariat considers that the Narrative Report specifications implicitly include the need to be "fair, balanced and understandable". It considers that it might be useful to explicitly include this statement in the Code (see CD1 paragraph 3.1.1.2). This is also consistent with the Code's principles on useful financial information. **CIPFA/LASAAC is invited to agree with the proposed amendments (see CD1 paragraph 3.1.1.2).**
21.6	An authority commented: "The wording, as currently drafted, appears to prescribe the content of the Narrative Report by stating that authorities should follow the FRC guidance and that they should include the items listed in para 3.1.1.5 of the Code. Is it intended to mandate compliance with the FRC guidance, or to merely to recommend the use of this guidance?"	The Code cannot mandate these reporting requirements as the mandate (the requirements) emanates from statutory provisions and this is a matter of interpretation. CIPFA/LASAAC decided to assist authorities by setting out the principles that it considers to be appropriate to meet these reporting requirements. A minor amendment has been included in paragraph 3.1.1.3. **CIPFA/LASAAC is invited to agree the proposed amendments (see**

	Issue	Secretariat Response
		CD1, paragraph 3.1.1.3).
21.7	An authority commented: "We feel that the draft Code goes beyond what is required by the statutory change. The requirement is simply for comment on "financial performance and economy, efficiency and effectiveness in its use of resources". The Code should not go beyond this, particularly in what is intended to be interim guidance." It also indicated that the draft requirements: "…for key performance indicators and other non-financial information which are considerably more prescriptive than the new statutory requirements, and would involve the presentation of data rather than the more high level narrative commentary indicated by the regulations. We disagree with CIPFA's proposal to introduce these additional requirements here, when the focus for all authorities over the next few years must be to reduce timescales for the production of the accounts." An independent consultant appeared to be making similar commentary.	CIPFA/LASAAC considered that it was necessary to establish the principles to meet the performance reporting requirements of the Accounts and Audit Regulations 2015 for English authorities; these require that the narrative statements "must include comment by the authority on its financial performance and economy, efficiency and effectiveness". The established principles for narrative reporting in the UK are included in the strategic report and therefore it is difficult to see where this might be more prescriptive than the statutory requirements. However, as noted above this is a matter of interpretation of the legislation and the Code has set out CIPFA/LASAAC's interpretation but it will be for the individual authority to take its own decisions on this issue. **CIPFA/LASAAC's views are sought on this issue and the comments of the authority**
	Question 22 – Other stipulations in the Narrative Report	
22.1	An audit body commented: "Regulation 4(b) of the Accounts and Audit Regulations 2015 requires that the Annual Governance Statement be prepared in accordance with proper practices in relation to accounts. In our view this means that proper practices for the preparation of the Annual Governance Statement should be set out under the Code."	This is not an issue for the Narrative Report but section 3.7 of the Code. The Secretariat notes the changes to the Regulations and would also comment that the Code already requires that an Annual Governance Statement is provided in accordance with the CIPFA/SOLACE framework. This will need to be augmented to highlight the new requirements once the CIPFA/SOLACE new Framework is

	Issue	Secretariat Response
		finalised. **The Secretariat recommends that further minor amendments be made to reflect the new requirements for the CIPFA/SOLACE Framework one they are finalised. This should be in the near future.**
22.2	Two respondents commented: "We would like to see Authorities reporting on the potential treasury risk arising from internal borrowing. We feel this is an issue for a lot of Authorities but it is not reported anywhere."	The Secretariat considers that this is in part included in paragraph 3.1.4.1 i). It will also be covered by the augmentation added to paragraph 3.1.1.2 and the new principles in paragraph 3.1.5.2. The Secretariat does not consider that further augmentation is possible until a fuller analysis of the provisions of this section is undertaken in accordance with CIPFA/LASAAC's development plans for this section. **The Secretariat does not recommend any further amendment to the Code.**
22.3	An independent consultant commented: "The narrative report or Explanatory Foreword should include: "(a) commentary on both the General Fund and the HRA outturn against the budget used to set council tax and rent levels including explanation of variances exceeding pre-set thresholds (eg 10 to 15% of budget head); "(b) commentary on the overall level of borrowing split between General Fund and HRA, and plans for managing this."	The Secretariat considers that the first provision is too prescriptive for inclusion in a narrative report and considers that the second item is already covered by the provisions of section 3.1. **The Secretariat does not recommend any further amendment to the Code.**
	Question 23 – References in section 3.4 to the Accounts and Audit Regulations	
23.1	An authority commented:	The Code only includes the remuneration requirements for

