LASAAC

CIPFA

Invitation to Comment

Code of Practice on Local Authority Accounting in the United Kingdom – short term England-only measures to aid the recovery of local authority reporting and audit

February 2024

Table of contents

Invitation to comment

1. Introduction

1. Local authorities in the UK are required to keep their accounts in accordance with 'proper practices'. This includes, for the purposes of local government legislation, compliance with the terms of the *Code of Practice on Local Authority Accounting in the United Kingdom* (the Code), prepared by the CIPFA/LASAAC Local Authority Accounting Code Board (CIPFA/LASAAC). The Code is reviewed continuously and is issued annually.

2. CIPFA/LASAAC can issue in-year updates to the Code. This is only done in exceptional circumstances.

3. This invitation to comment (ITC) sets out proposals for an exceptional update to the Code that would apply to local authorities in England only and would apply to the 2023/24 and 2024/25 Codes. The reasons for this are set out more fully throughout this ITC.

4. It is important to emphasise that CIPFA/LASAAC did not reach a unanimous view on whether to consult on the proposals in this ITC. A sufficient number of the Board approved the consultation, but many members of the Board felt that this was not the right way forward and the reasons for this view are set out in this ITC.

2. The consultation process

5. Specific consultation questions have been included in the ITC. CIPFA/LASAAC also welcomes comments on the matters being consulted on. To assess comments properly, CIPFA/LASAAC would prefer respondents to support comments with clear accounting reasons and, where applicable, explanations of practical effects. CIPFA/LASAAC is particularly interested in the potential impact of these proposals on the amount of work required by preparers and auditors.

6. Responses to this ITC will be regarded as on the public record and may be published on the CIPFA website. Copies of all correspondence and an analysis of responses may be provided to the Financial Reporting Advisory Board.

7. An exposure draft of the proposed England-only update to the Code is also included separately on the relevant CIPFA webpage.

8. In order that they can be considered by CIPFA/LASAAC in time to inform possible implementation, responses are required by 28 March 2024.

9. Please make responses by the online survey at https://forms.office.com/e/bBfa9GgVJ9.

3. Background

3.1 The backlog and government's response

10. Local authority stakeholders will be aware that there is a significant backlog in local financial reporting and audit in England and may also be aware of measures that the government is seeking to progress to address this issue.

11. The government set out views in a cross-system statement provided to the Levelling Up, Housing and Communities Committee in July 2023. The up-to-date position is set out in a joint statement from DLUHC and other system partners issued in February 2024. This sets out actions which will be pursued in different parts of the system. Broadly speaking there will be:

- A 'reset' of the system, with a 'backstop' date by which audited financial statements for all years up to and including 2022/23 must be published. It is anticipated that in many cases this will require modifications to audit opinions.

- A 'recovery' process aiming to help preparers and auditors return to normal without building up further backlogs. Additionally, the long-term solution for infrastructure assets would be deferred to help with recovery.

- A 'reform' process so that in addition to returning to timely audit and publication of financial statements for most authorities, measures are implemented which seek to reduce the risk of further backlogs in future, while still being subject to requirements for high-quality reporting and audit.

3.2 Consideration by CIPFA/LASAAC

12. CIPFA/LASAAC was initially requested to contribute to the 'reform' process in July. From October 2023, having regard to the worsening position with the financial reporting and audit backlog, CIPFA/LASAAC considered whether short-term changes to the Code for 2023/24 and 2024/25 could be made with the specific purpose of reducing the effort required by preparers and auditors in order to streamline the process of recovery after the 2022/23 reset.

13. This was a difficult discussion on which more detail is provided in Annex 2.

14. CIPFA/LASAAC is consulting in this ITC on short-term proposals that would affect the 2023/24 and 2024/25 Codes, as follows:

- an option to simplify measurement of operational property, plant and equipment using specified indexation, and

- reduced disclosures for pensions reporting, by aligning that reporting with FRS 102 *The Financial Reporting Standard Applicable in the UK and Republic of Ireland.*

15. While the measures set out in this consultation are designed to reduce pressures during the recovery period, CIPFA/LASAAC is also pursuing measures that will help local authorities in the longer term, providing reporting that adequately reflects the affairs of local authorities which may be quite complex, while also being proportionate. As part of this CIPFA/LASAAC is planning to consult on proposals affecting the Code for 2025/26 later in 2024, which will encompass:

- extending the application of the temporary solution for infrastructure assets beyond 2024/25
- proposals for the measurement of operational property, plant and equipment, having regard to the HM Treasury Thematic Review, which will further explore simplifying requirements, and
- proposals for more proportionate reporting on pensions in local authority financial statements.

