

# report

Paper CL 06 06-14

Committee	CIPFA/LASAAC
Venue	Edinburgh
Date	4 June 2014
Author	Alison Scott, CIPFA, Assistant Director Policy and Technical Sarah Sheen, CIPFA, Technical Manager, Local Government Financial Reporting
Subject	Improving Accountability: Streamlining the Accounts and Narrative Reporting

---

**The purpose of this report is to update on existing work on simplification and narrative reporting and seek the approval of CIPFA/LASAAC for a more fundamental review of the accounts to improve accountability.**

## **1 Introduction**

- 1.1 CIPFA/LASAAC has maintained a work-stream in relation to accounts simplification emphasising the need to de-clutter the accounts and ensure their relevance to stakeholders. The existing simplification grid is attached to this report at Appendix A and already includes a suggestion that both the Comprehensive Income and Expenditure Statement and Movement in Reserves Statement should be the subject of the next phase of work.
- 1.2 In parallel there is a need to deal more explicitly with the issue of a management commentary – this will be mandatory in Scotland from when the regulations come into force and is likely to become mandatory within the other UK territories. At present the Code encourages authorities to provide a management commentary based upon the FReM's requirements adapted for local government as necessary. It also prescribes the content of the Explanatory Foreword which is a management commentary on the authority's financial statements albeit read in its most narrow form would not provide the level of analysis prescribed by other guidance on the management commentary.
- 1.3 CIPFA is currently working with the International Integrated Reporting Council on its work to introduce integrated reporting and has recently issued a call for expressions of interest for public sector organisation to be involved in a Public Sector Pioneer Programme during 2014 and 2015. A copy of the call for expressions of interest is attached at appendix B.
- 1.4 One of the key issues frequently cited by local authorities and included in the responses to the simplification and streamlining consultation in criticism of the current format of the accounts is that they do not properly explain the performance of the authority ie the General Fund and Housing Revenue Account

Balances and cannot be easily tied back to budget outturn reports. These comments therefore fall on the effectiveness of the performance statements of the authority ie the Comprehensive Income and Expenditure Statement (CIES) and the Movement in Reserves Statement (MiRS). The Secretariat would therefore recommend that it is worthwhile prioritising these two statements in the review. It is worthwhile pointing out that there does not seem to be a groundswell of opinion on either the Balance Sheet or the Cash Flow Statement.

## **2 Proposals**

- 2.1 In addition to the prioritisation of the performance statements and in order to improve the relevance of the Statement of Accounts and hence accountability, it is suggested that CIPFA/LASAAC may wish to undertake a more radical simplification agenda including review of the CIES and MiRS and the introduction of narrative reporting with a view towards 2016/17 implementation.
- 2.2 Much of the format and analysis of income and expenditure in the CIES is determined by IFRS and therefore opportunities to make substantial changes are restricted. However, CIPFA/LASAAC may wish to consider the a review of the current approach to segmental reporting on the face of the Statement.
- 2.3 Whilst the Service Reporting Code of Practice reporting requirements would need to retained to align with national accounts and government reporting purposes, a change in the segmental reporting requirements in the Code and how services are reported on the face of the CIES to allow expenditure to be aligned with each individual authorities own management arrangements improving the links to budget and outturn information. There is potentially much more flexibility for change in the MiRS as this is the Statement that already focuses on the adjustments between the accounting basis and the statutory accounting requirements. CIPFA/LASAAC is aware the MiRS is the Statement which has been subject to the most criticism since the introduction of IFRS. If a fundamental review of MiRS were coupled with relevant changes to the CIES and the segmental reporting requirements, this would allow the Statement of Accounts to link more explicitly into Budgets and Outturn significantly improving both its relevance and accountability.
- 2.4 Consideration of narrative reporting alongside the segmental reporting requirements in the format of CIES and changes to MiRS would bring into play the final element of improving accountability and allow a much wider consultation to be undertaken along with the ability to incorporate lessons from the IIRC Pilot. This would require the current approach to management commentary based on the adapted FReM approach to be retained for 2015/16.

