

# CIPFA/LASAAC Local Authority Accounting Code Board

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Subject Revised Feedback Statement

Date June 2020

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## 1 Introduction

- 1.1 This publication is a Feedback Statement from the CIPFA/LASAAC Local Authority Accounting Code Board (CIPFA/LASAAC) updating accounts preparers and other interested parties on the amendments to the 2019/20 *Code of Practice on Local Authority Accounting in the United Kingdom* (the Code) following the consultation on proposed changes to the Code in July to October 2019.
- 1.2 This Feedback Statement should be considered alongside the consultation papers on the Code. (The consultation documents are available on the archived [consultation pages](#) of the CIPFA website.)
- 1.3 In both the summer of 2018 and 2019 CIPFA/LASAAC consulted on implementation of IFRS 16 Leases. However, this standard has been deferred across the UK public sector and therefore this feedback statement does not include any commentary on CIPFA/LASAAC's deliberations of IFRS 16.
- 1.4 **This Feedback Statement does not form any part of the 2020/21 Code.**
- 1.5 Local authorities in the United Kingdom are required to keep their accounts in accordance with 'proper practices'. This is defined, for the purposes of local government legislation, as meaning compliance with the terms of the Code, prepared by CIPFA/LASAAC. The Code is reviewed continuously and is normally updated annually. The Code confirms that in the unusual event that other statutory provisions require departures from the Code, then the statutory provisions must be followed.
- 1.6 In meeting its terms of reference CIPFA/LASAAC is committed to having due regard to ensuring high quality financial reporting in local authority financial statements.

## Feedback Statement [EXTRACT] Section 1 Public Consultation Responses

No.	Consultation Question	Response Statistics	Comments	CIPFA/LASAAC's Deliberations	CIPFA/LASAAC's Decisions
1.	Do you agree with the proposals for implementation of the 'Definition of Material: amendments to IAS 1 and IAS 8'? If not, why not? What alternatives would you suggest?	<p><b>Total</b> (% of responses) 36 86%</p> <p><b>Agree</b> (% of views expressed) 34 94%</p> <p><b>Disagree</b> (% of views expressed) 2 6%</p> <p><b>Ratio of Agree: Disagree</b> 17.0</p>	<p>The respondents generally supported the proposals. They were of the view that this would support a clearer materiality assessment, and the exclusion of obscuring material.</p> <p>There were some dissenting comments particularly relating to whether a quantitative threshold has been exceeded without specific reference to qualitative aspects.</p>	<p>Different views may remain on this issue for example: in its response to Q3 one audit body suggested that the voluntary inclusion of additional information is inconsistent with streamlining and clarity achievement. (Draft para 2.1.4.14C includes "Additional information may be disclosed where this does not obscure information which is material for users.")</p>	<p>To proceed with the approach included in the consultation subject to incorporating a suggested amendment to 'local authority' rather than 'reporting entity':</p>

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2.	Do you agree with the proposed requirement to disclose information concerning the assessment of materiality? If not, why not? What alternatives would you suggest?	<p><b>Total</b> (% of responses) 36</p> <p>86%</p> <p><b>Agree</b> (% of views expressed) 24</p> <p>67%</p> <p><b>Disagree</b> (% of views expressed) 12</p> <p>33%</p> <p><b>Ratio of Agree: Disagree</b> 2.0</p>	<p>The principle of including guidance on the disclosure or information relating to materiality appears to be generally supported.</p> <p>However, there are significant dissenting comments which indicate concerns about practical implementation. For example:</p> <ul style="list-style-type: none"> <li>• length of disclosure required</li> <li>• addressing qualitative judgements</li> <li>• differences in requirements between the Code and auditing standards</li> <li>• media criticism</li> <li>• increased use of Freedom of Information requests.</li> </ul> <p>The potential for reducing clarity for accounts users is also highlighted.</p>	<p>CIPFA/LASAAC was concerned that mandating the approach to implementation may result in less clarity and more lengthy disclosures. Increasing the reporting burden for local authorities. It could also increase the audit process.</p>	<p>CIPFA/LASAAC decided that the risks that this may result in increasing both the reporting and auditing burdens meant that they would not proceed with any changes at this juncture.</p>

