

- Redmond Review into local authority financial reporting and external audit in England

# **– call for views**

## **Response from the Local Authority Scotland Accounts Advisory Committee**

**Date of submission to [Redmond.Review@communities.gov.uk](mailto:Redmond.Review@communities.gov.uk): 19 December 2019**

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# Contents

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Introduction	3
Overview of Local Authority Scotland Accounts Advisory Committee	4
Strategic call for views	7
Technical call for views	8

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# Introduction

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1. The Local Authority Scotland Accounts Advisory Committee (LASAAC) have noted with interest your call for views on the arrangements in place to support the transparency and quality of local authority financial reporting and external audit in England.
2. LASAAC has prepared this response separately from any response which may be submitted by CIPFA and CIPFA/LASAAC, in view of the wider remit of CIPFA.
3. Before addressing the specific questions in your Strategic Call for Views and Technical Call for Views, we have set out an overview of the role of LASAAC.
4. We hope you find our response helpful. In order to be concise, we have kept our explanations brief, but if you would like further information, please contact the LASAAC secretariat at [lasaac@cipfa.org](mailto:lasaac@cipfa.org).

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# Overview of the role of the Local Authority Scotland Accounts Advisory Committee

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## Background

5. The Local Authority (Scotland) Accounts Advisory Committee (LASAAC) is an independent committee that develops and promotes proper accounting practice for local government in Scotland.
6. The committee is responsible for:
  - the development and promotion of proper accounting practice for Scottish local government
  - contributing to the UK IFRS-based Code of Practice on Local Authority Accounting
  - responding to discussion papers, consultation papers and exposure drafts
  - improving the quality and relevance of local government financial information for stakeholders
  - being an interface between the Scottish Government and Scottish local government in accounting matters, and
  - participation in relevant working groups.
7. LASAAC is funded by: CIPFA, the Scottish Government and Audit Scotland. Each funding body nominates volunteer representatives to sit on LASAAC. Current membership numbers 15 members and includes representatives from Audit Scotland, audit firms, local authorities, integration joint boards and the Scottish Government. Secretariat support is provided by CIPFA.
8. LASAAC has a key role, along with CIPFA, in the development and approval of the UK Code of Practice on Local Authority Accounting. Five members of LASAAC are members of the CIPFA/LASAAC Local Authority Code Board.
9. The aim of CIPFA/LASAAC Local Authority Code Board is to promote the highest possible standards in financial reporting. From 2010/11 onwards, the code has been based on International Financial Reporting Standards (IFRSs).

**10.** The board is a partnership between CIPFA (England, Northern Ireland and Wales) and the Local Authority (Scotland) Accounts Advisory Committee (LASAAC).

**11.** The CIPFA/LASAAC Board's terms of reference are:

- i. To prepare, maintain, develop and issue the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom.
- ii. To follow the Memorandum of Understanding between the Relevant Authorities on the development of the Code.
- iii. To consider and respond to advice from the Financial Reporting Advisory Board (FRAB).

Finalisation of the Code requires the approval of both CIPFA (through report to CIPFA's Public Finance and Management Board) and LASAAC.

**12.** The preparation, maintenance and development of the Code focuses in the main on EU adopted International Financial Reporting Standards and International Accounting Standards as adapted for public sector circumstances. In meeting its terms of reference, CIPFA/LASAAC has due regard to ensuring high quality financial reporting in local authority financial statements. CIPFA/LASAAC also consider issues relating to any information which is provided with local authority financial statements, including **commenting on the application of relevant best practice.**

### **Due process for the preparation of the Code**

**13.** CIPFA/LASAAC keeps the Code under review. In particular it considers, at least annually:

- any implications for the Code of the new accounting standards.
- any developments in local government that suggest further guidance on accounting matters is desirable.

Proposed divergences are notified to the FRAB Working Group as soon as practicable.

**14.** Drafting of the Code is undertaken by CIPFA/LASAAC. The process ensures the participation of local authority representatives from all jurisdictions covered by the Code, external auditors of local authorities, relevant governments, relevant government departments, the FRAB and independent outsiders on behalf of the wider public interest. Where necessary, and with approval of the Board, CIPFA/LASAAC may, as circumstances require, establish sub groups to consider individual issues or tasks. These sub groups conduct their meetings in accordance with agreed terms of reference.

**15.** CIPFA/LASAAC conducts its proceedings in an open way and follows due process involving wide consultation. Before publishing the final Code, CIPFA/LASAAC invite public comment explaining the proposals. The period for responses is normally eight to twelve weeks. Shorter consultations of at least four weeks may be undertaken in exceptional circumstances. CIPFA/LASAAC seek to secure publicity for the exposure draft and invitation to comment in local authority journals and accounting journals. The exposure draft and invitation to comment are placed on the CIPFA website. In addition to local

authorities, those specifically notified of the consultation and invited to comment include member bodies of CCAB, external auditors of local authorities and relevant government departments.

