CIPFA/LASAAC Local Authority Accounting Board 18 March 2024

cipfalasaac@cipfa.org

By email only

Dear Sir/Madam,

Consultation on short term England-only measures to aid the recovery of local authority reporting and audit

Consultation response

Barnett Waddingham LLP is a UK based firm providing actuarial, benefits, investment, and governance consultancy services in the public sector. We act as Fund Actuary for around one quarter of the LGPS funds in the UK, providing pensions accounting services to a wide range of employers participating in those funds. We also provide accounting services to a number of Police and Fire Pension Scheme employers who participate in unfunded schemes.

We therefore welcome this opportunity to respond to the CIPFA/LASAAC consultation on short term England-only measures to aid the recovery of local authority reporting and audit. Our response reflects our thoughts, experience and knowledge as actuaries preparing accounting disclosures, but please note that we are not qualified accountants or auditors. While we recognise that the board has invited correspondence via the online portal, we feel it is also useful to provide a written response due to the detailed nature of some of our comments.

The following represents the views of many, but not necessarily all of the actuaries working at Barnett Waddingham, and the partners of the firm. This response should, however, be considered as my organisation's views, rather than my own professional views although the two are, by and large, the same. We are happy for this response to be made public.

Background and Scope of response

DLUHC issued a statement in February 2024, jointly with the NAO, detailing proposals to clear the backlog and embed timely audit of local authority accounts. The joint statement set out that the CIPFA would consult on temporary changes to the Code of Practice in Local Authority Accounting for 2023/2024 and 2024/2025. CIPFA issued their consultation in late February with a timeline for responses of 29 March 2024.

The proposals span two separate topics:

- a revised measurement approach for property, plant and equipment
- reduced disclosure requirements for post-employment benefits

Due to our focus on defined benefit pension schemes, we restrict our comments to the latter topic, and the matters covered in Questions 7-10, and CU.3-CU.5 of the draft update to the 2023/24 and 20-24/25 Codes. Should the Board be minded to seek additional comment, we would be delighted to engage further to provide more information.

Before providing answers to the specific questions, we raise some wider points which we believe the Board may wish to consider.

Description of the proposal

In various places, the proposal is described as "a reduction in pension disclosures in alignment with Financial Reporting Standard (FRS) 102 requirements" and "aligning that reporting with FRS102". While we recognise that this description is an appealing summary of the overall thrust of the proposal, we feel the reference to FRS102 is potentially misleading and may cause confusion.

The pensions parts of the current Code are a close read-across from the relevant international accounting standard (IAS19), modified to reflect the particular context of UK public sector pension schemes. In several important aspects IAS19 differs from FRS102, such as the detailed treatment of the asset ceiling, especially any additional liability from an onerous funding commitment.

Some specific aspects of the disclosure requirements also differ between IAS19 and FRS102. For example, IAS19 142 and Code 6.4.3.45 8) require that assets are reporting showing a split between those that have a quoted market price in an open market, and those that do not, whereas FRS102 28.41(h) does not require this split. Additionally, IAS19 147(c) and Code 6.4.3.45 13) c) require the weighted average duration of the defined benefit obligation to be stated whereas FRS102 does not require this to be disclosed.

Overall, we feel that there is a risk that references to FRS102 may to taken too literally and disclosures are prepared exactly as required by FRS102 which we do not believe is the intention. Rather, we understand the proposal to be that certain aspects of the Code (which mirror IAS19) will remain in force and continue to reflect the detailed requirements of IAS19 rather than FRS102. We therefore suggest that descriptions of the proposal are phrased in terms of which parts of the existing Code will remain in force, and which parts are suspended, without reference to FRS102.

Detailed technical points on the Draft Update to the 2023/24 and 2024/25 Codes

Section1 – reporting requirements and Section 2 – consequential amendments

CU.3
As discussed above, we would prefer that CU.3 does not refer to FRS102, but rather provides a narrative description of the changes. For example, "those aspects of the Code which require a sensitivity analysis (6.4.3.45 11)) and a description of asset-liability matching strategies (6.4.3.45 12)) to be disclosed are disapplied" would be a suggested alternative.

CU.4 and CU.5
These clauses set out that 6.4.3.45 sub paragraphs 5, 6-10, and 13 remain in force, and sub paragraphs 11-12 are disapplied. The consequential amendments show sub paragraph 1 is replaced by CU.4 (i.e. sub paragraphs 5, 6-10 and 13), and also that sub paragraph 3 is removed. However, it is not clear what happens to sub paragraphs 2 and 4. These are not direct requirements, but rather considerations for the authority when meeting the direct requirements, and we assume they remain in place. However, clarification would be useful.

