

# report

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Board	CIPFA/LASAAC Local Authority Accounting Code Board
Venue	CIPFA Scotland Offices, Edinburgh
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Subject	Analysis of Responses to Consultation on Simplifying and Streamlining the Presentation of Local Authority Financial Statements

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## Purpose

**To report on the responses to the consultation on simplifying and streamlining the presentation of local authority financial statements**

## 1 Introduction

- 1.1 CIPFA/LASAAC Members will be aware that following the Central Government consultation on *Simplifying and Streamlining Statutory Annual Report and Accounts* it agreed to issue its own consultation at the same time as the consultation on the Code. In total there were 52 responses to the consultation. The list of respondents is included at Appendix A. The Secretariat's summary of the responses is attached at Appendix B.
- 1.2 Attached to this report at Appendix C is the report received by the Government's Financial Reporting Advisory Board on the HM Treasury project and the progress to date on simplifying and streamlining the annual report. As recognised by CIPFA/LASAAC in the issuing of its own consultation, CIPFA/LASAAC's developments will need to align or harmonise, where possible, with the developments arising from this project in the Financial Reporting Manual (FRM).
- 1.3 The CIPFA/LASAAC consultation recognised that 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* (January 2012) highlighted this issue, noting that on average in 2010/11 for authorities in England the statutory accounts were 113 pages long, with the largest being 250 pages long and the shortest being 39 pages.
- 1.4 CIPFA/LASAAC consulted 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. The consultation

paper therefore included questions for both users and preparers of local authority accounts.

- 1.5 CIPFA and CIPFA/LASAAC were already aware of many issues raised by the consultation responses and Board members. CIPFA/LASAAC Members might find it useful to note that CIPFA is about to issue *Financial Statements: A Good Practice Guide for Local Authorities*. This publication will assist local authorities with a number of issues. It covers:

- the identification of the users (and potential users) of local authority financial statements, and what information they need.
- materiality - what information is important to users, what is not and can be left out; and
- presentation issues.

- 1.6 Copies of the responses received to the consultation will be made available to Board members electronically on request. Please note that a significant number of the responses included their authority or entity confidentiality disclaimer. Therefore the names of the interested parties responding to the consultation will need to remain confidential to the Board and the body of the report does not refer to the individual entities with the exception of the respondents referred to above.

## 2 Main Themes Arising from the Consultation

- 2.1 The summary and the detail of the consultation responses are included at Appendix B. However, the Secretariat considers that there are three main themes arising from the consultation.

- The length and complexity of local authority financial statements – materiality and the users of the financial statements
- Demonstration of local authority performance – the financial reporting requirements or the statutory reporting requirements
- The impact of the Service Reporting Code of Practice and the segmental reporting note.

## 3 The Length and Complexity of Local Authority Financial Statements – Materiality and the Users of the Financial Statements

- 3.1 As anticipated by the consultation itself, most respondents agreed that local authority financial statements are overly long and complex. Most respondents highlighted that these statements did not meet the needs of their users and considered their own financial statements to be overly complex for their needs. The respondents to the consultation appear to identify their members (including the members that authorise the financial statements in accordance with statutory requirements) council tax payers and the general public as the users of their accounts. A significant number of the respondents cite themselves (local authority accounts preparers) as users of other authorities' financial statements.

- 3.2 The feedback from all these responses provides a very useful insight. CIPFA/LASAAC is aware that local authorities have a wide base of users and has specifically highlighted this in paragraph 2.1.2.1 of the Code. It states (following

the IASB Conceptual Framework) that *"the objective of the financial statements is to provide financial information about the reporting authority that is useful to existing and potential investors, lenders and other creditors in making decisions about providing resources to it. For local authorities, the objective of the financial statements is also to provide information about the authority's financial performance, financial position and cash flows that is useful to a wide range of users for assessing the stewardship of the authority's management and for making economic decisions"*.

- 3.3 The IPSASB Conceptual Framework specifies that the primary users of General Purpose Financial Reports are service recipients and their representatives<sup>1</sup> and resource providers and their representatives. This would not appear to include some of the users listed by the respondents i.e. the Members responsible for authorising the financial statements or those taking decisions on the information as, in theory, these members in their decision making role can specify the format and content of the financial statements.
- 3.4 It is also important to recognise the formal role of the Code as a proper (accounting) practice under various forms of legislation across the United Kingdom. Whilst the various devolved government bodies might not be deemed users under the IPSASB definition as they are able to stipulate the detail of any of the reporting requirements for local authorities, they are representatives of the service recipients and therefore meet the definition from that perspective. In addition, the government across its various jurisdictions in the UK relies on the information as a part of the statutory accountability and assurance processes and so they are therefore key stakeholders in the information produced in the financial statements.
- 3.5 It is clear therefore that local government financial statements have a wide range of possible users and local authorities have to take their own decisions about what information needs to be included in the financial statements. In order to consider what is material and therefore what needs to be presented in the financial statements they need to decide who their users (and potential users) are and decide the information requirements of those users. It is important to reiterate that the Code and IFRS enable local authorities themselves to take decisions about removing the clutter from the financial statements. One of the respondents (a firm) commented *"In our experience there are also significant opportunities for local authorities to streamline the preparation of the accounts by only including information that is material. Paragraph 3.4.2.26 of the 2013/14 Code is clear that a local authority need not provide a specific disclosure required by the Code if the information is not material."*
- 3.6 The same firm commented *"quite often, the accounts have not been suitably tailored as CIPFA's example accounts have been used as a template."* The example accounts in the Code Guidance Notes are intended to provide advice to the widest range of authorities and are also drafted from the perspective that each of the disclosures (and elements of the disclosures) is potentially material to demonstrate what the disclosure might look like in those circumstances. The example financial statements clearly state that they are not intended to be a

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<sup>1</sup> "...resource providers who do not possess the authority to require a public sector entity to disclose the information they need for accountability and decision-making purposes. The legislature (or similar body) and members of parliament (or a similar representative body) are also primary users of GPFs, and make extensive and ongoing use of GPFs when acting in their capacity as representatives of the interests of service recipients and resource providers." IPSASB Conceptual Framework Phase 1 for General Purpose Financial Reporting by Public Sector Entities (Chapters 1-4), Paragraph 2.4

template and also that materiality has not been considered. Last year's (year-end) Local Authority Accounting Panel (LAAP) Bulletin<sup>2</sup> emphasised this point.

