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Invitation to Comment

Code of Practice on Local Authority Accounting in the United Kingdom
Short term, England-only measures to aid the recover of local authority reporting and audit.

How to complete this survey

As this is such a fast moving topic, CIPFA have created an online form to collect responses to assist in providing the information to CIPFA LASAAC in a timely manner. The full Invitation to Comment document is available on our website: www.cipfa.org/policy-and-guidance/consultations

Responses are requested by **23:00** on **28 March 2024**.

Responses will only be submitted once you have clicked on Submit at the end of this consultation. You will be able to save and make changes to your responses after submission.

If you have any issues with completing this form, please email **cipfalasaac@cipfa.org**

About you and/or your organisation

Which organisation are you responding on behalf of? *

Lynn Bradley, David Heald and Ron Hodges

What type of organisation are you? *

- ◯ District / Borough / City Council
- ◯ County Council
- ◯ Unitary / Metropolitan / London Borough
- ◯ Police / Fire

- Audit Firm
- Audit Institute
- Accounting Institute
- Consultancy Firm
- Individual
- (selected) Academics

What email address can we use to contact you about your response if required? *

lynn.bradley@glasgow.ac.uk

Is your response to this consultation to be treated as confidential? *

- Yes
- (selected) No

Simplifying measurement for operational property, plant and equipment using indexation

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.

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.

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

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.

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.

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.

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.

Q1. 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.

○ Yes

◉ No

○ Don't know / Unsure

Other

If you do not agree with the proposal, why not? Please provide reasons for your view.

No. We acknowledge the urgent need to aid the recovery of local authority reporting and audit in England but we do not think that a case has been made for this temporary approach to asset valuation. Our view is based on the following points:

- CIPFA/LASAAC's terms of reference (February 2024) includes the requirement: 'CIPFA/LASAAC will have due regard to ensuring high quality financial reporting in local authority financial statements'. The proposal is aimed at reducing audit effort and not on enhancing financial reporting quality.
- No information has been provided about the potential positive impact of the proposal eg. it is not known whether this proposal will have a significant impact on the audit backlog to justify a temporary reduction in reporting quality.
- Many local authorities may have already commissioned valuations for their 2023/24 accounts and so the reduced requirements are unlikely to be adopted by all authorities. This will lead to a mix of approaches across the sector as well as across the UK, because the proposals only apply to England.
- It is not clear how a local authority which has a modified or disclaimed audit report for 2022/23 will be able to apply an index to their asset valuation in 2023/24 and receive an unmodified audit opinion. If a local authority has a disclaimed audit opinion for 2022/23, there will not be a recent audited valuation.
- The implications for 2025/26 and beyond are unclear. When the indexation approach is removed, will this in effect create a new risk of modified opinions as authorities and their auditors seek to revalue assets? If so, this could have a negative effect on the Recovery period.
- It is not clear how and when a standard centrally determined index will be calculated or whether that will be acceptable to local authorities or their auditors. CIPFA's published view is that 'it would be best to avoid indexation altogether' https://www.cipfa.org/policy-and-guidance/articles/everything-you-need-to-know-about-indexation-of-asset-valuations and we concur with that view. Not only will it be impossible to develop a standard centrally determined index to suit the diverse market conditions within and between regions and asset types in England, but there is also a risk that when the authority reverts to valuations from 2025/26, prior movements will need to be reversed. As for the previous point, this would add complexity to the Recovery period.
- From a practical perspective, the impact on the valuation market of a potential drop in demand for valuation services followed by high demand should be considered.
- The Redmond Review (2019) noted that fixed asset and pension valuations receive significant audit attention by auditors to manage the risk of criticism by the FRC even though these valuations are not used for the same purposes as in the commercial sector. It is common for auditors to use their own valuers to review the professional valuations obtained by the local authority, arguably increasing the cost and time of audit without adding value to the outcome. We would suggest that there may be scope for the FRC to explore with the firms whether ISA 500 Audit Evidence and ISA 620 Using the work of an auditor's expert can be applied differently in the local authority sector.

Q2. 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?

- ○ Yes
- ○ No
- ◉ Don't know / Unsure
- ○ Other

If you do not agree the proposal would have a beneficial effect, why not? Please provide reasons for your view.

We have no information about the implications for workload but this is a crucial question. We would encourage a longer term view of workload in case the proposals create additional workload once the indexation approach is stopped.

Q3. Do you consider that this would have a beneficial effect (a net reduction) in the overall workload for auditors?

- ○ Yes
- ○ No
- ◉ Don't know / Unsure
- ○ Other

If you do not agree the proposal would have a beneficial effect, why not? Please provide reasons for your view.

We have no information about the implications for workload but this is a crucial question.

Q4. Who do you consider would be an appropriate authoritative body to determine the indices to be applied?

We would suggest that existing indices should be used and it would be inappropriate for CIPFA/LASAAC to determine which indices should be applied.

Q5. By what date would you need this information to be able to effectively implement an indexation approach?

We suspect that date has passed for the 2023/24 accounts because valuers might have been instructed by some local authorities.

Q6. Do you have any other comments on this proposal?

The implications for whole of government accounts of two different approaches to asset valuation within the local authority sector should be carefully considered.

Reduced pensions disclosures

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.

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

CIPFA LASAAC is of the view that certain disclosures made in local authority financial statements regarding pensions may not always be essential, as these details can often be adequately covered in the Pension Fund accounts, which provide comprehensive information about each scheme. 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.

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.

- ( ) Yes
- (●) No
- ( ) Don't know / Unsure
- ( ) Other

If you do not agree with the proposal, why not? Please provide reasons for your view, noting any specific pension disclosures for which you consider this approach to be problematic.

No. As before, we believe that this proposal is aimed at reducing audit effort and not on enhancing financial reporting quality. We do not see the potential for significant time-savings of this proposal.

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?

- ( ) Yes
- ( ) No
- (●) Don't know / Unsure
- ( ) Other

If you do not agree the proposal would have a beneficial effect, why not? Please provide reasons for your view.

We are unable to comment on the workload impact, but we suspect that it will not be significant. However, we are curious about whether the disclosures, even if not audited, might still be needed by the auditor for other work or judgements eg on financial sustainability

Q9. Do you consider that this would have a beneficial effect (a net reduction) in the overall workload for auditors?

- ○ Yes
- ○ No
- ◉ Don't know / Unsure
- ○ Other

If you do not agree the proposal would have a beneficial effect, why not? Please provide reasons for your view.

Enter your answer

Q10. Do you have any other comments on this proposal?

The implications for users of the accounts should be considered.

Other comments on the short-term proposals

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?

We recognise that CIPFA/LASAAC is trying to play a constructive role in helping to address the crisis in local authority accounting and auditing. We would respectfully suggest that reducing the quality of reporting to address audit effort is not the best approach to take and has the potential to undermine public accountability. There is a risk that temporary proposals could become permanent or cause problems during the Recovery stage.
We think that CIPFA/LASAAC should focus on the medium to longer term work needed to improve the quality of local authority financial reports as a source of useful information for decision making and accountability.
As an aside, our ability to comment was hampered by the lack of free access to

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