



Item 7(i). LASAAC 23/02/12

To: LASAAC
From: Gareth Davies
Date: 23 February 2012
Subject: IFRS Presentation- Review of 2010/11 Financial Statements

Purpose of Report

1. This report reviews the presentation of Scottish local authority 2010/11 financial statements which implemented transition to International Financial Reporting Standards (IFRS).
2. The intention of the report is to:
 - to identify practices and choices which may be useful for practitioners and auditors to consider
 - to consider the potential future presentation and development of IFRS based statements for Scottish local government

Professional Judgement

3. It should be noted that this report does not assume that standardisation of financial statements is an end objective. It is considered that scope for professional judgement in determining presentation issues such as style, content and emphasis will continue to be essential.
4. The identification of different practices however may assist in widening the options that are available when determining the presentation of financial statements.

Financial Reporting Options - Criteria

5. There are many aspects that will affect the choices made in presenting financial statements. A CIPFA guide ["Principles of Effective Communication in Financial Performance Reporting" see http://www.cipfa.org.uk/panels/lgpp/effective_reporting.cfm] suggests the following principles:
 - **Focused** Highlight important messages, transactions and policies and avoid distracting readers with immaterial clutter
 - **Open and honest** Provide a balanced explanation of the results – the good news and the bad

- **Clear and understandable** Use plain language, only well-defined technical terms, consistent terminology and an easy-to-follow structure
 - **Interesting and engaging** Get the point across with a report that holds the reader's attention
6. Additionally there is likely to be a cost-benefit balance in making choices regarding presentation, for instance in terms of staff time, the development tools used to present the information and the cost of verification of the information presented.
7. A key aspect however in making presentation choices is the assessment of what readers of the financial statements are interested in, what decisions or assessments they are using the statements for and what knowledge they already have.

Review Approach

8. The accounts of the 32 Scottish unitary local authorities were considered. The following were compared and contrasted for the 32 authorities:

	<u>See Appdx</u>
Overall Presentation Practices	A
Explanatory Foreword	B
Single Entity:	
Movement in Reserves Statement	C
Comprehensive Income & Expenditure Statement	D
Balance Sheet	E
Cash Flow Statement	F
Selected Disclosure Notes	G
<i>Material Judgements</i>	<i>G1</i>
<i>Assumptions & Estimation Uncertainty</i>	<i>G2</i>
<i>Statutory Adjustments</i>	<i>G3</i>
<i>Segment Reporting</i>	<i>G4</i>
<i>Impairment & Depreciation</i>	<i>G7</i>
<i>Transition to IFRS</i>	<i>G9</i>
<i>Balance sheet disclosures 1 April 2009</i>	<i>G10</i>
Group Accounts	H

9. An analysis of the presentation choices used and potential presentation practices have been noted for each statement. Due to the level of detail these are presented in Appendices A – H. Members may wish to review areas which are of specific interest or concern. Overall conclusions and recommendations are presented below.
10. It should be noted that all of the financial statements examined included elements which can be regarded as good practice.

Other Considerations

11. Various organisations [e.g. ICAS, Audit Commission, FRC] as well as local authority practitioners, have suggested that the presentation of financial information should be reviewed to ensure that it is appropriately clear, relevant and proportionate.
12. It is possible that a desire to increase the timeliness of Whole of Government Accounts [WGA] may reduce the timescales for completion of the financial statements and WGA returns.
13. The change to the audit regime in England may mean that individual authority assessment of readership needs will continue to differ between authorities in the UK.

Conclusions

14. The 2010/11 statements demonstrate a wide variety of acceptable presentation practices.
15. In making presentation judgements there is a critical need for clarity, by both practitioners and auditors, as to the reader audience being addressed and their needs.
16. The costs of information provision should not be anticipated to exceed the benefits obtained from the information.
17. From the analysis performed it is suggested that a variety of practices are available to support the criteria of "clear and understandable" and "open and honest" presentation.
18. It may be considered however that it is harder to identify practices to sufficiently support the "focused" and "interesting and engaging" criteria.
19. From the above it is concluded that the focus of future development of IFRS presentation would be appropriately weighted towards focus and engagement.
20. Currently the financial statements appear to play a role in data provision to government, scrutiny bodies and for research purposes. The completion of Whole of Government Accounts returns can also fulfil this role.
21. Clearly for data collation purposes continuing consistency of accounting practice is vital for comparability. Standardisation of presentation may, however, be less relevant where the financial statements are not required to fill a specific data provision role.

