



THE LOCAL AUTHORITIES (CAPITAL FINANCE AND ACCOUNTING) (ENGLAND) (AMENDMENT) REGULATIONS 2022: CALL FOR EVIDENCE

Issued 7 November 2022

ICAEW welcomes the opportunity to comment on the Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2022: call for evidence published by the Department for Levelling Up, Housing and Communities (DLUHC) on 27 October, a copy of which is available from this [link](#).

- As we set out in our [response](#) to CIPFA LASAAC's consultation on proposals to resolve issues relating to infrastructure assets, ICAEW reluctantly supports a temporary solution.
- ICAEW welcomes the proposed Statutory Instrument, which we believe is necessary to prevent further avoidable delays to local authority audits.
- The affirmative wording is helpful, but clarifications are required to ensure consistent understanding that the override relating to prior period adjustments applies to all infrastructure assets and not just those that are replaced in year.
- We would not support the temporary override becoming permanent. DLUHC should work with other stakeholders to develop a practical long-term solution that includes supporting local authorities to improve their record keeping.
- While we believe statutory prescription is justified in these circumstances, we are generally opposed to temporary lowering of accounting standards as they are not a sustainable solution to the significant underlying issues in the local authority financial reporting and audit system.

ICAEW is a world-leading professional body established under a Royal Charter to serve the public interest. In pursuit of its vision of a world of sustainable economies, ICAEW works with governments, regulators and businesses and it leads, connects, supports, and regulates more than 165,000 chartered accountant members in over 147 countries. ICAEW members work in all types of private and public organisations, including public practice firms, and are trained to provide clarity and rigour and apply the highest professional, technical, and ethical standards.

As a regulator of the accountancy and audit profession, ICAEW is currently the largest Recognised Supervisory Body (RSB) for local audit in England. We have ten firms and over 85 Key Audit Partners registered under the Local Audit and Accountability Act 2014.

This response has been prepared by ICAEW's Public Sector team within the Reputation & Influence Department. ICAEW's Public Sector team supports members working in and with the public sector to deliver public priorities and sustainable public finances, including over 9,500 in ICAEW's Public Sector Community. ICAEW engages with policy makers, public servants, and others to promote the need for effective financial management, audit and assurance, financial reporting and governance and ethics across the public sector to ensure public money is spent wisely.

For questions on this response please contact our Public Sector team at representations@icaew.com quoting REP 93/22

ANSWERS TO SPECIFIC QUESTIONS

Question 4: Is the wording sufficiently clear such that LAs using the override will not have to make any prior adjustments or revisit opening balances with respect to infrastructure assets (for the accounts where the override is first used)?

1. We are concerned that the current wording of the Statutory Instrument could be interpreted as only applying to assets that are derecognised in year. In order for the override to operate as intended, we recommend that the wording relating to prior period adjustments and opening balances is re-written to cover the carrying value of all infrastructure assets. Historical information deficits means that finance teams cannot support the historical cost or accumulated depreciation applied to some infrastructure assets still in use so it is important that these are covered by the override.
2. Care must be taken to ensure that any revised wording is sufficiently clear that the override allowing local authorities to not make prior period adjustments to infrastructure assets only applies to issues caused by historic information deficits and not other issues. For example, prior period adjustments should still be required if the local authority identifies other material misstatements relating to infrastructure assets such as the misclassification of other categories of assets or incorrect capitalisation of repair costs.

Question 5: Is it clear that local authorities can then, if adopting option (2) (a) treatment in the SI, decide that any carrying or net amount of replaced component of an infrastructure asset or replaced part is 'nil' without further evidential requirement?

3. Yes. We welcome that the wording "may be a zero amount" originally proposed by CIPFA LASAAC has been replaced with more affirmative wording in line with our feedback, thus reducing the potential for inconsistency in interpretation.

Question 6: Is it clear that local authorities may, by election, choose to either follow the CIPFA LASAAC issued Accounting Code OR follow the treatment allowed in the override?

4. Yes.

Question 7: Should the override apply until 2024/25? If no, please provide comments on what alternative timeframe should be adopted.

