

Draft Notes

CL 03 06 22B

Board	CIPFA/LASAAC Local Authority Accounting Code Board
Date	27 April 2022
Time	16:00 – 17:00
Venue	Microsoft Teams

Present

Chair	Conrad Hall (Chair)	<i>London Borough of Newham</i>
CIPFA Nominees	Deryck Evans	<i>Audit Wales</i>
	John Farrar	<i>Grant Thornton</i>
	Christine Golding	<i>Essex County Council</i>
	Paul Mayers	<i>National Audit Office</i>
	Alison Scott	<i>Three Rivers DC and Watford BC</i>
	Liz Thomas	<i>Flintshire County Council</i>
	JJ Tohill	<i>Mid-Ulster Council</i>
LASAAC Nominees	Nick Bennett	<i>Azets</i>
	Hugh Dunn	<i>Edinburgh City Council</i>
	Joseph McLachlan	<i>East Ayrshire Council</i>
	Paul O'Brien	<i>Audit Scotland</i>
Co-optees	Gillian Woolman	<i>Audit Scotland (Vice Chair)</i>
	Jake Bacchus	<i>Westminster City Council</i>
Observers	Elanor Davies	<i>Scottish Government</i>
	Jeff Glass	<i>Department of Communities (NI)</i>
	Emma Smith	<i>Welsh Government</i>
	Mike Sunderland	<i>HM Treasury</i>
	Peter Worth	<i>Chair, former Local Authority Accounting Panel</i>

In attendance Sarah Sheen *CIPFA, Secretariat Advisor*
 Richard Lloyd-Bithell *CIPFA, Senior Technical Manager*
 Alison Bonathan *CIPFA Secretariat*

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10	Apologies	
10.1	Apologies were received from: <p style="margin-left: 40px;">Jenny Carter Joseph Holmes Collette Kane</p>	
11	Declarations of interest	
11.1	No declarations of interest were noted.	
12	Proposed Amendments to the Code with Regards to Infrastructure Assets	
12.1	The Chair made opening comments on the consultation he suggested to Board should consider whether: <ul style="list-style-type: none"> • the issue had been communicated clearly • it should consult on the issue • the proposals will resolve the issues • there should be an urgent consultation of a short 4-week period as allowed under the Board’s Terms of Reference. • a communications process be adopted similar to the recent emergency consultation, including a webinar (the Chair noted the success of the emergency consultation). 	
12.2	CIPFA LASAAC was informed that following the last Task and Finish Group meeting in the preceding week the Secretariat considered that it was unlikely that there would be a solution where all the consequences could be taken on board under a short consultation process. The Secretariat therefore proposed that a temporary solution which would, if possible, ‘regularise’ the current situation and allow accounts to be closed and audit opinions provided. This would allow the longer-term solution to be addressed through the normal consultative processes of the Code. The longer-term solution might include an option appraisal.	
12.3	The consultation papers had been written in a very short time (over the preceding weekend) and may include typographical type errors and there were a small number of issues which had arisen since the papers had been issued.	CIPFA Secretariat
12.4	The temporary solution would take three forms: <ol style="list-style-type: none"> 1. The Code would give more guidance on depreciation for infrastructure asset. 	

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	<p>2. Currently there was an interpretation based on similar principles to the earlier rebuttable assumption (suggested as a part of the move to accounting for the highways network asset). An interpretation was thought to be necessary because the lack of information was unlikely to allow the assumption to be rebutted.</p> <p>3. There was some consensus in the Group that the information on gross historical cost or the gross book value (GBV) and accumulated depreciation (AD) had limited meaning to the users of local authority financial statements, so the proposals included be an adaptation to the IAS 16 Property, Plant and Equipment in the Code to remove the need to report this information for infrastructure assets. This adaptation was proposed particularly taking into account the information deficits.</p>	
12.5	<p>The assumption for item 2 above was thought to be able to hold because it was the economic case that funding had been such that local authorities were unable to replace parts of infrastructure assets until they were fully consumed/or worn out. It was noted that at the time of drafting it had appeared to be the case in the Task and Finish Group that the net book value (NBV) was able to be relied on. Since the meeting auditor members of the group had cast doubts on whether this was the case and had requested an amnesty on this position.</p> <p>The Secretariat noted that this might be able to be accommodated as a part of the interpretation as it was the case that most economic arguments were brought to a similar position. For example, in instances where replacement expenditure simply covers the surface of the asset this meets the same economic position as replacement as what is beneath this resurfacing expenditure is either impaired or now forms a part of the new expenditure and so no derecognition is required (or is able to be measured). Similarly, it will also be appropriate for the rare occurrences that an asset is impaired eg where expenditure on a replacement has been deemed to be subject to defect and must be replaced. This is because the impairment measurement provisions are inappropriate for infrastructure assets as value in use is the present value of an asset's remaining service potential and value in use is likely to be significantly more than depreciated historical cost.</p> <p>The latter two arguments had yet to be built into the consultation paper but would be added.</p> <p><i>[Secretariat Note that the interpretation to accommodate instances where depreciation policies were not as effective that they might be changed into an adaptation. See email 3 May 2021].</i></p>	
12.6	It was agreed that detailed comments or additional comments should be sent to the Secretariat by close Friday 29 April 2022.	
12.7	JJ Tohill commented that similar circumstances had arisen in Northern Ireland and had been addressed by means of the Accounts Direction.	

