

SDCT Response to the Invitation to Comment on the 2024/25 Code of Practice on Local Authority Accounting in the United Kingdom.

October 2023

Please find our responses on the individual questions below. We do however wish to make some overarching remarks on Local Authority Financial Reporting in light of the current burden being placed on District Councils by the Code and the current Auditor backlog and issues. We feel that the value of the accounts is in danger of being outweighed by the preparation and audit burden placed upon our members. It is not coincidental that district councils are most affected by the current audit backlogs. Given that our materiality levels are set by reference to our revenue accounts, a position that we accept is in the public interest, our balance sheets have virtually become un-auditable under the current framework. We would urge CIPFA/LASAAC to urgently conduct a first principles review of the code to ensure that local authority financial reporting meets the needs of its users and provides value for public money.

Limitation of changes

Q1

Do you agree with the approach to the changes to the Code ie to limit the changes to the 2024/25 Code? If not, why not? Please provide your views on why this might be the case.

Given the audit backlog and the need to catch up, SDCT would like to see minimal or no change to the Code until the backlog is cleared. We would prefer 2024/25 to be a stable year to allow a proper review of the Code and ensure that we can avoid ever getting into a similar position again. Adding new complexity to the Code before taking the time for a root and branch review risks undermining local authority financial reporting even further.

Readiness assessment

Q2

Where do you consider your authority is in terms readiness for the mandatory implementation of IFRS 16?

- a) **Confident** of being ready for implementation for 2024/25 financial year
- b) **Somewhat confident** of being ready for implementation for the 2024/25 financial year
- c) **Unsure** of whether the authority will be fully ready for the financial year

CIPFA/LASAAC needs to recognise the backlog of audits and subsequently accounts and the ability of the sector to ready itself for further change whilst still dealing with this backlog.

d) **Not confident** of the authority being ready for implementation for 2024/25 financial year

e) **Do not consider the authority will be ready** for implementation for the 2024/25 financial year.

Q3

What further support do you think CIPFA should provide to support mandatory implementation for the 2024/25 financial year?

It is vital that proper dialogue takes place between auditors and CIPFA to ensure that the introduction of IFRS16 does not cause a new audit backlog and that a pragmatic approach to audit of leases can be taken.

Lease Liability in a Sale and Leaseback (Amendments to IFRS 16)

Q4

Do you agree with CIPFA/LASAAC's view on the changes included for *Lease Liability in a Sale and Leaseback (Amendments to IFRS 16)*? If not, why not? What alternatives do you suggest?

See comments re IFRS 16.

Amendments to IAS 1 Presentation of Financial Statements

Q5

Do you agree with the proposed approach not to require changes to the Code for *Amendments to IAS 1 Presentation of Financial Statements*? If not why not? What alternatives do you suggest?

No comments

Amendments to IAS 12 International Tax Reform: Pillar Two Model Rules

Q6

Do you agree with the proposed approach not to require changes to the Code for *Amendments to IAS 12 International Tax Reform: Pillar Two Model Rules*? If not, why not? What alternatives do you suggest?

No comments

Supplier Finance Arrangements

Q7

Do you agree with the proposed approach not to require changes to the

No comments

Code for *Supplier Finance Arrangements*? If not, why not? What alternatives do you suggest?

Service concession arrangement transition arrangements

Q8 Do you agree with the proposed amendments to the transition arrangements for service concession arrangement (PFI PPP) liabilities? If not, why not? What alternatives do you suggest?

These changes will impact upon the revenue accounts of authorities that apply MRP to finance leases over the life of underlying assets. Given the volatility in current inflation rates, this will bring instability to budgets at a time when resources are severely constrained.

IFRS 17 Insurance Contracts

Q9 Do you agree with CIPFA/LASAAC's approach to the implementation of IFRS 17 *Insurance Contracts* in the Code? If not, why not? What alternatives do you suggest?

No comments

Q10 Do you agree with the timing of the implementation of IFRS 17 *Insurance Contracts* in the Code ie in the 2025/26 Code? If not, why not? What alternatives do you suggest?

We would once again urge that no additional burdens are placed on local authority financial reporting until a proper review of reporting burdens and usefulness of local authority accounts has been undertaken. If a target date is set CIPFA/LASAAC should be confident that it will be met.

Overview of performance and summary financial information

Q11 Do you agree with CIPFA/LASAAC's proposals to add a new section to the narrative report overview of performance and summary financial information? If not, why not? What alternatives do you suggest? Please set out the reasons for your response.

Provided that the introduction of the requirements of the new section is voluntary and aligns with the proposals from the Redmond Review for such a report. We do however note that the addition of more performance reporting, whilst being a welcome addition in providing readers of the accounts the information that they are most interested in, such additional reporting will add to the burden unless other reporting can be simplified and reduced.