- 3.7 Positively a number of local authority respondents have indicated that they have made significant steps (in discussion with their auditors) to reduce the number of disclosures in the financial statements. However, the Secretariat would note that during its presentations to Treasurers Societies a number of authorities indicated that some auditors had not been so positive. The Secretariat is disappointed that one of the respondents commented that the "... CIPFA example notes need to be significantly reduced (e.g IAS19, financial instruments, resource allocation, heritage assets note) – no note should be greater than one page long or Councils are free to remove words – without external auditors wanting words added back "to comply with the code"". Hopefully, such events do not happen regularly.
- 3.8 Some of the respondents appear to want CIPFA/LASAAC (or CIPFA) to take the decisions on materiality (and some have clearly stated this) and not include a number of the disclosures in the Code on these grounds as the respondents consider that they are not relevant to local authority users. CIPFA/LASAAC has already done this for those disclosures not supported by direct statutory or financial reporting requirements. However, this is very difficult to specify for local authorities due to the complexity and variety of potential users as discussed above. If CIPFA/LASAAC were to consider doing this in any form this would need to follow a further in depth consultative process with local government stakeholders to clearly understand who their users (and potential users) are and what their information requirements are. Also this process would need to align with the central government project on streamlining and simplification which considers similar issues but for potentially differing users.
- 4 Demonstration of Local Authority Performance – the Financial Reporting Requirements or the Statutory Reporting Requirements
- 4.1 Another key theme across the responses was that the performance statements do not reflect the key financial performance measure that local authorities measure and monitor themselves against i.e the General Fund and Housing Revenue Account Surplus or Deficit. Most authorities recognised the reason for this (i.e the statutory reporting requirements) but a significant number saw this as a failure of the statements. One firm stated this "*suggests that the CIES [Comprehensive Income and Expenditure Statements] is not fit-for-purpose for the needs of the local authority and is a theoretical construct prepared to satisfy the requirements of standard setters, regulators and central government for the purposes of the Whole of Government Accounts.*" Others considered that the deficit on the CIES was difficult to explain.
- 4.2 With the exception of the segmental analysis (which is discussed in the next section) the CIES reflects the format of the performance statements in IAS 1 *Presentation of Financial Statements*, albeit the format of these statements has reduced the choice in IAS 1 to one statement rather than the two statements. Local authorities incur expenditure, earn income and have the same liabilities and assets as any other entity in the private or the public sector in the UK. Therefore the surplus or deficit that is recognised on the provision of services or in total are the same measurements of performance that any other entities in similar situations would accrue i.e, whether more resources have been generated in the

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<sup>2</sup> LAAP BULLETIN 96 *Closure of the 2012/13 Accounts and Related Matters*

year than have been consumed. Local authorities have the benefit of the statutory mitigations across the UK which limits the impact of the resources consumed or liabilities that they are responsible for on taxation or rents. Whilst it might be useful to also highlight the General Fund balance (which is included in the MiRS) it would be impossible to argue that these are not balances with a real message.

- 4.3 An important issue identified by one of the firms is the need to bring together financial reporting and financial management – this might improve the reality of these surpluses or deficits to local authorities and the users of the financial statements.
- 4.4 The format of the financial statements was considered in depth by working groups on the introduction of the IFRS-based Code and subject to the normal consultation process. However, CIPFA/LASAAC and the post implementation review did agree the need to review the statements after the close of the 2012/13 financial year. This review can consider the detailed responses as a part of their evidence base for the review. CIPFA/LASAAC is invited to consider the benefits or otherwise of emphasising the General Fund surplus or deficit in the performance statements.
- 4.5 The CIPFA Secretariat also issued a briefing note in 2011 “How to Tell the Story” which was intended to help CFOs and other senior staff present the IFRS-based financial statements for 2010/11 to members and other key stakeholders. The Note is attached at Appendix D. However, it is slightly outdated (as it was a publication produced on introduction of the Code). The Secretariat is considering issuing an updated version of this Note on the CIPFA website. CIPFA/LASAAC’s views are sought on this issue. This Note also highlighted where the movements in the General Fund balance is reported in the MiRS.
- 5 The Service Reporting Code of Practice and the Segmental Reporting Note
  - 5.1 The *Service Reporting Code of Practice (SeRCOP)* was also subject to much criticism by respondents. The respondents recognised the use of the format on the face of the CIES for comparison purposes but clearly indicated that this was not how they operated. The dissatisfaction with *SeRCOP* was increased as a result of the criticism of the “industry” which has arisen as a result of the requirement to apportion overheads in order to meet the definition of total cost (as specified in the “mandatory” reporting requirements of section 2 of the Code).
  - 5.2 The Secretariat would highlight the design of the analysis on the face of the CIES was discussed with the working group that was established to consider the statements on the introduction of the IFRS based Code. This group (which included a significant number of accounts preparers) proposed this analysis. It should be noted that the post implementation review considered that it did not want to review the use of *SeRCOP* in the CIES.
  - 5.3 The criticisms of *SeRCOP* are difficult to address. *SeRCOP* development is the responsibility of LAAP. It is also a Code which is described as a “proper practice” under various legislative specifications across the devolved government jurisdictions. *SeRCOP* needs to meet several objectives. For example, it is intended to support other formal reporting requirements eg statistical returns. National Accounts reporting purposes will also impact on the issue on the need to apportion overheads to services.

- 5.4 One of the respondents cited the difficulties around the detailed reporting requirements for Adult Social Care introduced in the 2014/15 *SeRCOP*. However, the complexity of these requirements arose not from the reporting requirements of the financial statements but as a result of the fact that this part of the SEA was developed to help meet a new national data set which will be reflected in a data return (which will replace the current PSSEX1). Any formal or substantial changes to these requirements would need to be discussed in depth with all the other stakeholders that rely on the reporting outputs of the service expenditure analysis. Again this would be an issue for LAAP.
- 5.5 The principle of overhead apportionment is not strictly governed by IFRS. The principles in *SeRCOP* were derived originally from the *Best Value Accounting Code of Practice* and SSAP 25 *Segmental Reporting* under UK GAAP and the SORP. IAS 1 allows classification of the performance statement by function or nature but a local authority's main function is to provide services to the public and therefore it is legitimate to expect the CIES to reflect this. It would be difficult to say that the full cost of providing the services to taxpayers does not include the allocation of overheads. However, IFRS does not contain an explicit requirement for such an apportionment; IFRS 8, for example, identifies finance as an operating segment. Again there would need to be significant consultation with local authorities and other stakeholders and a cost benefit analysis undertaken if a decision was taken to reverse this principle in any way.
- 5.6 As is noted in Appendix B a small number of respondents suggested an option of returning to the SORP requirements which permitted an option of local authorities disclosing an analysis on the face of the CIES on the basis of their operational arrangements for services provided that a note included the segmental analysis in *SeRCOP*. This would need to be balanced with the segmental reporting requirements under IFRS 8.
- 5.7 Related to this issue are criticisms of the segmental reporting requirements included in Section 3.4 *Presentation of Financial Statements* of the Code. A significant number of the respondents indicate that these reporting requirements are particularly burdensome to compile and to reconcile to the management information of their authorities. The Code indicates that these reconciliations are not intended to be onerous (see Code paragraph 3.4.2.90) but the respondents to the consultation consider that they are. This issue was identified as a part of the post implementation review. The post implementation review recommended that best practice examples of the completion of the segmental analysis should be sought. Some of these examples have been identified as a part of the development of the CIPFA forthcoming publication on financial statements, these authorities appear to consider this disclosure as useful and for example use it as an introduction to the financial statements.
- 5.8 CIPFA/LASAAC is therefore invited to consider the responses to the consultation and whether it wants to review the reporting requirements for the segmental part of the CIES. CIPFA /LASAAC may also want to refer the remaining *SeRCOP* reporting issues to LAAP.
6. Impact on the Reporting Requirements on Smaller Authorities
- 6.1 Perhaps not a major theme of the consultation responses but some of the smaller authorities responding to the consultation indicated that the full reporting requirements of IFRS were very onerous for the size of their organisations.

