

Craven District Council

External audit update on financial reporting changes 2014/15

March 2015

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01 Introduction

The purpose of this report is to update the Audit Committee of Craven District Council (the Council) on changes to financial reporting that may impact on your 2014/15 financial statements. The two areas summarised in this report are:

- key accounting changes in the latest edition of the *Code of Practice for Local Authority Accounting in the UK* which apply to the 2014/15 accounts; and
- any changes to accounting policies to be applied in the preparation of the Council's 2014/15 Statement of Accounts.

This report is intended to help the Committee to maintain an understanding of internal and external reporting requirements. It is good practice for the Audit Committee to be made aware of changes in accounting and accounting policies, and this report could be used by the Council as a basis for similar reports in future years.

If you require any additional information, please contact us using the contact details at the end of this update.

02 Changes to the Code of Practice for Local Authority Accounting in the UK for 2014/15

Background

The *Code of Practice for Local Authority Accounting in the UK* (the Code) is based on International Financial Reporting Standards (IFRS), and has been developed by the CIPFA/LASAAC Code Board overseen by the Financial Reporting Advisory Board. It is based on approved accounting standards issued by the International Accounting Standards Board and interpretations of the International Financial Reporting Interpretations Committee, except where these are inconsistent with specific statutory requirements.

The Code also draws on approved accounting standards issued by the International Public Sector Accounting Standards Board and the UK Accounting Standards Board where these provide additional guidance. The latest edition of the Code applies for accounting periods commencing on or after 1 April 2014. It supersedes the 2013/14 Code.

In England and Wales, the Code constitutes a 'proper accounting practice' under the terms of section 21(2) of the Local Government Act 2003.

The CIPFA/LASAAC Code Board, overseen by the Financial Reporting Advisory Board, is in a position to issue mid-year updates to the Code. This will only be done in exceptional circumstances. The Code is thus intended to provide a comprehensive framework.

Changes to the Code

The table below provides a summary of the changes in the 2014/15 CIPFA Code and their applicability to the Council.

Change	Relevant to Craven District Council
The provisions of section 2.5 of the Code (accounting for local government reorganisation and other combinations) have been clarified and augmented including a new definition of a function, clarification of the requirements for a transfer by absorption or a transfer by merger and relevant disclosure requirements.	No
The 2014/15 Code includes amendments to section 3.4 on the presentation of financial statements to reflect the amendments to IAS 1 as required by the Annual Improvements to IFRS 2009–2012 Cycle issued in May 2012 and also to include local authority statutory reporting requirements in the complete list of financial statements.	Yes

Change	Relevant to Craven District Council
Section 6.4 of the 2014/15 Code includes clarification of the adaptation for the determination of the net defined benefit liability (asset) of the term 'sufficient regularity' that the period between the formal actuarial valuations is every four years for police and firefighters' pension funds.	No – applies only to police and firefighters' pension funds. Formal actuarial valuations are already required every three years for local government pension scheme funds.
Section 6.5 of the 2014/15 Code includes clarification on the reporting requirements for the Statement on the System of Internal Financial Control for pensions administering authorities in Scotland.	No – applies only to local authorities in Scotland
Section 7.4 of the 2014/15 Code includes the amendments to IAS 32 Financial Instruments: Presentation (Offsetting Financial Assets and Liabilities), December 2011, requiring reference to the amended application guidance for offsetting financial assets and liabilities, where applicable.	Yes – but the Council already separately discloses losses and gains in the Comprehensive Income and Expenditure Statement
Chapter 9 of the Code includes the introduction of the requirements of the five new or amended standards introduced by the IASB in May 2011, i.e. IFRS 10 Consolidated Financial Statements, IFRS 11 Joint Ventures, IFRS 12 Disclosure of Interests in Other Entities, IAS 27 Separate Financial Statements (as amended in 2011) and IAS 28 Investments in Associates and Joint Ventures (as amended in 2011).	No – the Council does not currently prepare Group Accounts, but this may change as more joint working arrangements are introduced
A new Appendix D has been introduced in the 2014/15 Code to confirm for authorities the changes to the future editions of the Code for the measurement of transport infrastructure assets.	No – the impact of this change on district councils is not clear, and officers should maintain an awareness of developments in this area
CIPFA/LASAAC has decided to defer adoption of IFRS 13 Fair Value Measurement until the 2015/16 Code while it reviews its application of the standard for local government circumstances.	Yes – for future adoption
The 2014/15 Code introduces a new Appendix E confirming the position for local authority maintained schools. A Local Authority Accounting Panel Bulletin (LAAP 101 – Accounting for Non-Current Assets Used by Local Authority Maintained Schools) focuses on the accounting treatment for non-current assets used by schools.	No

03 Changes to accounting policies for application in the 2014/15 financial statements

Background

It is a requirement of the Local Government Act 2003 and the Accounts and Audit (England) Regulations 2011 for the Statement of Accounts to be produced in accordance with proper accounting practices.

Accounting policies are defined in the Code as “the specific principles bases, conventions, rules and practices applied by an authority in preparing and presenting financial statements”. Accounting policies need not be applied if the effect of applying them would be immaterial. Materiality is defined in the Code as it applies to omissions and misstatements:

Omissions or misstatements of items are material if they could, individually or collectively, influence the decisions or assessments of users made on the basis of the financial statements. Materiality depends on the nature or size of the omission or misstatement judged in the surrounding circumstances. The nature or size of the item, or a combination of both, could be the determining factor.

New and Amended Accounting Policies

The need for changes in accounting policy can arise from:

- mandatory changes under the annual Code of Practice on Local Authority Accounting which require a new or revised accounting policy to be adopted by all local authorities; and
- changes within the overall framework of the Code, but where the policy to be adopted is discretionary and is dependent upon interpretation of local circumstances.

Changes reflected in the 2014/15 updated Code and any subsequent supplementary updates do, on the whole, have to be incorporated into the Council’s accounts but do not necessarily impact on the accounting policies. This is because the changes for 2014/15 are principally around additional or changed disclosure notes, points of clarification and additional guidance.

Section 02 of this report outlines areas where changes in the Code may have an impact on the Council’s financial statements. None of these require associated changes in accounting policy, and we expect that the 2014/15 accounting policies should be in line with those used in the preparation of the 2013/14 accounts.

We do not anticipate any new accounting policies.

The Council’s finance team will be able to provide a full list of accounting policies the Council proposes to disclose in its notes to the Statement of Accounts and to use in preparing those accounts. In future, the proposed accounting policies could be presented to the Audit Committee in advance of preparing the accounts.

04 Contact details

Please let us know if you would like further information on any items in this report.

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