

# Report

**To:** CIPFA LASAAC

**From:** Sarah Sheen, CIPFA Secretariat Advisor

**Date:** 4 March 2021

**Subject:** The Impact of the Pandemic on Local Authority Financial Reporting

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## Purpose

**The purpose of this report is to consider the impact of the pandemic on local authority financial reporting.**

## Report

### 1. Introduction

- 1.1 In a pre-meeting the Chair and Vice Chair considered it was important that CIPFA LASAAC debates the impact of the pandemic on local authority financial reporting. To assist members in their debate the Secretariat has attached a summary of its survey on the impact of the pandemic. The Secretariat would request that the summary is treated confidentially as this is subject to internal review.
- 1.2 Board members will be aware that the successive lockdowns, the biggest recession in recent economic history (coupled with potential volatility of economic growth in any future recovery) the changes in both local authority income and expenditure (including having to deal with numerous business and personal grants) will all have a substantial impact on local authority financial reporting.
- 1.3 These influences will affect recognition and measurement of new expenditure and income, but members will be aware that the measurement of pensions assets and property, plant and equipment will also be affected by the pandemic.
- 1.4 It is recognised though that all these issues are already covered by the provisions of the Code. Potentially more application guidance may assist local authorities in their preparations for the 2020/21 accounts and the Board may wish to make recommendations to the Local Authority Accounting Panel for topics which could be included in the year end CIPFA Bulletin.

**Recommendations**

**The Board is invited to consider the impact of the pandemic on local authority financial reporting.**



## Executive Summary

In December 2020 CIPFA issued a short survey on the impact of the pandemic on local authority accounts to understand in more detail how COVID-19 had affected local authority reporting and consider what guidance might be issued for the 2020/21 accounts. The survey received 139 responses, with 34 percent of respondents being from English district councils.

Eighty-nine percent of respondents indicated that had been an impact on the 2019/20 accounts and audit process with 42 per cent indicating that there were substantial changes.

A substantial number of responses cited the move to home or remote working as having the most serious impact on the accounts production, commenting on IT issues and social issues such as isolation and welfare. Access to data, availability of other information and additional workload arising from home working were also raised as issues.

A significant number of respondents cited audit issues (not all of which were wholly related to the pandemic). These included auditor resources and planning and increased audit procedures and checks (including, but not limited to, evidence and information issues such as the measurement of property plant and equipment and pensions information).

Ninety-five per cent of authorities were able to meet the deadline for unaudited accounts, with fifty-three percent of respondents indicating that they were able to meet the publication deadlines. Most respondents missing the latter date referred to external audit issues which led to the delay, particularly the apparent availability of resources to carry out the audit. Again, there were specific commentaries on the increased reporting and testing and audit scrutiny and the time required to audit pensions and property, plant and equipment information together with specific audit issues relating to pensions such as McCloud. Some authorities did mention problems with their own capacity such as remote working and being diverted to other often COVID-19 related tasks. One authority was concerned that delays in the 2019/20 audit will have a substantial knock-on effect for the 2020/21 accounts.

When asked to assess what issues had the most significant impact on the production of the 2019/20 accounts, 71 percent of respondents were of the view that increased workload in preparing the accounts was most significant. This was followed by access to information at 49 percent and general resource issues at 46 percent. Again, external audit issues and remote working featured in the responses to this question.

The survey asked which were the most significant issues in terms of financial reporting. The measurement of property, plant and equipment and the measurement of pensions assets were deemed to be the most significant for both the 2019/20 and 2020/21 financial years. Again, this was due to the audit focus on these issues. COVID-19 related grant recognition featured more heavily in looking forward to the 2020/21 financial year, this apparently due to the need to understand and quantify the financial reporting issues that arise.

Respondents were asked to consider whether they would be able to meet the statutory deadlines for the unaudited and published statements of account in 2020/21. Seventy-two per cent of respondents were of the view that they would be able to meet the date for unaudited statements of account with only forty nine percent being of the view they would be able to meet the publication date. Some respondents used the response to this question to refer to the need to move the statutory deadlines this year, including the unaudited date. The deadline for the publication of the accounts appears to generate the most comments in relation to difficulties with the external audit process, with audit resources being a regular comment. Specific references were made to previous experience in delays and technical issues relating to property, plant and equipment and pensions asset measurement. Some

authorities again were of the view that the impact of remote working and local authority resource availability could contribute to the delay.