## 7. Conclusions

- 7.1 There are a number of issues and themes that arise from the consultation. Many, but not all, of these appear to be echoed in the central government project on streamlining and simplifying the accounts, but also in the reviews and projects by other standard setters, for example, the Financial Reporting Council and the International Accounting Standards Board. CIPFA /LASAAC also has its post implementation review process which would facilitate an examination of many of the issues as they arise for local government.
- 7.2 Some of the solutions are already available to local authorities under the general requirements of the Code (especially in relation to materiality). Many of these are suggested in the forthcoming CIPFA publication on the financial statements. CIPFA/LASAAC is invited to comment on how it wants to consider the issues raised and take forward any further actions.

## Recommendations

**The Board is invited to note the consultation responses and consider the opportunities and options for future action.**

## Appendix A

### List of Respondents

Argyll and Bute Council	Barnsley Metropolitan Borough Council	Basingstoke and Dean Borough Council: Members
Basingstoke and Dean Borough Council: Officers	Bury Council	Castle Point Borough Council
City of Lincoln	Calderdale Metropolitan Borough Council	Daventry District Council
Devon and Cornwall Police: Director of Finance & Resources	Devon and Cornwall Police: – Head of Technical Accounting	Devon County Council
East Riding of Yorkshire Council	Glasgow City Council	Royal Borough of Greenwich
Guildford Borough Council	Hampshire County Council	Hertfordshire County Council
Inverclyde Council	Kent County Council	Leeds City Council
London Borough of Barnet	London Borough of Bexley	London Borough of Hackney
Newcastle-under-Lyme Borough Council	Plymouth City Council	North Ayrshire Council
Sheffield City Council	Shetland Islands Council	Somerset County Council
South Gloucestershire	South Norfolk Council	South Lanarkshire Council
Staffordshire County Council	Staffs Moorland District and High Peak Borough Council	Stockport Metropolitan Borough Council
Strathclyde Partnership for Transport	Sunderland City Council	Surrey County Council
Tandridge District Council	Thames Valley Police (Office of the Police and Crime Commissioner for Thames Valley Police)	Teignbridge District Council
Torbay Council	Torfaen County Borough Council	Wigan Council
Wyre Council	Audit Commission	BDO LLP
Grant Thornton UK LLP	Arlingclose Limited	Confidential
A personal comment		



## Summary of Responses to Questions

### Questions to Users

*Q1. Do you read and use any financial statements or annual reports produced by local government? If so, which ones and for what purpose?*

- 1 Perhaps unsurprisingly there were a smaller number of responses sent in by the users of local authority financial statements. A small number of the responses were sent in either by members of a local authority or had been compiled by local authority officials on behalf of their members. Other respondents commented on these questions from an understanding of the users of local authority statements. Interestingly some of the respondents were local authority finance staff who used other authorities' financial statements for a number of reasons.
- 2 A number of respondents indicated either as members or on behalf of members that they use the authority's accounts as a part of their statutory responsibilities for the approving accounts, some of the respondents referred to the Resources Committee or Audit Committees and members' scrutiny of the information therein. A number of respondents mentioned the use of the accounts for Members and to gain an understanding of the authority's finances, as a reference document or for Freedom of Information requests.
- 3 A small number of authorities referred to the accounts to assess the credit worthiness of authorities. One authority indicated that their accounts had been reviewed for a credit rating by Standard and Poors. Another indicated that they considered the accounts of other local authorities to assess their credit worthiness in order to lend them resources.
- 4 As set out above a number of authorities indicated that they used the financial statements of other authorities. They listed the reasons as being for comparisons, particularly of the main statements, explicitly for benchmarking and also to seek an understanding of the other authority's treatment of specific transactions.

*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?*

- 6 As anticipated in the introductory comments to the consultation paper, although there were a number of positive responses, the key message from the respondents were that the accounts were too long and cluttered with a considerable number of respondents citing the complexity of the information provided.
- 7 One of the local authority respondents highlighted that its members were concerned about:
  - "What does the large deficit on the I&E actually represent and what does it tell the reader as to the financial performance of the Council".
  - "Most of the large movements on the reserve statement are for statutory capital adjustments and make no sense to members."
  - "The proliferation of confusing technical accounts such as the Capital Adjustment Account; Financial Instruments Adjustment Account; Accumulated

Absences Account and the Equal Pay Back Pay Account make the statements difficult to interpret.”

- “Members also find issues such as the pensions’ deficit difficult to understand particularly when compared to the actuarial review.”

8 A number of the respondents indicated that the performance represented by the Comprehensive Income and Expenditure Statement (CIES) was difficult to understand. As noted earlier on a theme throughout the responses is that the performance statements do not easily relate to the surplus or deficit on the General Fund or Housing Revenue Account.

9 A number of respondents indicated that summary accounts were useful.

10 A firm highlighted that the following sections are particularly useful:

- “a well written explanatory foreword that clearly explains the financial outturn, the financial position and comments on the significant events throughout the year. However, these are not prepared on a consistent basis and too often do not provide a plain English management commentary on the accounts themselves.
- “the Movement in Reserves Statement as this highlights the statutory adjustments and summarises the funds available for delivery of services and capital investment
- “the Comprehensive Income and Expenditure Statement
- “the Balance Sheet.
- “notes on estimation uncertainty and critical judgements
- “accounting policies.”

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?*

11 Understandably, following the responses above about the length and complexity of accounts there were not too many comments about or the need for missing or additional information. However, there were a small number of responses to this question recommending that the CIES be reconciled to the General Fund Balance. Others suggested more information on:

- performance in the financial statements with suggestions including that financial ratios or key performance indicators should be included.
- capital expenditure (note this contrasted with others considering that information on capital commitments need not be provided in the financial statements);
- a note on the levels of council tax for band D properties
- more comparative data eg funding per head and unit costs (“along the lines of the VFM profiles that the Audit Commission used to produce”).

