

Code of Practice on Local Authority Financial Reporting

A public consultation issued by CIPFA/LASAAC Local Authority Code Board

Comments from ACCA to CIPFA/LASAAC Local Authority Code Board

28 March 2024

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About ACCA:

ACCA (the Association of Chartered Certified Accountants) is the global professional body for professional accountants.

We're a thriving global community of **247,000** members and **526,000** future members based in **181** countries and regions, who work across a wide range of sectors and industries. We uphold the highest professional and ethical values.

We offer everyone everywhere the opportunity to experience a rewarding career in Accountancy, finance, and management. Our qualifications and learning opportunities develop strategic business leaders, forward-thinking professionals with the financial, business, and digital expertise essential for the creation of sustainable organisations and flourishing societies.

Since 1904, being a force for public good has been embedded in our purpose. We believe that Accountancy is a cornerstone profession of society and is vital in helping economies, organisations, and individuals to grow and prosper. It does this by creating robust trusted financial and business management, combating corruption, ensuring organisations are managed ethically, driving sustainability, and providing rewarding career opportunities.

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GENERAL COMMENTS

ACCA welcomes the opportunity to respond to the CIPFA/LASAAC Local Authority Code Board public consultation on short term England-only measures to aid the recovery of local authority reporting and audit.

ACCA fully supports the joint effort from CIPFA/LASAAC and system partners in addressing the backlog in local financial reporting and audit in England. We see this collaboration as a positive step towards fostering restored public trust in local authorities' financial management.

In line with our response to the 'Whole of Government 2020-21' Public Accounts Committee inquiry,¹ ACCA emphasises how late financial statement publishing reduces the value of the statements. The capacity of accounts users to hold local entities responsible is impacted by late publishing, which also impedes openness, accountability, and informed decision-making by local authorities.²

As we stated when responding to the DLUHC public consultation on proposed measures to address the local audit backlog,³ we have consistently supported ongoing work to reform audit and corporate governance, recognising their importance in restoring the UK's global reputation and credibility, and providing certainty to investors and the public at large.⁴

In this regard, we broadly support CIPFA/LASAAC's proposed temporary measures to the 2023/24 and 2024/25 Codes, aimed at streamlining the recovery process following the DLUHC's proposed reset for all financial years up to and including 2022/23. It is reasonable to anticipate that reducing the effort required by preparers and auditors will facilitate the publication of audit opinions. However, we believe that conducting an impact assessment to evaluate the risks associated with the simplification would be a valuable enhancement.

In relation to the proposed option for simplifying the measurement of operational property using specified indexation we generally agree that these types of assets tend to maintain relatively stable values over time. Consequently, indexation seems a sensible temporary simplification to save preparers some time without resulting in significant valuation changes. Nonetheless, the practicality and relevance of this proposal hinge on the starting point (i.e. the current status of financial reporting for the 2022/23 period – specifically, the extent to which accounts have been formally approved and published). Furthermore, additional information on the basis and development of the index are required to thoroughly evaluate its fairness and efficiency. It is also important that explicit reference be made in the accounts where this mechanism has been used.

With regard to set reduced disclosures for pensions reporting, we agree with the statement that not all pension disclosures are essential, and generally agree that reducing pension disclosures in alignment with Financial Reporting Standard 102 is a positive initiative given the aim to ease the pressure on preparers.

However, reducing reporting requirements to streamline financial information preparing comes at the cost of financial data accuracy, among others, which would further erode public

¹ Response to 'Whole of Government Accounts 2020-21 Inquiry' from the UK Parliament Public Accounts Committee (31 October 2023), available [here](#).

² See ACCA's 'Rethinking Public Financial Management' report (2021), available [here](#).

³ See ACCA's response to the Department of Levelling Up, Housing and Communities on the public consultation 'Addressing the local audit backlog in England' of 7 March 2024, available [here](#).

⁴ See ACCA's letter to the Chancellor outlining members' priorities ahead of the announcement on 6 March 2024 (26 January 2024), available [here](#).

trust and damage council's reputation. As such, it is important for system partners to manage expectations on the potential outcomes of temporary measures and avoid putting additional stress on finance professionals working in local authorities.

These temporary measures will not address the underlying systemic problems that have led to the current backlog. Some of these relate to shortages of experienced staff in local authority finance teams, attraction and retention hurdles in the profession, increased workload pressure on finance and audit staff, emerging new reporting requirements without associated upskilling in finance teams, and the impact of reduced local government funding, among others. Addressing these is essential to allow for a sustainable system on local authority financial reporting, and surely requires wider and more comprehensive approaches that appropriately balance the need for quality information and the burden and capacity on auditors and preparers.

In line with the above considerations, it is critical to carefully evaluate if modifications of this kind to the code really make preparers' processes simpler. Will these changes, far from reducing operations, really need more labour and time to complete. These discussions are essential to guarantee that any changes made to the code are useful and effective in resolving the fundamental problems that local authority finance teams encounter.

Additionally, in line with our comments to CIPFA/LASAAC previous consultation on the draft Code of Practice on Local Authority Accounting,⁵ it is crucial to acknowledge that the reforms put forward by the system partners and CIPFA/LASAAC come at a time when councils are under pressure to meet widening budget gaps amidst cuts to government grants and are facing financial instability. This must be considered when proposing both temporary and long-term measures, given that additional spending to provide the capacity and skills to deliver numerous outstanding audits may be unfeasible in the face of the challenges faced by local authorities. It would be important that the CIPFA/LASAAC Code Board makes representations to government about increasing funding specifically to address the systemic problems in reporting and auditing.

We look forward to CIPFA/LASAAC's long-term proposals and strategic plan to permanently address the root causes of this complex, multifaceted problem. ACCA remains committed to actively participating in this process, representing our wide membership base, which includes many professionals working with local authorities. We will leverage our extensive member network and continuously engage with stakeholders to promote and advance these initiatives.

In line with past revisions to the Code, ACCA continues to advocate for the provision of additional guidance to assist preparers in effectively navigating these changes effectively, particularly considering the strain on local authorities' financial teams. This entails offering illustrative examples to guide the application of the index.

In conclusion, we emphasise that further long-term efforts are required to address the underlying reasons, but we endorse and encourage the immediate steps that CIPFA/LASAAC has suggested to temporarily help local authorities restore their financial reporting and auditing.

ACCA will continue to stand ready to support CIPFA/LASAAC, the system partners, local authority preparers, and their auditors, in responding to the challenges ahead.

⁵ See ACCA's response to '2024/25 Code of Practice on Local Authority Accounting in the United Kingdom' Consultation (17 October 2023), available [here](#).