The Chartered Institute of
Public Finance & Accountancy

Draft Minutes

CL 03 03 22C

Board	CIPFA LASAAC Local Authority Accounting Code Board
Date	6 December 2021
Time	9:30 – 11:00
Venue	Microsoft Teams

Present

Chair	Conrad Hall (Chair)	*London Borough of Newham*
CIPFA Nominees	Deryck Evans	*Audit Wales*
	John Farrar	*Grant Thornton*
	Christine Golding	*Essex County Council*
	Joseph Holmes	*West Berkshire Council*
	Lucy Hume	*North Norfolk District Council*
	Collette Kane	*Northern Ireland Audit Office*
	Alison Scott	*Three Rivers DC and Watford BC*
LASAAC Nominees	Joseph McLachlan	*East Ayrshire Council*
	Paul O'Brien	*Audit Scotland*
	Gillian Woolman	*Audit Scotland (Vice Chair)*
Co-optee	Jake Bacchus	*Westminster City Council*
Observers	Jenny Carter	*FRC*
	Jeff Glass	*Department of Communities (NI)*
	Matt Hemsley	*DLUHC*
	Vikki Lewis	*HM Treasury*
	Michael Sunderland	*HM Treasury*
	Peter Worth	*Chair, former Local Authority Accounting Panel*

Guests	Siobhan Jones	*DLUHC*
	Danny Slater	*DLUHC*
	William Hannam	*DLUHC*
In attendance	Sarah Sheen	*CIPFA, Secretariat Advisor*
	Karen Sanderson	*CIPFA, Director, Public Financial Management*

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1	**Apologies**	
14.1	Apologies were received from: Nick Bennett Hugh Dunn Gary Devlin Liz Thomas JJ Tohill Richard Lloyd-Bithell Steven Cain	
2	**Declarations of interest**	
2.1	No declarations of interest were raised.	
3	**Introduction by the Chair**	
3.1	The Chair welcomed members to the meeting and was very grateful to members for making the meeting at short notice.	
3.2	The Chair opened discussion by noting the very concerning audit timeliness position where only 9% of local authorities in England's audits were completed by the publication date. He commented that he understood that 85% of local authorities were thought to have made the non-audit submission deadline. He recognised that this was not the position in Scotland. The Chair thanked DLUHC for sending the letter which outlined their request.	
3.3	The Chair noted that the Board had to a certain extent looked at all the issues outlined in the Secretariat's paper. He referred to the more significant changes considered in response to COVID-19 in April 2020 and recognised that for various reasons the sector had not wanted to take those changes forward. He noted he had brought the issue to the attention to the Chair of FRAB. The Chair commented that he would meet with the Chair of FRAB on the following Wednesday to provide an update. DLUHC was invited to outline the rationale for the letter.	
3.4	Siobhan Jones (SJ) also thanked members for attending at such short notice. SJ commented that good audit was a fundamental part of the system. Local audit was anticipated to be in a difficult position, however, the results mentioned by the Chair were far worse than expected. If no changes were made to the system, then audit timeliness was likely to be	