- 12 A significant number of authorities challenged or commented (and not solely in response to this question) the use of the *Service Reporting Code of Practice* (*SeRCOP*) service analysis on the face of the CIES. For this question respondents accepted that the service analysis was based on a standard analysis to allow comparability between authorities but commented either that this “bears no resemblance to the way that the Council is structured” or that the users want analysis on the expenditure in service areas so that the reader can relate to this.
- 13 One respondent suggested that the provisions in the pre-IFRS Code’s (Statement of Recommended Practice’s) provisions be returned to the Code. This required compliance with the Best Value Accounting Code of Practice (BVACOP), but it allowed an authority to present a locally determined service expenditure analysis. If this option was chosen a service expenditure analysis in accordance with the Best Value Accounting Code of Practice should be included as a note to the accounts.
- Q4 Does the timeliness of publication impact the usability of the information within the accounts from your perspective? If so, please provide examples.*
- 14 Largely the respondents were content with the timescales which are driven by the statutory reporting requirements in the relevant statutory regulations. A small number of respondents noted that the timeliness could improve thus making the accounts more relevant to users. The response provided by Councillors in a smaller District authority commented that “in general terms the accounts are like reading yesterday’s newspaper.” The response indicated that it would be better to have a shorter document signed within three months after the financial year end.
- 15 In its introductory comments to the response a firm noted that there were benefits to authorities that produced early draft statements. These authorities recognised financial reporting has greater worth when it is integrated with management reporting.
- 16 The Secretariat concurs that timeliness of the production of the financial statements and their integration in the financial management of an authority are important in introducing relevant financial information and that there are benefits from encouraging both.
- 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?*
- 17 Again, as anticipated the responses clearly indicated that the users of the accounts thought that the accounts were too long and complex with a small number noting that IFRS standards were not meant for the public sector. A number of the respondents indicated that their members relied on additional training or an Executive Summary provided by officers to understand the accounts. Other respondents highlighted that members relied on the budget book or outturn reports to gain an understanding of the finances of the authority. A further respondent was concerned that the information in the financial statements was only used by the members responsible for the audit of the accounts and an exercise for the auditors.
- 18 A number of the respondents indicated that they considered that the accounts would benefit from the removal or simplification of requirements with one suggesting that the Movement in Reserves Statement, segmental reporting,

financial instruments and the five year summary of heritage assets additions be removed.

### 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?*
- 19 There are a number of areas within the financial statements that authorities identified concern about. The issues that were most frequently cited are listed below.

Issue	Comments Made
Application of <i>SeRCOP</i>	<ul style="list-style-type: none"> <li>A significant number of respondents noted that the format of <i>SeRCOP</i> meant that the service analysis on the face of the CIES although promoting comparability did not reflect the way in which the authority operated.</li> <li>This was accompanied by a number of respondents commenting on the industry that has evolved as a result of the apportionment of overheads as required by the definition of total cost within <i>SeRCOP</i>.</li> </ul>
Segmental Reporting Note	<p>The segmental reporting note was probably the most frequently referenced note in terms of the added burden for preparers. Authorities indicating that this was a complex note that took up a significant resource to produce and reconcile to the management accounts, partly due to the statutory adjustments.</p> <p>Other respondents noted that this note is difficult to interpret.</p> <p>Some queried the need for the subjective analysis note.</p>
Cashflow statement	A significant number of respondents questioned the relevance of this statement (and the associated notes) and a number indicated it was difficult to compile.
Financial Instruments Disclosures	<p>A large number of respondents considered that the information in the financial instruments notes was difficult to complete and complex for the users of the financial statements to understand.</p> <p>A number of respondents also raised concerns over the relevance of the disclosures on the fair value of</p>

	<p>assets and liabilities.</p> <p>District councils (holding very basic financial instruments) highlighted that these disclosures were particularly onerous.</p>
Heritage Assets Disclosures	A number of respondents questioned the need to include the five year history of the additions and disposals on heritage assets. Some also questioned the need for the additional information on heritage assets.
Pensions Disclosures	Similar criticisms to those cited for financial instruments were put forward by respondents in relation to pensions disclosures with a number of respondents also citing the difficulties in relation to the difference between the statutory and financial reporting requirements and those determined by the triennial valuation of pension funds.
Leasing Disclosures	A number of authorities referred to these disclosures as being particularly complex and /or burdensome. One respondent cited the disclosure of future minimum lease payments.
Employee Benefit Accrual	A number of respondents cited the cost benefit analysis of measuring this provision. As this involved gaining information from across the authority.
Adjustments between the Accounting Basis and Funding Basis Under Regulation	<p>A number of respondents referred to the complexity of this note and referred to the Example Financial Statements Code Guidance Notes example disclosure as being a complex example. However, the Secretariat would highlight that this example note has since the 2010/11 edition stated:</p> <p>"The example includes gross figures for all the statutory adjustments (eg reversing out IAS 19 retirement benefits charges and inserting employer's contributions). Practitioners have scope to determine whether this detail is necessary or whether the adjustments can be fairly presented as net transactions)." This was also highlighted in the presentations on the financial statements on the introduction of the IFRS-based Code.</p>

- 20 Whilst almost all of the financial statements and notes were challenged at some point in the consultation other respondents mentioned the:
- Property, plant and equipment note;
  - Complexity of the group accounts statements and particularly the impact on the new policing bodies;

- Officer remuneration (a statutory requirement)/exit packages;
- Accounting standards that have been issued and not yet adopted;
- Grant income (some referring to the need to recognise the income in the CIES);
- Dedicated Schools Grant Income – note this is a statutory reporting requirement;
- The third balance sheet; and
- Critical judgements required in applying accounting policies.

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?*

- 21 A number of respondents did provide positive responses to this question. However, the key message from respondents to this question is that none of the main financial statements reconcile back to the General Fund or HRA balance. Most correspondents understood the need for the statutory adjustments but some authorities considered that (at least) equal emphasis needs to be given to the “in-year” statutory figure. A number of authorities made various suggestions to revert back to the previous approaches used by the income and expenditure statements or possibly identify an additional reconciliation process. In line with these comments authorities suggested that the burden of disclosure should be removed from authorities where the disclosures do not impact on council tax levels.
- 22 The second most consistent message was that the financial statements did not provide any analysis of performance against budget. Arguably this is one of the most important demonstrations of performance ie how has the authority made use of limited public funds.
- 23 A number of respondents including a “firm” commented that the Explanatory Foreword was an important part of the explanation and the understandability of the financial statements and the demonstration of performance.
- 24 A small number of respondents indicated that a reduction in the reporting burden would be supported by the introduction of pro-forma accounts using the Government’s Financial Reporting Model (FRm) model financial statements and notes as an example. Links were also drawn at this stage of linking these proformas to the Whole of Government Accounts data collection exercise.
- 25 In response to this question a respondent raised the issue of the production of summary accounts to get the key messages across to its readership and suggested that best practice guidance should be produced for this.
- 26 Other respondents suggested that the messages in the financial statements should focus on outcomes.



## Financial Reporting Advisory Board Paper

### Simplifying and Streamlining Statutory Annual Report and Accounts – Initial findings and presentation on emerging recommendations

<b>Issue:</b>	HM Treasury is currently undertaking a project aimed at simplifying and streamlining the presentation of the statutory annual reports and accounts produced by central government entities so as to better meet the needs of the users of the accounts and to remove unnecessary burdens from the preparer community. The project has now progressed to the stage when initial recommendations are emerging which are being “road tested” with the Board and other key stakeholders.
<b>Impact on guidance:</b>	Not at present
<b>IAS/IFRS adaptation?</b>	Not at present
<b>Impact on WGA?</b>	Not at present.
<b>IPSAS compliant?</b>	N/A at present
<b>Interpretation for the public sector context?</b>	N/A at present
<b>Impact on budgetary regime?</b>	N/A at present
<b>Alignment with National Accounts</b>	N/A at present
<b>Impact on Estimates?</b>	N/A at present
<b>Recommendation:</b>	That the Board note the work undertaken to date on the Simplifying and Streamlining Statutory Annual Report and Accounts project and comment on the initial recommendations highlighted by the project team in the presentation that will be delivered in the meeting.
<b>Timing:</b>	Changes are expected to be introduced in the 2015-16 FReM

## **DETAIL**

### **Background**

1. At FRAB 117 the Board was updated on the Simplifying and Streamlining Annual Report and Accounts project that HM Treasury had begun earlier this year. The overall purpose of the project is to simplify and streamline the presentation of the statutory annual reports and accounts produced by central government entities so as to better meet the needs of the users of the accounts and to remove unnecessary burdens from the preparer community.