Comment [DG1]: These conclusions have not been specifically endorsed by LASAAC and do not necessarily represent LASAAC's views

Recommendations

22. ~~LASAAC may wish to recommend that for each set of financial statements the authority and auditors should agree, at an early stage, what the anticipated needs of the readers of the statements are. This should assist in the determination of appropriate presentation and assessment of the cost benefit balance.~~
23. ~~LASAAC may wish to review the needs of identified reader groups. This work may build upon any previous analysis undertaken in determining an appropriate 'summary accounts' format.~~
24. ~~LASAAC may wish to identify further practices to more fully support 'focus' and 'engagement' in presentation options.~~
25. ~~LASAAC may wish to consider the scope for integrating and coordinating the expectations regarding financial statements presentation and timetables, with the requirements of WGA returns.~~

Comment [DG2]: Recommendations not agreed at LASAAC. It was agreed that the report could usefully contribute to CIPFA-LASAAC work at a UK level

Committee Action

~~26-22.~~ **The Committee is requested to**

- **Discuss and approve, or amend, the recommendations made in paragraphs 22 – 25 above**

Appendix A. Overall Presentation Practices

A1. Overview analysis of format of statements:

Format	
Portrait	13
Mixed	12
Landscape	7

Index	Yes	No
Contents Page	32	0
Notes Index Provided	15	17

A2. Clearly every authority will have its own style. The following are provided as potential helpful practices where they would be appropriate.

	Possible Practice [NB These practices intended as supplementing Code of Practice recommendations]	Key Principle(s) Supported			
		Focus	Open & Honest	Clear & Understood	Engaging
1	Inclusion of the financial statements within a wider 'annual report'		√	√	
2	Inclusion of details of elected members and wards		√		√
3	Inclusion of a one page summary of the services the council is responsible for	√	√	√	
4	Use of a few simple charts and graphs to illustrate key facts	√		√	√
5	Use of colour and / or shading to support visual interpretation of tables (e.g. to differentiate comparatives)			√	√
7	Provision of a 'disclosure notes' index, possibly with page numbers.			√	
8	For pdf versions: the use of bookmarks (on the left hand side) as an indexation option to easily allow readers to find the specific section they require			√	
9	For pdf versions: conversion to pdf which maintains word search facilities, rather than use of a scanned image		√	√	
10	Careful consideration of font style, size, margins and white spacing to support visual clarity and easy reference and reading.				√
11	Provision of an explanation of the main statements in one place (e.g. as an introduction to the primary statements, rather than on each statement page.	√		√	

12	Placing the accounting policies towards the end of the statements, for use as reference only if required	✓			✓
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Appendix B. Explanatory Foreword

B1. It should be noted that while the Code of Practice recommends content for the Explanatory Foreword it does not specify it. The Code 2010/11 (paragraph 3.1.1.2) states "Content and style are left to local judgment." As such there is significant scope for variation to suit local approaches and needs.

	Possible Practice [NB These practices intended as supplementing Code of Practice recommendations]	Key Principle(s) Supported			
		Focus	Open & Honest	Clear & Understood	Engaging
1	Starting with a general overview of the economic climate and a summary of the authority's financial performance and position within that situation.	✓	✓	✓	✓
2	Impact of the economic climate: outline of the main impact (possibly quantified) of the economic situation on income, expenditure, balance sheet items and cash flow.		✓	✓	
3	Impact of the economic climate: description of action or strategy being undertaken, with details of forward plans and key risks and uncertainties	✓	✓		
4	Explanation of the role of the accounting standards with reference to the role and impact of statutory mitigation and how this affects the financial management of the authority	✓	✓		
5	Explanation (and possible quantification) of the main funding sources for the council, including reference to any risks or uncertainties		✓	✓	
6	Explanation (and possible quantification) of the movement in Net Assets (i.e. change in financial position)		✓	✓	
7	Explanation (and possible quantification) of Treasury Management activity, both investment and borrowing		✓	✓	
8	Cross reference to relevant disclosure notes, to assist readers and minimise duplication / length of the foreword.	✓	✓	✓	

