CIPFA The Chartered Institute of Public Finance & Accountancy

report

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Committee	CIPFA/LASAAC
Venue	CIPFA, Scotland
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Author	Sarah Sheen, CIPFA, Technical Manager, Local Government Financial Reporting
Subject	Development of the 2017/18 Code of Practice on Local Authority Accounting in the United Kingdom – IFRS 15 *Revenue from Contracts with Customers*

To consider the approach to adoption of IFRS 15 in the Code of Practice on Local Authority Accounting in the United Kingdom for the 2017/18 Consultation Process

1 Introduction

1.1 This report outlines the issues that CIPFA/LASAAC will need to consider for the adoption of IFRS 15 *Revenue from Contracts with Customers* in the *Code of Practice on Local Authority Accounting in the United Kingdom* (the Code), the issues to be included in the Invitation to Comment (ITC) on the Code and the approach to drafting the provisions in the Code.

2 Background

2.1 CIPFA/LASAAC agreed at its last meeting that it would consult on including the provisions of IFRSs 9 and 15 in the 2017/18 Code with an effective date of 1 April 2018. This would allow local authority accounts preparers to make effective preparations for the substantial changes required. The ITC therefore asks local authorities views on this approach. The provisions for IFRS 15 will be included in a new Appendix G to the Code and will include the transitional provisions required to adopt the standard as it applies to local authorities.

Consultation Responses

2.2 In order to prepare for this substantial change to the Code the Board will remember that last year it consulted on the adoption of IFRS 15 at the same time that it consulted on IFRS 9. Substantially less commentary was made by respondents on IFRS 15. The Secretariat also took part in the Technical Working Group on IFRS 15 and has included any relevant commentary in either the ITC or the Exposure Draft. However, some of the issues considered by the Technical Working Group featured non-exchange transactions and the Secretariat has not made any substantial changes to these provisions. The Code already covers these transactions in detail with those provisions largely being based on IPSAS 23

Revenue from Non-Exchange Transactions (Taxes and Transfers). The Secretariat considers that these transactions are outside the scope of IFRS 15 as they are not based on contracts as defined in IFRS 15 and there is no exchange (for further commentary see section seven of this report). Where necessary, it has used the principles of IFRS 15 to augment the Code's current provisions on non-exchange transactions.

3 Drafting the ITC and the Exposure Draft

3.1 As with the approach to IFRS 9 and in order to stimulate debate from interested parties the ITC also includes an overview of the requirements of IFRS 15 highlighting the approach in the Standard to revenue recognition. As noted by the TWG there was greater scope for judgement under IAS 18 *Revenue*, whereas IFRS 15 is a significantly larger standard with detailed criteria and application guidance. As a result, the level of implementation required by entities is likely to require extensive consideration of the requirements of the provisions in the Standard. This has therefore meant a substantially larger section 2.7 of the Code than under IAS 18.

3.2 The Secretariat has, however, drafted section 2.7 from a perspective of only including those paragraphs relevant to typical and common transactions of a local authority. For example, when determining the transaction price the Secretariat has included details of the accounting requirements for significant financing components as this is likely to need to be considered against deferred payments for social care, an important area for local authorities, but it has not included detailed provisions on non-cash considerations as the Secretariat does not consider the latter to be a regular transaction. The Secretariat would welcome feedback from CIPFA/LASAAC on whether the appropriate balance has been achieved and whether there are any areas where either more or less detail should be included.

3.3 In addition to reflect the adoption and a public sector approach the Secretariat has changed references in IFRS 15 from 'customer' to 'service recipient'. However, the definitions and references in the Code remain otherwise consistent with IFRS 15.

3.4 Much of the documentation and commentary available on IFRS 15 including the IASB's own commentary discusses the five steps to revenue recognition which was discussed at the last meeting and has been included in the ITC. Interestingly these are not included in the Standard. In order to assist local authorities with implementation of the Standard the Secretariat has included them. The Secretariat would seek the Board's feedback on this approach.

CIPFA/LASAAC's views are sought on the approach to drafting the ITC and the Exposure Draft.

4 Disclosures

4.1 As noted in the March report to CIPFA/LASAAC the disclosures for revenue recognition are much more detailed under IFRS 15 than IAS 18 and concern has been expressed at the TWG at the impact that this will have on the public sector streamlining agendas. This is likely to be no less of an issue for local authorities.

