

2023/24 Code of Practice on Local Authority Accounting in the United Kingdom

Consultation issued by the CIPFA LASAAC Local Authority Accounting Code Board in August 2022

Comments from ACCA

Ref: TECH-CDR-2016

11 October 2022

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Further information about ACCA's comments on the matters discussed here can be requested from:

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GENERAL COMMENTS

ACCA welcomes the opportunity to respond to the CIPFA LASAAC Local Authority Accounting Code Board (CIPFA LASAAC).

The last two years have seen significant economic upheaval as a result of the covid-19 pandemic and military conflict in Ukraine disrupting energy supplies; it seems now only inevitable that the UK economy will experience a period of recession. Users of local authority financial statements will rightly wish to identify the impact of these events on the public purse, while ensuring that those accountable for the disbursement of public funds do not arbitrarily blame these events for adverse financial performance. We strongly recommend that CIPFA LASAAC develops guidance on the disclosure of such major events in a frank, unbiased and factual format.

We were pleased to note the International Public Sector Accounting Standards Board's (IPSASB) recent consultation paper, *Advancing Public Sector Sustainability Reporting*. We are strongly supportive of international developments in sustainability reporting, and are pleased that to note the extension of sustainability reporting to the UK public sector; it would be a missed opportunity for the UK public sector not to embed this reporting in a manner that allows for citizens to understand the approach adopted by local government. Consistent with [our joint response](#) with the Pan African Federation of Accountants (PAFA) to the IPSASB on its consultation paper *Advancing Public Sector Sustainability Reporting* in September 2022, we believe it is appropriate for CIPFA LASAAC to develop guidance in the first instance, consistent with IPSASB pronouncements, with a view to ultimately translating this guidance into authoritative requirements as implementation progresses globally and the International Sustainability Standards Board (ISSB) standards become business-as-usual; an incremental approach would allow reporting practice to mature while encouraging early adoption. We believe that CIPFA LASAAC's objectives should make specific reference to IPSASB pronouncements, to ensure that UK local authority accounting remains current and internationally consistent.

ACCA stands ready to support CIPFA LASAAC, local authority preparers, and their auditors, in responding to the challenges ahead.

SPECIFIC COMMENTS

IFRS 16 Leases Deferral, Stable Platform for the Code and Accounting for Infrastructure Assets

- 1. Do you agree with the approach to the changes to the Code ie to maintain a stable platform in the 2023/24 Code? If not, why not? Please provide your views on why this might be the case.**

We concur with CIPFA LASAAC's approach to limit changes to the Code for 2023; we believe that CIPFA LASAAC's decision to delay mandatory implementation of IFRS 16 *Leases* to 1 April 2024 was correct and a pragmatic response to the unique challenges faced by the UK public sector, given the scale and complexity of leases across the public estate and the importance of maintaining a stable platform in public sector accounting. Providing a one year grace period allows local authorities to prepare for IFRS 16 and trial 'dry run' reporting cycles under the standard. We agree with Conrad Hall's statement that IFRS 16 "*remains the best*

form of reporting local authority leases”¹ and strongly encourage CIPFA LASAAC to ensure that implementation is not further delayed.

Definition of Accounting Estimates, Amendments IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*

2. Do you agree with CIPFA LASAAC’s view that the changes included in the Definition of Accounting Estimates, Amendments to IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* should be implemented in the Code as outlined in the ITC? If not, why not? What alternatives do you suggest?

We broadly concur with the changes proposed in the ITC, which are consistent with recent amendments to IAS 8.5, IAS 8.32-32B, IAS 8.34-34A, and IAS 8.36-37. We note that the ED has excluded the examples provided in IAS 8.32(b) and (e), but recognise these examples of inventories and warranty obligations are less relevant for local authorities.

As noted in our [January 2018 response to the International Accounting Standards Board’s \(IASB\) proposed amendments to IAS 8](#), there can be considerable confusion for preparers in differentiating changes in accounting estimates from changes in accounting policies. We believe the changes proposed to the Code in the ITC appropriately reflect the amendments to IAS 8 in a public sector reporting environment.