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	the same, if not worse next year. SJ noted that the issue had been raised at the recent Public Accounts Committee hearing on 29 November 2021 which underlined the necessity to act. It was not just potential changes to the Code that was being considered by DLUHC, but possibilities were being considered across the local audit system, for example, the Minister had met with audit firms last week. SJ recognised that there were risks within the requests in the letter and normally such proposals would not be suggested but the local audit system was in such difficulties that there was a need to consider such options now.	
3.5	The Vice Chair noted previous discussions and thanked DLUHC for the letter which was very useful to set out the position. In Northern Ireland 100% of the 15 district councils made the accounts closure deadlines. In Scotland 29 out of 32 local authorities had met the accounts preparation and publication deadlines (with the deadline for publication being 30 November 2021). The Vice Chair commented that as an auditor when being asked to sign off the accounts that this was in accordance with UK adopted IFRS and queried what was within the gift of the Board. The Vice Chair also noted that some of the possible proposals would also have WGA implications. It was questioned whether an effective root-cause analysis had taken place regarding the issues leading to the audit delays. The Board was dedicated to excellent financial reporting and financial management and local authority accounts had been able to demonstrate the financial impact of COVID-19. The Vice Chair was not convinced that the Code was the solution to the problems that existed.	
3.6	Paul Mayers (PM) commented that the NAO had been working with DLUCH and the sector on the issue of audit timeliness. As setter of the Code of Audit Practice the NAO sought to assist auditors and was more concerned about the structural issues in the sector. PM noted that auditors were required to follow auditing standards and accounting standards in the Code. Any changes to the Code needed to be clearly argued, subject to full consultation and debate by FRAB etc. PM noted there would be a public sector thematic review of property, plant and equipment so any significant changes should align with this review. PM commented that that this was not an accounts preparer issue.	
3.7	John Farrar (JF) noted that this was not a Code issue. Looking at the issues outlined in the paper most scope might be delivered by option 1. JF agreed with CIPFA's position on the use of indices (for option 2) and for option 3 commented that because of the need for valuations to be materially accurate any extension to the valuation period would mean that the audit process would probably be just as long. Potentially more radical (but longer-term) options might be considered ie moving to the cost model for measurement.	
3.8	Deryck Evans commented that in Wales 19 out of the 22 authorities had now concluded the audit processes and all of the police and fire bodies. Some issues remained with national parks authorities. DE noted any delays had been due to the ability to get into buildings to undertake the relevant audit tests. DE also commented that it would take a couple of years to catch-up, as, for example, audit work for 2021/22 had been delayed because of the delays to 2020/21.	

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3.9	Collette Kane (CK) commented that 14 of the 15 district council audits in Northern Ireland had been completed by the end of September. CK shared the concerns of the Vice Chair and others and noted that changing the Code for such issues, even such a significant issue as this, might give rise to a difficult precedent.	
3.9	Paul O'Brien noted that the year of asset revaluations were the easiest part of the revaluation cycle in audit terms what was more difficult is identifying the evidence base for subsequent years being materially accurate.	
3.10	Jenny Carter noted that the FRC supported high quality financial reporting and auditing. Relaxations might give rise to problems with achieving a true and fair view and/or the need for information in the balance sheet to be materially accurate.	
3.11	Michael Sunderland (MS) commented that he echoed the comments provided by SJ about the urgency and the need to look at issues that had not been envisaged previously. The thematic review which had already been alluded to was on the measurement of property, plant and equipment. MS noted interest in the interaction between frequency of valuations and the revaluation cycle. The thematic review would look at historical cost information in a robust way. Subject to decisions being made and FRAB being comfortable then it may be possible to look at changes for the 2022/23 financial statements. MS also referred to WGA and welcomed comments about understanding the implications but noted that other issues arise relating to the completeness of information with regard to WGA if local government information was not available. MS was also interested in the materiality judgements made in relation to property, plant and equipment.	
3.12	Sarah Sheen commented that CIPFA had produced the paper following the request of DLUHC and taking into consideration the issues raised with audit timeliness and the impact this had on local authority financial information. SS agreed that this was not an issue for the Code but that the proposed changes have the potential to alleviate resource issues. SS indicated that the Code already changes IFRS and fundamentally adapts the measurement requirements to remove the cost model from subsequent measurement options. So therefore, changes are within the Code's gift, subject to the debates of the Board [and the full due process]. If, for example, the public sector was to move to a cost model, then because of information availability it would be likely that the current valuation information would need to be used as a deemed cost. Under option 3 the wording of the Code in respect of 'material accuracy' would have to relate to the description of the current value information being treated as a deemed cost. The Secretariat agreed that this would, however, store up valuation issues and therefore any removal of this dispensation would need to be recovered over a transition period. With regard to the thematic review SS noted that this would be an important issue for CIPFA and would be very interested to be a part of this review, however, though valuation information may not have a one-year effect cost information was not particularly a useful measurement for local authority assets particularly	

