

report

Paper CL 07 06-16A

Committee	CIPFA/LASAAC
Venue	CIPFA, Scotland, Edinburgh
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Author	Alison Scott, CIPFA, Head of Standards and Financial Reporting
Subject	Development of 2017/18 Code of Practice on Local Authority Accounting – Narrative Reporting

To gain CIPFA/LASAAC's view on Guidance on the Narrative Report for inclusion in the Code of Practice on Local Authority Accounting for 2017/18

1 Introduction

- 1.1 At its previous meeting CIPFA/LASAAC agreed to include principles for the narrative report directly in the Accounting Code. Previously the Code referred the user to the FReM and FRC Guidance as best practice.

2 Current Guidance

- 2.1 The Code currently cross refers to section 5.2 of the FReM and the FRC's Guidance on the Strategic Report (June 2014) and these sources have been used to develop a proposed approach for local authorities.

https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/488328/2015-16_FReM_December_2015_.pdf

<https://www.frc.org.uk/Our-Work/Publications/Accounting-and-Reporting-Policy/Guidance-on-the-Strategic-Report.pdf>

The FReM requires the Narrative (or Performance) Report to have two sections an 'Overview' and a 'Performance Analysis'. This structure however fails to recognise the increased information required around financial sustainability that arise because of local authorities' position in respect of 'going concern' and continued austerity and the work carried out by the IIRC to promote integrated reporting.

3. Going Concern (see also CL 07 06-16B)

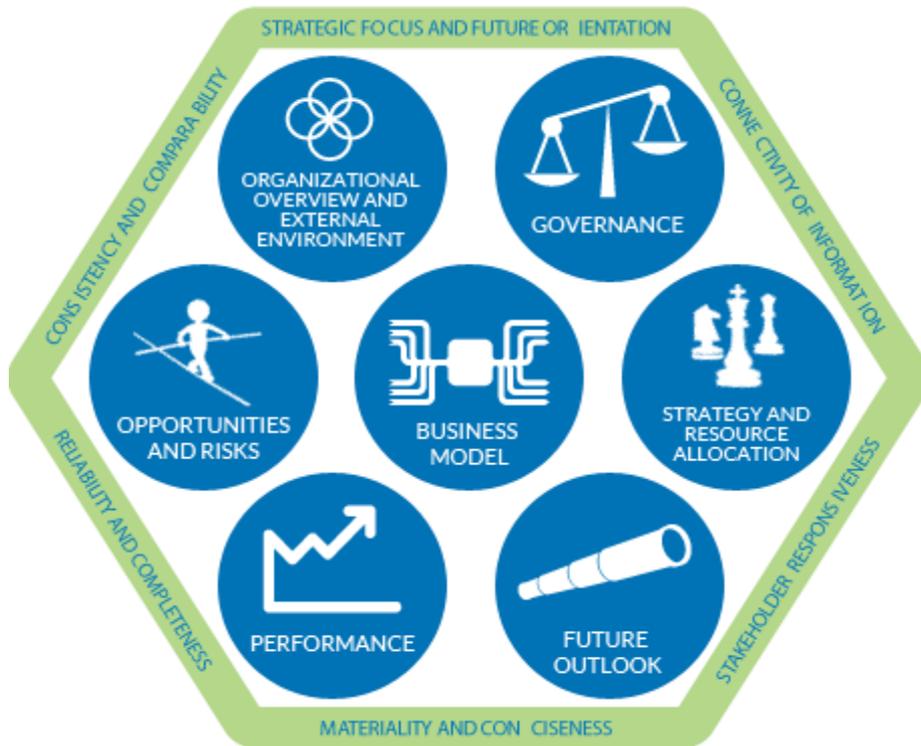
- 3.1 Paragraph 3.4.2.23 of the Code stipulates that a local authority's financial statements shall be prepared on a going concern basis; that is, the accounts should be prepared on the assumption that the functions of the authority will continue in operational existence for the foreseeable future. Local authorities are only created or discontinued by a statutory prescription and therefore the Code

stipulates that the financial statements are prepared on a going concern basis. The Code is also clear that transfers of services under combinations of public sector bodies (such as local government reorganisation) do not negate the presumption of going concern.

- 3.2 Whilst the presumption of going concern remains valid, continued austerity has led to increasing concern around local authorities' ability to provide services at current levels into the future and meet statutory requirements whilst maintaining existing structures. It is suggested therefore that the narrative report should contain information around future risks and forecasts.

4. Integrated Reporting

- 4.1 CIPFA has been promoting public sector pilots as part of its contribution to the International Integrated Reporting Council's work on integrated reporting. The IIRC reporting model is based upon eight content elements that describe the required content of an integrated report.



Whilst such a model is likely to be overly complex at this stage and guidance is still awaited on its application to the public sector, it was felt that it would be helpful to align the approach in the Code with these elements to allow those authorities that wish to adopt IIRC in the future to do so. The Governance element has not been included in the proposed approach as it is felt that this is covered by the Annual Governance Statement.

5. Proposed Approach

- 5.1 The proposed approach is based upon three elements:

- Organisational overview

- Risks, uncertainty and future outlook
- Performance

The business model and strategy and resource allocation elements from the IIRC approach are included within the organisational overview. The inclusion of a separate element on risk, uncertainty and future outlook gives this greater prominence in order to address future financial sustainability issues.

5.2 In line with CIPFA/LASAAC's earlier preferences a high level principles based approach has been taken and authorities are encouraged to adopt a structure and format that best meets the needs of the user whilst making clear links to the more detailed financial statements and overall reporting objectives.

6. Recommendation

6.1 The views of CIPFA/LASAAC are requested on the approach taken.