

Audit and Assurance Committee

Date: 14 March 2024

Item: Critical Accounting Policies



This paper will be considered in public

1 Purpose

- 1.1 This paper provides an update to the Committee on TfL's critical accounting policies to be applied in TfL's Statement of Accounts for the year ending 31 March 2024.
- 1.2 This annual update reflects any changes to the Chartered Institute of Public Finance and Accountancy (CIPFA) / Local Authority (Scotland) Accounts Advisory Committee (LASAAC) Code of Practice on Local Authority Accounting (the Code) and any other changes to International Financial Reporting Standards (IFRS) which may have an impact on TfL's Statement of Accounts for the year ending 31 March 2024.

2 Recommendation

- 2.1 **The Committee is asked to note the paper.**

3 Background

- 3.1 TfL's Statement of Accounts (the Accounts) is prepared in accordance with the provisions of the Local Audit and Accountability Act 2014 and the Accounts and Audit Regulations 2015. The form and content followed in preparing the Accounts are as prescribed in the Regulations and by the Code. The accounting policies followed are also substantially as prescribed by the Code.
- 3.2 The Code is updated annually by the CIPFA/LASAAC Joint Committee, a standing committee of the CIPFA and LASAAC, and is based on European Union Adopted IFRS, with adaptations and interpretations considered necessary for the local government context. The 2023/24 Code has been prepared on the basis of accounting standards and interpretations in effect for accounting periods commencing on or after 1 April 2023.
- 3.3 This paper deals with changes to the critical accounting policies as they relate to the Accounts for the year ending 31 March 2024.

4 Assessment on Developments in 2023/24 Code and IFRS

- 4.1 The 2023/24 Code and IFRS introduce a small number of amendments to the accounting requirements, which are outlined in paragraphs 4.2 to 4.7 below. These amendments are not expected to have a material impact on the Accounts for the year ending 31 March 2024.

CIPFA Code update - Service Concession liability for authorities that choose to voluntarily adopt IFRS 16

- 4.2 In April 2023, CIPFA released an update to the 2022/23 Code in relation to the treatment of service concession liability – Private Finance Initiative (PFI) or Public-Private Partnership (PPP) liabilities – by authorities that choose to voluntarily adopt IFRS 16 Leases in 2022/23. This update provides an option for local authorities to defer implementation of IFRS 16 to PFI and PPP arrangements until 2023/24.
- 4.3 TfL already accounted for PFI arrangements under IFRS 16 in 2022/23, therefore there is no reporting impact for TfL in 2023/24.

Retirement of IFRS 4 and replacement by IFRS 17 Insurance Contracts

- 4.4 IFRS 17 applies to contracts outside of the insurance industry and defines an insurance contract as “a contract under which one party (the issuer) accepts significant insurance risk from another party (the policyholder) by agreeing to compensate the policyholder if a specified uncertain future event (the insured event) adversely affects the policyholder.”. Companies should identify contracts that might meet this definition, while considering mandatory exemptions and elections. The standard does not cover insurance contracts held by a policyholder, and providing financial guarantee and warranties are also outside the scope of IFRS 17.
- 4.5 The CIPFA 2023/24 code has not explicitly adopted this change.

Amendments to International Accounting Standard (IAS) 1: Disclosure of Accounting Policies

- 4.6 IAS 1 has been amended to require entities to disclose their material accounting policies instead of their significant accounting policies. The standard also clarifies that accounting policies related to immaterial transactions, other events or conditions are themselves immaterial and do not need to be disclosed.
- 4.7 The Code has been amended to reflect changes to IAS 1, which help preparers to provide more focused and proportionate information on accounting policies.

Amendments to IAS 8: Definition of an Accounting Estimates

- 4.8 Amendments to the IAS clarify that accounting estimates are monetary amounts in the Accounts subject to measurement uncertainty. The amendments also clarify the relationship between accounting policies and accounting estimates by specifying that an entity develops an accounting estimate to achieve the objective set out by an accounting policy.
- 4.9 The Code has been amended to reflect changes to IAS 8, which clarify the distinction between changes in accounting estimates and changes in accounting policies and the correction of error.

Amendments to IAS 12: Deferred Tax Related to Assets and Liabilities Arising from a Single Transaction

- 4.10 The amendments prescribe how entities account for deferred taxes on certain transactions, which narrows the scope of the initial recognition exemption so entities will need to recognise a deferred tax asset and a deferred tax liability arising from transactions that give rise to equal and offsetting temporary differences.
- 4.11 The CIPFA 2023/24 code does not cover IAS 12 in detail.

Amendments to IAS 12: International Tax Reform

- 4.12 The International Accounting Standards Board introduced amendments to IAS 12 which clarify its application to income taxes arising from tax law enacted (or substantively enacted) in respect of OECD/G12 transfer pricing rules. These amendments give companies temporary relief from accounting for deferred taxes arising from the international tax reform. Entities will be required to provide new disclosures about their potential exposure to the top-up tax at the reporting date in periods in which a tax law is enacted but the top-up tax does not yet apply.
- 4.13 The CIPFA 2023/24 code does not cover IAS 12 in detail.

5 Future Changes to IFRS

- 5.1 Other standards and interpretations mandatory for years commencing on or after 1 January 2024, include the following amendments which are expected to have limited impact on the Accounts for the year ending 31 March 2025:
- (a) amendments to IAS 1: Classification of liabilities as Current or Non-current and Non-current Liabilities with Covenants;
 - (b) amendments to IFRS 16: Lease Liability in a Sale and Leaseback; and
 - (c) amendment to IAS 7 and IFRS 7: Financial Instruments - Disclosures of Supplier Finance Arrangements.
- 5.2 Responsibility of monitoring companies' climate related financial disclosures has transferred to the IFRS Foundation. The International Sustainability Standards Board, which operates under the oversight of the IFRS Foundation, issued IFRS S1 (General Requirements for Disclosure of Sustainability-related Financial Information) and IFRS S2 (Climate-related Disclosures), which is expected to be adopted in the UK in the future years. These standards fully incorporate recommendations from Taskforce on Climate-Related Financial Disclosures.
- 5.3 Other standards and interpretations mandatory for years commencing on or after 1 January 2025, include amendments to IAS 21: Lack of Exchangeability – The Effects of Changes in Foreign Exchange Rates. These new standards/amendments are expected to have limited impact on the Accounts for the year ending 31 March 2026.

List of appendices to this report:

None

List of Background Papers:

None

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