## Report

### Impact of the Pandemic on Local Authority Reporting

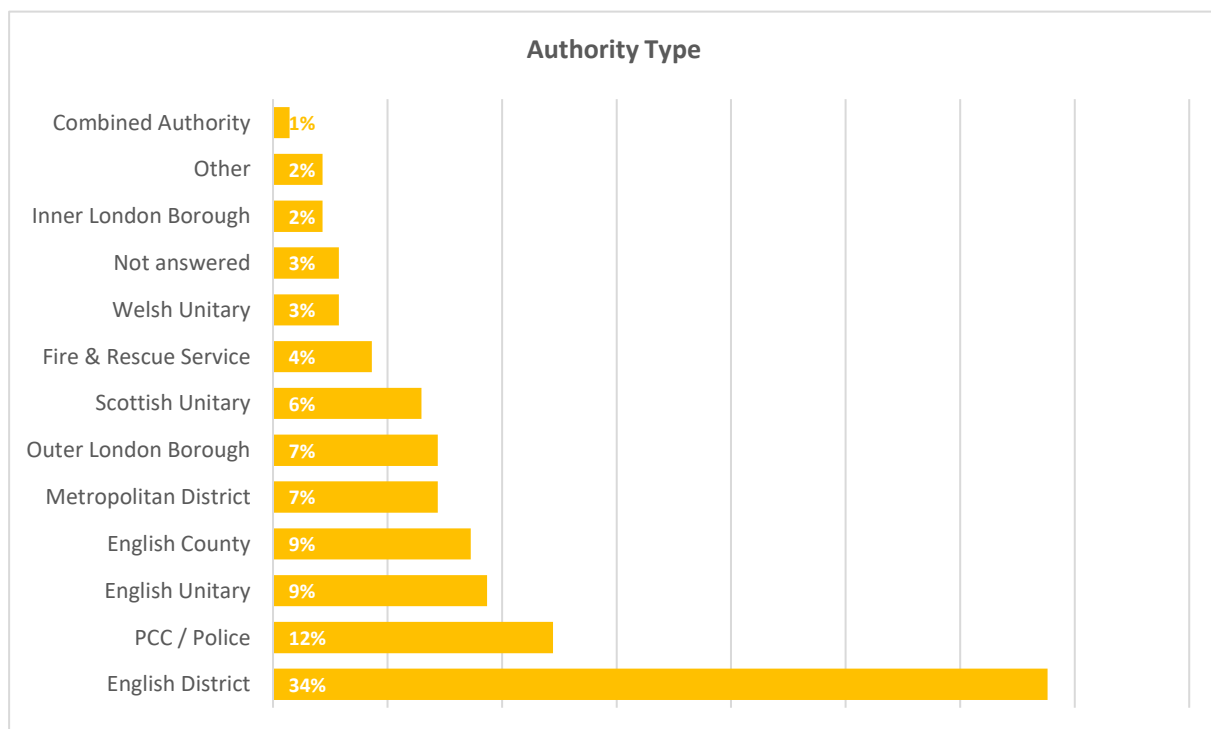
In December 2020 CIPFA issued a short informal survey on the impact of the pandemic on local government financial reporting. This survey was intended as a sense check to help CIPFA understand in more detail how COVID-19 had affected local authority financial reporting and whether any further guidance might be needed to support local authorities (and particularly in relation to the 2020/21 accounts). The survey received 139 responses from local government bodies across Great Britain.

Overall, it is safe to say that the pandemic had a substantial impact on local authority financial reporting and is likely to have a bigger impact on 2020/21 accounts.

### Distribution of Bodies Completing the Survey

The distribution of bodies completing the survey is presented in the graph below.