4.2 In the development of the revenue recognition standard the goal was to improve disclosures for the users of the financial statements. Many respondents broadly supported that goal. However, respondents' views about the proposed disclosure requirements in the 2011 Exposure Draft were split – users of financial statements supported the proposed disclosure requirements. In contrast, other respondents (primarily preparers) noted that, when viewed as a whole, the proposed disclosure requirements would have resulted in voluminous disclosures and they questioned whether the proposed disclosures were justifiable on a cost-benefit basis. However, the IASB and FASB observed that, to some extent, concerns about the increased volume were the inevitable consequence of addressing the shortcomings in the previous disclosure requirements (see IFRS 15, BC327 to BC329).

4.3 The Secretariat would observe that revenue recognition is for many commercial entities of paramount importance. It would contend, for local authorities that expenditure on services is a competing priority for the users of local authority financial statements. This difference in emphasis should be reflected in the financial statements and should impact on any assessment of materiality. Additionally, revenue recognition from service recipients is usually a relatively easy exercise and often is not as material a transaction as expenditure on services (with the possible exception of the Housing Revenue Account). The Secretariat has reflected this commentary to assist local authorities with their decisions on materiality for the disclosures under IFRS 15.

4.4 The Secretariat considers that a number of the disclosures in IFRS 15 whilst theoretically applicable to local authorities have substantial potential to add too much detail and volume for local authority financial statements which would not be a useful to users or reflect of the incidence or the effect of the transactions in local authority financial statements. The Secretariat would therefore recommend that CIPFA/LASAAC adapts the Code to not include those disclosures. The Secretariat for ease of reference has currently included these disclosures in the Exposure Draft but has highlighted them for the attention of CIPFA/LASAAC. The Secretariat would note that the Technical Working Group has not taken this decision but has focussed on the effect of materiality. This option has been provided to CIPFA/LASAAC as a result of recent debates of the Secretariat in the final stages of drafting the papers.

4.5 The Secretariat also has not included disclosures for any assets recognised from the costs to obtain or fulfil a contract with a customer as it considers that local authorities do not enter into these transactions (see IFRS 15 paragraphs 127 and 128).

4.6 The Secretariat would note that IFRS 15 states that an entity need not disclose information in accordance with this Standard if it has provided the information in accordance with another Standard. This may assist with the reduction of volume of disclosures.

CIPFA/LASAAC's views are sought on the approach to the adoption the disclosure requirements under IFRS 15 (particularly the proposed adaptation described in paragraphs 4.4. above).

5 Transition

5.1 CIPFA/LASAAC did not explicitly comment on the approach to transition under IFRS 15 at its last meeting. However, the Secretariat has followed the same approach adopted under IFRS 9 on the grounds of consistency both with IFRS 9 and with the approach across the rest of the public sector (ie to follow the option under IFRS 15 for retrospective application with adjustments made to the appropriate opening balances of the current period on transition). Rather than for full retrospective restatement (which would still allow the use of some practical expedients). In addition, this is likely to provide an easier approach in resource terms for local authority accounts preparers.

CIPFA/LASAAC's views are sought on whether it agrees to adopt the approach to retrospective application where an adjustment is made to the appropriate opening balances of the current period (and with no restatement of preceding year information).

6 Consequential Amendments

6.1 The Exposure Draft also includes consequential amendments to other sections of the Code including the creditors and debtors section and principally the removal of section 5.2 as IAS 11 *Construction Contracts* has been withdrawn.

CIPFA/LASAAC's views are sought on the approach to the consequential amendments as a result of the adoption of IFRS 15 in the Code,

7 Principles of revenue recognition

7.1 At its last meeting CIPFA/LASAAC wanted to provide additional guidance to local authority accounts preparers on the different types of revenue earned by local authorities. The Secretariat has added this guidance into section 2.1 (Concepts). This guidance has built on the principles of revenue recognition already in the Code ie the adoption of IPSAS 23 *Revenue from Non-Exchange Transactions (Taxes and Transfers)*. It has also augmented this guidance using the principles of revenue recognition in IFRS 15 ie by including more detail on the recognition event (eg for council tax and non-domestic rates, the taxable event). Exchange transactions rely on the principles in IFRS 15 and this is covered in overview in section 2.1 with cross reference to section 2.7. To further assist accounts preparers the Secretariat has included a flow chart which provides an overview of the principles and the different types of transaction.

CIPFA/LASAAC's views are sought on the additional guidance on the principles of revenue recognition in section 2.1.

Recommendation

CIPFA/LASAAC is asked to consider the individual questions above and provide any other comments on the adoption of IFRS 15 in the Code.