Disclosure of Accounting Policies, Amendments to IAS 1 *Presentation of Financial Statements* and IFRS Practice Statement 2 *Making Materiality Judgements*

3. Do you agree with CIPFA LASAAC’s view that Disclosure of Accounting Policies, Amendments to IAS 1 *Presentation of Financial Statements* and IFRS Practice Statement 2 *Making Materiality Judgements* should be implemented in the Code as outlined? If not, why not? What alternatives do you suggest?

We support the updates proposed by CIPFA LASAAC as outlined in the ITC in relation to recent updates to IAS 1 *Presentation of Financial Statements*, which are consistent with IAS 1.10, IAS 1.117-117E and IAS 1.122. ACCA supported these changes to IAS 1 in our [January 2018 response to the IASB’s Definition of ‘material’ exposure draft](#).

In practice, the disclosure of accounting policies can sometimes be viewed as a boilerplate ‘copy and paste’ exercise by preparers, perhaps making use of an audit firm’s illustrative examples, and not always considering the information needs of users of the financial statements. We believe that the updates proposed in relation to IAS 1 should encourage local authority preparers to consider which accounting policies are material to their stakeholders, and to present this information in a manner consistent with the spirit and letter of the Code. We encourage CIPFA LASAAC to actively promote this update to the Code in respect of IAS 1 and IFRS Practice Statement 2, perhaps by running workshops for local authority preparers to reinforce the importance of understanding users’ information needs when preparing this section of the local authority financial statements.

¹ CIPFA LASAAC [Statement on the Deferral of IFRS 16 Leases – Update](#), 8 April 2022

Deferred Tax relating to Assets and Liabilities arising from a Single Transaction, Amendments to IAS 12 *Income Taxes*

- 4. Do you agree with CIPFA LASAAC's view that Deferred Tax relating to Assets and Liabilities arising from a Single Transaction, Amendments to IAS 12 *Income Taxes* should be implemented in the Code as outlined in the ITC? If not, why not? What alternatives do you suggest?**

We concur with CIPFA LASAAC's view that the narrow scope amendments to IAS 12 will not apply to local authority solus financial statements, but may apply to local authority group accounts when consolidating trading subsidiary results affected by this update.

Reference to the Conceptual Framework, Amendments to IFRS 3 *Business Combinations*

- 5. Do you agree with CIPFA LASAAC's view that Reference to the Conceptual Framework – Amendments to IFRS 3 *Business Combinations* should be implemented in the Code as outlined? If not, why not? What alternatives do you suggest?**

We agree with CIPFA LASAAC's decision not to directly amend the Code in respect of these amendments to IFRS 3; in the event of a local authority needing to apply IFRS 3, we would expect preparers to use IFRS 3 as endorsed for use in the UK, as is currently the case under the Code.

Legislative Changes

- 6. Do you agree with CIPFA LASAAC's approach to legislative changes? If not, why not? What alternatives do you suggest?**

We concur with CIPFA LASAAC's approach to the legislative changes as outlined in the ITC, and note the Department for Levelling Up, Housing and Communities' (DLUHC) ongoing consultation on fair value gains and losses on pooled investments under IFRS 9 (England). We encourage CIPFA LASAAC to work with DLUHC in ensuring the accounting treatment for such gains and losses is aligned to IFRS 9 *Financial Instruments*; we find that divergence in financial reporting can lead to confusion and reduces financial statement users' ability to compare organisations' financial performance.

We would highlight the fundamental principle of local authorities acting as prudent stewards of public funds and welcomed DLUHC's updates to statutory guidance on the flexible use of capital receipts² in August 2022. Citizens need to be able to trust their local elected representatives to follow the spirit, as well as the letter, of the law.

² Statutory guidance: [Guidance on flexible use of capital receipts](#), updated 2 August 2022

IFRS 17 Insurance Contracts

7. Do you agree with CIPFA LASAAC's approach to the implementation of IFRS 17 Insurance Contracts in the Code? If not, why not? What alternatives do you suggest?

We concur with CIPFA LASAAC's description of IFRS 17 *Insurance Contracts* as an 'IFRS with limited application to local authorities', given that local authorities do not typically issue insurance contracts, and financial guarantees are outside the scope of IFRS 17.

8. Do you agree with the timing of the implementation of IFRS 17 Insurance Contracts in the Code ie in the 2025/26 Code? If not, why not? What alternatives do you suggest?

