

Audit Scotland response to revised LASAAC guidance on reserves

Audit Scotland has noted with interest LASAAC's proposals to update its guidance on accounting for and disclosing reserves in Scottish local government bodies. We welcome the revision of the existing guidance for changes in the financial reporting framework since its issue in 2005. We also agree with the proposal that the status of the guidance should be changed to mandatory.

Audit Scotland representatives on LASAAC were involved in the preparation of the consultation draft and overall we are supportive of the revised guidance. We also offer comments in the following table on the specific points that the Invitation to Comment particularly highlighted.

We hope you find our comments helpful. If you would find further information useful, please contact Paul O'Brien – pobrien@audit-scotland.gov.uk

1. The recommended distinction between mandatory and discretionary earmarking (paragraph 20)

We agree that local government bodies should draw a distinction between 'mandatory' earmarked balances (e.g. gains on financial instruments classified as fair value through profit or loss) and 'voluntary' earmarked balances. We believe users will find it helpful to differentiate between earmarking required by certain accounting treatments in contrast with those that reflect the body's discretionary financial management plans for using the funds.

2. The new requirement to separately disclose any deferred capital receipts (paragraph 30)

We agree that it would be helpful to users if any deferred capital receipts held in the Capital Fund are disclosed in the notes.

3. The guidance on the treatment of capital expenditure funded from the Renewal and Repair Fund (paragraph 32)

We agree that the treatment of any capital expenditure funded from the Renewal and Repair Fund should be consistent with equivalent funding from the Capital Fund, i.e. an amount equivalent to the capital expenditure incurred should be transferred from the Renewal and Repair Fund to the Capital Adjustment Account.

4. The specified treatment for the valuation element of depreciation (paragraph 50)

We consider that the most appropriate treatment for neutralising the impact of the depreciation charge is to split it into the historical cost element and the valuation element, with the latter element being treated as a reserve transfer to the Revaluation Reserve under IAS 16 rather than as a statutory adjustment. We therefore agree that the guidance should make that treatment mandatory and that the option under the accounting code of treating the valuation element as a statutory adjustment should no longer be available.

5. The requirement to disclose earmarked elements of the General Fund (paragraph 54)

We agree that earmarked elements of the General Fund, or any other statutory fund, should be disclosed in a note.

6. Are there any other areas related to accounting for reserves on which guidance would be helpful?

We have not identified any other area on which guidance is required. However, paragraphs 15, 37 and 59 of the guidance will need to be updated to reflect the anticipated new finance circular on using capital receipts to fund the impact of COVID 19.