	Issue	Secretariat Response
	"Paragraph 3.4.5.1(1)(b) sets out the requirement to disclose remuneration and pension details for senior employees and relevant police officers. In our view it would be helpful if the Code provided either a listing of the categories in which this information is to be disclosed (as per the Accounts and Audit Regulations 2015, 1 Sch, 2(2)) or provided a cross reference to the relevant Regulation."	completeness and the avoidance of doubt. Local authorities should refer directly to the regulations for these specific requirements. Reference to the regulations has been added in footnotes. **CIPFA/LASAAC is invited to consider whether it agrees with this amendment.**
	Question 24 – References in section 3.8 to the Accounts and Audit Regulations	
24.1	No comments of substance were provided for this question.	**The Secretariat does not consider further amendments to the Code are required.**

The Local Government (Accounts and Audit) Regulations (Northern Ireland) 2015

Question		Agree	Disagree	No Comment
25	Do you agree with the proposed amendments to the Code for the Local Government (Accounts and Audit) Regulations (Northern Ireland) 2015? If not, why not? What alternatives do you suggest?	3 (4%)	0 (0%)	69 (96%)

	Issue	Secretariat Response
	Question 25 – the Local Government (Accounts and Audit) Regulations (Northern Ireland)	
25.1	No comments of substance were provided for this question.	**The Secretariat does not consider further amendments to the Code are required.**

Minor Amendments

Question	Agree	Disagree	No Comment
26 Do you agree with the proposed amendments to the Code for the Local Government (Accounts and Audit) Regulations (Northern Ireland) 2015? If not, why not? What alternatives do you suggest?	12 (17%)	0 (0%)	60 (83%)

	Issue	Secretariat Response
	Question 26 – Minor Amendments	
26.1	Minor drafting amendments were suggested.	**The Secretariat concurred and minor drafting amendments have been made.**

Areas of Further Guidance

	Comment	Secretariat Response
1	An audit body commented: "Paragraph 3.7.4.3 of the 2015/16 code states that the annual governance statement should include a specific statement on whether the authority's financial management arrangements conform with the governance requirements of the CIPFA Statement on the Role of the Chief Financial Officer in Local Government (2010) as set out in the Addendum (2012) to Delivering Good Governance in Local Government: Framework (CIPFA/SOLACE). However, the Addendum does not require a specific statement on whether the arrangements conform. Instead, it requires an explanation only where the arrangements do not conform. The Addendum replaced the previous 2010 Application Note which did require a specific statement. It would appear that the Code was not updated to reflect the wording change in the Addendum. We recommend that the Code requirement be amended to bring it into line with the Addendum."	The 2015/16 Code was revised in accordance with the recommendations by the relevant Technical Manager responsible for the Framework. However, the Framework is currently under review following the CIPFA/SOLACE consultation and the Secretary will liaise with the Technical Manger to ensure that this paragraph is up-to-date. **Action update in accordance with the finalised CIPFA/SOLACE Framework.**
2	An audit body commented: "The Code requires most items of operational property, plant and equipment (PPE) to be valued in existing use. Items meeting the criteria to be classified as held for sale (AHfS) are carried at the lower of value in existing use immediately prior to reclassification and fair value. Surplus assets, ie those assets that are not used for operational purposes but that do not meet the strict criteria to be classified as AHfS are carried at fair value. In our view, it is more appropriate for the Code to require surplus assets to be carried at the lower of value in existing use immediately prior to reclassification and fair value. "	Treating the asset as held for sale and a current asset is more like treating it as an item of stock or an item of inventory and not as an item of property, plant and equipment (PPE). So whilst Surplus Assets are classified in the PPE class the measurement at fair value would be more appropriate. It is also consistent with IAS 16 as if we had not had the adaptation all other assets within PPE would be measured at that classification. It depends upon whether you class this asset as PPE which the Code does or under IFRS 5 which the Code doesn't. The mathematical changes summarised in the comments are due to the fact that we are holding the rest of the PPE at existing use value (normally the lower value) and not at fair value (so there wouldn't normally be much of a difference between the two). In addition this treatment is consistent with the approach in the FReM.