We concur with CIPFA LASAAC's proposal to adopt IFRS 17 in the 2025/26 Code, consistent with the rest of the UK public sector.

CIPFA LASAAC's Strategic Plan

9. Do you have any comments on the topics that CIPFA LASAAC's strategic plan should prioritise including the topics to be considered by the FRHub? Please set out the rationale for your response.

We recommend that CIPFA LASAAC continues to follow the topics under discussion by the IASB and Financial Reporting Advisory Board (FRAB) and issues updates annually in line with final pronouncements. We strongly encourage CIPFA LASAAC and the FRHub to prioritise the development of sustainability reporting guidance, and to work closely with the IPSASB in this regard – see our response to question 11 below.

10. Do you have any suggestions for how CIPFA LASAAC and the FRHub might be able to assist local authority accounts preparers in communicating the key messages in the financial statements to the users of the accounts, including the provision of summary financial information?

We encourage CIPFA LASAAC to continue its work in this area whilst related central government activity is on hold; it is important that this area continues to advance.

Given the economic effects of both the conflict in Ukraine and the covid-19 pandemic, and the resultant inflationary pressures / cost of living crisis, we expect that users of local authority accounts will want to understand the impact of these events on public finances. At the same time, it would be all too easy for a local authority to blame adverse budgetary variances and/or deficits on these events, without a robust explanation of how and the extent to which these events contributed to the authority's financial performance. We strongly advocate for CIPFA LASAAC and the FRHub to provide clear and comprehensive guidance on:

- Disclosure of local authorities' risk management processes in response to these events and how management sought to mitigate the pressures on public funds;
- Disclosure of local authority additional financial assistance to the local economy in response to these events in an unbiased, factual manner; and

- Disclosure and explanation of market risk and how these pressures affected the local authority's financial investments, recognising that many users of a local authority's financial statements may not have a financial background.

We encourage CIPFA LASAAC and FRHub to host training on these topics for local authority preparers.

11. Do you agree that sustainability reporting should be added to CIPFA LASAAC's strategic plan? If not, why not? What alternatives would you suggest?

We strongly support the extension of sustainability reporting to the UK public sector; we refer CIPFA LASAAC to [our detailed responses to the ISSB](#) on IFRS S1 *General Requirements for the Disclosure of Sustainability-Related Financial Information* and IFRS S2 *Climate Disclosure Standard* in July 2022. In [our joint submission](#) with PAFA to the IPSASB's consultation paper (September 2022), we highlighted the importance of the public sector keeping pace with the sustainability reporting agenda that has emerged in recent years in the private sector; there is significant public interest, both in the UK and internationally, in sustainable development and achieving the UN's Sustainable Development Goals (SDGs).

We encourage CIPFA LASAAC to develop guidance in the first instance, aligned to the guidance drafted by IPSASB, with a view to adopting this guidance into the Code as implementation progresses globally. We recommend CIPFA LASAAC works closely with the IPSASB in this regard, recognising the work already performed by TCFD, the ISSB and EFRAG. We suggest that CIPFA LASAAC carefully considers and sets out clear implementation timelines for public sector entities to adopt and implement sustainability reporting guidance.

12. Do you have any suggestions for how CIPFA LASAAC or CIPFA should support local authorities with reporting the impact of the environment or sustainability reporting in the local authority financial statements or accompanying reports (eg the narrative report)?

The widespread implementation of ESG reporting globally means that the substantial majority of professional accountants will need to upskill in this area. The introduction of ESG reporting will likely have an equal, if not greater, impact on local authority reporting than the transition to IFRS compliance in the last decade. We recommend CIPFA LASAAC provides comprehensive guidance on the implementation of ESG reporting, its concepts, principles and measurement bases to ensure the UK public sector can provide meaningful insight to its stakeholders. ACCA has long regarded ESG reporting as a fundamental component of corporate reporting, and will continue to contribute to future IPSASB consultations in this area.

13. Do you have any comments on CIPFA LASAAC's preliminary objectives for reviewing the structure or format of the Code? Please set out the rationale for your response.

We encourage CIPFA LASAAC to continue to triage emerging issues affecting local authority accounting to support its central government, local government, and audit firm stakeholders. We encourage CIPFA LASAAC to make specific reference to IPSASB pronouncements in its objectives, similar to the approach adopted by FRAB.