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12.8	Paul O'Brien noted that he was comfortable with the proposals as a pragmatic response in the short term before adopting a longer-term solution. Like SS he was of the view that there appeared to be consensus that the NBV was able to be relied on and had understood the problems were with GBV and AD where balances had not been removed on derecognition. PO'B was not comfortable with the word 'amnesty'.	
12.9	Christine Golding commented that the proposals made sense. While she was content with NBV she was of the view that there were concerns raised about all three issues. She was concerned that the discussion on depreciation might not send the right message.	
12.10	John Farrar noted that he was broadly supportive of the proposals. This was a difficult issue. He noted that he was aware of concerns about depreciation rates, but the issue was complex because there were issues about the existence of parts of the highways network. The reporting of the NBV appeared to not to be fully effective in some cases.	
12.11	Nick Bennet commented that there were difficulties with NBV because of the old capital accounting framework. He agreed that the GBV and AD should be removed. There may still be some difficulties with opening balances of NBV.	
12.12	Peter Worth commented that he thought that the current drafting provided the appropriate solution that confirmed the historical position.	
12.13	SS that in theory the approach proposed for the Code confirmed the position for NBV as the approach to derecognition should be what had always taken place and that the assumptions behind the interpretation had reasonable/good economic arguments to support it. The interpretation doesn't allow for positions were there needed to be corrections to accounts that had been anecdotally mentioned.	
12.14	Regarding depreciation, the Task and Finish Group had been clear that there should be effective depreciation policies in place but that changes to depreciation should be prospective (as a change in estimate). There were limited changes to the Code for depreciation most of this would be supported with guidance in the form of a CIPFA Bulletin.	
12.15	The Chair asked the Board whether it was of the view that the proposed changes were sufficient to resolve the issues, local authorities had not changed practice. The issue first originated in one audit firm the concerns then appeared to extend across all firms. He noted that one of the firms had been subject to a significant fine. Following this there appeared to have been a heightened interest in the information.	
12.16	The Secretariat noted that this had been discussed with two other audit firms (who were members of the Task and Finish Group) and they appeared to accept that the proposals were appropriate. It was noted that the issue probably should be discussed at the Local Audit Technical Group hosted by the NAO. Paul Mayers indicated that it would be discussed the following week.	
12.17	JJT wondered what impact this might have on the audit opinions on the financial statements and compared this to the emphasis of matter commentaries that had been provided with regard to property, plant and	

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	equipment due to the affect of the COVID-19 pandemic on measurement of these items.	
12.18	<p>The Chair commented that this was an important issue and sought the Secretariat's views as to whether the interpretation was the right approach. The Secretariat noted that it should be an interpretation indicated that something was or should be the case due to local authority circumstances. The adaptation was a complete change to IFRS this was demonstrated in the proposals for the removal of the requirement to report GBV and AD for infrastructure assets which was a complete change of IAS 16 <i>Property, Plant and Equipment</i>. SS noted that there might need to be more thought on the issue to accommodate the issues that were raised with regard to NBV. But this would be subject to consultation.</p> <p><i>[Secretariat note that the proposed approach in the consultation paper to resolve the issues raised with the opening NBV balance was revised to an adaptation to accommodate this.]</i></p>	
12.19	PO'B noted that an emphasis of matter though important shouldn't be a major concern. Emphasis of matter commentaries were included because they were fundamental to the understanding of the financial statements. The problems with measuring property, plant and equipment during the pandemic were properly recorded as being fundamental to the understanding of the relevant financial statements. PO'B noted that he thought that the potential issues regarding infrastructure assets were (if they could not be resolved) more likely to be matters which would be subject to qualifications of the audit opinion rather than an emphasis of matter commentary.	
12.20	The Board agreed that within the realms of reasonableness that it would be better to avoid this.	
12.21	The Chair noted that subject to drafting comments which were requested by the end of the week (close Friday 6 may) that the consultation should proceed. The outcomes of this process would be circulated to the Board for information. The Board agreed.	
12.22	The Board agreed that a four-week consultation period was appropriate.	
12.23	The Chair suggested that there should also be a webinar to support the consultation which would help raise awareness as to why the Board supported by the Task and Finish Group in taking the various approaches.	
12.24	The Vice Chair commented that although this was a complex consultation, that the consultation was nevertheless easy to understand. However, a webinar would help accounts preparers and other stakeholders to understand the issues more quickly and increase engagement. But due to the time constraints only one webinar should be held. The Board agreed with these comments.	
12.25	The Board agreed that the Chair of FRAB should be informed of the approach to the consultation. The Board also suggested that the members of FRAB should also be updated. The Chair agreed to contact the Chair of FRAB	Chair/Secretariat
12.26	The Board debated the time period of the consultation and whether because it was a complex issue this should be until the 2023/24 Code. The Secretary noted that currently the consultation considered periods up until the current	Board/Secretariat

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	2022/23 Code. The Board agreed that this could be reconsidered as a part of the consultation process for the 2023/24 Code and the longer-term solution.	
12.27	CG wondered whether the consultation process should await the consultation process with auditors at the local audit technical network. The Board agreed that the consultation should not await this but that the Secretariat should discuss issues with the network.	Secretariat
12.28	The Board agreed that the consultation would do as much as it could to ensure that the issue was resolved but that it would not be able to allow for the forgiveness of errors.	
12.29	The Board thanked the Secretary and the Task and Finish Group for their work in moving the consultation process so fast.	