

Audit Committee

28 February 2022



Changes to the Code of Practice for Local Authority Accounting in the UK for 2021/22

Paul Darby, Corporate Director of Resources

Electoral division(s) affected:

None

Purpose of the Report

- 1 This report provides the Audit Committee with a summary of the key accounting changes in the latest edition of the Code of Practice for Local Authority Accounting in the UK (the Code). These changes apply to the 2021/22 Statement of Accounts.

Executive summary

- 2 In preparing the annual Statement of Accounts we closely follow CIPFA's Code of Practice for Local Authority Accounting in the UK, which is based upon approved accounting standards.
- 3 The 2021/22 Statement of Accounts will be prepared in accordance with the CIPFA Code 2021/22.
- 4 On 3 February 2022, CIPFA/LASAAC issued an exceptional consultation on time limited changes to the 2021/22 and 2022/23 Codes to help alleviate delays to the publication of audited financial statements. This includes an adaptation to allow local authorities to pause professional valuations for operational property, plant and equipment for a period of up to two years.
- 5 At this stage, it appears unlikely that the proposals will have a significant impact on the preparation of the 2021/22 accounts.

- 6 The consultation closes on 3 March 2022. Until the outcome is known, we will continue to prepare for the accounts on the basis of the 2021/22 Code as it currently stands.
- 7 The key accounting changes to the Code from 2020/21 to 2021/22 are outlined in Appendix 2, detailing their relevance and applicability to the council.

Recommendation

- 8 Members are asked to note the changes detailed in the report and in Appendix 2, which will be taken into account in the preparation of the 2021/22 statements.

Background

- 9 This report is presented to the Audit Committee in accordance with paragraph 4.2.3 of the Committee's operational terms of reference which requires it 'to maintain an understanding of internal and external reporting requirements'.
- 10 In preparing the annual Statement of Accounts we closely follow CIPFA's Code of Practice for Local Authority Accounting in the UK (the Code), which is based upon approved accounting standards.
- 11 The Code is based on International Financial Reporting Standards (IFRS) and has been developed by the joint CIPFA/Local Authority (Scotland) Accounts Advisory Committee (LASAAC) Code Board overseen by the Financial Reporting Advisory Board. It is based on approved accounting standards issued by the International Accounting Standards Board and interpretations of the International Financial Reporting Interpretations Committee, except where these are inconsistent with specific statutory requirements.
- 12 The Code also draws on approved accounting standards issued by the International Public Sector Accounting Standards Board and the UK Financial Reporting Council where these provide additional guidance. The latest edition of the Code applies for accounting periods commencing on or after 1 April 2021. It supersedes the 2020/21 Code.
- 13 In England and Wales, the Code constitutes a 'proper accounting practice' under the terms of section 21(2) of the Local Government Act 2003.
- 14 In December 2021, proposed measures were announced by Government to support the timely completion of local government audits and the ongoing stability of the local audit market. The proposals include:
 - (i) extending the published/audited deadline to 30 November 2022 for the 2021/22 accounts, then reverting to 30 September for five years until 2027/28.
 - (ii) providing councils with £45m additional funding over the course of the next Spending Review period to support with the costs of strengthening their financial reporting and increased auditing requirements;
 - (iii) strengthening training and qualifications options for local auditors and audit committee members;

- (iv) reviewing whether certain accounting and audit requirements could be reduced on a temporary basis, where these are of lesser risk to councils.
- 15 The CIPFA/LASAAC Code Board, overseen by the Financial Reporting Advisory Board, is in a position to issue mid-year updates to the Code in exceptional circumstances. On 3 February 2022, in response to the proposed measures announced by Government in December 2021, the Code Board issued an exceptional consultation on time limited changes to the 2021/22 and 2022/23 Codes to help alleviate delays to the publication of audited financial statements.
- 16 The consultation runs until 3 March 2022 and explores the following temporary changes:
- (i) an adaptation to the Code to allow local authorities to pause professional valuations for operational property, plant and equipment for a period of up to two years (though the initial proposal is for the 2021/22 financial year); this approach also explores the use of an index to be used to increase or reduce that valuation; and
 - (ii) deferring the implementation of IFRS 16 (leases) for a further year and reversing the planned changes to the 2022/23 Code to implement that standard.

