The Chartered Institute of Public Finance & Accountancy

Note of CIPFA/LASAAC preliminary decisions and feedback statement in relation to:

Emergency proposals for the update of the 2021/22 Code of Practice on Local Authority Accounting in the United Kingdom

Exceptional consultation on time limited changes to the Code to help alleviate current delays to the publication of audited financial statements

17 March 2022

Preliminary CIPFA/LASAAC decisions

1 Background

1.1 In December 2021 DLUHC announced a number of measures it was pursuing with various stakeholders to improve the situation around audit delays in England. As part of these DLUHC asked CIPFA/LASAAC to consider the merits of a time-limited change to the Code for 2021/22, acknowledging that in practice this might affect some future years.

1.2 In responding to this request, CIPFA/LASAAC's considered what, if anything, might be done to amend the Code that might contribute towards an improvement in the position for 2021/22, and perhaps allow auditors and preparers to 'catch up'. A fast-track Invitation to Comment and Exposure Draft were issued on 3 February 2022 with a four-week consultation period.

1.3 CIPFA/LASAAC met on 9 March 2022 to consider responses to the exceptional consultation to decide whether to progress options explored. Information about the findings that informed the Board's consideration is provided in the attached feedback statement.

2 Preliminary decisions

2.1 The decisions were as follows:

- The Board decided not to progress any option to pause professional valuation of operational property, plant and equipment, or to apply indexation to otherwise paused balances of operational property, plant and equipment.

- The Board decided to pursue the option of deferring implementation in the Code of IFRS 16 *Leases*, subject to consideration and review of this approach by the Financial Reporting Advisory Board (FRAB). This deferral would be for a fixed period of two years and apply to all UK jurisdictions.

2.2 If the option to defer implementation is agreed, then in line with the proposals in the ITC, the Code requirements will revert to IAS 17.

2.3 It should be stressed that the outcome of these considerations is not a foregone conclusion. FRAB examines all amendments to the Code with the aim of ensuring that they comply with GAAP, and that departures or modifications from GAAP due to public sector and spending control contexts are fully explained and justified. Preparers should not suspend work on IFRS 16 implementation in anticipation of deferral. We anticipate the final decision being available in the first week of April.

3 Factors underlying the decisions on valuation

3.1 The decision not to pause professional valuations reflected the following factors:

- responses did not substantially support the proposal
- unresolved concerns over whether this would reduce auditor work
- technical issues that might invalidate the approach for some assets
- difficulties in determining suitable indexes for the indexation proposal
- issues around 'catching up' after pausing stopped.

4 Factors underlying the decisions on IFRS 16

4.1 In contrast, an overwhelming numerical majority of responses to the consultation supported deferral of IFRS 16 *Leases*. Nevertheless, the decision to take this forward was not a straightforward one. As explained in the consultation paper, CIPFA/LASAAC was exploring this approach with considerable reluctance, and several Board members were of the view that no changes should be made to the Code.

4.2 Responses from preparers and some auditors set out reasons why deferral would be beneficial, while also explaining particular difficulties faced by local authorities in the context of the COVID-19 crisis, working from home, and in some cases having regard to the pressure on finance teams in relation to the audits of their 2019/20 and 2020/21 financial statements, which had not yet been completed.

4.3 While the number of responses that disagreed with the proposal was numerically smaller, there were clear divergences between stakeholder groups. Some strong arguments were advanced against deferral, particularly given previous deferrals and including having regard to issues for Whole of Government Accounts given that all other parts of the public sector will be implementing IFRS 16 in 2022/23. (CIPFA/LASAAC is however cognisant that continued delays in publication of financial statements also impact directly on WGA timetables.)

4.4 CIPFA/LASAAC was unable to reach a consensus view and the decision was made on the basis of a majority vote, which passed by the narrowest possible margin.