2. The project has been broken down into five key stages, with a sixth implementation stage to follow once recommendations have been finalised. These stages are:

**Stage 1** – Initial review of current ARA requirements and comparison of ARAs as they are currently prepared.

**Stage 2** – Identifying users, their needs, and the extent to which these needs are currently being met.

**Stage 3** – Understanding the preparation process - examination of key areas of concern and understanding the preparation process with preparers of ARAs.

**Stage 4** – Private sector and international comparisons - Review of private sector “cutting clutter” projects and international public sector best practice.

**Stage 5** – Recommendation report - Initial recommendations for changes to streamline and improve clarity of accounts, comparison with IFRS and statutory requirements, testing with key stakeholders and final report.

3. Stages 1 to 4 are almost complete, and we are now at a position to “roadtest” initial recommendations with stakeholders including the Board. The findings from Stages 1 to 4 are noted below, and initial recommendations will be presented to the Board during the meeting via a presentation from the project team.

### ***Stage 1 – initial review***

4. Five main themes emerged from stage 1 which framed the simplification and streamlining review process going forward. These were:

- How public sector entities report risk - typically weak discussion of the principal risks and uncertainties affecting organisations, with little link to the results and overall narrative;
- Use of materiality in government reporting - average length of central government annual reports is significantly longer than the average length for FTSE 350 companies, a result that was mainly due to a box-ticking compliance checklist approach or use of templates without tailoring;
- The uniqueness of the public sector user and their needs (use of an ARA as an accountability document in the public sector context) - fundamental difference in approach changes the nature of some of the narrative links in the annual report, and means there is less of a natural flow between discussion of activities and the reported accounts;



- Narrative flow of reporting – in general annual reports and accounts were not as well signposted as they could be. In particular, the links between risks, performance indicators and financial outturn in the accounts could be significantly improved; and
- Complexity, detail and purpose within government accounts - entities appear to be following template guidance to the letter rather than considering the materiality and/or relevance of certain disclosures/items.

### ***Stage 2 – user perspectives***

5. A large number of interviews and focus groups were held to ascertain user and potential user perspectives. A public consultation was also held to which approximately 40 responses were received. The key issues raised by users are summarised below:

- Users are each interested in disparate and specific information; some of which is published in the ARA but also available elsewhere;
- The ARA is important as an accountability document. The process of audit that the ARA is subject to is especially valued;
- Appropriate detail to evidence accountability at different levels of the public sector was seen as important (Dept accounts v Service delivery ALBs);
- Users want to see trend data which is consistent with the financial statements and aligned to delivery outcomes – common core tables while useful to some users are not providing this;
- "Following the pound"; tracing expenditure to outcomes is a high priority;
- Appropriate and detailed segmental reporting is required;
- A move to a greater distinction between Parliamentary accountability and financial accounts would be a positive step;
- Widespread agreement that the ARA should only describe and disclose "material" items;
- ARAs are viewed as lacking in flow; more signposting would aid usability;
- Narrative reporting was largely ignored by users as it was deemed to be "political" rather than an honest attempt to "tell the story";
- Multiple methodologies for determining, and the necessity to regularly change, discount rates was deemed confusing and hindered the ability of users to understand underlying trends; and
- The financial instruments note was deemed impenetrable by many users.

6. The responses were consistent across user groups which included individual Members of Parliament and Parliamentary Committees, Clerks of Parliamentary Select Committees, the Parliament Scrutiny Unit, Academics, ARC members and non-executives, think tanks and the general public.

### ***Stage 3 – preparer perspectives***

7. Preparers were also engaged through interviews and focus groups. Those who contributed their perspectives ranged from Director General's finance and Finance Directors to those responsible for the actual production of the ARAs. The key issues raised by preparers were:

- A move to a greater distinction between Parliamentary accountability and financial accounts would be seen as a positive step;
- There is limited use and application of existing guidance on materiality (with some exceptions);
- Early engagement between finance and auditors to discuss materiality of disclosures is required if progress is to be made on streamlining;
- ARAs are viewed as including superfluous tables and reports which hinder “telling the story”;
- Including graphics and tables would aid usability;
- Strong feedback that specific disclosures should be reduced and tailored. Most notably, the financial instruments note was cited by preparers as being irrelevant and burdensome to prepare;
- Consideration should be given to whether a “small entities” FReM could be developed to reduce the burden of account preparation on smaller entities; and
- Questions given the development of consolidated group accounting under CLOS as to whether every entity needs to prepare a full annual report and accounts

In addition to the responses above, preparers also echoed many of the sentiments of users in their capacity as taxpayers and users/potential users of ARAs.

8. Interestingly, the project team found that there was a distinction between the preparers at DG Finance, Finance Director and other senior finance levels who were interested in “telling the story” of the entity, and other finance staff who still viewed the preparation process as more of a compliance exercise.

#### ***Stage 4 – international and private sector comparisons***

9. For stage four a review was undertaken of the cutting clutter projects being undertaken by various UK and international bodies (including the Financial Reporting Council (FRC), the International Accounting Standards Board (IASB) and the US-based Financial Accounting Standards Board (FASB). A review was also undertaken of public sector financial reporting in other jurisdictions.

#### **Private sector cutting clutter debate**

10. The key messages from the private sector cutting clutter debate in many ways mirror those of our own project. They include:

- (i) Identifying the users of the ARA: the users must first be identified so that disclosures can be framed with the users in mind, having regard to relevance and materiality;
- (ii) The concept and application of materiality: there is little guidance for preparers on how to classify items as being ‘material’ or not. The issues around application of materiality are, in part, behaviour-driven, as preparers feel pressured into making full disclosures in areas which may not always be material simply to avoid lengthy debates with the auditors or challenges from regulators;
- (iii) Disclosure requirements are becoming too onerous;
- (iv) The use of ‘standing information’, often of an explanatory nature. Information which is repeated year-on-year without material change can be seen to clutter up the ARA; an

example of such information is the accounting policies disclosed within the financial statements;

- (v) Disclosures throughout the ARA should be risk-focused, as this is how investors view the information; and
- (vi) The ARA should 'tell one story', with cohesive and balanced messages from both the 'front half' and the 'back half'.

