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

Introduction from the Chair of CIPFA/LASAAC

Everyone with an interest in local government financial reporting will be aware that the very significant majority (91%) of local bodies missed the statutory deadline of 30 September 2021 for publication of their audited 2020/21 accounts. Everyone also agrees that this is unacceptable, but there is considerable disagreement as to the causes and the possible solutions.

The CIPFA/LASAAC Code Board ('the Board') is responsible for recommending the Code of Practice on Local Authority Accounting ('the Code') each year to the Financial Reporting Advisory Board, which has the ultimate responsibility for approval of the Code.

As is widely known, DLUHC have asked the Board to consider what further significant steps could be taken to address the ongoing timeliness issues. That request of course acknowledged that the remit of the Board is the Code. Other policy makers and stakeholders will, I am sure, present their own analysis of the other options available within their own areas of responsibility. However, you will see that we have also included some considerations outside the Code but very closely linked in financial reporting terms.

I wanted to explain why we came to adopt the approach we are proposing.

The statutory deadline for local bodies to publish their audited accounts was 30 September 2021. Only 9% of local bodies achieved that. By the end of December 2021 that figure had risen to 40%. While the progress is to be welcomed, it still means that three months after the statutory deadline more local bodies had failed to meet the statutory deadline than had met it, and a considerable number of 2019/20 audits are still outstanding.

It is worth emphasising that approximately 85% of draft accounts were prepared on time by local authorities. This is not to enter into a discussion here about whether this is an 'audit problem' or an 'accounting and preparation' problem. The relevant policy makers may want to consider further evidence on this in due course, but for now the Board's focus has been to consider what, if anything, might be done to amend the Code that might contribute towards an improvement in the position for 2021/22.

It is also worth emphasising that this is not a UK-wide problem. In the devolved administrations, all or almost all of the audited accounts have now been published, so the systemic failures are really only an issue in England. I am sure that this is a matter that the relevant policy makers will want to understand better.

However, the Code applies to all of the UK. One obvious concern that we have therefore had is that for the devolved administrations any changes might be argued to be unnecessary.

More generally, despite the stark figures that I have cited above, I do not think it automatically follows that any solution must include changes to the Code. There is a reasonable view, which has been expressed to me by many different stakeholders, that the widespread failure to meet the deadlines is not a consequence of the requirements of the Code.

On this argument the delays are caused by one or more of:

- the quality of the draft accounts and working papers that local authorities prepare
- the amount of audit resources and poor quality of some audit work
- the regulatory environment and whether this is suitable for the local authority sector.

Some proponents of this view point to the devolved administrations as evidence that the Code is not the issue. Others highlight the possible unintended consequences of changing the Code requirements at this stage on existing commercial and contractual relationships and also that improving the timeliness of audit opinions should not be achieved by, as they see it, reducing the requirements that underpin high-quality financial reporting.

These arguments have merit but there is also a well-articulated alternative view.

As well as working with the Board I have spoken to a number of senior audit and local authority practitioners. They have emphasised to me the resourcing pressures on local authorities and auditors and, as they see it, the increasing demands of regulators and they have raised concerns about how well directed and focused these demands are. On this view there is no good reason to be confident that the position for 2021/22 will be significantly better than 2020/21.

The statutory deadline for 2021/22 is in the process of being reset to November 2022, but if timeliness remains as last year then approximately two councils in every three will fail to meet this revised deadline and, it has been argued, there is a significant risk that it may well be worse. On this argument, doing nothing is simply not a tenable option.

Both views have considerable merit and strong arguments have been expressed on either side.

Balancing the two, the Board has come to the view that it is nonetheless appropriate to consult on some possible changes to the Code in order to gather a stronger evidence base and to promote more debate on a really important issue for the sector. For the avoidance of any possible doubt, if these were endorsed the changes would be effective for 2021/22 and so come into force shortly before the year-end.

In doing so we have tried to work within some important constraints.

Our starting point has been that the Code itself remains the right basis for local authority accounting. There are of course a number of counterarguments that have been made in recent years that a significantly different approach is warranted. Certainly the ongoing issue of the accessibility and relevance of local authority financial statements remains a contentious one. However, if the Code is to be changed for 2021/22 then the time available to do so is very limited. Now is not the time to propose changes to address these wider concerns.

Instead, the Board has taken the approach of ensuring that any changes we consult on would, if implemented, be reversed after two or three years. In effect, this is a strategy of considering a pause in some requirements to provide a breathing space for the system. This might enable the backlog to be cleared and resourcing issues addressed so that by 2023/24 or 2024/25 we could return to the current Code requirements with the strong expectation that the deadlines would also be met.

We have also been mindful only to consider items where the evidence seems to suggest a real potential for time saving, in accounts preparation, audit requirements or both. Making changes at short notice and with a much shorter consultation period than usual carries risks of unintended consequences. It follows that we should only do so if the evidence we are able to gather gives us reasonable confidence that any such change, if adopted, would materially reduce the time and resource needed to prepare and/or audit the accounts.

Like everyone with an interest in high-quality local authority financial reporting and a robust audit and regulatory regime, I have my own views on the right way forward. However, as

Chair of the Board I have tried to ensure that we set out the options and the implications of adopting them, or not as the case may be, as fairly as possible. Although our remit is the Code we have also considered other changes to the overall reporting regime that could in principle be adopted. These are not the formal subject of the consultation. However, I think that it is important that we set out our thoughts for other policy makers, given that the Board has considerable experience and expertise in financial reporting generally and local authority financial reporting in particular and by including them I also hope that they may contribute to the wider debate.

I would like to express my thanks for everyone who has contributed to this and to thank you in advance for the careful consideration that I know you will give it.

Conrad Hall

Chair, CIPFA/LASAAC