SDCT Response to the Consultation on the Code of Practice on Local Authority Accounting in the United Kingdom – short term England-only measures to aid the recovery of local authority reporting and audit.

March 2024

Please find our responses on the individual questions below. We still however have overarching concerns about the current burden being placed on District Councils by the Code and the current Auditor backlog and issues. Whilst we welcome CIPFA/LASAACs acknowledgement that accounting changes may be helpful to addressing the backlog we remain concerned that the proposals do not go far enough. We still feel that the value of the accounts is in danger of being outweighed by the preparation and audit burden placed upon our members. It is not coincidental that district councils are most affected by the current audit backlogs. We remain concerned that without a proper review of how materiality levels for small local authorities, it will become increasingly difficult to achieve accounts that are capable of being audited under current auditing standards. We still believe that a first principles review of the code is needed to ensure that local authority financial reporting meets the needs of its users and provides value for public money.

Our members have significant concerns that Local Authorities will be blamed under the proposals to disclaim audit opinions and we would welcome any support that CIPFA and CIPFA/LASAAC can give to ensure a balanced view is promoted and that the backlog continues to be seen as a systemic issue.

Simplifying measurement for operational property, plant and equipment using indexation

Q1	Do you agree with the proposal that, for local authorities in England only and for the 2023/24 and 2024/25 reporting periods, the application of the requirements of the Code should be amended so that asset values in the financial statements may be based on the most recent valuation which has been subject to audit, adjusted for depreciation, and updated by a standard centrally determined index? If not, why not? Please provide reasons for your view.	Whilst this approach may be appealing and could certainly be helpful to those authorities that have audited accounts from 2022/23, we are concerned that for those authorities with multiple years outstanding this may be difficult to apply in practice as it would give multiple years of indexation. We therefore welcome the choice given in the Code but feel it needs to be clear that if authorities adopt the indexation method, this will be accepted by auditors. Moving forward we would welcome a prescribed approach that was clear that indexation should be applied between 5 yearly valuations, through a centrally prescribed index, and that this is sufficient for audit purposes.

Q2	Do you consider that this would have a beneficial effect (a net reduction) in the overall workload for preparers, having regard both to additional work that would be required to implement the change, and anticipated reductions in requirements to provide additional evidence to auditors and to resolve auditor queries? If not, why not? Please provide reasons for your view.	We would need to be assured that this approach could be implemented in such a way that it was not subject to challenge by auditors for example through the use of prescribed indices. Without this there is a danger that additional work could be required to assure auditors that this was a valid approach.
Q3	Do you consider that this would have a beneficial effect (a net reduction) in the overall workload for auditors? If not, why not? Please provide reasons for your view	We would encourage CIPFA/LASAAC to ensure that approach reduces the audit burden in this area which at present does not provide value for public money or help decision making.
Q4	Who do you consider would be an appropriate authoritative body to determine the indices to be applied?	This should be issued as accounting guidance by DLUHC to give it statutory override status and remove any doubt.
Q5	By what date would you need this information to be able to effectively implement an indexation approach?	This is already too late for local authorities for 2023/24 as Local Authorities have already instructed valuers.
Q6	Do you have any other comments on this proposal?	If this approach is to make sufficient difference to workloads and avoid issue with audit it is essential that any approach is sufficiently prescribed that auditors can rely on it and disagreements. do not merely get different audit

Reduced pensions disclosures

Q7	Do you agree with the proposal that, for local authorities in England only and for the 2023/24 and 2024/25 reporting periods, the application of the requirements of the Code should be amended so that reduced pension disclosures are required, as outlined in the exposure draft? If not, why not? Please provide reasons for your view, noting any specific pension disclosures for which you consider this approach to be problematic. .	Whilst we welcome the proposed reductions in disclosures we do not feel the proposals have gone far enough and would have preferred to see a move towards reporting on a contribution basis for local authorities. Local authorities have no control over the level of funding set for the pension fund and are required by law to apply the employer contribution rate determined as part of the actuarial valuation cycle. If pension deficit/surplus information is required for the public sector this should be provided at the pension fund level.
Q8	Do you consider that this would have a beneficial effect (a net reduction) in the overall workload for preparers, having regard both to additional work that would be required to implement the change, and anticipated reductions in requirements to provide additional evidence to auditors and to resolve auditor queries? If not, why not? Please provide reasons for your view.	Any reduction is disclosure is beneficial but we would urge CIPFA/LASAAC to consider whether it can go further.
Q9	Do you consider that this would have a beneficial effect (a net reduction) in the overall workload for auditors? If not, why not? Please provide reasons for your view.	No comment

Q10	Do you have any other comments on this proposal?	Real savings would come from centralising pension disclosure information at the fund level and moving individual local authority accounts to a contributions basis – this is the figure that impacts upon the General Fund and is therefore what decision making is based upon and is in the public interest. This has been shown to be particularly the case in the light of emerging fund surpluses.

Other matters

Q11	Do you have any other comments on how the short-term proposals might be implemented?	We note that the proposals are very late in the day and urge that they are confirmed as soon as possible as local authorities are still working to an end of May deadline and have little if no spare capacity at this stage in the year. We would like to see a more fundamental debate started on the future of local authority accounts focussed on decision making and information that is of value to the local taxpayer as soon as possible such that any changes arising can be implemented with a realistic timescale. For districts, in particular, this must include a review of balance sheet materiality if we are not to merely start a new backlog and should also review what benefits reduced reporting allied to FRS 102 could give.