16. During the development of the Code, CIPFA/LASAAC identify any divergences from accounting standards and/or the Government Financial Reporting Manual (the FReM) and inform the FRAB Working Group under the process set out in the Memorandum of Understanding between the Relevant Authorities.

## Current developments

17. Following a review of its operations and following initial feedback from stakeholders, CIPFA/LASAAC has developed a vision statement to set out the principles which should inform future Code development. The vision statement is:

***UK local authority annual accounts should be widely recognised as an exemplar for clear reporting of the financial performance and position of complex public sector bodies. Users of accounts should be able to access the information they want to help them understand the finances of an authority and to take practical and informed decisions.***

***Three strategic themes will support progress towards this:***

- ***Ensuring that the annual accounts clearly articulate their key messages regarding their financial performance and position***
- ***Engaging with stakeholders to raise awareness and understanding***
- ***Reviewing its operations to ensure it is able to deliver its vision.***

## Survey

18. In support of current developments, CIPFA/LASAAC recently conducted a survey. The survey identified: four different classifications of users, areas of interest for the different classifications of user, and the level of importance attributed to aspects of the annual accounts. The survey also invited open feedback on key areas of interest on the annual report and accounts. CIPFA/LASAAC had an initial discussion of the results of the survey at its meeting in November 2019.

## Next Steps

19. Two discussion papers have been developed to indicate areas CIPFA/LASAAC intend to examine in further detail. The papers relate to: the future strategy for the development of the Code of Practice and the potential for differential reporting requirements.

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# Strategic call for views

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We have no comments we wish to offer on Questions 1 to 2.

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***Question 3 What level of financial literacy/familiarity with accounts and audit is it reasonable to expect the primary users of accounts to have and what implications does this have for the information presented in accounts and/or the information that should be subject to external audit?***

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LASAAC is a key partner in the CIPFA/LASAAC Board and, as referred to above, CIPFA/LASAAC has recently developed a vision statement, conducted a survey and has established a future strategy for the development of the Code of Practice. The responses to these activities have proven to be informative with respect to identifying primary and other users to local authority accounts, and the relative importance of aspects of those accounts to the different groups of users. For further detail we would cross refer you to the information contained in the response to the Review submitted by CIPFA.

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We have no comments we wish to offer on Questions 4 to 9.

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# Technical call for views

We have no comments we wish to offer on Questions 10 to 35.

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**Question 36. Do local authority accounts allow the user to understand an authority's financial performance and its financial resilience? If not, how could they be revised to be more understandable? What information could be presented to enable users of the accounts to understand whether the financial position of a specific LA is getting better or worse?**

LASAAC has worked diligently to consider the impact of IFRS developments on local authority accounts over the years, participating in the deliberations of the CIPFA/LASAAC Code Board, preparing guidance for practitioners in Scotland, establishing small working parties to determine the impact of changes on example annual reports and accounts, and providing training sessions to practitioners.

Key to users' understanding of the authority's financial performance and its financial resilience rests in the quality of the management commentary. In Scotland the Local Authority Accounts (Scotland) Regulations 2014 came into force on 10 October 2014. Statutory guidance on the Management Commentary in Finance Circular 5/2015 takes a similar approach as the central government Financial Reporting Manual (FReM). This requires the management commentary to reflect those matters companies are required to disclose under the Companies Act 2006, interpreted for local authorities.

The CIPFA/LASAAC Board, as referred to above, has a strategic project considering this matter further.

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**Question 37. The UK Government is committed to maintaining IFRS based accounting for the UK public sector. Given this, how would you recommend resolving the mismatch between the accruals and funding basis to improve the understandability of local authority accounts?**

The CIPFA/LASAAC Board, as referred to above, has a strategic project considering this matter further.

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**Question 38. Do you think that summary financial information should be reported in the annual report section of the accounts? If so, on what basis and should this information be covered by the financial audit opinion?**

In Scotland the Local Authority Accounts (Scotland) Regulations 2014 came into force on 10 October 2014. Statutory guidance on the Management Commentary in Finance Circular 5/2015 takes a similar approach as the central government Financial Reporting Manual (FReM). This requires the management commentary to reflect those matters companies are required to disclose under the Companies Act 2006, interpreted for local authorities.

The CIPFA/LASAAC Board, as referred to above, has a strategic project considering this matter further.

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We have no comments we wish to offer on Questions 39 to 43.