



consultation on simplifying and streamlining the presentation of local authority financial statements

July 2013

Introduction

1. Local authorities in the United Kingdom are required to keep their accounts in accordance with 'proper practices'. This includes, for the purposes of local government legislation, compliance with the terms of the *Code of Practice on Local Authority Accounting in the United Kingdom* (the Code), prepared by the CIPFA/LASAAC Local Authority Accounting Code Board (CIPFA/LASAAC). The Code is reviewed annually.
2. With effect from the 2010/11 Code, it has been based on International Financial Reporting Standards (IFRS), adapted as necessary for the public sector. At the same time as this change, it came under the oversight of the Financial Reporting Advisory Board (the FRAB), which reviews the need to adapt IFRS, as well as the Code's consistency with the Government Financial Reporting Manual (the FReM). However, the statutory requirements for determining an authority's financial position for council tax setting remain, and can be significantly different. Local authority financial statements therefore include complicated adjustments that convert accounting outturn to the funding requirement.
3. Despite the successful implementation of IFRS local authority financial statements have suffered similar problems in relation to their complexity and length as those encountered in the private sector and elsewhere in the public sector. The Audit Commission Report Let's be clear (Audit Commission January 2012) highlighted this issue noting that on average in 2010/11 for authorities in England the statutory accounts are 113 pages long, with the largest being 250 pages long and the shortest being 39 pages.
4. IFRS have been developed from the perspective of private sector organisations, with the disclosures and the statements being designed specifically to meet the needs of investors who are seen as the primary users of financial statements. Using an IFRS-based framework has the advantage in that it ensures that local authorities and the other public sector bodies covered by the FReM are measured on the same basis as the private sector. However, it is not clear whether all of the disclosures required under IFRS are best suited to users of public sector accounts.
5. In June 2013 HM Treasury therefore issued a consultation paper *Central government annual reports and accounts: consultation on simplifying and streamlining the presentation of annual reports and accounts*, available at <https://www.gov.uk/government/consultations/central-government-annual-reports-and-accounts-consultation-on-simplifying-and-streamlining-the-presentation-of-annual-reports-and-accounts>.
6. CIPFA/LASAAC concurs with the view in the HM Treasury consultation that while there is a need for more transparent, relevant information to help external challenge, at a time when resources are constrained it is essential that accounts are meeting the needs of users and are not unnecessarily burdening preparers, and that a parallel consultation exercise should be carried out in respect of local authority accounts.

Request for comments and feedback

7. CIPFA/LASAAC is consulting on the simplification and streamlining of the presentation of financial statements/statutory accounts, to better meet the needs of users, based on a clear understanding of the purpose of those accounts, and to

remove unnecessary burdens from local authority preparers. It therefore includes questions for both users and preparers of local authority accounts.

8. The scope of this consultation includes all information contained in the financial statements/statutory accounts including information that is provided with the financial statements/statutory accounts eg the Explanatory Foreword and Annual Governance Statement.

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Questions for Users of Local Authority Accounts

- Q1 Do you read and use any financial statements or annual reports produced by local government? If so, which ones and for what purpose?
- Q2 Do you find them easy to use? Are there sections that you find are particularly useful? Are there areas that you find unhelpful or difficult to use?
- Q3 Have you found all the information that you would expect and require from local authority accounts? If not, is there any information that you would find of greater value to be included?
- Q4 Does the timeliness of publication impact the usability of the information within the accounts from your perspective? If so, please provide examples.
- Q5 Do you find the length or format prohibits you from using the accounts as you would wish and in an efficient and effective manner? Do you have any suggestions for improvements, including any format changes that you would find useful?

Questions for Preparers of Local Authority Accounts

- Q6 As a preparer are there specific sections that are particularly burdensome to prepare? How could these be modified to improve the issues you have identified?
- Q7 Does the format of the accounts allow completion in a manner that is suitably tailored to your authority? If not, what sections in particular do you believe are less relevant and how would you propose to amend these?
- Q8 Do you think that the accounts/financial statements and other reports which accompany the accounts accurately and cohesively convey the performance of the authority over the year?

The Consultation Process

9. CIPFA/LASAAC would invite responses to the consultation questions by **11 October 2013** which may be sent to:

The Secretary

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