DERBYSHIRE County Council

Agenda Item

FOR PUBLICATION

DERBYSHIRE COUNTY COUNCIL

AUDIT COMMITTEE

22 March 2022

Report of the Interim Director of Finance & ICT

CIPFA/LASAAC Consultation - Emergency Proposals for an Update of the 2021-22 Code of Practice on Local Authority Accounting and the 2022-23 Code

1. Divisions Affected

1.1 County-wide.

2. Key Decision

2.1 This is not a Key Decision.

3. Purpose

3.1 To provide Audit Committee with details of an exceptional consultation on time-limited changes to the Code of Practice on Local Authority Accounting in the United Kingdom along with information on the Council's response.

4. Information and Analysis

4.1 On 3 February 2022, the Chartered Institute of Public Finance and Accountancy / Local Authority (Scotland) Accounts Advisory Committee (CIPFA/LASAAC) published 'Emergency proposals for an update of the 2021-22 Code of Practice on Local Authority Accounting in the United Kingdom and the 2022-23 Code' (the Consultation).

4.2 CIPFA/LASAAC refers to this Consultation as an ‘exceptional consultation on time limited changes to the code to help alleviate delays to the publication of audited financial statements’.

4.3 Only 9% of local authorities in England met the audit publication deadline of 30 September 2021 for publication of their audited 2020-21 accounts. By the end of December 2021 that figure had risen to 40%, although this still means that three months after the statutory deadline more local bodies had failed to meet the statutory deadline than had met it, furthermore a considerable number of 2019-20 audits were still outstanding.

4.4 There is considerable disagreement as to the causes and the possible solutions although it is worth emphasising that approximately 85% of draft accounts were prepared on time by local authorities.

4.5 The Council published its certified pre-audit Statement of Accounts 2020-21 on 30 July 2021, before the statutory deadline, and published notices of delay in publishing its audited Statement of Accounts 2020-21 on 30 September 2021, due to external audit staff resource constraints. The Council’s Statement of Accounts 2020-21 were approved by Audit Committee on 7 December 2021, and the final audited Statement of Accounts 2020-21 were published following formal conclusion of the audit, when the external audit opinions were issued, on 22 December 2021.

4.6 In December 2021, the Department of Levelling-up Housing and Communities (DLUHC) asked CIPFA/LASAAC to consider ways in which the Code of Practice on Local Authority Accounting in the United Kingdom (the Code) may help in improving this position.

4.7 The Chair of CIPFA/LASAAC (the Chair) does not think that it automatically follows that any solution must include changes to the Code. There is a view, which has been expressed by many different stakeholders to the Chair, that the widespread failure to meet the deadlines is not a consequence of the requirements of the Code. In this argument the delays are thought to be 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; and
- the regulatory environment and whether this is suitable for the local authority sector.

4.8 However, senior audit and local authority practitioners have emphasised an alternate view to the Chair; that there are resourcing pressures on local authorities and auditors and there are 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.

4.9 In the view of the Chair, both positions have considerable merit and strong arguments have been expressed on either side. The CIPFA/LASAAC Code Board (the Board) has decided 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 or at the year-end.

4.10 After considering a wide range of options CIPFA/LASAAC decided to explore two possible changes that might be made as an update to the 2021-22 Code, and to the agreed position in the 2022-23 Code:

- An adaptation to the Code to allow local authorities to pause professional valuations for operational property, plant and equipment (PPE) for a period of up to two years (though the initial proposal is for the 2021-22 financial year); this approach also explores the use of an index to be used to increase or reduce that valuation.
- Deferring the implementation of International Financial Reporting Standard 16 *Leases* (IFRS 16) for a further year, and reversing the planned changes to the 2022-23 Code to implement that accounting standard.

4.11 The Council submitted its response to the Consultation on 28 February 2022, ahead of the deadline of 3 March 2022.

4.12 The Council’s response is attached at Appendix Two to this report.

4.13 CIPFA/LASAAC has given no indication as to when it will issue its findings and any decisions arising from the Consultation, although it is possible that they will be included in their CIPFA Bulletin on Closure of the 2021-22 Financial Statements. The Bulletin was issued at the end of April in the previous two years.

5. Consultation

5.1 No consultation is required.

6. Alternative Options Considered

6.1 Not Applicable – It is prudent and responsible practice for this CIPFA/LASAAC emergency consultation on the local authority accounting code, the results of which could impact on the preparation of the Council's Statement of Accounts 2021-22, to be brought to the attention of Audit Committee, and for Audit Committee to note the Council's response.