### **International Public Sector findings**

11. A review of whole of government account (WGA) equivalents of Australia, Canada, New Zealand, Switzerland and the United States of America provided an understanding of how governments abroad report at that level. Key findings were:

- (i) Focus was on financial statements with only limited narrative;
- (ii) The approach to the limited narrative reporting was less focussed on policy outcomes and instead takes the approach of stating the significant balances, their movements and the reason for the movement without comment on whether the movement represents good or poor performance;
- (iii) The narrative reporting tended to include longer term historic data but other specific reporting areas such as risks, sustainability, remuneration and KPIs were limited, with the United Kingdom's WGA including the most comprehensive reporting on these elements; and
- (iv) While none of the countries produce a 'glossy' ARA with photographs or images, all of the countries used graphs and charts to illustrate trends in their narrative reporting and many used colour. In addition to the visual navigational tools, Australia, Canada, the United Kingdom and the United States release summary user guides to their accounts.

12. A limited review was also taken of reporting at an entity/Departmental level in these jurisdictions. In general annual reports and accounts were being produced by individual Departments, although in the case of Canada full external audit was not undertaken at the Departmental level, only specific notes and the whole of government position were audited.

### **Key Themes**

13. From the outreach work undertaken, the review of the cutting clutter debate and a review of public sector reporting in other jurisdictions we have been able to identify the following key high level themes that have been suggested would bring most value from an annual report and accounts:

- Accountability: How much was spent against budgets and estimates and how the entity is accountable to parliament;
- Financial information: Detail on the categories of spend;
- Performance: Measurement against objectives and plan and reasons for variances; and
- Materiality: Highlighting areas of particular relevance and importance to the entity.

14. These key themes have helped guide the initial recommendations for change that are highlighted in the project team presentation to the Board.

### **Summary and recommendation**

15. That the Board note the work undertaken to date on the Simplifying and Streamlining Statutory Annual Report and Accounts project and comment on the initial recommendations highlighted by the project team in the presentation that will be delivered in the meeting.

**HM Treasury**  
**10 October 2013**

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# IFRS: how to tell the story

# IFRS – changes and opportunities

Completing the transition to IFRS involves many challenges. But there are also opportunities to simplify presentation and make the messages in the financial statements clearer. This briefing note is intended to help CFOs and other senior staff present the IFRS-based financial statements for 2010/11 to members and other key stakeholders. It provides an overview of the main changes involved and explains how the new formats can be used to convey key information in the following areas:

- Comparisons with budgets;
- General Fund and HRA performance;
- Reserves position; and
- Cash flows.

It also provides some answers to commonly raised questions and sources of further information.

## Overview of main changes from UK GAAP to IFRS

	Significant IFRS changes	Substantially the same
Financial Statements	New statements and amended layouts. More flexibility - detail can be in the statements or the notes; terminology can be amended; and the order of the statements can be changed to suit the authority.	New formats consistent with those used in the SORP where this is possible and helpful.
Purchase of goods and services	None.	Everything.
Salaries and Pensions	Untaken holiday pay and similar items accrued for at year end.	Everything else.
Government Grants and Contributions	Capital grants recognised immediately (unless there are conditions) rather than being deferred and matched to expenditure	Only the same for capital grants if there are conditions
Property, Plant and Equipment (Fixed Assets)	More emphasis on component accounting than under UK GAAP. Impairments taken initially to the Revaluation Reserve rather than Income and Expenditure – like revaluation losses. New class of ‘assets held for sale’.	Everything else. Expenditure that can be capitalised under IFRS remains unchanged.
PFI	Assets brought onto the balance sheet where the authority controls the asset. Changes made in SORP 2009- no change for 2010/11	
Leases	90% ‘test’ to separate finance and operating leases removed. Property leases classified and accounted for as separate leases of land and buildings. Need to assess whether other arrangements contain the substance of a lease.	Everything else. IFRS retains the concept of the finance lease / operating lease distinction, and the tests carried out to classify leases are substantially the same.
Financial Instruments	None – IFRS is identical to UK GAAP.	Everything.

# comparisons with budgets

For members, probably the most important issue will be whether the authority has a surplus or deficit compared to its budget (and Council Tax) for the year. Because the financial statements follow accounting standards rather than local government legislation, this hasn't been easy to identify in the past. However, the new [Movement in Reserves Statement](#) gives this information. The extract below shows how this can be done for the General Fund. For housing authorities, there is a separate column in the Movement in Reserves Statement showing the equivalent HRA figures; other columns show earmarked reserves etc.

## Movement in Reserves Statement

<b>Balance at 31 March 2010 carried forward</b>	<b>19,698</b>	General Fund share of the <a href="#">Surplus or Deficit</a> . The HRA share is in a separate column
<b><u>Movement in Reserves during 2010/11</u></b>		
Surplus or (deficit) on provision of services	(2,783)	Statutory adjustments such as replacing depreciation with MRP, pension liabilities with contributions, etc.
Other Comprehensive Income and Expenditure	-	
<b>Total Comprehensive Income and Expenditure</b>	<b>(2,783)</b>	Deficit for the year
Adjustments between accounting basis & funding basis under regulations (Note 7)	2,635	Offset by transfers from earmarked reserves
<b>Net Increase/Decrease before Transfers to Earmarked Reserves</b>	<b>(148)</b>	Gives the change in the General Fund balance over the year
Transfers to/from Earmarked Reserves (Note 8)	459	
<b>Increase/Decrease in Year</b>	<b>311</b>	How do these last three highlighted figures compare to the budget?
<b>Balance at 31 March 2011 carried forward</b>	<b>20,009</b>	

Other Comprehensive Income and Expenditure are taken from the [Comprehensive Income and Expenditure Statement \(CIES\)](#) (see example below), which replaces both the Income and Expenditure Account and the Statement of Total Recognised Gains and Losses (STRGL). The Surplus or Deficit on Provision of Services is the equivalent to the Income and Expenditure Account under the SORP. Other Comprehensive Income and Expenditure includes unrealised gains and losses (eg revaluation of land and buildings), and is the equivalent of the STRGL under the SORP.

Members will have previously approved the transfers to or from earmarked reserves shown in the Movement in Reserves Statement. The increase or decrease on the General Fund balance which is shown in this Statement would also normally be reported to members as part of the outturn report, although it might have been described as the surplus or deficit for the year.

A loss shown in the CIES is an indication that the costs of providing this year's services have not been covered by income, which will need to be funded by taxpayers in future years. An overall increase in usable reserves despite a loss being shown in the CIES normally means that there is a corresponding change in unusable reserves as for example MRP charges are replaced with depreciation and impairment. The difference will be reflected in the Capital Adjustment Account. Unusable reserves such as the Capital Adjustment Account and the Pensions Reserve will need to be funded in the future, even if it is over a long period, so increases in these balances show an increasing burden on future taxpayers.

# general fund and HRA performance

The format of the first section of the new Comprehensive Income and Expenditure Statement, the (Surplus) or Deficit on Provision of Services, is very similar to the Income and Expenditure Account under the SORP, although less detail is required below the Cost of Services. The format of the second section of the Comprehensive Income and Expenditure Statement is, very similar to the STRGL under the SORP as shown below.