4. Short-term measures to aid recovery of local authority financial reporting and audit

16. This ITC sets out the options that the CIPFA/LASAAC majority determined should be consulted upon.

4.1 Simplifying measurement for operational property, plant and equipment using indexation

17. This short-term proposal suggests providing an option to remeasure operational property, plant and equipment assets without using professional valuations as part of the recovery process relating to financial years 2023/24 and 2024/25. This proposal would be applicable only to local authorities in England. Asset values in the financial statements would instead generally be presented in the financial statements based on the information in the 2022/23 financial statements, adjusted for depreciation and updated by a standard centrally determined index. The index will provide for different adjustments to be made in regions of England with different value-affecting characteristics. Where financial statements have been subject to a modified opinion or disclaimer, preparers should consider whether remeasurement should be on the basis of information from financial statements before 2022/23. This will depend on the specific circumstances of the local authority, including whether the modified audit opinion reflects auditor concerns over asset balances or, for example, mainly reflects non-completion of audit work for other reasons.

18. CIPFA/LASAAC's intention is that this option will not apply to financial statements for reporting periods from 2025/26 onwards, when reporting requirements will reflect the current requirements of the Code, subject to any changes resulting from the consultation on medium-term proposals for 2025/26 and subsequent years, as outlined in paragraph 15. For the avoidance of doubt, these proposals are not

intended to be mandatory, but to provide an option that would be allowed as proper practice.

19. Impairment review will still be required. However, for assets without complete valuer information, impairment review will focus on making reasonable attempts to identify factors that might result in changes to asset lives, condition or other factors affecting asset service potential that will either individually or collectively have a material impact on the accounts.

20. In contrast to the medium-term proposals, which will be consulted upon later, the short-term proposal set out here proposes adjusting measurement by a centrally determined index.

21. CIPFA/LASAAC recognises that some valuations will already have been commissioned. In these circumstances preparers should consider what is the best information to use, having regard to any uncertainty there may be with the valuation, reflecting on the local authority's previous experience in reviewing information from valuers, and issues identified by auditors.

22. Whatever approach is used, the financial statements need to show a current value for these assets subject to considerations of materiality. It should be noted that the indexation approach has been considered because the resulting changes may not in practice affect decision making. Consideration was not given to extending this approach to investment property precisely because up-to-date information on asset values is much more relevant for these assets.

23. Depending on the extent to which local authorities adopt a rolling programme of professional valuation, application of indexation may mean that by the end of the recovery period some assets have not been subject to formal revaluation for seven years. This is the maximum period for which the requirement for independent expert evidence can be extended. Local authorities will need to ensure that during the reform period (or in any extension of the recovery period) asset balances are generally supported by an evidence base which is supported by sufficiently current information.

<table>
<tr><th colspan="2">Simplifying measurement for operational property, plant and equipment using indexation</th></tr>
<tr><td>Q1</td><td>Do you agree with the proposal that, for local authorities in England only and for the 2023/24 and 2024/25 reporting periods, the application of the requirements of the Code should be amended so that asset values in the financial statements may be based on the most recent valuation which has been subject to audit, adjusted for depreciation, and updated by a standard centrally determined index?

If not, why not? Please provide reasons for your view.</td></tr>
<tr><td>Q2</td><td>Do you consider that this would have a beneficial effect (a net reduction) in the overall workload for preparers, having regard both to additional work that would be required to implement the change, and anticipated reductions in requirements to provide additional evidence to auditors and to resolve auditor queries?</td></tr>
</table>

	If not, why not? Please provide reasons for your view.
Q3	Do you consider that this would have a beneficial effect (a net reduction) in the overall workload for auditors? If not, why not? Please provide reasons for your view.
Q4	Who do you consider would be an appropriate authoritative body to determine the indices to be applied?
Q5	By what date would you need this information to be able to effectively implement an indexation approach?
Q6	Do you have any other comments on this proposal?

4.2 Reduced pensions disclosures

24. This short-term proposal suggests reducing pensions disclosure requirements in 2023/24 and 2024/25, applicable only to local authorities in England. These proposals do not apply to pension fund accounts.

25. Pensions disclosures that will be disapplied and those that will continue to be required are set out in the attached exposure draft. Reduced disclosures would apply to pensions only.