Main implications

- 17 The council's 2021/22 valuation programme is already substantially complete; therefore the changes being explored as part of the CIPFA/LASAAC consultation are unlikely to have a significant effect on the workload for the 2021/22 Statement of Accounts and may be of more benefit on the 2022/23 workload. Work on IFRS 16 (leases) is also fairly advanced, and all work undertaken to date would have been necessary even if implementation of this standard is delayed.
- 18 Until the outcome of the consultation is known, we will continue to prepare for the accounts on the basis of the 2021/22 Code as it currently stands.
- 19 Appendix 2 provides a summary of the key accounting changes to the Code and their relevance to the council in preparing its Statement of Accounts for the year ended 31 March 2022.

Other useful documents

- Audit Committee, 30 September 2021 – Statement of Accounts for the Year Ended 31 March 2021
- [Measures to improve local audit delays - GOV.UK \(www.gov.uk\)](#), published 16 December 2021
- [Emergency update of the 2021/22 and 2022/23 codes | CIPFA](#), published 3 February 2022

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Appendix 1: Implications

Legal Implications

It is a requirement of the Local Government Act 2003 and the Accounts and Audit (England) Regulations 2015 for the Statement of Accounts to be produced in accordance with proper accounting practices.

Finance

There are no direct financial implications arising for the council as a result of this report, although by implementing the changes in the Code in our financial reporting we are demonstrating efficient arrangements for the proper administration of the council's financial affairs.

Consultation

None.

Equality and Diversity / Public Sector Equality Duty

None.

Climate Change

None.

Human Rights

None.

Crime and Disorder

None.

Staffing

None.

Accommodation

None.

Risk

This report requires no decision and so a risk assessment has not been carried out.

Procurement

None.

Appendix 2: Changes to the Code of Practice for Local Authority Accounting in the UK for 2021/22

The table below provides a summary of the key accounting changes in the 2021/22 CIPFA Code and their applicability to Durham County Council. Note, this does not contain the emergency proposals that are still subject to consultation at the time of this report.

	Change	Relevant to Durham County Council?
1	Confirmation that the Code will be based on UK endorsed accounting standards following the United Kingdom's withdrawal from the European Union.	Yes
2	Confirmation of the accounting arrangements for the Dedicated Schools Grant as a consequence of the issue of the Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2020. This was legislation that came into force in for 2020/21, but after the 2020/21 Code was issued.	Yes
3	Confirmation in Section 3.3 (Accounting Policies, Changes in Accounting Estimates and Errors) of the treatment of new standards that have been issued but not yet adopted.	Yes
4	Confirmation of the new standards introduced in the 2021/22 Code, and of the transitional reporting requirements for them: <ul style="list-style-type: none"> • Definition of a Business: Amendments to IFRS 3 • Interest Rate Benchmark Reform (Amendments to IFRS 9, IAS 39 and IFRS 7) • Interest Rate Benchmark Reform – Phase 2 (Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16) 	Yes
5	Augmentations to Section 3.4 (Presentation of Financial Statements) for the reporting of estimation uncertainty: <ul style="list-style-type: none"> • focus on estimates where there is the greatest potential for material adjustments • disclosures to help the understanding of users of the accounts 	Yes

	Change	Relevant to Durham County Council?
6	Confirmation in Sections 7.2 (Subsequent Measurement of Financial Assets and Financial Liabilities) and 7.3 (Financial Instruments – Disclosure and Presentation Requirements) of the reporting requirements of interest rate benchmark reform – that is, the change from the London Inter-Bank Offered Rate (LIBOR) to the Sterling Overnight Index Average (SONIA).	Yes