## Comprehensive Income and Expenditure Statement (CIES)

		2010/11		
		Gross Expenditure	Gross Income	Net Expenditure
		£000	£000	£000
Equivalent to the SORP's Income and Expenditure Account	Central services to the public	4,970	(3,765)	1,205
	Cultural, environmental, regulatory and planning services	13,824	(11,370)	2,254
	Education and children's services	63,401	(20,496)	42,905
	Highways and transport services	23,988	(7,930)	16,058
	Local authority housing (HRA)	25,787	(26,901)	(1,114)
	Other housing services	4,250	(3,857)	393
	Adult social care	16,872	(5,518)	11,354
	Exceptional costs of social care legal settlements <sup>6</sup>	2,024	-	2,024
	Corporate and democratic core	447	(65)	382
	Non distributed costs	604	-	604
	<b>Cost Of Services</b>	<b>155,967</b>	<b>(79,902)</b>	<b>76,065</b>
	Other Operating Expenditure (Note 9)	2,218	-	2,218
Equivalent to the SORP's STRGL	Financing and Investment Income and Expenditure (Note 10)	11,340	(2,359)	8,981
	Surplus or Deficit of Discontinued Operations	-	-	-
	Taxation and Non-Specific Grant Income (Note 11)	-	(84,876)	(84,876)
	<b>(Surplus) or Deficit on Provision of Services</b>			<b>2,388</b>
	Surplus or deficit on revaluation of non current assets			(36,597)
	Surplus or deficit on revaluation of available for sale financial assets			(101)
	Actuarial gains / losses on pension assets / liabilities			(8,444)
	Other Comprehensive Income and Expenditure			(45,142)
	<b>Total Comprehensive Income and Expenditure</b>			<b>(42,754)</b>

Equivalent to the SORP's Net Cost of Services, and reconciles to the Segmental Reporting Note

Equivalent to the surplus or deficit on the I&E Account under the SORP

Whilst the financial statements under IFRS (other than the Movement in Reserves Statement) still don't provide a direct comparison with the budget, one of the new notes to the financial statements – on [segmental reporting](#) – can also provide a bridge between budgets and the financial statements. Whether it does this in practice depends on the decisions authorities take about what goes in this note.



## Segmental Reporting Note

As discussed above, a comparison with budgets is one of the key items members will look for. Since the financial statements contain figures members won't be used to seeing, it may be helpful to start explaining the accounts by starting with the Segmental Reporting note.

The note is based on internal management structures and has to include at least 75% of service expenditure. The example below starts off by showing outturn information previously reported to members, and includes a line for support service recharges. However, if your authority reports the costs of support services separately, they could appear as a separate segment.

Note that headings are based on the authority's directorates, not the service classification in BVACOP (or SeRCOP from 2011/12)					
[Directorate] Income and Expenditure <sup>59</sup> 2010/11	Education and Learning	Health and Social Care	Community and Living	Environment, Planning and Leisure	Total
	£000	£000	£000	£000	£000
Fees, charges & other service income <sup>60</sup>	(1,481)	(5,012)	(2,452)	(30,417)	(39,362)
Government grants	(19,015)	(506)	(5,238)	(12,955)	(37,714)
<b>Total Income</b>	<b>(20,496)</b>	<b>(5,518)</b>	<b>(7,690)</b>	<b>(43,372)</b>	<b>(77,076)</b>
Employee expenses	40,252	11,235	8,652	30,565	90,704
Other service expenses	10,369	2,044	9,948	9,894	32,255
Support service recharges	4,326	1,273	2,031	6,232	13,862
<b>Total Expenditure</b>	<b>54,947</b>	<b>14,552</b>	<b>20,631</b>	<b>46,691</b>	<b>136,821</b>
<b>Net Expenditure</b>	<b>34,451</b>	<b>9,034</b>	<b>12,941</b>	<b>3,319</b>	<b>59,745</b>

Outturn figures previously reported to members

The note then needs to be reconciled to the Comprehensive Income and Expenditure Statement (CIES). The example below also doesn't include 100% of the service expenditure – so the missing services appear in the reconciliation. Including all the service expenditure in the note is likely to be more beneficial for members, and simplifies the reconciliation. Other reconciling items are likely to be common year-end adjustments such as for depreciation, pension adjustments etc. provided that these aren't already included in monitoring reports.

	2010/11 £000
Net expenditure in the [Directorate] Analysis	59,745
Net expenditure of services and support services not included in the Analysis	2,015
Amounts in the Comprehensive Income and Expenditure Statement not reported to management in the Analysis	37,055
Amounts included in the Analysis not included in the Comprehensive Income and Expenditure Statement	(22,750)
<b>Cost of Services in Comprehensive Income and Expenditure Statement</b>	<b>76,065</b>

The **cost of services** that used to form part of the Income and Expenditure Account now appears in the CIES, and forms part of the Surplus or Deficit. Under IFRS, this figure might be different to under the SORP, because of changes to the accounting for capital grants. Previously, these were credited to services to match depreciation, whereas capital grants are now credited to taxation and non-specific grant income as they are received (ie not matched with depreciation). This means that service lines won't include capital grant income; and also that the Surplus or Deficit might be more 'lumpy'.

# \ reserves

Reserves – including the General Fund and (where relevant) the Housing Revenue Account – are an indication of the resources available to an authority to deliver services in the future. The key messages that members will be looking for in terms of reserves – especially the General Fund and the HRA – are how the balances have changed over the year, whether the balances are still adequate, and what the balances mean in terms of future budgets and services.

Information on the level of reserves can be found in the [Balance Sheet](#) and related notes, and in the [Movement in Reserves Statement](#) and related notes. This latter statement will be more useful in explaining the changes that have taken place during the year, including contributions to and from earmarked reserves.

The **Balance Sheet** remains under IFRS, and the layout is also very similar to the SORP's Balance Sheet. One difference is that the minimum requirements under IFRS are less detailed than under the SORP. For example, only one line is required for property, plant and equipment – although more details than this can be shown if required. With a few exceptions (a new line for assets held for sale, and the cash line now including 'cash equivalents'), the top half of the Balance Sheet (assets and liabilities) looks very similar to the SORP Balance Sheet.

The bottom half of the Balance Sheet (reserves) is where the main changes have occurred. The key figures are as follows:

	Notes	31 March 2011
		£000
Usable Reserves	23	27,067
Unusable Reserves	24	382,715
<b>Total Reserves</b>		<b>409,783</b>

The minimum requirement is to include only two lines – usable reserves (such as General Fund and earmarked reserves) and unusable reserves (such as the Revaluation Reserve and the Capital Adjustment Account).

Other reserves can be shown on the balance sheet as long as these totals are shown.

Whilst the Balance Sheet aims to show those reserves over which members have control, some of the unusable reserves will become a charge against the revenue account – or usable reserves – over time. In some cases, such as the Unequal Pay Back Pay Account, this might be within a year or two.

Not all reserves can be used to deliver services, and the Code reflects this by reporting reserves in two groups – 'usable' and 'unusable' reserves. Usable reserves such as the General Fund and earmarked reserves are those where members will be involved in deciding on the levels maintained, and their use. Unusable reserves such as the Revaluation Reserve and the Capital Adjustment Account aren't subject to such member influence.