4.5 This reflects that all CIPFA/LASAAC members support the implementation of IFRS 16 *Leases*, which is an improved standard that supports better financial reporting. However, those that voted for deferral expressed a view that this would be a pragmatic response to alleviating audit timeliness issues by removing the additional resource requirement anticipated by both auditors and preparers as part of implementing the new standard.

5 Evidence supporting the Board’s preliminary decisions

5.1 The analysis used by the Board in making its decisions is attached as Annex A. The Board noted that CIPFA/LASAAC secretariat have read through all of the responses and noted many perceptive and useful comments, which were provided in a qualitative assessment made orally to the Board.

CIPFA/LASAAC feedback statement

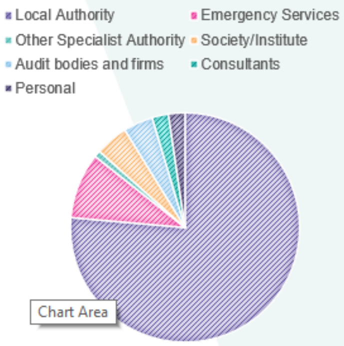
6 Introduction

6.1 This is a feedback statement from the CIPFA/LASAAC Local Authority Accounting Code Board (CIPFA/LASAAC). It should be considered alongside the consultation papers on the exceptional consultation. (The consultation documents are available on the archived consultation pages of the CIPFA website.) **This feedback statement does not form any part of the 2021/22, 2022/23 or other Codes**.

6.2 CIPFA/LASAAC received 216 responses to the consultation, and many of these were joint responses from representative groups of local authorities or other stakeholders. This is a very substantial response reflecting the importance of the issues.

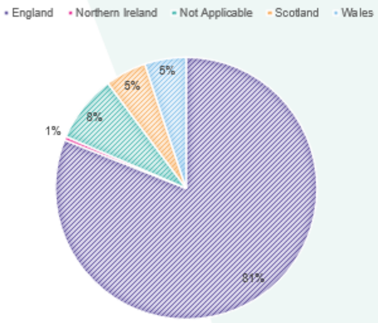
6.3 The charts below show the distributions of responses. Analysis of responses to individual questions is also provided.

Types of Respondents



Respondent	Number of Responses
Local Authority	165
Emergency Services	20
Other Specialist Authority	2
Society/Institute	10
Audit bodies and firms	9
Consultants	5
Personal	5
Total	**216**

