



THE INSTITUTE
OF CHARTERED
ACCOUNTANTS
IN ENGLAND AND WALES

15 February 2008

Our ref: ICAEW Rep 19/08

Your ref:

Mr Colin Stratton
CIPFA/LASAAC Local Authority SORP Board
c/o Policy and Technical Directorate
CIPFA
3 Robert Street
London WC2N 6RL

By email: sorp.responses@cipfa.org

Dear Colin

**CIPFA/LASAAC SORP ON LOCAL AUTHORITY ACCOUNTING
2008**

The Institute of Chartered Accountants in England and Wales is pleased to respond to your request for comments on the Exposure Draft of a Revised *Code of Practice on Local Authority Accounting in the United Kingdom – A Statement of Recommended Practice 2008*.

Please contact me if you would like to discuss any of the points raised in the attached response.

Yours sincerely

Desmond Wright
Senior Manager, Corporate Reporting
T +44 (0)20 7920 8527
F +44 (0)20 7638 6009
E desmond.wright@icaew.com



THE INSTITUTE
OF CHARTERED
ACCOUNTANTS
IN ENGLAND AND WALES

ICAEW Representation

ICAEW REP 19/08

CIPFA/LASAAC SORP ON LOCAL AUTHORITY ACCOUNTING 2008

Memorandum of comment submitted in February 2008 by The Institute of Chartered Accountants in England and Wales, in response to the Exposure Draft of a Revised *Code of Practice on Local Authority Accounting in the United Kingdom – A Statement of Recommended Practice 2008*, published by the CIPFA/LASAAC SORP Board in November 2007.

Contents	Paragraph
Introduction	- 1
Who we are	2 - 3
Major points	4 - 7
Minor matters	8
Appendix: Answers to specific questions	A1 A28

INTRODUCTION

1. The Institute of Chartered Accountants in England and Wales (the 'Institute') welcomes the opportunity to comment on the Exposure Draft of a Revised *Code of Practice on Local Authority Accounting in the United Kingdom – A Statement of Recommended Practice 2008*, published by the CIPFA/LASAAC SORP Board in November 2007.

WHO WE ARE

2. The Institute operates under a Royal Charter, working in the public interest. Its regulation of its members, in particular its responsibilities in respect of auditors, is overseen by the Financial Reporting Council. As a world leading professional accountancy body, the Institute provides leadership and practical support to over 130,000 members in more than 140 countries, working with governments, regulators and industry in order to ensure the highest standards are maintained. The Institute is a founding member of the Global Accounting Alliance with over 700,000 members worldwide.
3. Our members provide financial knowledge and guidance based on the highest technical and ethical standards. They are trained to challenge people and organisations to think and act differently, to provide clarity and rigour, and so help create and sustain prosperity. The Institute ensures these skills are constantly developed, recognised and valued.

MAJOR POINTS

Support for the SORP

4. We welcome the revision of the SORP. We have few comments of substance and we congratulate the SORP BOARD on its work over a number of years to improve the standard of Local Authority Accounting. Our comments on the specific questions raise in the Invitation to Comment (ITC) are set out in the Appendix.

Authorised for issue date

5. As set out below in our answers to questions 18 to 24, we see that the audit of the accounts (as opposed to the whole audit process) finishes with the issue of the formal audit opinion and not the signing of the 'certificate of completion'. We therefore do not agree that the responsible financial officer should re-sign, re-date and re-certify the accounts to align with the date of the certificate of completion. There will, however, be a need for the accounts to be signed twice, once at issue and again at the on close to the date the formal audit opinion is signed.

Status of the Guidance Notes

6. As set out in paragraph 8.1a of the draft SORP, CIPFA's previous published guidance on reporting on reviews of internal control has been formally withdrawn and replaced with *Delivering Good Governance in Local Government*, which comprises a 'Framework' document common to all jurisdictions and five 'Guidance Notes'. We believe it would be helpful if the SORP were to clarify that the Guidance Notes do not have the same status as the SORP.

Matters for further guidance

7. We believe that the SORP could benefit from offering guidance on Large Scale Voluntary Transfers.

MINOR MATTERS

8.
 - (a) Appendix A - FRS 1 states that 'Paragraph 4.46 sets out the Cash Flow Statement format appropriate to the local authority single entity financial statements.' Should this be paragraph 5.34?
 - (b) Appendix A - FRS 1 states that 'The format for the local authority group financial statements is included in Annex 6 of chapter 5.' Should this be Annex 6 of chapter 6?

APPENDIX: RESPONSES TO SPECIFIC QUESTIONS

GAAP DEVELOPMENTS

Financial Reporting Standards

Q1 Do you agree that:

- **Amendment to FRS 3 *Reporting Financial Performance***
- **Amendment to FRS 17 *Retirement Benefits***

are the only financial reporting standards developments that need to be included in amendments to the SORP?

A1. We agree.

Q2 Do you agree with the amendments to the SORP proposed in respect of the amended financial reporting standards above?

A2. We agree. The new requirements in respect of FRS 17 *Retirement Benefits* focus attention on the need for all Local Authorities to ensure that they are using up-to-date mortality tables. This may in some cases lead to a change in accounting estimate.