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3.	What comments or suggestions do you have concerning other potential specifications in the Code to support and promote the appropriate application of materiality?	N/A	<p>Comments indicate the following considerations arise:</p> <ul style="list-style-type: none"> <li>• The perception of differences between the Code and auditing standards requirements regarding materiality assessment.</li> <li>• The suggestion that materiality determination is required to be more significantly targeted (ie granular) for different aspects of authority accounts (eg property, plant and equipment, pensions liability, Comprehensive Income and Expenditure Statement, reserves etc.)</li> <li>• The role of the audit process in affecting materiality assessment by authorities.</li> <li>• Concern that discussion of materiality may be regarded as undermining the perception of the independence of the audit process.</li> <li>• The importance of qualitative factors in materiality assessment.</li> <li>• The role of guidance rather than Code prescription.</li> </ul>	<p>CIPFA/LASAAC was of the view that this should be kept under review and considered as a part of the regarding the application of materiality for the 2021/22 Code and beyond.</p> <p>Action on disclosures in the 2020/21 Code may provide an initial basis for discussion and direction.</p>	<p>CIPFA/LASAAC decided that it would not proceed with changes to the 2020/21 Code but would consider this issue for further development as a part of its strategic review and feedback processes.</p>

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			<ul style="list-style-type: none"> <li>The cost of evidencing quantitative materiality assessment (eg establishing an evidence base to prove immateriality).</li> <li>Some support for Code indication of which disclosures are commonly expected and which may be less common.</li> </ul>		
4	What suggestions for focus and improvement would you make regarding disclosures which may have specific relevance for group entities?	<p><b>Total</b> (% of responses) 35 83%</p> <p><b>Agree</b> (% of views expressed) 27 77%</p> <p><b>Disagree</b> (% of views expressed) 8 23%</p> <p><b>Ratio of Agree: Disagree</b></p>	<p>The underlying principles and practical implementation of the proposals as presented do not appear to provide clarity to stakeholders. This applies regardless of whether support or dissent was expressed. Areas of comment include:</p> <ul style="list-style-type: none"> <li>Suggestion that the questions are more relevant for CIPFA/LASAAC in developing the code than directly for preparers.</li> <li>Commentary that the questions would be more appropriate as guidance rather than Code specification.</li> <li>Lack of clarity on whether the framework questions would apply to disclosures required under accounting standards.</li> </ul>	<p>While the principle of a framework to undertake assessment is supported by respondents the precise and practical application of this, and how the proposed questions align with the accounting requirements, is not supported. This applies regardless of whether respondents were supportive or dissenting.</p> <p>CIPFA/LASAAC was of the view that such an approach could not proceed without further consultation and stakeholder engagement.</p> <p>For English authorities the Redmond Review may also affect the extent to which some disclosures should be</p>	<p>CIPFA/LASAAC decided that it would not proceed with changes to the 2020/21 Code but would consider this issue for further development as a part of its strategic review and feedback processes.</p>

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		3.4	<ul style="list-style-type: none"> <li>• A need to provide clarity where a disclosure is a statutory requirement and thus the framework questions do not apply.</li> <li>• Application of the cost/benefit assessment – both in terms of accounts preparation and evidencing, and the view that this assessment is explicitly not permitted under accounting standards as an exemption from disclosure.</li> <li>• Cross- referencing to other sources is noted as not being in alignment with IFRS reporting requirements.</li> <li>• A lack of clarity as to whether, or why, the questions should only be applied to new disclosures.</li> <li>• Suggestions that materiality should be included as a specific question in the framework.</li> <li>• The potential for additional work to arise for authorities in demonstrating and evidencing that the framework questions have been applied as specified in the Code.</li> </ul>	considered as mandatory compared to others which are subject to the accounting requirements.	

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			<ul style="list-style-type: none"><li>Reference to 'annual accounts and financial statements' should just be 'annual accounts'</li></ul>		