



Local Authority (Scotland) Accounts Advisory Committee

LASAAC response to the consultation *Local audit reform: a strategy for overhauling the local audit system in England.*

29 January 2025

Status of LASAAC:

The Local Authority (Scotland) Accounts Advisory Committee [LASAAC] is established as a voluntary independent committee.

LASAAC's Role reflects the Local Government in Scotland Act 2003 (Section 12) which states "It is the duty of a local authority to observe proper accounting practices." This includes "those which, whether by reference to any generally recognised, published code or otherwise, are regarded as proper accounting practices to be observed in the preparation and publication of accounts of local authorities."

The Code of Practice on Local Authority Accounting in the United Kingdom (the Code) is generally recognised as proper accounting practice for Scottish local government. LASAAC represents Scottish local government financial reporting requirements through its joint operation of the CIPFA/LASAAC Local Authority Accounting Code Board, principally in the development of the Code.

Further information about LASAAC can be found at:

<https://www.cipfa.org/policy-and-guidance/local-authority-scotland-accounts-advisory-committee>

LASAAC secretariat is provided by CIPFA and can be contacted at lasaac@cipfa.org

LASAAC's response to the consultation questions:

Some of the questions posed within the consultation are not relevant to LASAAC's work, with its key role in setting the accounting code for local authorities in Scotland.

Detailed comments on questions 9 to 14, which are relevant to LASAAC, are set out below. We hope this is a helpful contribution to the government's work in this important area.

9. What are the barriers to progressing accounts reform?

It is LASAAC's view that statutory adjustments could be seen as a barrier to progressing accounts reform. They are used to reconcile international standards based financial reporting measuring performance with the basis required for local taxation purposes. LASAAC acknowledges that some of these may be necessary, but they add complexity to local government financial reporting and barriers to understanding for all users. A solution could be to have statutory audited accounts based on IFRS without statutory overrides and a separate summary statement which reconciles to the funding position for setting local taxation.

Another barrier to reform is the need for all parts of the financial reporting and audit system to work together. LASAAC believes that audit *Practice Note 10: Audit of financial statements and regularity of public sector bodies in the United Kingdom* needs to reform alongside accounts reform to enable it to be successful. A common approach and understanding of materiality would have a significant impact on the ability to realise solutions to issues such as pensions infrastructure assets accounting and auditing in local government.

Another potential barrier is the application of IFRS, subject to interpretations and adaptations for the UK public sector. LASAAC is of the view that following the letter of IFRS can produce nonsensical results for local government and has concerns that the private sector focussed approach in IFRS is not always appropriate for the specific local government context, particularly in accounting for pensions and infrastructure assets. More pragmatism is required to apply IFRS principles in a manner which is helpful to accounts users and not over-burdensome for preparers.

10. Are there structural or governance barriers to accounts reform that need to be addressed?

LASAAC does not see CIPFA LASAAC and the related CIPFA, LASAAC and FRAB governance processes as a barrier to reform, although we do think there are ways in which these processes are not operating as effectively as they could. We note that CIPFA is reviewing how these could be improved.

LASAAC hugely values the support and expertise of CIPFA as secretariat, but questions whether CIPFA always has sufficient resources available to do the work required on standard setting and horizon scanning. Alternative funding models that do not rely on sales of the Accounting Code could enable more resources to be applied to accounting reform and speed up progress in this area.

11. Should any action to accounts reform be prioritised ahead of the establishment of the LAO?

Yes. Work on accounts reform should begin as soon as possible, although addressing the backlog has to be a top priority for England. LASAAC is committed to working on accounts reform alongside CIPFA's Better Reporting Group and CIPFA LASAAC and this work can continue whilst the LAO is being established.

As the Scottish audit system is not under pressure in the same way as in England, LASAAC may be able to work on accounts reform at a faster pace. A key focus of LASAAC for 2025 is building a solution for infrastructure assets

accounting and accounting for statutory adjustments. LASAAC will work with Scottish local authorities to generate ideas and solutions for infrastructure assets that can then be tested in the Scottish context and applied as appropriate across the UK local government.

12. Are there particular areas of accounts which are disproportionately burdensome for the value added to the accounts?

LASAAC's view is that the current reporting and auditing regime puts far too much focus on the top section of the balance sheet, with significant resource taken up on asset valuations for assets that cannot be realised. This does not necessarily add any value to the users of the accounts who are more likely interested in the revenue position, financial resilience, and service delivery.

13. Do you agree that the current exemption to the usual accounting treatment of local authority infrastructure assets should be extended and if so, when should it expire?

Yes, but LASAAC would highlight that it is the devolved Scottish Government that has the power to do this for Scottish authorities. Assuming that the Scottish Government is willing to extend the override for infrastructure assets, LASAAC's view is that this should be extended to at least 1 April 2027 to enable a workable solution to be achieved, enacted in the Code and practically implemented by local authorities.

LASAAC notes that Scottish authorities may be in a position to move towards a solution faster due to not being faced with the same audit backlog issues currently impacting on local government in England.

14a. Should the LAO adopt responsibility for CIPFA's Code of Practice on Local Authority Accounting?

No. LASAAC does not support the suggestion that the LAO might adopt responsibility for the Code of Practice on Local Authority Accounting.

As a point of principle, accounting requirements should not be set by an audit office as that represents a conflict of interest that could not be mitigated by any safeguards.

Secondly LASAAC would not support the LAO taking on a Code applicable to the whole of the UK. CIPFA LASAAC is established as a joint board with CIPFA representing English, Welsh and Northern Irish local authorities, and LASAAC representing Scottish local authorities. Local authority accounting is a devolved matter and therefore decisions related to it rest with LASAAC (which includes Scottish Government representation) rather than MHCLG.

A transfer of responsibility from CIPFA LASAAC to any other body would need to encompass fair participation and decision-making by all four nations. The consultation paper does not set out how this would work.

LASAAC is of the view that CIPFA is best placed to set the UK Code for local government. The LAO, or any other body, would face the same challenges currently being faced by the CIPFA LASAAC joint board in terms of constraints on

adaptations to IFRS for the local authority context, and also the complexity caused by statutory adjustments. Moving responsibility from CIPFA LASAAC would have no effect without addressing those underlying issues.

14b. Are there other options relating to responsibility of CIPFA's Code of Practice?

LASAAC considers that there is a strong case for leaving the development of the accounting code with CIPFA LASAAC supported by CIPFA secretariat. The apparatus, systems, skills and expertise relevant to local authority accounting Code development are already in place.

15. Should the Accounting Code be freely available if it is not transferred to the LAO?

LASAAC is supportive of the Accounting Code being made freely available. As noted in our response to question 10, LASAAC is not clear that CIPFA always has sufficient resources available to do the work required on standard setting and horizon scanning. Having a funding model that does not rely on sales of the Accounting Code could better support CIPFA in providing secretariat support to enable accounting reforms.