Jurisdictional Distribution of respondents

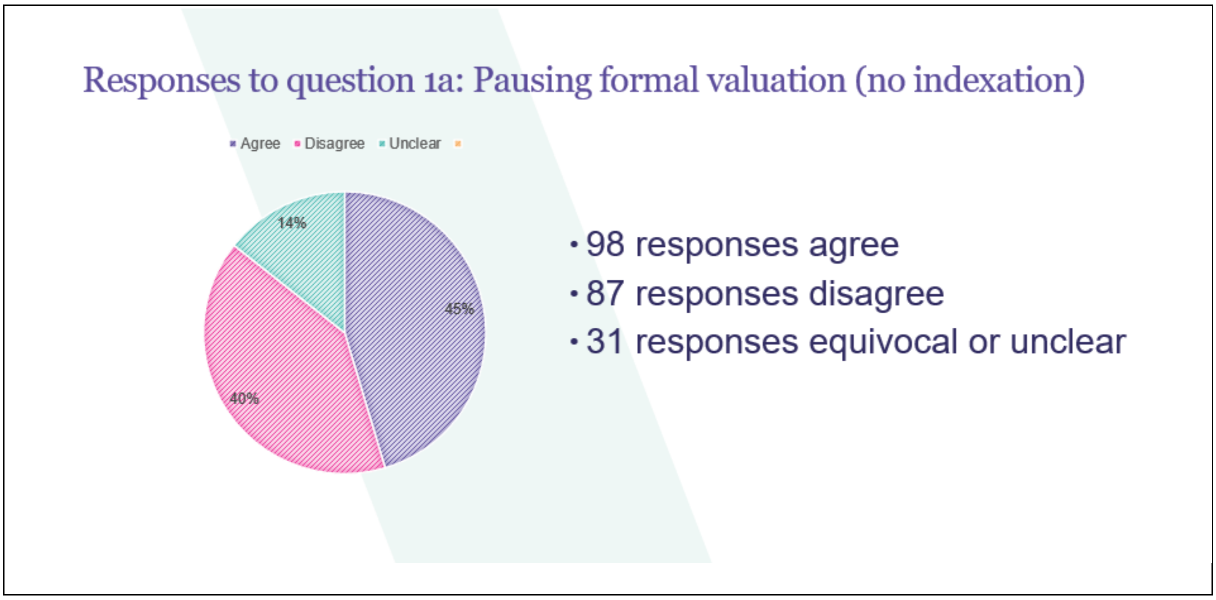


Jurisdiction/Other	Number of Responses
England	175
Northern Ireland	1
Scotland	11
Wales	11
Not Applicable	18
Total	**216**

Feedback on the responses to key questions

B1 Valuation of operational property, plant and equipment

Q1a Do you agree with the proposal that preparers should have the option to pause professional revaluation? If not, why not? Please provide reasons for your view.



6.4 As shown above, 45% of all responses or 53% of those responses that provided a clear and unequivocal response agreed with the proposal that preparers should have the option to pause professional valuation.

6.5 Some of the responses framed as agreement placed additional conditions on their answers that are not consistent with the proposal being explored by CIPFA/LASAAC. For example, some respondents suggested that pausing professional valuation needed to be applied uniformly to all authorities on a mandatory basis. This contrasted with other views that agreed that pausing must be optional.

6.6 Additionally, many local authority respondents noted that they had already carried out valuation processes for 2021/22, and even though in principle they supported the proposal they did not plan to implement it themselves. For these authorities the proposal would have no effect on the workload of preparers or auditors.

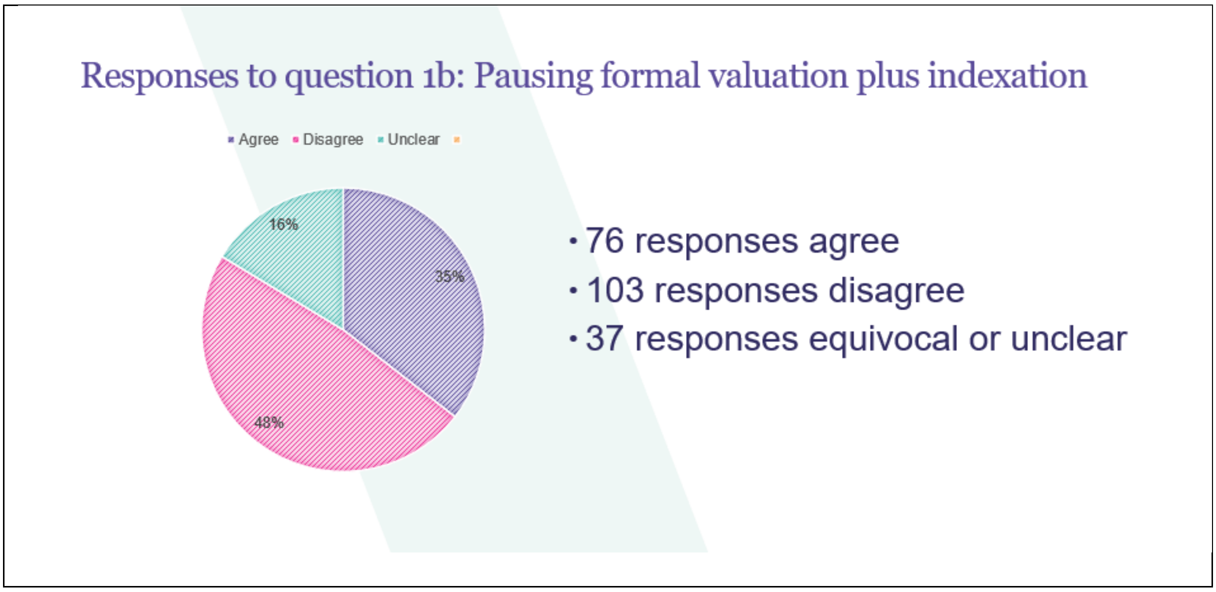
6.7 All of the public sector audit bodies disagreed with the proposals. Views from the audit firms were more mixed, but concerns were expressed over whether FRC reviews would accept that the approach provided a true and fair view.