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		No further action.
3	A respondent commented: The DRC of the highway asset will be substantial and subject to a number of assumptions and estimations using various models and toolkits. Audit materiality calculations are often based upon revenue expenditure, which may not change by a proportionate amount. It is therefore possible that a relatively small disagreement regarding assumptions made in valuing the highways asset may exceed audit materiality. Local authorities and auditors will need to discuss potential implications at an early stage to ensure agreement is reached on the appropriate accounting entries to recognise the highways asset.”	This is an issue being considered by the transport infrastructure assets audit workshop. **The Secretariat will provide verbal feedback from the Workshop.**
4	An authority commented: “Although the "other minor amendments" notes the Code clarifies accounting for schools must meet the definition of an asset, this is still open to differing applications and therefore inconsistencies across councils. A firm commented: “…in relation to recognition of non-current assets used by schools we consider that if CIPFA considers that this is necessary in relation to non-current assets used by schools this should equally apply to all local authority non-current assets and so should be amended in Chapter 4 of the Code to which the Appendix refers, rather than in the Appendix. “	The Secretariat has issued copious application in relation to schools it does not consider that there is scope for further guidance but will refer this to LAAP. However, the Secretariat would note that as this is an area where professional judgement needs to be applied then inconsistency does not mean that incorrect treatment. **Refer to LAAP** The Secretariat considers that this should not be a necessity as it is absolutely clear that to be an item of property, plant and equipment the item should meet the definition of an asset. However, for the avoidance of doubt the Secretariat will include this in section 4.1. **Amendment made to section 4.1 of the Code.**
5	A firm commented “we consider that guidance or improvements would be helpful in relation to: 2.1.2.4 sets out the underlying assumption that an authority’s financial statements shall be prepared on a going concern basis. In	The Secretariat suggests that this will need to be considered against the backdrop of a local authority’s statutory position. It recommends that this issue be considered as a part of the 2017/18 Code. **Issue added to the development**

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	view of the increasingly challenging financial environment we suggest that the Code, whilst not changing the underlying assumption, clarifies disclosure requirements in relation to going concern."	**programme for the 2017/18 Code.**
6	The same firm commented that there appears to be a lack of clarity on the treatment of overdrafts noting apparent conflicts between a number of paragraphs in the Code.	The Secretariat would comment that the provisions in the Code on cash and cash equivalents and provisions on rights to set off all emanate from the relevant standards and cannot see that there is any conflict added by the Code. **No further action**.
7	The same firm commented: "4.3.4 of the 2015/16 Code requires details of the payments due to be made under service concession arrangements (separated into repayments of liability, interest and service charges): a) within one year, b) within two to five years, c) within six to ten years, and d) in each additional five-year period. The current requirements leave it unclear as to whether these disclosures should include an estimate of the effect of inflation. is necessary for a proper understanding of an authority's commitments in relation to PFI projects."	The Secretariat considers that the approach to this disclosure requirement would be the same as that for lease liabilities and that this is an issue for application guidance and will refer this to the Local Authority Accounting Panel (LAAP). **Refer to LAAP**
8	The same firm commented: "4.3.2.19 identifies PFI schemes where the operator is compensated through granting the operator the right to earn revenue from third party users of the service concession asset and 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 although it considered and rejected the approach suggested by IPSAS 32 (as did the Treasury). At that time, CIPFA said that it would consider accounting for third party income at a later date however the Code has not been subsequently updated to specify a treatment.	The Secretariat has responded to this issue and question from the same firm. The Code does provide a response to this issue and requires that authorities account for such income and liabilities under the Code's general provisions for income recognition and accounting for liabilities. **No further action until Section 4.3 is reviewed on the introduction of the leasing standard.**
9	The same firm commented:	This was not included in the draft of the 2016/17 Code as there were no formal