Reporting Statement on Retirement Benefit Disclosures

Q3 Do you agree that no amendments to the SORP are required in respect of the *Reporting Statement on Retirement Benefits* recently published by the Accounting Standards Board?

A3. We agree that no amendment is required to the SORP, but suggest that the Reporting Statement should be the subject of separate guidance.

UITF Abstracts

Q4 Do you agree that:

- **UITF Abstract 43 *The Interpretation of Equivalence for the Purposes of Section 228A of the Companies Act 1985***
- **UITF Abstract 44 *FRS 20 Group and Treasury Share Transactions***
- **UITF Abstract 45 *Liabilities Arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment***

are the only UITF Abstract developments that need to be included in amendments to the SORP?

A4. We agree

Q5 Do you agree with the amendments to the SORP proposed in respect of these new UITF Abstracts?

A5. We agree.

Financial Reports of Pension Schemes A statement of Recommended Practice (Revised May 2007)

Q6 Do you agree with the proposed amendments to the Pensions Fund Account section of Chapter 5 of the SORP paragraphs 5.43 to 5.45a to update the section for the amendments to the Pension SORP?

- A6. We agree. However, we suggest that in order to emphasis that the presentation and disclosure requirements of the Pensions SORP 2007 are fully applicable, the order of the two sentences in paragraph 5.45 should be reversed (and the word 'However' deleted).

Statement of Principles for Financial Reporting Interpretation for Public Benefit Entities

Q7 Do you agree with the proposed new paragraph in SORP Appendix A briefly explaining the significance of the *Statement of Principles for Financial Reporting Interpretation for Public Benefit Entities*? If not please indicate how you would wish to see the entry amended.

- A7. We agree with the proposed new paragraph, but suggest that it should be positioned before the list of accounting standards rather than at the end.

Information Paper Number 10 *The Depreciated Replacement Cost Method of Valuation for Financial Reporting*

Q8 Do you agree that paragraph 3.130 of the 2007 SORP should be amended to make it clear that DRC should only be used where market evidence of existing use value is not available? If not please give your reasons.

- A8. We agree, on the assumption that this provision is a clarification and not a change in practice. We suggest also that it might be desirable to treat absence of market evidence consistently in subparagraphs (a) and (b) - ie, in relation to non-specialised and specialised operational properties.

THE STATEMENT ON INTERNAL CONTROL AND THE STATEMENT ON THE SYSTEM OF INTERNAL FINANCIAL CONTROL

Q9 Do you agree with amending the table following paragraph 8.2 to show the Information to be Included in the Annual Governance Statement rather than the Information to be Included in the Statement on Internal Control?

- A9. We agree with the amendments. However, we are not clear whether presenting the prescribed Annual Governance Statement is essential in order to comply with the statutory requirement in relation to internal control . This should be clarified and made consistent in the SORP.

Q10 Do you have any comments on the proposed amendments to Chapter 8? If so please give details of the changes you would like to propose.

- A10. See our answer to Question 9 above.

OTHER AMENDMENTS

The Police Pension Scheme in England and Wales and the Firefighters' Pension Schemes in England and the Firefighters' Pension Scheme in Wales

Q11 Do you agree that the different arrangements for receiving pension top-up grant to meet a Pension Fund deficit and for paying over Pension Fund surpluses to central government contained in the Firefighters' and Police pension funding regulations requires the SORP to be amended?

A11. We agree.

Q12 Do you agree with the amendments to the SORP proposed in paragraphs 5.46 to 5.49 of the Exposure Draft?

A12. We have no comment on this question.

Landfill Allowances Schemes

Q13 Do you agree that the scope of paragraphs 3.46 to 3.51 of the SORP, which cover 'cap and trade' landfill allowance schemes, should be extended to cover Scotland from 1 April 2008?

A13. We agree.

Deferred charges

Q14 Do you agree with the proposal to call the *Deferred Charges* section in the 2007 SORP (paragraphs 3.19 to 3.20) *Revenue Expenditure Funded from Capital Resources*?

A14. We agree.

Q15 do you agree with the proposed amendments to paragraphs 3.19 to 3.20? If not please give your reasons.

A15. We agree

Intangible Assets

Q16 Do you agree with the proposed amendments contained in paragraphs 3.35 to 3.37 of the Exposure Draft SORP? If not please give your reasons.

A16.1 We agree, subject to the points set out in paragraphs A16.2 and A16.3 below.

A16.2 In paragraph 37, we suggest that either the second sentence (beginning 'In the absence ...') should be deleted, or it should be quoted from FRS 10 in full: 'In the absence of legal rights it is *more* difficult to demonstrate control.' (reinstated word emphasised).

A16.3 We do not agree with the last sentence of paragraph 37 as it stands. We suggest that it should either be removed, or redrafted to make it clear that

only operating system software - and not other application software - may be included in the cost of the hardware.

Back Pay Arising From Unequal Pay Claims

Q17 Do you agree with the SORP Board's proposed amendments to the SORP in respect of back pay arising from unequal pay claims contained in paragraphs 3.12c to 3.12e of the Exposure Draft SORP? If not, please say how you would like the proposals to be amended.