6.8 CIPFA/LASAAC secretariat explored the proposals through outreach with FRC, local public auditors and other stakeholders. These discussions did not provide clear support for the proposals. They also surfaced the fact that some assets classified as operational property, plant and equipment are mixed-use assets used for both service delivery and commercial purposes. The rationale provided for pausing does not apply to the commercial elements, which would therefore be problematic.

6.9 Additionally, many respondents expressed concerns that ‘catching up’ processes when pausing ceases would create additional and possibly disproportionate work for preparers and auditors.

6.10 When caveats were taken into account there was not a numerical majority, and together with comments made there was collectively insufficient evidence that this measure would be effective in helping to alleviate delays to the publication of audited financial statements.

Q1b Additionally, do you agree with the proposal that preparers should have the option to pause professional revaluation and adopt an indexation approach to 2021/22? If not, why not? Please provide reasons for your view.



6.11 As shown above, only 35% of total responses or 42% of those responses that provided a clear and unequivocal response agreed with the proposal that preparers should have the option to pause professional valuation and adopt an indexation approach. This fails to achieve a majority, and does not provide assurance to CIPFA/LASAAC that proceeding with this proposal would be effective in helping to alleviate delays to the publication of audited financial statements.

6.12 As with question 1a, in practice the level of agreement was lower than 42%. Some of the responses that were framed as agreement placed additional conditions on their answers that are not consistent with the proposal being explored by CIPFA/LASAAC. For example, some respondents suggested that pausing professional revaluation and indexation needed to be applied uniformly to all authorities on a mandatory basis. This contrasted with other views that agreed that pausing and/or indexation must be optional. There are also conflicting views as to whether indexation should be simple and uniform, or granular and for example encompass regional variation

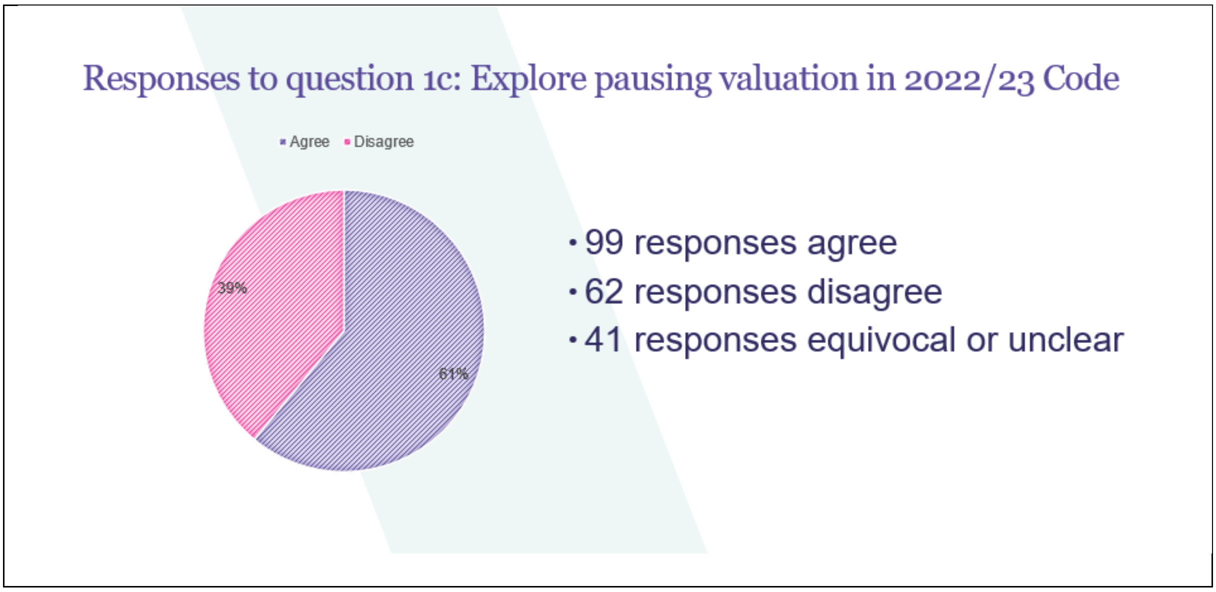
6.13 As with question 1a, many local authority respondents noted that they had already carried out valuation processes for 2021/22,