Q12 Do you agree that these new specifications should be voluntary for

See above comments

Q13	2024/25? If not, why not? What alternatives do you suggest? Do you agree with the content of the overview of performance? If not, why not? What alternatives do you suggest?	Any overview of performance needs to meet the needs of the Redmond Review in order to ensure there is no duplication or additional demand for reporting.
Q14	Do you agree with the proposals for the inclusion of summary financial information? If not, why not? What alternatives do you suggest? Please set out the reasons for your response.	See above comments
Q15	Do you agree with the list of specifications for summary financial information? If not, why not? What alternatives do you suggest? Please set out the reasons for your response.	See above comments
Format and structure of the Code		
Q16	Do you have any comments on the structure and format of the Code in relation to accessibility? Please set out the reasons for your response	No comments, although if CIPFA were minded to look at smaller authorities reporting requirements, it would be helpful to have greater clarity between disclosures required in all accounts and those that apply to only certain authorities.
Q17	In terms of the approach to content of IFRS as adapted or interpreted for the public sector context, are you content with the current approach in the Code or would you prefer the drafting to be more like that of the FReM? Please set out the reasons for your response	Whilst not in relation to the code itself, it would aid clarity if there were a clearer justification for inclusion of new standards within the code alongside adaptations and interpretations. This would give greater clarity on the burdens being placed on local authorities by IFRS and potentially prompt greater debate on where IFRS improves information for users and where it potentially reduces clarity.
Q18	Are the adaptations and interpretations of standards affecting application for UK local government clearly presented and easily identified in the Code? Please set out the reasons for your response.	See above
Q19	Do you agree with the suggested revised structure of the Code? If not, why not? What alternatives do you suggest?	No comments

Q20	<p>Please set out the reasons for your response.</p> <p>Do you agree that the specifications for statutory adjustments should be brought together in one place in the Code, ideally alongside the provisions for the Movement in Reserves Statement? If not, why not? What alternatives do you suggest? Please set out the reasons for your response.</p>	No comments
Q21	<p>Are there any other issues relating to the structure and format of the Code? Please set out the reasons for your response.</p>	See above.
Sustainability reporting		
Q22	<p>What do you consider is the best approach to the introduction of sustainability reporting in local government? Please set out the reasons for your response</p>	<p>Whilst many local authorities wish to support sustainability reporting and many are actively using sustainability impact analyses in decision making, to introduce additional reporting without looking at the overall burden and value for public money of local authority reporting would be a retrograde move.</p>
Local audit and accounting issues		
Q23	<p>Do you have any views on where accounting can be changed to ease the burden on the local audit and accounts preparation system? Please set out the reasons for your response</p>	<p>Fixed asset reporting has caused issues for many of our members along with pensions reporting. Where management employs its own experts – valuers and actuaries, auditors should limit themselves to confirming that the experts are suitably qualified and then rely upon those expert opinions. The value of Pensions reporting under IFRS19 in all tiers of local government should be looked at with a view to containing this information in the pension accounts and allowing local authorities to report on a defined contribution basis.</p> <p>Many district authorities would fall under the remit of FRS102 were they private entities. An urgent review of what reporting</p>

dispensation could be applied to districts under this standard should be undertaken.
Finally materiality should be set according to both the revenue account and the balance sheet so that sensible reviews of whether a balance sheet presents a true and fair view can be undertaken by auditors.

Statutory specifications for local authority financial reporting

Q24 CIPFA/LASAAC would seek local authority views on their approach to investments in pooled investments and what the future approach might be to accounting for these investments when the statutory overrides come to an end? Please set out the reasons for your response.

Whilst the principle of local authorities recognising gains and losses is supported, the accounting standard enforces this at a point in time which in the light of current market volatility is unreasonable given that local authorities would never be forced to realise assets at a single point in time.

Q25 CIPFA/LASAAC would seek the views on the impact of the DSG on financial reporting and local authority plans for the end of the amendments to the regulations. Please set out the reasons for your response

No comments.

Recognition of the net defined benefit pensions asset

Q26 What are your views on the Code's provisions in relation to the asset ceiling and the recognition of the net defined benefit pensions asset? Please set out the reasons for your response

This issue brings into question the value of IFRS19 at an individual authority level when no authority can benefit from a pensions surplus and makes its decisions in relation to the tri-annual review.

Changes to IPSAS standards which could impact on the Code

Q27 Do you have views on the impact of new IPSAS on the specifications of the Code as they augment the interpretations of the local government context? Please set out the reasons for your response

We would encourage adoption of IPSAS only where it improves local authority reporting and has the potential to reduce the burden on preparers and auditors.

Other areas where additional guidance might be required

Q28

Are there any areas within the Code where additional guidance or improvements to the Code would be helpful? Please support your answer by giving details of the amendments you would suggest

See question 17.