A17. We agree.

Authorised for issue date

Q18 Do you agree that a local authority issues its accounts in two stages:

- the accounts approved by, or submitted, to the authority; and
- the accounts 'published', or 'laid before the authority and made available for inspection and sale', at the conclusion of the audit,

and that both have a formal legislative based status?

A18. We agree.

Authorised for issue date (continued)

Q19 Do you agree that under the current regime for preparing and auditing the statement of accounts events after the balance date will in effect have been considered by the authority:

- for the accounts approved by or submitted to the authority - up to the date that the Responsible Financial Officer or Proper Officer certifies the accounts present fairly the financial position at the year end and its income and expenditure?
- for the accounts published, or laid before the authority and made available for inspection and sale, by the authority - up to the date the auditor issues the formal opinion and certificate of completion?

If not please say up to what date you believe an authority considers events after the balance sheet date at these two stages in the statement of accounts process.

A19.1 We agree that the accounts approved by the authority are authorised for issue on the date the responsible financial officer certifies those accounts.

A19.2 The published/laid accounts are authorised for issue on 'the date the auditor issues the formal opinion and certifies the audit complete' (paragraph 3.25). We believe that the responsibility for post balance sheet review ends at the point the formal audit opinion is signed. The certificate of completion should be signed at the same time, but may be signed at a later date. We see that under normal circumstances the auditor might 'issue an opinion prior to the

issue of the certificate certifying completion of the audit'. However, we do not see this as relevant to the accounts, as such. If the certificate of completion were for some reason issued after the opinion, this should not imply that further post balance sheet review has taken place. The guidance in paragraph 3.25a to the effect that the responsible financial officer should re-sign, re-date and re-certify the accounts to align with the date of certificate of completion is therefore misplaced and should be deleted from the draft SORP.

Authorised for issue date (continued)

Q20 Do you agree that the responsible financial officer/proper officer should re-sign and re-date the accounts that are published/laid before the authority following completion of the audit?

- A20. See our answers to Questions 19 above and 21 and 22 below. We also believe that the SORP should clarify that 'completion of the audit' refers to the set of accounts published/laid before the authority, on which the auditor will give an opinion.

Q21 If 'Yes' to Q20, do you agree that the accounts should be signed and dated on the date the auditor gives the formal audit opinion and certificate of completion? If not please say how you consider the date should be determined.

- A21. See our answer to Question 19 above. We agree that the accounts should be signed and dated on the date the auditor gives the formal audit opinion, which may or may not be the same date as the certificate of completion.

Authorised for issue date (continued)

Q22 Do you agree that a statement of accounts on which the auditor has given an opinion before issue of the formal and certificate of completion should be re-signed and re-dated by the responsible financial officer/proper officer?

- A22. We disagree. See our answers to Questions 19 to 21 above. The accounts would only need to be re-signed if there was a material difference between the accounts which received the audit opinion and the accounts relating to the certificate of completion.

Q23 If 'Yes' to Q22, do you agree that the accounts should be signed and dated on the date the auditor gives the audit opinion? If not please say how you consider the date should be determined.

- A23. We agree. The accounts should be signed and dated on the date the auditor gives the audit opinion, regardless of the date of the certificate of completion.

Q24 Do you agree that where an authority in England, Northern Ireland and Wales under legislation publishes its accounts by the specified date without a formal audit opinion and certificate of audit completion the responsible financial officer should re-sign and re-date the accounts?

- A24. We agree.

Area Based Grant

Q25 Do you agree that Area Based Grant is a general grant, which should be included in the Income and Expenditure Account with other general income sources such as income from the collection fund and NDR distribution?

- A25. We agree. However, we would like to see this as a separate line item either on the face of the account or in the notes

Q26 Do you agree that the following disclosures on Area Based Grant should be included as a note to the core financial statements?

“Sufficient information on Area Based Grant received to allow for the understanding of the authority’s financial affairs.”

- A26. It might be helpful for SORP to require the accounts to include a specific reference to the amount received from each sponsor.

TAXATION IMPACTS OF THE CHANGES TO ACCOUNTING FOR FINANCIAL INSTRUMENTS INTRODUCED BY THE 2007 SORP

Q27 Have you encountered situations not covered by regulations/statutory guidance that have a significant impact on taxation? If so, please give details of the matter.

- A27. We are not aware of any.

MATTERS NOT COVERED BY THE 2008 SORP INVITATION TO COMMENT

Q28 Do you consider that there are additional amendments that need to be made to the 2008 SORP? If so, please give details of the matter.

- A28. We are not aware of any.

Email: desmond.wright@icaew.com

© The Institute of Chartered Accountants in England and Wales 2008

All rights reserved.

This document may be reproduced without specific permission, in whole or part, free of charge and in any format or medium, subject to the conditions that:

- it is reproduced accurately and not used in a misleading context;
- the source of the extract or document, and the copyright of The Institute of Chartered Accountants in England and Wales, is acknowledged; and
- the title of the document and the reference number (ICAEW Rep 19/08) are quoted.

Where third-party copyright material has been identified application for permission must be made to the copyright holder.

www.icaew.com