

Financial Reporting Advisory Board Paper

Code of Practice on Local Authority Accounting

Issue:	Update on CIPFA/LASAAC development of the <i>Code of Practice on Local Authority Accounting in the United Kingdom</i> (the Code)
Impact on guidance:	.No immediate impact. Amendments to process considered.
IAS/IFRS adaptation?	No immediate requests for adaptation
Impact on WGA?	No immediate impact on WGA envisaged.
IPSAS compliant?	N/A
Impact on budgetary regime?	None – local authorities only.
Alignment with National Accounts	No impact expected.
Impact on Estimates?	None – local authorities only.
Recommendation:	The Board is requested to consider the future direction of the Code.
Timing:	Development of proposals for consultation affecting the 21/22 Code.

DETAIL

Background

1. CIPFA/LASAAC met on 6 March 2020. Items included:
 - a) Strategic Plan Progress Review
 - b) Discussion Paper Feedback
 - c) FRAB Chair participation to discuss CIPFA/LASAAC and FRAB working arrangements
 - d) Code development proposals affecting 21/22 and later years
 2. Additionally FRAB has previously requested further information to be provided regarding:
 - e) The local government environment and context affecting financial reporting
 - f) Development of a relevant authorities evidence framework to support proposals for standards implementation
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Strategic Plan Progress Review

3. To support achievement of the CIPFA/LASAAC [vision statement](#) the Code board reviewed progress to achieve the [strategic plan](#).
 4. Proposals to support the workstreams were discussed with support for:
 - Materiality: public sector wider working group to be considered through the relevant authorities working group
 - Key Messages: Stakeholder engagement (incl Redmond Review) and consultation, including feedback to stakeholders on discussion paper responses and actions
 - Outreach: CIPFA/LASAAC support for Chair
 - Differential reporting: feedback to stakeholders following discussion paper responses
 - Narrative reporting: feedback to stakeholders following discussion paper responses; and potential creation of accounts user focus group
 - Code format: presentation of options
 - Code development relationships: Chair involvement at FRAB; review of Code cycle; articulation of local government context and evidence base to inform FRAB consideration (see later).
 5. The potential to target a Code finalisation date of 31 December, instead of 31 March, was discussed. as it may assist in mutual consideration of public sector implications of changes.
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Discussion Paper Feedback

6. Feedback from the discussion papers ([Code strategy](#) and [differential reporting](#)) issued by CIPFA/LASAAC was reviewed.

7. Regarding the strategy paper it was considered that a clear split of responses across all themes emerged dependent on whether the respondent considered the primary objective of the accounts to be:

- Performance in accounting terms (consumption and generation of resources)

or

- Taxation and funding

8. Detailed aspects arising related to the provision of summary information; support for retaining the capital statutory adjustments; the appropriate application of materiality; support for retaining the principles of IAS 19 pensions liabilities; reducing excessive IAS 19 disclosures; the extent of financial instrument disclosures; and the different views expressed regarding group accounts.

9. On differential reporting there was mixed enthusiasm in England, with little support in Scotland and Wales.

10. General discussion included the extent to which the primary purpose and users of local government annual accounts should be specified; that most respondents were preparers; that the statutory adjustment framework is a pivotal factor; and the importance in England of the findings of the Redmond Review.

11. The timing of the Redmond Review findings, and how this may affect Code 21/22 development, was discussed.

FRAB Chair participation to discuss CIPFA/LASAAC and FRAB working arrangements

12. An open discussion was held to discuss existing arrangements and to focus on improvements to facilitate future processes.

13. The following were raised in discussion:

- IFRS 16 Leases illustrated the importance of a co-ordinated and collaborative public sector approach to standards implementation
- The ability for the UK public sector to influence IFRS and IPSAS standards during development
- CIPFA/LASAAC could undertake more early assessment of key issues relating to a standard to support earlier discussion at FRAB of potential implementation proposals. Deferring until consultation responses have been considered was not optimal.
- Potentially CIPFA/LASAAC should de-emphasise the ITC process, and use other more flexible consultation and engagement options to assess local government impact and implementation. The risk of over-emphasis and over-reliance on formal processes should be assessed.
- The scope to amend existing local government treatment of standards (eg IAS 19) would probably be limited, with pan public sector consideration desirable prior to approaching FRAB. IPSASB standards however may provide the opportunity to review decisions as they may refine public sector treatments.
- Central government generally deal with financial impacts through the budget process; local government relies on statutory adjustments

- The differences in operation and nature between CIPFA/LASAAC and FRAB were discussed.
 - It was suggested that CIPFA/LASAAC could improve 'accounts user' engagement and feedback to inform the Code and to improve balance compared to preparer and auditor views.
 - The Code process was suitable for the previous SORP framework but may not be applicable for the FRAB environment. CIPFA/LASAAC may wish to demonstrate the detail and thought involved in proposals.
 - Early work and identification of local government needs is important.
 - Feedback is that the ITC is not currently accessible or helpful for respondents.
 - Statutory adjustments were compared to the tax adjustments which affect private sector accounts.
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Code development proposals affecting 21/22 and later years

14. The development plans for the 21/22 Code consultation were discussed. Items included:

- IFRS 16 *Leases*: Application to HRA tenancies to be specifically consulted on to assess financial, statutory and practical implications.
 - Dedicated Schools Grant
 - IFRS 17 *Insurance Contracts*: HM Treasury working group progress to be used as a basis for imminent engagement with local government
 - Review of accounting developments
 - A CIPFA/LASAAC strategy day is to be arranged to follow the Redmond Review report to inform:
 - Actions to support the Redmond Review recommendations
 - and
 - Substantive change to the Code development process, including consultation, stakeholder engagement and development cycle
 - Materiality: As previously noted support for a public sector wide materiality application working group was agreed.
 - Disclosures: A principles based approach to disclosures assessment by CIPFA/LASAAC was agreed in outline to support proposals for:
 - Evidence collation to inform consideration of requirements
 - Appropriate disclosure requirement options
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The local government environment and context affecting financial reporting

15. Appendix A is provided as a basis for discussion.

Development of a relevant authorities evidence framework to support proposals for standards implementation

16. Appendix B is provided as a basis for discussion.

Summary and recommendation

17. This report sets out details of CIPFA/LASAAC proposals regarding the strategic direction of the Code, including review of the Code development process, and outline proposals for the Code 21/22.

18. The Board is requested to consider the future direction of the Code.

**CIPFA/LASAAC
March 2020**