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	for the fairness of the charges received and impact on such issues such as intergenerational equity. SS did not want to pre-empt debate on the paper but: *Option 1* would not be changing IFRS and would be able to work within its boundaries. *Option 2* if done well may be able to stay within IFRS. *Option 3* was a more fundamental change and would require changes to IFRS *[the Secretariat would note that this is already in an area where IFRS has been significantly changed by the Code]*.	
3.13	CIPFA LASAAC accounts preparer members were asked to provide their comments.	
3.14	Alison Scott (AS) highlighted that it would be very difficult to defend the Code if local authority accounts are not audited. AS noted, that there was an issue in relation to property, plant and equipment and valuations and that there had been 6 months debate at their authority on the measurement of leisure centres with auditors. AS commented that something must be done to affect the currently failing system.	
3.15	Joseph Holmes (JH) commented that there would need to be agreement from the FRC about any changes. JH also raised the issue of other changes within local government finance eg on capital finance which would impact on the system.	
3.16	Christine Golding (CG) agreed the point on property plant and equipment and commented that their authority was well into their rolling programme of valuations. It was suggested that the following disclosures might instead be considered including: • Remuneration • Exit package • Pooled budgets • Related party transactions. It was also suggested that for one-year local government might not be included in WGA.	
3.17	Joseph McLachlan agreed with CG and the Vice Chair. It was also noted that JM’s authority had met the accounts closure timescales of June and September in a tough year. There was a suggestion though that a gap in audit timescales was needed and that WGA might be delayed for one year as it was not mission critical for local authorities. JM was of the view that delaying IFRS 16 would be a significant reputational issue for the Board.	
3.18	Peter Worth commented that something needed to be done because now the local (authority) audit system could be seen as a collective failure. PW noting the primacy of local authority single entity accounts suggested that the removal of the consolidation requirements from Group Accounts and instead for authorities which have interests in other entities there should be an increased emphasis on related party transactions	

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	disclosures. This would improve the quality of information. PW noted that the 7-year revaluation period would not work because of the need to be materially accurate. PW commented, however, that any changes proposed by the Board would need to be relatively long-standing and may lead to permanent change. PW suggested that the pensions disclosures could be simplified, and the Expenditure and Funding Analysis (EFA) could be removed as there was duplication. IFRS 16 would be a reporting burden and could be considered for removal. PW also noted that an additional issue was the regulatory requirement that existed only in England for the inclusion of Pension Fund accounts in the administering authority accounts. Delay would affect the users of these accounts including local authority pension fund pensioners.	
3.19	SS noted that as she had not yet presented the paper that perhaps she should respond to certain issues. Firstly, some of the options in the paper may be mutually exclusive (eg options 2 and 3). If option 3 was pursued it would in all likelihood mean that the measurement of property, plant and equipment would be at a deemed cost for the two-year period. She agreed that any proposals might take some time to revert to the current accounting. For example, if option 3 was pursued then it may take a year or two to revert to new rolling valuation programmes and transitional measures may need to be included. SS commented that the disclosures referred to had not been suggested because most of them were not in the gift of the Code (as they were regulatory requirements). SS recognised that most measures could/or would have either unintended or other consequences, for example, the EFA could be removed but it provided the IFRS 8 *Operating Segments* reporting requirements. SS commented that as IFRS 16 had been mentioned, she had additional information that she would have reported to the Board even if the urgent meeting hadn't been required. In the preceding week a local authority accounting conference which had 109 attendees had included a poll on the preparedness of local authorities for implementation of IFRS 16. The results were as follows: • 5% confident • 33% quite confident • 34% uncertain • 19% not confident • 8% don't know [*Approximately 90% of attendees responded to the poll*] So, 53% of respondents were not confident of successful implementation. SS also raised the issue that as time was tight, she had not been able to meet with the devolved administrations and subject to the decisions which made by the Board she would arrange discussions with them to ensure that the way forward was clear.	