5. Yes. We believe that this is a reasonable timeframe to develop and implement a long-term solution. We repeat our position that we set out in our response to the CIPFA LASAAC consultation on this issue that we would not support recurring extensions as this creates uncertainty for audit and finance teams, nor would we support making the override permanent.
6. We commend the proactive efforts of CIPFA and CIPFA LASAAC to resolve this issue and develop long-term solutions. As we stated in our response to the CIPFA LASAAC consultation, we do not believe that this issue can be resolved by changes to the accounting framework alone. We urge DLUHC to work with HM Treasury, the Financial Reporting Council, in its role as shadow system leader, and CIPFA to find a pragmatic and sustainable solution. We believe any such solution involves local authorities improving the quality of their underlying infrastructure asset records and it is vital that local authorities are given enough support to do this.
7. We set out our suggestions for long-term solutions in our response to the CIPFA LASAAC consultation.

Question 8: Is it correct that the override should apply to all accounts not yet certified?

8. Yes. The infrastructure assets issue is exacerbating delays to accounts from previous years resulting in severely delayed accountability.

9. The primary cause of initial delays to the publication of audited accounts in 2019/20 and 2020/21 was not the infrastructure assets issue as the issue only came to light in March 2022, long after the statutory deadlines had passed. We are concerned that the infrastructure assets issue may be obscuring other challenges caused by significant financial management and capacity issues in individual local authorities that DLUHC and local residents need to be aware of to ensure that these issues can be resolved.

Question 9: Are the definitions provided sufficiently clear and accurate?

10. Yes. We have no significant concerns about the definitions but we would prefer that the words “an accounting error” in the definition of a prior period adjustment were revised to “a material misstatement”. Under the CIPFA LASAAC Code on Practice for Local Authority Accounting (“the CIPFA LASAAC Code”), local authorities should not be posting prior period adjustments for immaterial accounting errors.

Question 10: Will this have the effect of mitigating the infrastructure assets issue (in conjunction with the changes to the Code that remove the need for disclosure of gross costs and acc dep) such that the majority of accounts affected now and while the override is in place will not be further delayed due to the infrastructure assets issue nor be qualified due to the infrastructure assets issue?

11. Yes. We welcome the Statutory Instrument as a proactive step to temporarily resolve the infrastructure assets issue and allow the majority of delayed local authority audits to be brought to a close. We understand from auditors that the proposed changes will have the intended effect for most affected accounts.
12. However, some ICAEW member firms have raised concerns that the lack of sufficiently granular records about some infrastructure assets may mean that local authorities cannot support the depreciation of infrastructure assets recorded in their accounts. This is not covered by the override introduced in the Statutory Instrument or by the proposed changes to the CIPFA LASAAC Code.
13. We understand that this is only likely to be a material issue for a small number of local authorities. However, we believe it is difficult to justify further delays or the significant expense of those authorities needing to hire highways experts to help componentise the layers of the road to calculate the depreciation in line with a strict interpretation of accounting standards. We therefore urge DLUHC to consider how they can support councils where this is an issue.
14. The National Audit Office should also consider whether it should issue guidance to auditors to encourage a consistent and pragmatic approach to interpreting the override and changes to the CIPFA LASAAC Code.

Question 16: Are there any risks or unintended consequences that in your view may arise as a consequence of the override?

15. ICAEW welcomes the Statutory Instrument and the proposed changes to the CIPFA LASAAC code as we agree that it is not in the public interest for the infrastructure assets issue to cause further delays to the publication of audited accounts nor for it to result in widespread auditor qualifications.
16. However, we are concerned that it sets a worrying precedent as a temporary lowering of accounting standards when problems occur is not a sustainable solution to the underlying problems in local authority financial reporting and audit. DLUHC should make clear that overrides of this nature will not be a regular feature of the local audit framework in the future.
17. We also reiterate the view that we set out in response to the CIPFA LASAAC consultation that the infrastructure assets issue may have wider consequences for local authority financial and operational management. We are concerned that until a permanent solution is found, the lack of accurate information about asset costs or useful lives may hinder strategic decisions

about maintenance and replacement of assets and the calculation of prudent minimum revenue provisions.

Question 17: Do you have any other observations on the effectiveness of the override?

18. We would like to draw DLUHC's attention to our **response** to the CIPFA LASAAC consultation on temporary changes to the local authority accounting code relating to Infrastructure assets.