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	"The current Housing Self-Financing transitional period ends in 2015/16, therefore preparers might expect to see an update or changes to the Code in 2016/17. However the Code consultation is currently silent on this. An update on proposals would be useful."	positions to be included in the Code though CIPFA/LASAAC was aware of developments. The end of the transition period does not occur until the end of 2016/17 and therefore the new provisions will apply to the 2017/18 Code. However, DCLG colleagues have indicated that the Item 8 Determination will retain the transitional provisions. **Reference will need to be made to the future issue of the amended Item 8 Determination.**
10	An authority commented that: Appendix E of the Code states that 'CIPFA/LASAAC is of the view that, based on indicators of control identified under the requirements of the Code's adoption of IFRS 10, the balance of control lies with local authorities for all maintained schools'. As currently worded, this sentence appears to leave local authorities able to reach an alternative view regarding control. Is that CIPFA/LASAAC's intention? This clarification is sought because we were of the view that Appendix E effectively mandated that all maintained schools were within our group boundary and yet our External Auditor expected us to undertake our own control assessment under IFRS 10. Also, we believe that other local authorities reached an alternative view of 'control' to set out within Appendix E. A second authority raised an issue of lack of clarity on schools accounting but did not specify the issue other than it wanted clear provisions of what should be on balance sheet.	The Secretariat considered this issue was understood by most authorities and stakeholders ie that the Code was clear that the balance of control lies with local authorities and therefore schools as separate reporting entities should be recognised within the local authority reporting boundary. This is supported by the adaptation to include those schools transactions (as relevant) within the single entity local authority financial statements. CIPFA/LASAAC's position is confirmed in its Technical Issues Note. http://www.cipfa.org/policy-and-guidance/technical-panels-and-boards/cipfa-lasaac-local-authority-code-board/technical-information-note. This is also clearly indicated in the Code Guidance Notes. **The Secretariat does not consider it necessary to further amend the Code.**
11	The external auditor interprets IAS 16 requiring all assets within a class to be revalued simultaneously and comments adversely where a 5 year rolling programme of revaluations for PPE only covers part of a class each year. The 2015/16 Code clarifies that a 'short period' for the revaluation of a class of assets is interpreted to mean that assets are normally revalued once every five	CIPFA's position has been clearly set out in the Technical Alert. CIPFA/LASAAC has also been clear on this issue in its Technical Issues Note (TIN). The Secretariat has provided its views on the issue as the sentence referred to in paragraph 4.1.2.38 is caveated by a "However".

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	years for each class of assets, However 4.1.2.38 still states that "…The items within a class of property, plant and equipment are revalued simultaneously to avoid selective revaluation of assets and the reporting of amounts in the financial statements that are a mixture of costs and values as at different dates…" An explicit statement in the Code that IAS16 has been modified for local government to allow the exemption that not all assets within a class have to be revalued simultaneously, but over a period of no longer than 5 years. Ironically, valuing a selection of assets across asset categories assists a local authority to assess whether there is any material difference between carrying value and fair value." Another authority stated that: "we would like the wording of code tightened up to state that 5 year rolling programmes are deemed to be sufficiently regular".	The TIN states "CIPFA/LASAAC decided that to avoid different interpretations of a "short period" and for the avoidance of doubt that the Code should interpret what a short period is for materially accurate valuations of property, plant and equipment ie that assets are measured once every five years provided the current value of the class of assets is materially accurate. However, this is not a change to the reporting requirements of the Code. A new interpretation has been included in the 2015/16 Code at paragraph 4.1.2.38". **The Secretariat does not consider it necessary to further amend the Code.**
12	An authority commented: "In Wales, further clarification in applying interpretation is required relating to the Ratio of Remuneration of the Chief Executive to the median remuneration of all the Authority's employees. Lack of guidance resulted in differences in the disclosures made by authorities for the 2014/15 Accounts. It is disappointing that the de-cluttering initiative does not appear to have been seriously addressed."	This is an issue for application guidance, though ultimately as an item defined in law it is a matter of interpretation of the Regulations. This issue will be referred to LAAP. **Refer to LAAP**.
13	An authority commented: "Additional guidance and worked examples would be useful around transfer of assets to other non-profit making organisations or trusts."	The Secretariat is not clear why this would not be treated in the same way as any other disposal but will refer this to LAAP. **Refer to LAAP.**
14	An authority commented: "Clarity on Taxation and Non Specific Grant Income in relation to disclosure of the NNDR income and what elements this should include ie Retained element/top up/Tariff/Levy / S31grants as part of NNDR retention scheme Clarity that the segmental analysis	The Secretariat considers the issue relating to NNDR income is a matter for application guidance. The segmental reporting requirements will be considered in the Telling the Story consultation. Depending on the decisions of the Board may consider whether there is a need for any minor clarifications.

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	should reconcile at cost of service total income/expenditure and at overall Total to CIES. Having looked at a number of authorities accounts most do not reconcile at the cost of services, and the corporate amounts do no tie back to the Other CIES amounts. However the totals do."	**Refer NNDR issues to LAAP.**
15	A respondent commented: "It would be useful if CIPFA could clarify in the Code the treatment of pre-payments by local authorities to the pension fund".	The Secretariat considers that this will be covered by the general provisions of the Code. **No further action.**
16	A respondent commented: "It would also be useful if CIPFA could clarify the accounting treatment per B31 [accounting for landfill] of the Code Guidance 2014/15".	The Secretariat has undertaken a thorough review of the landfill provisions in the Code and the Guidance Notes. **Refer to LAAP.**