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3.20	The Chair summarised the current position – the changes need to focus on those which can be immediately implemented for the 2021/22 Code. The Chair commented that several concerns had been raised but that there was a good consensus (though not unanimous) that members were uncomfortable with the idea of doing nothing. Data seems to suggest that it is an audit issue rather than an accounts preparer issue. The Board has noted that there was need to be aware of unintended consequences. Several responses indicated there was also a need to be mindful of the views of the FRC as the firms are auditing in a regulatory framework. Members of the Board had suggested that Group Accounts might be added to the list of issues considered in the Secretariat's paper. The Chair noted that It wasn't clear how much accounts preparer and auditor time this took of up. The Chair noted that IFRS 16 had also been raised by Board Members. Although there was no consensus on the changes to be made any changes would need to be certain of making a difference to the local audit framework.	
3.21	PW commented that local authorities consolidate information, and, on a line-by-line basis, it might be material, but the bottom-line impact does not always make a material change in net worth of the authority. The consolidation exercise means that the user will lose sight of important information on loans etc. This has taken significant resource for both the accounts and audit in examples he was aware of.	
3.22	GW noted that it was important to have information on the Group Accounts including property, plant and equipment etc.	
3.23	AS commented that she was not concerned about IFRS 16 as an accounts preparer but the amount of work required to audit the accounts on implementation.	
3.24	SS commented that the statistics from the recent poll at the local authority accounting conference indicated that it may be a preparer issue as well. With regards to the Group Accounts proposals that information on the interests in other entities would need to be provided alongside the local authority accounts. However, it would not only be a matter of reporting additional related party information but reporting information on the risks a local authority was subject to because of its interests in other entities. Deferral of IFRS 16 may raise issues of credibility for the Board as it had been deferred previously.	
3.25	Jake Bacchus raised concerns about the lack of availability of auditors and that this would be particularly important with the implementation of IFRS 16. It would be vital to understand from auditors how intended to audit the implementation of IFRS 16.	
3.20	During this discussion Board members discussed the possibilities of delaying or abating the reporting requirements of WGA, but it was agreed that this was outside the remit of CIPFA LASAAC.	
4	**Next Steps**	
4.1	The Chair noted that IFRS 16 will have an impact on both accounts preparers and auditors. The Board had deferred the implementation of the standard twice and that there would be reputational issues if it were deferred again but noted that it was within the Board's gift to make such	

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	a recommendation to FRAB if the Board agreed it was necessary. The Chair noted that strong views had been set out on Group Accounts and the impact on WGA was noted in the chat. The Chair concluded that there may be scope on issues on valuations and materiality which may relieve some pressure on the local audit system.	
4.3	Danny Slater (DS) was invited to comment on work with firms. DS outlined the various engagement exercises DLUHC and the working groups had undertaken. He noted that given extent of issues affecting the local audit system the letter was seeking the view about what the accounting Code might do to alleviate the pressures on the system. SJ agreed that the changes were not just being sought from CL. SJ commented that if every part of the local audit system made a change that this could have a significant impact. This would be an important part of the signalling to the local audit system that change could be brought forward in a concerted effort. It was noted that this would also be important for the next procurement exercise.	
4.4	The Secretariat was asked to outline the timescales any changes taken forward might require. If the Board were to require changes ideally these would be brought together before the end of the year, this would then be followed by a consultation exercise and the Board would need to decide whether it would seek an eight week or a shorter consultation period (for example, for six weeks).	
4.5	The Chair indicated that he would have discussions with the Chair of FRAB, SJ and the Secretariat. He would then write to CIPFA LASAAC Members by the end of the week setting out what might be able to be achieved	Chair and CL Secretariat.
4.6	The Chair thanked members and DLUCH for attending the meeting particularly at short notice.	