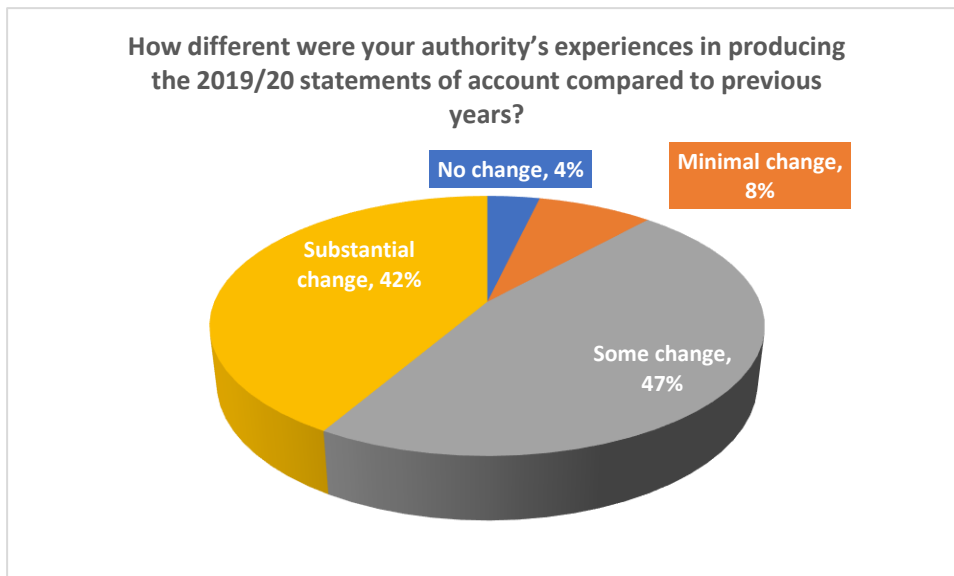
**Graph 1: Analysis of Responses Received by Authority Type**



### How much of an Impact Did the Pandemic have on the 2019/20 Accounts?

Local authorities were asked to rate the amount of change they had experienced because of the pandemic. Over 89 percent of respondents indicated that there was at least some change, with 42 percent of respondents indicating that there was substantial change. Only 4 percent of respondents were of the view that there was no change from previous years.

**Graph 2: Respondents Experience of Producing the Accounts in 2019/20 Compared to Previous Years**



A substantial number of respondents cited the move to home or remote working as having the most serious impact on accounts production including:

- the move to home working itself, the need for changes to IT support (which appeared to be not be available initially in some cases but also appeared to have been resolved), the availability of infrastructure, hardware and software and the impact of the cultural issues such as isolation, welfare and communication issues ie meeting other members of the team, length of working days/staff burn out, time taken to adapt to the new ways of working
- the access to data and the availability of information (including the move from hard copy procedures and papers) and the new processes and procedures which were required to manage the relevant information
- additional audit workload such as new testing requirements which had to be addressed remotely
- falls in productivity
- reduced connectivity with staff from other services and amongst closing teams
- the need for homeworking procedures.

(note a few respondents acknowledged the impact on all stakeholders having to work from home).

A significant number of respondents referred to external auditor issues relating to the audit process (not all of which were wholly related to the pandemic) including:

- auditor resources and planning

- increased audit procedures and checks (including but not limited to the demand for increased evidence and information for issues such as the measurement of property, plant and equipment and pensions information)
- the time taken to provide the increased information (again references were made to property, plant and equipment and pensions)
- the additional workload relating to the increased information requirements.

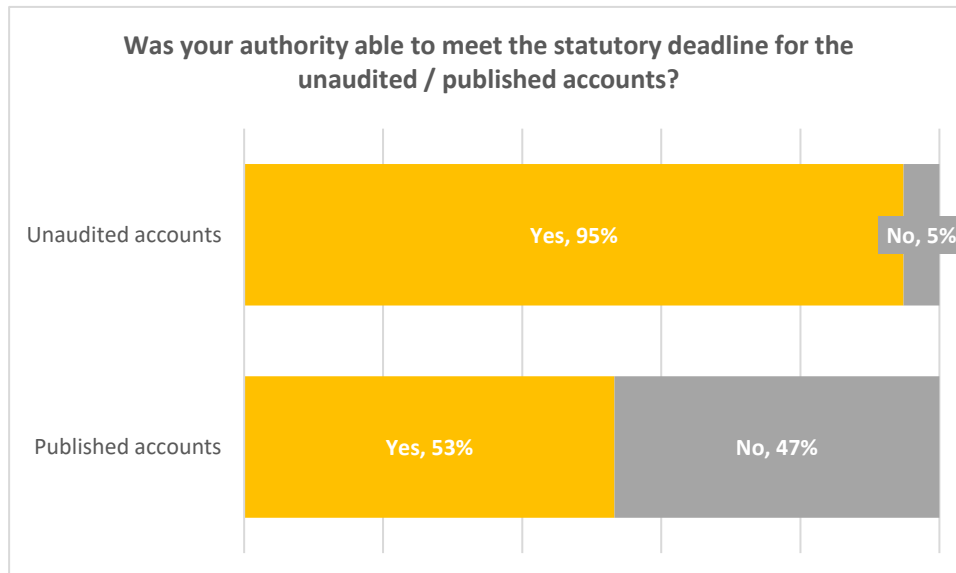
Some authorities also mentioned going concern issues and the resources required by auditors to evidence this and the changes in audit regulatory requirements. Other authorities mentioned the time taken relating to specific accounting issues eg Goodwin and McCloud.