6.14 All of the public sector audit bodies disagreed with the proposals. Views from the audit firms were still mixed, but there were greater concerns over whether FRC would accept that the approach provided a true and fair view.

6.15 Additionally, it proved difficult to progress the development of a suitable index or indices in the time available. CIPFA/LASAAC sought to discuss the matter with RICS and some constructive points were made by RICS in relation to types of asset where indexation might be of use, However a full discussion was not progressed. A formal submission was provided by RICS that disagreed with the proposals for pausing with or without indexation.

6.16 Additionally, many respondents expressed concerns that 'catching up' processes when pausing ceases would create additional and possibly disproportionate work for preparers and auditors.

Q1c If you support this proposal but the impacts for 2021/22 are minimal, so that audit timeliness issues remain, would you support either of these changes being explored for the 2022/23 Code?



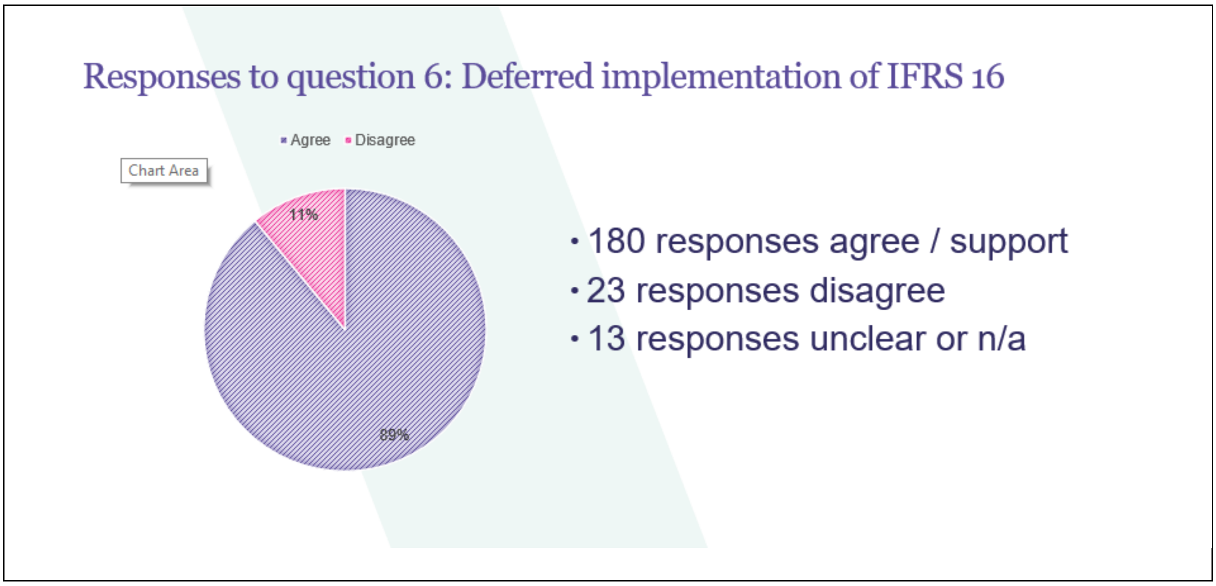
6.17 As shown above, 61% of those responses that provided a clear and unequivocal response agreed with the suggestion that CIPFA/LASAAC might explore options around valuation for the 2022/23 Code.