26. CIPFA/LASAAC is of the view that certain disclosures made in local authority financial statements regarding pensions may not always be essential. To simplify local authority financial reporting and audit processes during the recovery period, the exposure draft proposes a reduction in pension disclosures in alignment with Financial Reporting Standard (FRS) 102 requirements.

Reduced pensions disclosures	
Q7	Do you agree with the proposal that, for local authorities in England only and for the 2023/24 and 2024/25 reporting periods, the application of the requirements of the Code should be amended so that reduced pension disclosures are required, as outlined in the exposure draft? If not, why not? Please provide reasons for your view, noting any specific pension disclosures for which you consider this approach to be problematic.
Q8	Do you consider that this would have a beneficial effect (a net reduction) in the overall workload for preparers, having regard both to additional work that would be required to implement the change, and anticipated reductions in requirements to provide additional evidence to auditors and to resolve auditor queries? If not, why not? Please provide reasons for your view.

Q9	Do you consider that this would have a beneficial effect (a net reduction) in the overall workload for auditors? If not, why not? Please provide reasons for your view.
Q10	Do you have any other comments on this proposal?

5. Other comments on the short-term proposals

Other matters	
Q11	Do you have any other comments on how the short-term proposals might be implemented? For example, having considered the proposal in this ITC, to the extent that you are in favour of them, do you agree or disagree that this is an appropriate matter for specification in the Code, which is a matter for CIPFA/LASAAC to determine under its usual process?

Annex 1 – CIPFA/LASAAC's vision statement and key aims

Vision statement

UK local authority annual accounts should be widely recognised as an exemplar for clear reporting of the financial performance and position of complex public sector bodies. Users of accounts should be able to access the information they want to help them to understand the finances of an authority and to make practical and informed decisions.

Vision implementation

To deliver the above vision, CIPFA/LASAAC has three strategic themes:

A. Ensuring that the annual accounts clearly articulate their key messages regarding their financial performance and position.

B. Engaging with stakeholders to raise awareness and understanding.

C. Reviewing its operations to ensure it is able to deliver its vision.

Annex 2 – Consideration of issues by CIPFA/LASAAC

1. CIPFA/LASAAC was initially requested to contribute to the 'reform' process and agreed that it would explore medium- and long-term changes that might be made to the Code in relation to non-investment assets and pension reporting. The Board noted that it already planned to review the Code having regard to the HM Treasury Thematic Review, and that the development of more proportionate reporting generally and on pensions in particular, is a long-standing concern of the Board. CIPFA/LASAAC also considered DLUHC's view that local authorities in England would not be in a position to develop systems to support a long-term solution to reporting on infrastructure assets by 2025/26.

2. In October 2023, having regard to the worsening position with the financial reporting and audit backlog, CIPFA/LASAAC met to consider whether changes to the Code for 2023/24 and 2024/25 could be made with the specific purpose of reducing the effort required by preparers and auditors in order to streamline the process of recovery after the 2022/23 reset.

3. The options considered by the Board included some based on familiar approaches to Code development, and others which would only be considered in the context of the current backlog in audit. The Board considered the trade-off between approaches which are substantially aligned with IFRS or UK GAAP which might be less likely to reduce auditor and preparer resource requirements, and other approaches which might reduce resource requirements in the short term, but where there might be unintended consequences or significant overheads in moving back to normal reporting requirements at a later stage.

4. The Board noted that the nature of this exercise went beyond the normal considerations of CIPFA/LASAAC as standard setter, notwithstanding the fact that the Board has, in the face of problems faced by local authorities in recent years, pursued options for the Code that aim to reduce pressures on preparers and auditors. The Board noted concern that it might move CIPFA/LASAAC too far away from its role in developing high-quality financial reporting.

5. Nevertheless, CIPFA/LASAAC recognised the difficulties if the clearance of the backlog is delayed, that progress needs to be made, and this may involve unpalatable decisions in each part of the reporting, audit and regulatory system.

6. In November, CIPFA/LASAAC considered the following options which it was felt could have significant benefits in helping progress the recovery process for local authority financial reporting and audit:

    - Simplifying measurement of operational property, plant and equipment using specified indexation.
    - Disapplying the requirement to carry out impairment reviews.
    - Reduced disclosures on many transactions and balances.
    - Removing the requirement for the production of group accounts.
    - Removing the requirement for prior-period adjustments.

These would apply in England. They would not apply to local authorities in other jurisdictions.

7. CIPFA/LASAAC rejected the option to remove the requirement for the production of group accounts. For local authorities where (having regard to materiality) there is a current requirement to produce group accounts, omitting these would represent a substantial loss of relevant financial information.