Other issues cited were resource issues including staff being diverted supporting the COVID-19 response, general uncertainties caused by the pandemic, the amount of time required to administer new grant payments, emergency budgetary issues, particularly government returns, staff absences etc. Specific issues were mentioned such as the impact of delays in pensions accounting and delay in Collection Fund and other third-party information. There were also authority specific issues such as new ledger implementation and delays to previous year audits.

## Were Local Authorities and Other Local Government Bodies Able to Meet the Statutory Audit Deadlines?

Graph three below analyses the responses in relation to whether the local authority (or other local government bodies) were able to meet the statutory deadlines for closure of the accounts. A positive picture is presented with respect to the unaudited accounts where 95 per cent of authorities indicated that the unaudited accounts were completed on time. The situation is markedly different for the audited accounts where only 53 percent of respondents indicated that the audit was completed on time with 47 not being completed by the statutory audit deadlines.

**Graph 3 – Analysis of Respondents Commentary on Whether the Authority/Local Government Body was Able to Meet the Statutory Audit Deadlines**



Most of the respondents commenting on this question referred to the external audit issues that lead to the delays of the published accounts in accordance with the new statutory deadlines. These were moved back across the UK (see Appendix 1). Some respondents did note that they had made the unaudited accounts deadlines with some of those indicating that this was due to extra work and commitment from local authority staff.

There were a substantial number of responses which referred to the impact of the external audit process leading to the delays to the accounts meeting statutory deadline for publication in England and Wales of 30 November 2020. The most substantial response was the availability of resources to carry out the audit. The reasons for the delays largely mirror those relating to the impact of audit issues had on the production of the accounts above, with an emphasis on the impact on the timing of the process. It is notable that the other significant response to this question was the impact of the delays in receipt of pension fund information. Other issues cited were:

- increased reporting/testing/scrutiny/queries
- the time required to audit the pensions and property, plant and equipment information
- remote working for auditors
- delays in commencing the audits
- new processes (eg auditors requiring that they see reports being run rather than being in receipt of the reports themselves)
- specific audit issues such as McCloud
- audit regulatory issues.

Some authorities mentioned issues in relation to their own processes such as remote working, staff being diverted to other tasks, not being able to access correct information (and delays due to corrections) and conflicting work priorities. One authority was concerned that the delay in the audit will have a substantial knock on effect to the work of the subsequent financial year, including closedown.



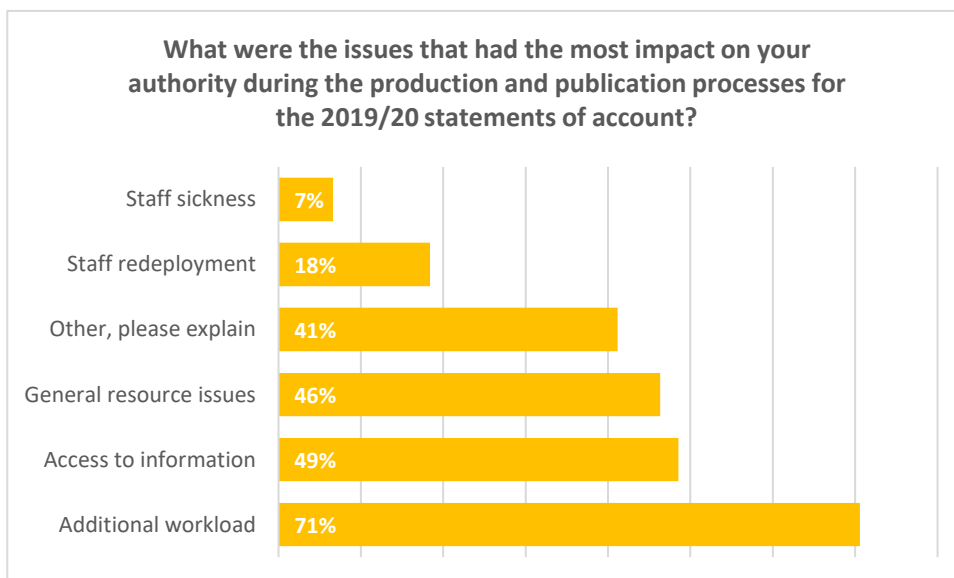
## What issues had the most significant impact on the production and publication of the 2019/20 Accounts?