6.18 While this is a greater majority than for the other two options, CIPFA/LASAAC did not consider that this provided a mandate. The concerns over audit and FRC views make it very unclear that the extra time for development of and consultation on the proposals would achieve an effective solution that reduced pressures on both preparers and auditors.

B2 Deferred implementation of IFRS 16

Q6 Do you support the further deferral of IFRS 16 implementation to reduce auditor/preparer workload? If not, why not? Please provide reasons for your view.

Q7 Do you have any comments on the practical impact of the adoption of this approach? Please provide details to support your view.



6.19 The majority of the responses were clear and unequivocal, with 89% agreeing with the suggestion that CIPFA/LASAAC explore deferral of IFRS 16 *Leases*.

6.20 Responses from preparers and some auditors set out a variety of reasons why deferral would be beneficial to both preparers and auditors. Some authorities who considered themselves well prepared nevertheless anticipated very substantial workloads for finance teams and auditors in verifying the transitional reporting. Deferring IFRS 16 could allow auditors and preparers to catch up and help support a return to publishing accounts within deadlines before taking on the additional workload attached to transition.

6.21 Responses also reflected on particular issues for some local authorities where preparations were less well advanced, noting the difficulties faced in the context of the COVID-19 crisis where some finance staff were diverted to other operational roles as part of initial local authority pandemic support. Extended periods of working from home exacerbate issues around transition, particularly in relation to review of contracts that might contain a lease or arrangements that might contain a peppercorn lease that are only held as paper documents.

6.22 Some responses noted the pressure on finance teams in relation to the audits of their 2019/20 and 2020/21 financial statements, which had not yet been completed.

6.23 Local government is of course not unique in facing pressures as a result of the pandemic, and some of these points may be equally applicable to finance teams in the NHS or government sectors that are progressing full implementation in 2022/23.

6.24 A number of responses suggested that in order to effectively reduce the pressures on auditors and preparers, it would be necessary for the deferral to be for a period of two years. In contrast some respondents supporting deferral set out their view that deferral should be for one year only.

6.25 While the number of responses that disagreed with the proposal was numerically smaller, it included the four public sector audit bodies, ICAEW and ICAS. Some strong arguments were advanced against deferral, particularly having regard to issues for Whole of Government Accounts given that all other parts of the public sector will be implementing IFRS 16 in 2022/23.

6.26 LASAAC also did not support deferral, while reserving their position if there is substantial public sector support, having regard to the views of HM Treasury and FRAB.

6.27 CIPFA/LASAAC's decision was made on the basis of a majority vote, taking account of the views of different stakeholder groups and the strong support by all members that IFRS 16 should be implemented as soon as practicable. It passed by the narrowest possible margin. The members that voted for deferral for a fixed period considered that this would be a pragmatic response that together with other measures being pursued by DLUHC could help alleviate timeliness issues.

B2 Deferred implementation of IFRS 16

Q8 Do you have any comments on the jurisdictional application of this approach?

6.28 Because this question was not framed to elicit a Yes/No answer, and the number of responses was so large, it was not possible to provide the same quantitative analysis as for the preceding questions. However, the majority who did not oppose deferral supported UK-wide application. This included the responses that were not from England.

6.29 Some English authorities provided no view on application outside England.

6.30 LGA suggested consulting with local authority representative bodies.

6.31 Two audit firms supported England only application. One audit firm deferred to HM Treasury and the devolved governments.

Responses to other questions relating to valuation

6.32 Detailed analysis of the other questions relating to pausing valuation is not provided given that these approaches were not supported by a sufficient majority of preparers or other stakeholders. Numerical information on responses to questions 3 and 4 is provided below.