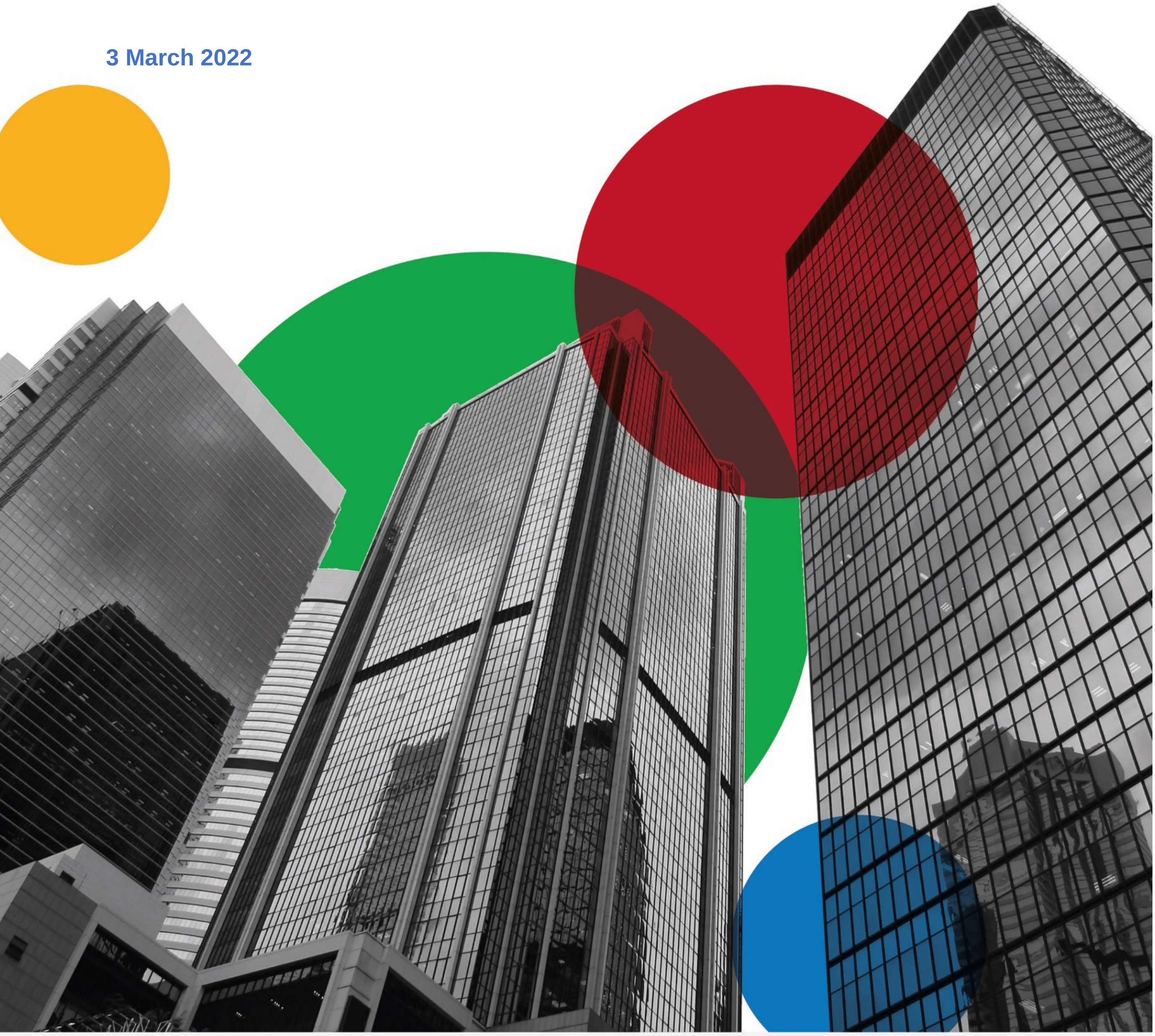
ICAS response to CIPFA LASAAC:

Emergency proposals for the update of the 2021/22 Code of Practice on Local Authority Accounting in the United Kingdom

3 March 2022



ICAS

Introduction

ICAS Public Sector Panel welcomes the opportunity to comment on this consultation. ICAS is a professional body for more than 23,000 members in the UK and in more than 100 countries around the world. Our members have all achieved the internationally recognised and respected CA qualification (Chartered Accountant). We are an educator, examiner, regulator, and thought leader.

Our members work in business, the public sector and accountancy practices ranging from the Big Four to the small practitioner.

ICAS was created by Royal Charter in 1854. The ICAS Charter requires its Boards to act primarily in the public interest, and our responses to consultations are therefore intended to place the public interest first. Our Charter also requires us to represent our members' views and to protect their interests, but in the rare cases where these are at odds with the public interest, it is the public interest which must be paramount.

Any enquiries should be addressed to atelfer@icas.com.

Key Points

We recognise the extremely difficult and serious position facing local authorities and their auditors (particularly in England) and appreciate the efforts CIPFA LASAAC is taking in attempting to help alleviate pressures through Code revisions. Within the broader context, the challenges facing local authorities and their auditors are far broader and more fundamental than what is within the scope of the Code. Whilst proposals to change the Code are constructive, the scope for a significant impact in the near term is very limited, particularly at such short notice. This is not without risk, now and in the longer-term. CIPFA LASAAC is in a very difficult position and we sympathise with this. Proposals to revise the Code with interim fixes at short notice are, in our view, a deflection from the more fundamental problems facing local authorities in England and which require attention.