Respondents were asked to consider what issues had the most significant impact on the production and publication of the 2019/20 Accounts. Clearly from the graph presented below the issue deemed to have the most significant impact on the 2019/20 Accounts was increased workload at 71%. This was followed by substantial numbers referring to general resource issues and access to information.

Many of the respondents supported their responses for what issues impacted on the production and publication of the accounts with additional commentary. Again, generally the responses focussed on audit processes and remote working, including how well IT worked.

External audit resources and staffing featured significantly in the responses including auditor access to information with one authority noting that this meant that auditors requested that the authority undertake more sample testing than previously. Several respondents referred to specific technical issues such as the audit of the pension fund and the measurement of property, plant and equipment. One authority sought CIPFA's assistance requesting intervention between the Financial Reporting Council and auditors noting the 'inordinate amount of time' spent on resolving or addressing measurement issues.

The impact of remote working was also a substantial feature to responses with commentaries referring to the effect of home schooling, shielding families and process change including the ability to communicate with colleagues. Again, the impact on productivity was noted. One respondent was of the view that the production of the final accounts did not lend itself to remote working commenting that 'this is best and most efficiently handled by face to face communication and working together in the same office'.

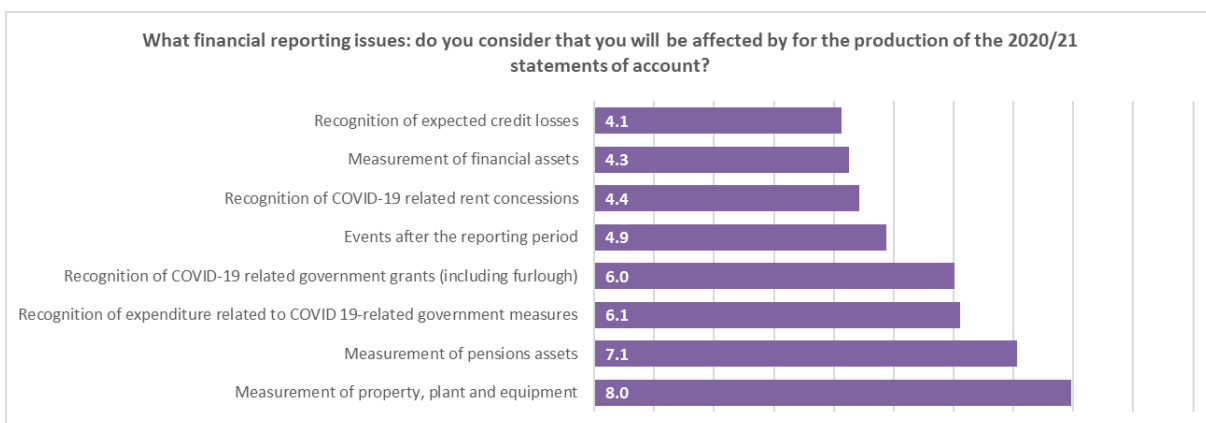
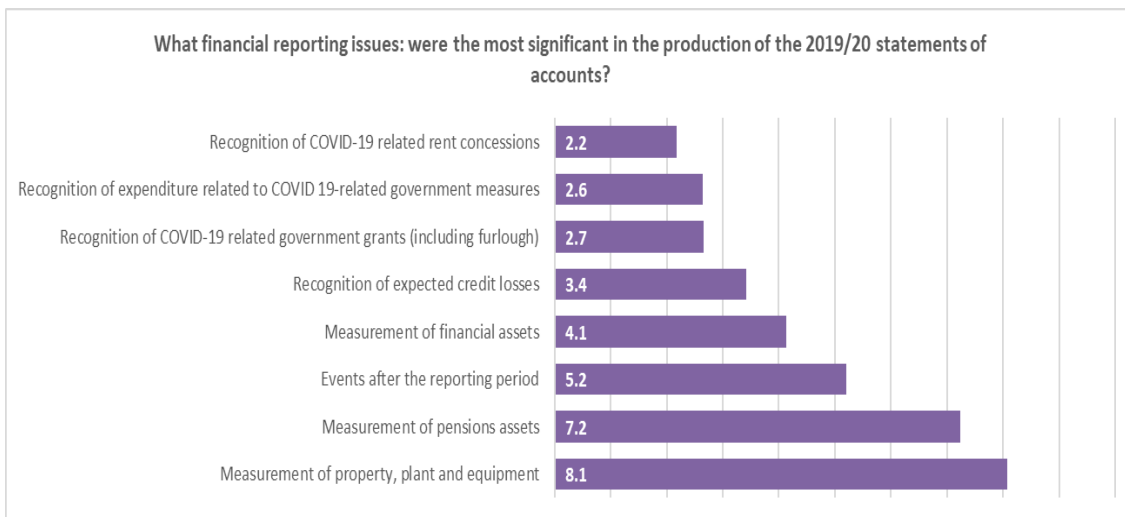