8. CIPFA/LASAAC views were divided in relation to the other options.

9. Some Board members were concerned that the resulting financial statements would not provide a true and fair view as it is normally understood in the UK, and that there would also be concerns that auditors may not be able to provide an unqualified true and fair view opinion under International Standards on Auditing (UK). Some suggested that if normal accounting practices are to be suspended with an adverse effect on the quality of financial reporting, it would be better for government to specify the form of accounting through a statutory instrument.

10. Other Board members noted their concern that the backlog is in itself a very significant threat to high-quality financial reporting. Audited accounts published significantly after the period to which they relate have little practical benefit for any users of local authority financial statements. Having regard to the view that all parts of the system may have to move to clear the backlog, they felt that CIPFA/LASAAC should at the very least consult with preparers, auditors and other stakeholders to seek their views on the proposals.

11. The views across the Board were nuanced and did not reflect being simply for or against the Secretariat options. After considerable deliberation and further discussion, the Board came to a position where there was a slender majority view supported by at least 50% of CIPFA/LASAAC membership as required under CIPFA/LASAAC's terms of reference. The Board notes that a large minority of Board members did not support consulting on amendments to the Code, while nevertheless acknowledging the difficulties presented by the backlog.

12. The options were further refined, having regard to the views of DLUHC as system leader and other system partners such as the National Audit Office (NAO), and the Financial Reporting Council (FRC) in its role as standard setter and regulator, including their views on the 2023/24 and 2024/25 balances supporting a true and fair view and providing an adequate basis for the preparation and audit of 2025/26 financial statements and subsequent reporting periods.

13. In the light of these considerations, CIPFA/LASAAC is not pursuing the proposals to suspend the requirement for impairment reviews, for substantial reductions in disclosure requirements or suspending the requirement for prior-period adjustments. The remaining options to be pursued encompass:

- simplifying measurement of operational property, plant and equipment using specified indexation, and

- reduced disclosures for pensions reporting, by aligning that reporting with FRS 102, *The Financial Reporting Standard Applicable in the UK and Republic of Ireland.*

Annex 3 – Timeline of reset, recovery and reform

	Action	Description	Dates
1	System reset	DLUHC proposes putting a date in law (the 'backstop date') – 30 September 2024 – by which point local bodies would publish audited accounts for all outstanding years up to and including 2022/23. The backstop date is likely to be a factor in local auditors issuing a modified or disclaimed opinion on outstanding accounts if they do not have enough time to complete all audit work before that date.	30 September 2024
2	To support the 'recovery' of the system, CIPFA/LASAAC is consulting on temporary changes to the Code of Practice on Local Authority Accounting	To reduce burdens on preparers and support auditors spreading the work to rebuild assurance over multiple periods, CIPFA/LASAAC will consult on three temporary changes to the Code of Practice on Local Authority Accounting for 2023/24 and 2024/25: • Extending the override relating to the valuation and disclosure requirements for infrastructure assets. • Simplifying the revaluation of operational property and instead permitting the use of indexation until new requirements for revaluation of operational property are introduced in 2025/26 following HM Treasury's Thematic Review of the valuation of non-investments assets in the public sector. • Reducing the requirements for disclosures around net defined benefit pension liabilities/assets for two years to align with those in FRS 102 (UK GAAP) rather than IFRS.	2023/24 to 2024/25
3	Non-investment assets and pensions reforms in the Code of Practice on Local Authority Accounting	CIPFA/LASAAC will continue to work with HM Treasury on how the changes following the outcome of the thematic review into the valuation of non-investment assets apply to local bodies, with the intention that they are introduced to the Code of Practice for Local Authority Accounting for 2025/26. CIPFA/LASAAC is also planning to explore further principles-based options for pensions reporting, by forming a working group with other relevant authorities to explore the best	2025/26

	Action	Description	Dates
		approach to public sector pension scheme accounting as a whole.	
4	Permanent solution for infrastructure assets	CIPFA undertook a survey in April 2023 on the Impact of the Move to Improve the Reporting of Infrastructure Assets including a (possible) move to a depreciated replacement cost measurement basis. CIPFA wanted to further understand the impact of changing the reporting of information for infrastructure assets and is developing a long-term solution for this.	Not before 1 April 2027
5	Long-term reforms to local authority financial reporting	CIPFA/LASAAC's strategic plan includes a workstream looking at long-term reforms to financial reporting based on the needs of accounts users. CIPFA is in the process of relaunching the Better Reporting Group to inform this work.	Ongoing