AT/PSP/mb

The Secretary
CIPFA/LASAAC Local Authority Accounting Code Board
Policy and Technical Directorate
CIPFA
77 Mansell Street
LONDON
E1 8AN

By email: code.responses@cipfa.org

3 September 2018

Dear Sir/Madam

Code of Practice on Local Authority Accounting in the United Kingdom: Consultation on IFRS 16 Leases

Thank you for the opportunity to comment on the above consultation.

Overall, the proposals appear reasonable and consistent with IFRS 16. We support a direction of travel where the Code is consistent with IFRS and the FREM. We have compared in the Code's proposals with the FRAB's proposals for the FREM and do not believe that the differences are particularly significant.

Subsequent measurement
We support the proposal for option 1 which allows the exercise of judgement to select the two options identified in IFRS 16.

The offer of an option for low value / short life non-property assets to use depreciated historical cost risks bodies exercising aggressive accounting policies. We suggest that the Code should be clearer on the principle driving "low value". As an example, it could currently be interpreted as a collection of small items which add up to a material sum (paragraph 96) although paragraph 65 onwards suggests it is on a case by case basis.

There is a risk that two bodies may set two limits so that leasing or purchasing becomes more attractive dependent on financial situation. It may be helpful to include in guidance, a clearer link between the capital de-minimis limit for purchases of assets and that for low value leases.

Transition
CIPFA LASAAC is proposing to mandate the second of two approaches offered in IFRS 16, i.e. to apply the standard retrospectively but not restating preceding information to help minimise burdens on preparers. Whilst offering restated comparatives is useful, it is understood that this is a pragmatic option which will achieve consistency in approach and remain faithful to the Standard.

We agree that the effective date of transition is reasonable.

Other comments
Further consideration should be given to potential discrepancies in accounting policy for leases held by local authority subsidiary bodies. ALMOs such as charities and smaller companies will not be applying IFRS 16. It would also be helpful to confirm if assets owned by the Common Good which are on lease to the council fall within the definition of right-of-use assets.

References to IAS 17 within the Code should be removed as this is an obsolete standard. Where it relates to a matter of transition, our preference is that this is presented within a separate section on transitional arrangements so that the body of the Code is forwards looking.

Yours faithfully

Alice Telfer
Head of Business and Public Sector