

# Report

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Board	CIPFA/LASAAC
Venue	National Audit Office, 157-197 Buckingham Palace Road, Victoria, London, SW1W 9SP
Date	4 June 2019
Author	CIPFA Secretariat
Subject	Strategic Plan – Workstream Overview

## Purpose

**To support discussion of matters arising from the workstream actions to date.**

### 1 Vision Statement and Strategic Plan

1.1 CIPFA/LASAAC's vision statement is:

*UK local authority annual accounts should be widely recognised as an exemplar for clear reporting of the financial performance and position of complex public sector bodies. Users of accounts should be able to access the information they want to help them to understand the finances of an authority and to take practical and informed decisions.*

1.2 To implement this CIPFA/LASAAC agreed a strategic plan based on:

Working Group / Workstream	Themes Supported	Code Year
a. Identify key messages (including statutory adjustments)	Key messages	20/21 21/22
b. Develop outreach & engagement routes for stakeholder groups	Engagement/Outreach	21/22
c. Disclosures and materiality behaviours	Key messages Engagement/Outreach Operations review	20/21 21/22
d. Narrative Reporting in Annual Accounts	Key messages Operations review	21/22
e. Code Format and Structure	Operations review	21/22

- 1.3 A briefing on each workstream is provided below. Appendices for the workstreams are also provided but **please note that detailed review of these is not anticipated, either before or during the meeting.**
- 1.4 They are provided in case references to specific elements, by workstream members, is made and would be helpful to inform discussion.

## 2 Identification of Key Messages (Refs to Appendix A)

- 2.1 Regarding statutory adjustments it is inferred that a rationale for their implementation may often be to support continuity of service provision and stability of taxpayer funding for public services. (2.7)
- 2.2 Central government reporting reviews have focused on the need to demonstrate accountability to non-accountants (2.8).
- 2.3 Public accountability interest may be anticipated to arise regarding taxpayer funds eg re use in year, future commitments, risks, stewardship decisions in year (3.9).
- 2.4 Considerations for Code development include questioning whether the statutory adjustment is necessary, whether the General Fund balance should reflect the accounting position, clarifying for readers that statutory adjustments may not apply to group entities etc (3.10).
- 2.5 The impact of each of the main statutory adjustment groups can be considered. In particular the financial management impact it has in the private sector can be considered. This can be contrasted to that under statute for local government.
- 2.6 Capital: Historic cost depreciation recognises the cost of an asset consumed during the year i.e. income is normally required in the year to cover the cost of asset consumption. Gain or loss on the realised sale of an asset is normally reflected in a company's distributable (usable) reserves (section 3).
- 2.7 Pensions: the estimated cost of pension benefits earned up to the balance sheet date would normally mean income is required in the year to cover the cost of asset consumption, or that any shortfall is addressed by action in the near to medium term. The estimated cost of benefits may be volatile from year to year. (section 4)
- 2.8 Financial instruments: Non-complex instruments can generally be measured and treated according to the expected cash flows arising. Generally 'interest free' periods are not allowed. Complex instruments require specific measurement based on market evidence. Changes in usable distributable reserves will normally reflect (a) changes in expected cash flows or (b) changes in market value (eg FVPL).(section 5)
- 2.9 Some funds are not taxpayer funds but are administered by the authority eg trusts, charities, LGPS (6.4)
- 2.10 Risks relating to the group as a whole (particularly those for subsidiaries), as well as the sufficiency of subsidiary reserves, may also be relevant when making General Fund contingency balance assessments i.e. they presumably should be considerations in budget and tax setting decisions (6.5).
- 2.11 Potential Code options could include (section 7):

- Provision of a specific section or statement on taxpayer funds (eg including out-turn figures and an explanation of the impact of statutory adjustments).
- Changes to the CIES to specifically show the impact on usable reserves separately from the effect of statutory adjustments
- Adapt the CIES to equate SDPS to the statutory cost to taxpayers
- Allow the General Fund balance to reflect the accounting position and ring-fence statutory adjustments within the General Fund balance

### 3 **Stakeholder Engagement and Outreach (refs to Appendix B)**

3.1 The scrutiny of financial information by elected members is important in ensuring accountability for public resources. HMCLG recently issued guidance on overview and scrutiny in local government noting the importance of finance and risk information for elected members. (3.3)

3.2 Key overarching stakeholder groups for CIPFA/LASAAC engagement include (3.6):

- Accounts users interested in accountability for taxpayer resources
- Other accounts users
- Professional experts, subdivided into:
  - CFOs
  - Preparers and auditors
  - Other experts eg actuaries, valuers, TM advisors

3.3 A non-technical on-line stakeholder survey is proposed. Section 4 indicates possible question areas for the key user groups.