## Impact of the Pandemic on the 2019/20 and the 2020/21 Accounts – Specific Financial Reporting Issues

The survey sought views of stakeholders and what issues were the most significant for both the 2019/20 and the 2020/21 accounts. The question asked respondents to rate the most significant issues with a score of 1 to 10, with 10 being the most significant and 1 being the least. It appears from a significant number of responses that the importance attributed to these

financial reporting issues emanated from the need to evidence the financial information in the accounts. Other responses particularly relating to new COVID-19 pressures and grant recognition related to the need to understand and quantify the financial reporting issues that might arise.

For both years the most significant issues where the measurement of property, plant and equipment, with the average score being 8.1 and 8.2 for 2019/20 and 2020/21 respectively. This was followed by the measurement of pensions assets with an average score of 7.2 and 7.1 for 2019/20 and 2020/21 respectively. The measurement of financial assets presents at an average score of 4.1 and 4.3 respectively. Interestingly the recognition of COVID-19 related government grants increases substantially over the two years from an average score of 2.7 in 2019/20 to 6.0 in 2020/21.



The respondents to the survey provided detailed comments. These are summarised in the table below.

Issue	Commentary
<p><b>Going concern</b></p>	<p>Several respondents raised this issue, noting additional work to substantiate the reporting approach in the 2019/20 accounts, (with a number referring to a specific audit firm and the auditor insisting on an authority including a disclosure note at the risk of qualification). A few authorities were of the view that this might also be an issue in 2020/21.</p> <p>CIPFA is of the view that local authorities are required to report on a going concern reporting basis and that there cannot be any material uncertainties which could challenge the application of going concern reporting and that the disclosures required by IAS 1 <i>Presentation of Financial Statements</i>. CIPFA provided detailed guidance on this issue in <a href="#">CIPFA Bulletin 05 Closure of the 2019/20 Financial Statements</a>.</p> <p>This viewpoint is consistent with <a href="#">Practice Note 10: Audit of financial statements and regularity of public sector bodies in the United Kingdom (Revised 2020)</a>, issued by the Public Audit Forum.</p>
<p><b>Measurement of property, plant and equipment and pensions assets</b></p>	<p>A respondent noted that its auditor report included an emphasis of matter paragraph relating to property, plant and equipment due to the uncertainty in measurement.</p> <p>General commentary was such that there was too much of a focus on the evidence required for property, plant and equipment.</p> <p>Respondents anticipated that these issues would also arise in 2020/21.</p>
<p><b>Recognition of COVID-19 related government grants</b></p>	<p>A number of respondents referred to the accounting requirements for the new grants provided by government noting the</p>