7. Implications

7.1 Appendix One sets out the relevant implications considered in the preparation of the report.

8. Background Papers

8.1 Papers held electronically by Financial Strategy Section, Financial Management & Strategy, Finance & ICT Services.

9. Appendices

9.1 Appendix One – Implications.

9.2 Appendix Two – Council's Full Response to the 'Emergency Proposals for an Update of the 2021-22 Code of Practice on Local Authority Accounting in the United Kingdom and the 2022-23 Code' Consultation.

10. Recommendation

That Audit Committee:

10.1 Notes CIPFA/LASAAC's exceptional consultation on time-limited changes to the Code of Practice on Local Authority Accounting in the United Kingdom along with information on the Council's response.

11. Reasons for Recommendations

11.1 It is prudent and responsible practice for this CIPFA/LASAAC emergency consultation on the local authority accounting code, the results of which could impact on the preparation of the Council's Statement of Accounts 2021-22, to be brought to the attention of Audit Committee, and for Audit Committee to note the Council's response.

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This report has been approved by the following officers:

On behalf of: Interim Director of Finance and ICT Director of Legal Services and Monitoring Officer	

Implications

Financial

1.1 As outlined in the body of the report.

Legal

2.1 None.

Human Resources

3.1 None.

Information Technology

4.1 None.

Equalities Impact

5.1 None.

Corporate objectives and priorities for change

6.1 The Council is committed to ensuring good financial management and compliance with applicable laws and regulations.

Other (for example, Health and Safety, Environmental Sustainability, Property and Asset Management, Risk Management and Safeguarding)

7.1 None.

DERBYSHIRE County Council

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CIPFA/LASAAC
By e-mail
cipfalasaac@cipfa.org

Ask for:	Eleanor Scriven/ Sam Holmes
Our ref:	ES/SH
Date:	28 February 2022

Dear Sir/Madam

Response to 'Emergency Proposals for an Update of the 2021-22 Code of Practice on Local Authority Accounting in the United Kingdom and the 2022-23 Code' Consultation

Derbyshire County Council (the Council) welcomes the opportunity to respond to CIPFA LASAAC's 'Emergency proposals for an update of the 2021-22 Code of Practice on Local Authority Accounting in the United Kingdom and the 2022-23 Code' consultation, details of which were published on 3 February 2022. The Council's response is set out below.

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.

Yes. This should be optional not mandatory.

Local authorities may not wish to use this practical expedient due to:

- the future impact on workloads/resource of valuing additional 'paused assets' alongside those profiled within the ordinary rolling programme in the year when returning to full IAS 16 valuation compliance;
- there being little impact on accounts preparation/closure time for the period 2021-22 where, by March 2022 (the time of the proposed changes to the Code), the revaluation process is already significantly progressed; and

- costs already incurred and/or committed on contracts with external providers for 2021-22 valuations would be wasted.

An option to pause valuation for the period 2022-23 may offer time savings, as the revaluation process for this period has not yet commenced.

Exercise of this option has the potential to deliver significant time savings in the year that it is adopted, both in respect of preparer time and audit review time due to:

- fewer revaluations to process; and
- smaller revaluations sample required to be tested and reviewed.

This Council does **not** believe this temporary expedient is a suitable option which it would elect to use, unless it is clarified how the catch up approach would work and what justifications auditors would require to prove that the accounts reflect a fair view for the ‘pause’ years. It is not clear how authorities would go back to a full IAS16 valuation approach at the end of the pause. There is a fear that this would create more work in the long-term.

Large authorities like the Council have a significant number of assets to value and the catch up could be problematic depending on what approach is taken. It would also be difficult to offer explanation of the differences from one year to another.

Would the option apply to just the rolling programme (i.e. the 20%) OR does it also apply to the 80% Schools desktop valuations that the Council does as well?

The comparison with previous years would possibly be irrelevant and how does this tie in with the WGA regarding consistency?

If assets were not valued, then the Derecognition value would significantly increase.

How could auditors justify their opinion that the accounts present a true and fair view?

<u>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.</u>

No. There should not be an ‘indexation only’ approach.

There is no certainty that a revaluation based on a centrally derived index would result in a materially similar position to a full IAS 16 valuation.