3.4 Neither the ITC nor survey will be sufficient for CIPFA/LASAAC to effectively engage with stakeholder communities. CIPFA/LASAAC representation at stakeholder meetings is required.

3.5 Specific dialogue and outreach will represent a resource commitment for the secretariat and CIPFA/LASAAC members. It is recommended that a specific person (secretariat or member) is nominated to liaise with each identified group as appropriate. Stakeholder representatives may be invited to attend CIPFA/LASAAC.

### 4 **Materiality and Disclosures (refs to Appendix C)**

4.1 The IASB has issued 'Amendments to IAS 1 and IAS 8: Definition of Material' (2.4-2.6). In part an objective is to reduce the extent to which material information is obscured.

4.2 A number of aspects affect materiality and disclosure decisions (2.7). Key issues for auditors are considered to include risk, and regulatory expectations. Preparers may be concerned with the cost / time resources required in reaching a determination of materiality. Agreement over what constitutes an acceptable evidence base for decision making is therefore critical.

- 4.3 The identification of the needs of accounts users is central to the determination of materiality. Code guidance or direction in this respect may be beneficial. (2.8, 2.9).
- 4.4 Considerations regarding materiality include statutory requirements; qualitative aspects; information characteristics (per IFRS eg relevance); internal controls and governance; overall materiality; performance materiality; benchmarks; materiality for specific items; group materiality; cumulative errors from prior periods. (2.9)
- 4.5 Aspects affecting disclosure practices generally relate to volume of disclosures, lack of clarity or focus on significant issues, and the extent of evidence required to assess the need for a disclosure. (3.1)
- 4.6 The FReM proposes implementing a set of questions for preparers to consider before making a disclosure. This includes assessment of cost-benefit. (3.2 – table row2).
- 4.7 Risk is often a specific consideration in relation to disclosures (3.2). This may potentially be regarded as also linking to the importance of an item for corporate governance. (3.5)
- 4.8 Recent IFRS standards have sought to place disclosure requirements within a 'principles' framework to assist disclosure assessment.
- 4.9 Potential Code options could include (section 4):
- Clearer specification of the (default) primary users of local government accounts, and link materiality assessment to those users
  - Disclosure in annual accounts of the approach taken to materiality assessment, including identification of users
  - Provide clearer indication or guidance where a particular disclosure is not anticipated to be commonly required
  - More clearly adapt and interpret IFRS disclosure requirements
  - Directly cite only those disclosures expected to be common, cross reference to the standards for others
  - Use a 'must', 'should' or 'may' approach to disclosures
  - Explicitly allow that prior period information can be summarised where appropriate
  - Include the FReM proposed questions in the Code

## 5 **Narrative Reporting**

- 5.1 The narrative reporting workstream has not yet commenced. It is considered that this is more appropriately considered following wider stakeholder engagement.
- 5.2 It is clear however that this is central to achieving CIPFA/LASAAC's vision. It will be particularly important in respect of identifying key messages.

## 6 **Code Structure and Format (refs to Appendix D)**

- 6.1 A telephone conference was held with a small number of stakeholders, primarily preparers, to canvass initial feedback on the Code structure and format. Appendix D is a note of the discussions.
- 6.2 Some key aspects of feedback included:

- Practitioners indicated they will normally and primarily refer to guidance notes rather than the Code.
- If uncertainty arises the Code may be referenced, however this may often require further direct reference to the underlying standard or relevant legislation
- Extensive Code detail in respect of IFRS application may be less relevant where guidance is available.
  - An auditor, not involved in the group, later noted that the Code detail of IFRS requirements was helpful in providing a clear overview of requirements rather than requiring continual recourse to IFRS standards
- The group clearly expressed the view that more focus could be placed on the adaptation and interpretation in the development of the Code (eg especially In relation to disclosures)
- The existing consultation process was noted as being insufficient in itself to ensure engagement with stakeholders, especially in highlighting key issues and potential impacts in any proposals
- It was suggested that the Code could clarify the respective roles and responsibilities of preparers and auditors

## **7 Requested CIPFA/LASAAC Action**

### **7.1 CIPFA/LASAAC is requested to discuss the matters arising from the workstream activities to date.**

### **7.2 CIPFA/LASAAC is also requested to:**

- **Provide guidance in respect of future progress on each workstream**
- **Consider, when reviewing the ITC, whether the ITC appropriately incorporates workstream feedback to date to support and progress achievement of the vision statement**