In addition, the draft update is silent on 6.4.3.45 sub paragraph 14 and whether this will remain in force or not. The wording to meet this requirement will likely carry over unchanged from year to year, so will already be in existence. Its temporary removal does not appear to offer any real benefits in reducing workloads in the short-term and brings the risk that it is inadvertently omitted at the end of the two year period. Again, clarification would be useful.

In line with our comments on CU.3, since CU.4 retains 6.4.3.45 8) and 6.4.3.45 13) c), the proposal is not, in detail, to reduce the disclosures to those required by FRS102.

Finally, the text of CU.5 states that there is "no requirement for an authority to describe how its defined benefit plans may affect the uncertainty of the authority's future cashflows (6.4.3.45 sub paragraphs 11-12)". However, this wording appears to be misleading, because sub paragraph 13 remains in force according to CU.4 c), and it is this sub paragraph that contains the requirement "to provide an indication of the effect of the defined benefit plan on the authority's future cash flows". Perhaps CU.5 could be amended to reflect the specifics that it is the sensitivity analysis and description of asset-liability matching strategies that there are no requirements for an authority to describe.

Specific questions

Q7 - Do you agree with the proposal that, for local authorities in England only and for the 2023/24 and 2024/25 reporting periods, the application of the requirements of the Code should be amended so that reduced pension disclosures are required, as outlined in the exposure draft?

No

If not, why not? Please provide reasons for your view, noting any specific pension disclosures for which you consider this approach to be problematic.

In broad terms, we believe that any potential gains for the preparers or auditors of accounts from slightly less detailed pension disclosures might easily be undone by the extra work required to understand and implement the changes, especially given the proximity to the current year-end. When coupled with the extra work required to reinstate the requirements in two years' time, our balanced view is that the disruption from the changes outweighs the potential benefits.

Q8 - Do you consider that this would have a beneficial effect (a net reduction) in the overall workload for preparers, having regard both to additional work that would be required to implement the change, and anticipated reductions in requirements to provide additional evidence to auditors and to resolve auditor queries? If not, why not? Please provide reasons for your view.

As a provider of actuarial reports, the results of which are used by local authorities when preparing the pensions aspects of their accounts, all calculations and reporting routines required to meet the existing Code are in place. We do not therefore believe that there would be a beneficial effect for us in terms of overall workload in removing those requirements (in effect, the sensitivity analyses) from our reports. On the contrary, there would be work additional work required to remove them from our reports, and also additional work to revise our report wording to clarify which aspects of IAS19 and the Code that the revised reports comply with. For this, and two other reasons we elaborate on further in this response, we are currently minded to retain the full content of our actuarial reports for local authorities even if the proposed changes to the pensions parts of the Code go ahead.

For preparers, the changes either involve removing narrative descriptions that generally carry over unchanged from year to year (sub paragraphs 12 and potentially 14) or involve transcribing numerical values from our report (sub paragraph 13). In neither case does it appear that there is a great deal of effort to be saved.

In terms of auditor queries, we understand that auditors might find the sensitivity analysis to be a useful diagnostic used in the testing of other disclosed items e.g. the changes in defined benefit liability or liability duration. Rather than reducing work by removing items which need audited, the changes potentially remove a useful set of statistics that aid the overall audit process, and hence risk increasing auditor queries and requests for additional information from the actuary. Further, technical actuarial standards require that we state the nature and significance of each material risk or material uncertainty in our work. Including a sensitivity analysis on the key assumptions helps to comply with our professional requirement. These are the two further reasons for us to retain the sensitivity analysis in our reports, even if the authority does not disclose it in their accounts.

Q9 - Do you consider that this would have a beneficial effect (a net reduction) in the overall workload for auditors? If not, why not? Please provide reasons for your view.

As stated above, any reductions in workload from removing established narrative wording would appear to be minor. We also do not believe that there is a large amount of work required to audit the sensitivity analysis, and the analytical tools required will already be available and procedures implemented at the auditor. In addition, the sensitivity analysis may be useful for the auditor when testing other numerical disclosures.

Q10 - Do you have any other comments on this proposal?
We have set out more detailed comments and suggestions in the Description of the proposal and Detailed technical points on the Draft update sections above.

Yours faithfully,
Garry Smith, PhD AIA
Associate and Senior Consulting Actuary