Allowing local authorities flexibility to choose their own (i.e. not prescribed) index may be problematic for auditors requiring the choice of index to be justified.

A single centrally derived index may not adequately reflect geographical regional variability in the movement of prices.

Deriving individual asset values through application of an index alone is still time consuming and still requires checks of the base data and correct application of the index.

There is potential for confusion as to whether all operational PPE should be revalued or just those which would normally be revalued under the existing revaluation cycle.

The index would have to be flexible enough be applied over different time periods, depending on when an asset had last been revalued.

Indexation is not a proper valuation. How does this sit with RICS valuers and their code of ethics? Valuers would possibly not sign off any valuations so there would be no valuation certificates, although it seems they would need to be instrumental in the indices.

<u>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?</u>

Yes. The Council supports an optional basic (i.e. not indexed) pause on revaluation for 2022-23 being explored.

<u>Q2 Do you have any comments on the impact of the adoption of this approach on preparers or auditors? If so, please provide more information.</u>

The ‘pause’ approach for 2022-23 would save considerable time as there would be far fewer valuations to process (as the valuation process for this period has not yet commenced). Less time would be spent on validating the figures and sense checking all valuations to ensure they are reasonable before inputting into the accounts.

It would also save time for the valuers regarding preparing valuations, preparing certificates and physically inspecting properties.

Auditors would have fewer valuations/transactions to check but may have an issue with how they verify that the accounts represent a true and fair view. This approach may only result in a short-term saving and would depend on how the catch-up proposal was to be addressed going forward. This detail is crucial for a large authority like the Council with several hundred valuations each year. The Council would be unable to value more than the 20% rolling programme in any one year.

If a catch-up was not necessary, then how would the Council justify to the auditors that the balance sheet was materially accurate?

<u>Q3 If you support this approach, do you consider that the approach should be available to all local authorities, restricted to England, or determined on a jurisdiction basis reflecting the view of the relevant Government?</u>

The approach should be available to all local authorities in the UK.

Local authorities which don’t require the practical expedient have the option of not electing to apply it.

<u>Q4 If you support this approach in principle, do you consider that it is appropriate for all operational property plant and equipment, including for example, Housing Revenue Account assets?</u>

Yes, it should apply to all operational PPE ordinarily subject to revaluation. Assets with short lives should continue to be valued at depreciated historic cost as a proxy for current value.

<u>Q5 Do you have any other comments on the proposal?</u>

Although outside the scope of the Code, progress on audit standards and related regulations to allow a higher materiality for PPE is likely to have the most significant long-term impact on the effort and resource required by auditors and preparers during the review of PPE balances and therefore on publication timescales for the accounts as a whole.

B2 Deferred implementation of IFRS 16

<u>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.</u>

Yes. This should be optional not mandatory.

Additional workload from the pandemic has significantly delayed preparations for implementation of IFRS 16.

Local authorities which are well prepared for a transition should have the option of moving to the new standard in order that they don't waste costs that have been committed or already incurred for implementation and to alleviate the need to roll back to IAS 17.

Exercising this option would reduce the workload to prepare the required impacts statement in 2021-22 and reduce auditor effort verifying the transition in 2022-23.

Guidance is still outstanding around issues such as:

- Valuation of Right-of-Use assets where the underlying asset is specialised and the lease at a peppercorn rent.
- Whether arrangements with church diocese for Voluntary Aided/Controlled schools are in scope.

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

The approach supports a stand-still in arrangements which has already been achieved in 2020-21 and 2021-22.

A delay supports:

- Adequate time to properly consider:
  - the additional valuation guidance due to be issued.
  - the requirements for an impact statement in the year preceding adoption.
- Adequate time to devote to the implementation, including required new financial systems, as the additional burdens from the pandemic subside and more normalised working patterns resume.

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

The approach should be available to all local authorities in the UK.

Local authorities which don't require the practical expedient have the option of not electing to apply it.

Q9 Do you have any other comments on the proposal?

Larger authorities are likely to have more lease contracts, therefore are not necessarily better prepared. Their finance teams involved are not necessarily significantly larger.

Further Comments

Q10 Do you have any other comments on the issue of the timeliness of the publication of audited financial statements in local government and the impact on the Code?

None

Yours faithfully

Paul Stone
Interim Director of Finance & ICT (Deputy S151 Officer)

Derbyshire County Council