## **3 Proposed Process**

- 3.1 In order to obtain the greatest benefit from the opportunity of a more radical review, the review should allow for a wide ranging and open consultation process leading to the production of options and a more specific consultation around preferred options and implementation. The suggested approach set out below would allow for an extended consultation process which would be have the added benefit of ensuring that CIPFA/LASAAC is seen to be listening to and responding to the concerns of the sector.
- 3.2 Prior to the next meeting of CIPFA/LASAAC, the Secretariat in consultation with the Chair and other members of the Board will begin the conversation with as wide a range of key stakeholders as possible to generate some initial feedback

and ideas to inform the production of an initial open consultation paper for consideration by CIPFA/LASAAC at its next meeting. This consultation paper would be very much a 'think-piece' setting out the current issues and early thoughts whilst asking for ideas. The Secretariat would also seek to gather input from other relevant CIPFA panels and in particular the Local Authority Accounting, Local Government Policy and Governance Panels.

- 3.3 Based on the 'think-piece', the first stage of more formal consultation would begin with a number of roundtable events and discussions with key stakeholder groups. CIPFA/LASAAC may wish to consider whether it wants to carry out specific consultation aimed at council tax payers. Final proposals would be developed during the Spring of 2015 for inclusion in the formal consultation process for the 2016/17 Code in line with the usual timetable and process.
- 3.4 Alongside the fundamental review, the Secretariat will continue to seek opportunities for simplification of the current accounts where these are sensible to do so.

#### **4 Conclusion**

- 4.1 There is an option to undertake a more fundamental review of the statement of accounts and improve accountability.
- 4.2 CIPFA/LASAAC is asked to consider the proposed approach and approve a more fundamental approach to the simplification and streamlining of the Accounts.

<b>CIPFA/LASAAC – Action Plan for Streamlining and Simplification of the Financial Statements</b>			
<b>Action point</b>		<b>Action by whom and by when</b>	<b>Outcome</b>
1	Update and reissue <i>How to tell the Story</i> and On Account Article on Cutting Clutter	Secretariat to update CIPFA.LASAAC to comment	Update complete anticipated publication date at the end of June 2014
2	Outreach project with Birmingham City Council	Ongoing	
3	Review of the financial statements Stage 1– I. Prioritise the performance statements (CIES and MiRS) and the measurement of local authority performance (General Fund and HRA Balances}. II. This will include consideration of conceptual issues such as the interaction of GAAP with General Fund performance.	First Stage of Review complete by early July to feed into roundtables (aimed for early to mid-July). Any significant changes may need to be subject of separate consultation process (single issue).	Roundtables to identify any changes necessary. Any substantial changes may need to feed into amendments to the 2015/16 Code.
4	Challenge disclosure relevance for local authority financial statements	Secretariat and CIPFA/LASAAC	First stage 2015/16 Code – Heritage Assets Annual Development process for the Code
5	Review of the financial statements Stage 2	Wider review and identification of good practice issue of CIPFA/LASAAC think piece. Paper produced for November 2014	Outcomes included in the paper on second stage review.

		CIPFA/LASAAC meeting	
6	<p>IASB Projects:</p> <ul style="list-style-type: none"> <li>▪ Amendments to IAS 1: this has been considered in the developments report.</li> <li>▪ Materiality: The IASB will seek to develop educational material on materiality with input from an advisory group.</li> <li>▪ Separate project on disclosure: The IASB will consider as part of its research agenda the broader challenges associated with disclosure effectiveness.</li> </ul>	Follow IASB timetables and the development timetables for the Code	Development programmes for the Code. Educational material can be considered for local authority circumstances.
7	Treasury Simplification and Streamlining project	Include amendments relevant to local authority circumstances	Amend Code as relevant to local authority circumstances unlikely to be substantial
8	International Integrated Reporting Framework	Recommended outcomes align included as relevant in the Code – Date TBC	Developed for the relevant Code
9	LAAP consideration of SeRCOP issues	LAAP considered at its meeting in March 2014. Note that LAAP reviews its example financial statements on an annual basis. However, the principles in SeRCOP are driven by National Accounts and statistical returns.	Any improvements that can be identified will be picked up in the Guidance Notes but the amendments to issues raised such as principles of overhead apportionment will be limited by a need to feed into statistical returns.