Issue	Commentary
	<p>additional workload and requesting more guidance on how to account for these grants eg should they be accounted for as agent or principal.</p> <p>These issues were deemed to be more relevant in 2020/21.</p>
<b>Collection fund reporting</b>	<p>The complexity of the accounting for the Collection Fund Deficits and its spreading over the three-year period was mentioned by respondents as was the impact of delay in information for third party payments from council tax preceptors.</p>
<b>Measurement of investment properties</b>	<p>Difficulties in measuring these properties for both financial years was commented upon by several authorities.</p>
<b>Timetable</b>	<p>The impact of the additional workload and complexities was recognised by respondents with a few suggesting that the timetable for the unaudited accounts should be moved for 2020/21 to 30 June 2021.</p> <p>Several respondents also noted the impact that delays in the 2019/20 audits had on the 2020/21 audit timetables.</p>
<b>Auditor issues</b>	<p>Authorities referred to auditors generally requiring more information with one noting that auditors referred to 'raising the bar' in relation to auditor evidence.</p>
<b>Other issues</b>	<p>The following issues were raised:</p> <ul style="list-style-type: none"> <li>• the potential additional resource issues raised by the Redmond Review recommendations</li> <li>• narrative reporting</li> <li>• third party information generally</li> </ul>

Issue	Commentary
	<ul style="list-style-type: none"> <li>• the impact of the new statutory reporting requirements for Dedicated Schools Grant Reporting</li> <li>• events after the reporting date</li> <li>• McCloud reporting issues</li> <li>• the impact of IFRS 16 <i>Leases</i> (note this is deferred to 2022/23 financial year).</li> </ul>

### Prospects for Meeting Reporting Deadlines in 2020/21

The final question in the survey invited views from respondents on whether local authorities would be able to meet both the unaudited and the audited statutory deadlines in the 2020/21 financial year. Seventy two percent of respondents were of the view that they could make the deadline for the unaudited statement of accounts while only 49 percent of respondents were of the view that they could make the publication deadline for the audited statements of account.

Some respondents used the response to this question to refer to the timescales for the statutory deadlines, particularly during the 2020/21 financial year considering that there was a need to move the deadlines again this year. Some respondents specifically referred to the deadline for the unaudited statements of account where 31 May deadline was deemed for some authorities to be difficult to achieve particularly in the pandemic year, while a small number of authorities referred to the Redmond Review recommendations which only referred to moving the publication deadline to the 30 September date without specifically referring to the unaudited accounts date moving.

The deadline for the publication of audited accounts appeared to be the most difficult deadline with the most substantial number of respondents referring to the challenges in the external audit process with a particular emphasis on audit resources. Specific references were made to previous experience in delays including the 2019/20 accounts process with some commenting that auditors had indicated that it would be a struggle.

Several respondents referred to the technical issues in 2019/20 likely to be causing similar problems in 2020/21 (property, plant and equipment and pensions asset measurement). Others referred to the fact that the resource issues relating to these difficulties had a knock on effect to the 2020/21 accounts, (for example, the work required for valuations in 2019/20 leading to delays in starting the 2020/21 work) with others referring to delays in the audit timetables having a knock on effect to the following year's processes and planning in general (some authorities indicated that at the time of completing the survey that the audit had not yet completed with another indicating it had only just been). A few respondents referred to a specific auditor indicating to them that the publication deadline was not for the auditor. Other respondents referred to the need to complete NHS audits in the same timeframe and one authority noted that there would be new responsibilities and workload caused by the new NAO Code of Audit Practice. Some respondents referred to other technical issues having caused delays in 2019/20 may lead to similar delays in the following year.

It is notable that the responses also referred to issues for local authorities themselves including the impact of remote working (while much had been learnt in about remote working in 2019/20 it appears to be the perceived view that this would still contribute to a much lengthier process than previously), The second issue was local authority resources being available to produce the accounts, this had suffered due to the impact of the lockdowns and COVID-19 pressures (including the need for revised budgets generally) contributing to resource pressures, meaning that staff resources had been diverted from financial reporting issues. The potential for staff sickness was also noted. Accounting for various COVID-19 issues including particularly the numerous grants which had been received was also likely to add to the workload required to prepare for the 2020/21 financial statements. A few authorities also mentioned third party information including Group Accounts and Pension Fund information.