Although beyond the scope of this consultation, it is critical that a more fundamental and holistic review of evidence is taken to identify and address the underlying problems. This will need to include the contribution of other stakeholders including government, regulators, PSAA, NAO, audit and local authorities to undertake a full root cause analysis and develop a longer-term plan. A broader scope parliamentary inquiry could be one step to help gather and evaluate the evidence and identify actions but we note that the known problems are multi-faceted and will take time to evaluate and address. ICAS is ready to participate in any such inquiry, should it be commissioned.

We seek to be constructive in this response by setting out the risks of the proposals but are of the view that focusing on short-term fixes to the Code risk impacting on the quality of financial reporting and audit, undermining accountability and trust in public finances and the reputation of the profession.

We note the sensitivity of the situation and reasons why CIPFA LASAAC have been asked to contribute assistance through Code changes. However, as a professional body and standard-setter, the focus should be on the body's core purpose: ensuring the accounts meet the legal requirement of a true and fair view. Code changes should not knowingly contribute to the potential for increasing audit qualifications in either local authority or whole of government accounts.

The first proposal (pausing valuation) appears to contravene the substance of standard IAS 16 and we do not support this. The second (IFRS 16 implementation) seeks to further defer change which aims to improve the transparency of reporting of leased assets and their corresponding liabilities.

Overall, we are not comfortable with further deferral of IFRS 16 and are not convinced that the potential gains are sufficient to outweigh the negative consequences of this decision. We stress the risks and potential consequences for financial management and reporting and highlight the inconsistency with central government's timetable for adoption of IFRS 16. In particular, the impact on WGA is a concern. A view from the NAO Comptroller and Auditor General should be sought.

Responses to the specific questions

	Pausing valuation and applying indexation to operational property, plant and equipment	
Q1a	Do you agree with the proposal that preparers should have the option to pause professional revaluation? If not, why not? Please provide reasons for your view.	No. We are not convinced that this would have real benefit. The timing is too late, as some may have already commissioned valuers. The implication of this change could be inadequate evidence to support asset values and a material misstatement of asset fair values which increases the probability of extra audit input and the possibility of audit qualifications. This is inconsistent with the over-riding requirement for accounts to present a true and fair view. It is also inconsistent with IAS 16 (measurement of PPE) and potentially IAS 8 (changes in accounting policies). There is concern that pausing valuations could create a backlog which will be problematic to clear in the future.
Q1b	Additionally, do you agree with the proposal that preparers should have the option to pause professional revaluation and adopt an indexation approach to 2021/22? If not, why not? Please provide reasons for your view.	Indexation may be useful in conjunction with valuations (in-between professional valuations) but not as a substitute.
Q1c	If you support this proposal but the impacts for 2021/22 are minimal, so that audit timeliness issues remain, would you support either of these changes being explored for the 2022/23 Code?	No.
Q2	Do you have any comments on the impact of the adoption of this approach on preparers or auditors? If so, please provide more information.	No.
Q3	If you support this approach, do you consider that the approach should be available to all local authorities, restricted to England, or determined on a jurisdiction basis reflecting the view of the relevant government?	We do not support this approach. The Code is UK-wide and whilst there are differences across the UK nations, these are legislative. The application of financial reporting standards has always been UK-wide and should remain so.

Q4	If you support this approach in principle, do you consider that it is appropriate for all operational property plant and equipment, including for example, Housing Revenue Account assets?	No.
Q5	Do you have any other comments on the proposal?	No.
	Further deferral of the implementation of IFRS 16 Leases	
Q6	Do you support the further deferral of IFRS 16 implementation to reduce auditor/preparer workload? If not, why not? Please provide reasons for your view.	Although we understand why this is proposed, in our view, it is only likely to provide a marginal benefit to reduce preparation and audit time. We are not convinced that this marginal benefit will outweigh the related costs.
	Potential risks and consequences of deferring IFRS 16 The government chose to apply IFRS (as adapted) across the public sector as preparing accounts on a consistent basis makes it easier for readers to understand and compare performance. This approach supports an easier consolidation for Whole of Government Accounts (WGA). The priority for standard setting and guidance is to support high quality financial reporting and comply with applicable standards. Further divergence from the standards does not help this overarching objective or support accountability and public trust in the finances. IFRS 16 aims to improve transparency by providing a more complete account of leases, their financing and impact on financial performance by improving recognition. Repeated deferral is inconsistent with this and risks damaging the reputation of the local authority accounting framework. It also creates inefficiencies and could add to future backlogs. The impact of further deferring IFRS 16 implementation affects not only local authorities but WGA, particularly as IFRS 16 applies to central government from 1 April 2022 (for the 2022/23 financial year). Whilst the Code changes are unlikely to cause audit qualifications for local authorities (as they apply an adapted form of IFRS), there will be repercussions at WGA level. When the WGA apply IFRS 16, adjustments may be needed for those organisations not applying the standard. This is needed to support the C&AG's judgement on whether this constitutes a material misstatement. If it is not possible to get an accurate assessment, the accounts may be qualified. Further evidence is needed as to how significant the adjustments would be and whether the marginal benefit is sufficient to justify the consequences.	
Q7	Do you have any comments on the practical impact of the adoption of this approach? Please provide details to support your view	Preparedness varies so some authorities are ready and would be penalised by this change.
Q8	Do you have any comments on the jurisdictional application of this approach?	See the response to Q3. An additional concern relating to the implementation of this proposal is the inconsistent severity of the situation. The experience of England is not mirrored elsewhere, it would be unfair for other authorities to be required to implement proposals they do not need and which are short-term.
Q9	Do you have any other comments on the proposal?	No.

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