# cash flows

The final statement required by the Code is the **Cash Flow Statement**. Although similar to the SORP Cash Flow Statement, the cash flows of an authority are presented over fewer headings under IFRS than under SORP. Consequently, the statement will be quite short if the minimum presentation is used. A key difference is that the statement balances to the movement in 'cash and cash equivalents', not just to the movement in cash. The indirect method could look like this:

	2010/11 £000	
Net (surplus) or deficit on the provision of services	2,388	Surplus or Deficit taken from the Comprehensive Income and Expenditure Statement
Adjustments to net surplus or deficit on the provision of services for non cash movements	(24,067)	
Adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities	11,523	
Net cash flows from Operating Activities (Note 25)	(10,156)	3 groups of transactions: ■ Operating ■ Investing ■ Financing
Investing Activities (Note 26)	(24,585)	
Financing Activities (Note 27)	35,140	
Net increase or decrease in cash and cash equivalents	399	
Cash and cash equivalents at the beginning of the reporting period	(14,166)	
Cash and cash equivalents at the end of the reporting period (Note 19)	(13,767)	Cash and cash equivalents figure in the Balance Sheet

# IFRS questions and answers

## **IFRS – what is it?**

International Financial Reporting Standards (IFRSs) are a suite of accounting standards used across the world. IFRS is the international equivalent of the Financial Reporting Standards (FRSs) used until now in the UK.

## **Why move to IFRS?**

In the 2007 Budget, the then-chancellor announced that the UK Public Sector would adopt IFRS, as this was seen as best practice and allowed for international comparisons to be made.

It was also a question of timing. The UK Accounting Standards Board (ASB) has been reviewing the future of UK GAAP and in the short to medium term all but the smallest organisations will be producing accounts based on IFRS.

As a result, CIPFA/LASAAC now produces the IFRS-based Code of Practice on Local Authority Accounting rather than the Statement of Recommended Practice (the SORP), and this is overseen by the Financial Reporting Advisory Board (FRAB), the independent body that advises the Government on accounting issues, rather than the ASB.

## **IFRS is intended for the private sector – why are we using it?**

IFRS has been developed for the private sector, but the impact of the vast majority of transactions is the same whatever sector you are in. Where there are specific public sector reasons to diverge from IFRS, there is a hierarchy that CIPFA/LASAAC (and the rest of the UK public sector) follows:

IFRS → IPSAS → UK GAAP

## **IPSAS?**

International Public Sector Accounting Standards. These are accounting standards developed specifically for the public sector by the International Public Sector Accounting Standards Board (IPSASB). The ‘rules of the road’ followed by the IPSASB when developing IFRS-based standards mean that the requirements of IPSAS will be the same as those under IFRS, except where there is a pressing public sector reason to adopt a different treatment. This makes them the natural first port of call for CIPFA/LASAAC when IFRS isn’t appropriate. There are also some IPSASs that deal with exclusively public sector issues, and for which there is no IFRS equivalent - such as taxation.

## **So why use IFRS rather than IPSAS?**

When the Treasury took the decision to follow IFRS, IPSASs were not as up to date as IFRS and were still under development in key areas. That’s now changed and governments around the world are increasingly adopting IPSAS directly.

## **Why does IFRS change everything?**

It doesn’t. Recent UK standards have been based on IFRS, so many requirements are unchanged. There are differences, and the work required to reflect these changes shouldn’t be underestimated, but for many transactions, there is little or no change as shown in the table on page 2.

## **The accounts are already too long – and IFRS will make them worse.**

Yes, the accounts can be long, but local authorities have a complex story to tell. IFRS does introduce more disclosures. But notes only need to be produced if they are material - leaving out notes that aren’t material or required by legislation is a good start.

### **The Pension deficit is meaningless – why do we have to show it?**

The deficit doesn't have to be funded from this year's budget, but it's still a true cost – it represents the amount that will need to be found from future budgets to pay for pension entitlements already incurred in delivering services. So it's a real call on future funding. Not showing this would hide the liability that the authority has incurred.

This also applies to other reserves. Like the Pension Reserve, the Capital Adjustment Account, the Unequal Pay Back Pay Account and similar reserves all do one thing: they hold expenditure that the authority has incurred but not yet financed. Think of them as being a bit like a credit card balance - these amounts will have to be funded in future, either from taxation or from usable reserves.

Concerns have been expressed that all these reserves make the Balance Sheet incomprehensible. But all that needs to be shown on the Balance Sheet itself are 'Usable Reserves' and 'Unusable Reserves' – the details can all go in a note. This will help to de-clutter the Balance Sheet.

### **The HRA accounts just replicate what is shown elsewhere. Can't we get rid of them?**

Not just yet. CIPFA/LASAAC agreed not to review the HRA straight away, partly because many of the requirements are set out in legislation, and partly because of the major review in England – we didn't want to change the accounts for 2010/11, then have to change them again shortly afterwards. But watch this space...

### **A lot of detail is required in relation to employees' pay. Is it really needed?**

Yes - it's a legal requirement. It's also in line with the rest of the public sector, and in the current climate of transparency, local authorities can't be seen to be less open than everyone else.

# sources of further information

## **Code of Practice on Local Authority Accounting in the United Kingdom: Guidance Notes for Practitioners - 2010/2011 Accounts**

This publication provides guidance on the Code of Practice on Local Authority Accounting in the United Kingdom 2010/11 – the first Code to be based on International Financial Reporting Standards.

The Guidance Notes can be purchased from:

<http://secure.cipfa.org.uk/cgi-bin/cipfa.storefront/4d93349800b7691427403efdf4070676/Product/View/PUBAC102H>

## **Code of Practice on Local Authority Accounting in the United Kingdom: Disclosure Checklist for 2010/2011 Accounts**

The 2010/11 version of the Disclosure Checklist is the first to be based on International Financial Reporting Standards (IFRS) rather than UK GAAP, and reflects the reporting requirements introduced by the 2010/11 IFRS-based Code of Practice on Local Authority Accounting.

The Disclosure Checklist can be purchased from:

<http://secure.cipfa.org.uk/cgi-bin/cipfa.storefront/4d93349800b7691427403efdf4070676/Product/View/PUBAC106C>

## **Transition Guidance Notes**

The Transition Guidance Notes set out the detailed accounting requirements to be followed as part of the first-time adoption process in respect of the differences between IFRS and UK GAAP. They can be downloaded free of charge from:

[http://www.cipfa.org.uk/pt/cipfalaac/transition\\_guidance.cfm](http://www.cipfa.org.uk/pt/cipfalaac/transition_guidance.cfm)

## **Local Authority Accounting Panel Bulletins**

LAAP Bulletins provide guidance on topical issues and accounting developments and when appropriate provide clarification on the detailed accounting requirements. A Bulletin covering issues relating to the closure of the 2010/11 accounts will be issued in April.

LAAP Bulletins can be downloaded free of charge from:

<http://www.cipfa.org.uk/pt/laap.cfm>

## **IFRS Implementation Support**

CIPFA has developed a range of additional IFRS products and services to help public sector organisations understand the requirements of IFRS, overcome the key challenges and smooth the way for a successful transition. Details can be found at:

<http://www.cipfa.org.uk/ifrs/support.cfm>



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