9	Explanation of distinction in local government between revenue and capital			√	
10	Style: balancing the foreword between reviewing stewardship performance and providing a forward view			√	√
11	Explanation (and possible quantification) of the performance, position and outlook of Common Good & Trust Funds, including a description of their status	√	√		
12	Explanation of distinction between internal debt (Loans Fund Advances) and external debt, including impact on financial management		√		
13	Style: Use of brief summary tables (and potentially charts) to summarise quantified information			√	
14	Placing a brief explanation of the financial statements at the end of the explanatory foreword.			√	
16	Ending the foreword with a brief summary or conclusion			√	√
17	Brief reference to financial control, discipline and/or financial management, especially if there are any notable aspects (positive or negative). Possible cross reference to SSIFC/AGS.	√	√		
18	Analysis (table or chart) of expenditure on a subjective basis (eg employee costs), potentially with explanation of key risks and uncertainties of major categories.		√	√	
19	Use of headings and sub-headings			√	

Appendix C. Movement In Reserves Statement

C1. Overview analysis of format of statements (based on 10/11 tables):

	Yes	No
MiRS First Primary Statement	30	2
Other CIES affecting usable reserves	5	27

	Yes	No
Explanation on same page	23	9
Transfer to/from reserves affecting unusable reserves	6	26

Landscape	20
Portrait	12

Average Columns for Usable Reserves	6	Max 9, Min 3
Average Columns for Unusable Reserves	1	Max 5, Min 1

	Yes	No
Statutory adjustments detailed in MiRS	3 [Max rows 14]	29

C2. . The following are provided as potential helpful practices where they would be appropriate.

	Possible Practice	Key Principle(s) Supported			
		Focus	Open & Honest	Clear & Understood	Engaging
1	[NB These practices intended as supplementing Code of Practice recommendations] Presentation of separate columns for the 'uncommitted' portion of General Fund & HRA balances	√	√	√	
2	Cross referencing to the disclosure notes, especially clearly provided in a separate column.		√	√	
3	Analysis of voluntary transfers to / from reserves shown on the face of the statement.		√	√	

Appendix D. Comprehensive Income & Expenditure Statement

D1. Overview analysis of format of statements:

Landscape	9		Yes	No
Portrait	23	CIES on one page	27	5
		Explanation on same page	23	9

Comparatives Presentation per CIES Section	Gross [Inc & Exp Disclosed]	Net [Net Expend only]
Service Expenditure Analysis	30	2
Other Operating Expenditure; Financing and Investment Income & Expend; Taxation & non Ring-fenced Grants	10	22
Other Comprehensive Income & Expenditure	0	32

Other Specific Items	Yes	No
Budget Column Presented	3	29
Financing & Investment I&E analysed on face	7	25
Taxation & Non-Specific Grants analysed on face	7	25
Other Comprehensive Income & Expenditure – row for “other” unrealised gains /losses presented (includes lines where 09/10 only affected)	10	22

Presentation of (large) credits re pensions indexation change from RPI to CPI	
Presented as NDC negative expenditure	22
Presented as NDC income	8
Presented as Exceptional Item (negative expenditure)	1
Unclear as to location within the Service Expenditure Analysis	1

D2. . The following are provided as potential helpful practices where they would be appropriate.

	Possible Practice	Key Principle(s) Supported			
		Focus	Open & Honest	Clear & Understood	Engaging
	[NB These practices intended as supplementing Code of Practice recommendations]				
1	Analysis of Financing and Investment income and expenditure on face of CIES		✓		
2	Analysis of Taxation and non-specific grant funding on face of CIES		✓		
3	Analysis of NDC on face of CIES to separately present significant pension charges or credits	✓	✓	✓	
4	Presentation of significant pension charges or credits as an exceptional item	✓	✓	✓	
5	Cross referencing to the disclosure notes, especially clearly provided in a separate column.		✓	✓	
6	More consistent treatment of significant items which affect all authorities.			✓	

Appendix E. Balance Sheet

E1. Overview analysis of format of statements:

			Yes	No
Landscape	7	Balance sheet on one page	25	7
Portrait	25	Explanation on same page	23	9

Specific Items	Yes	No
Property, Plant & Equipment Analysed	7	25
Pensions Liability on face of balance sheet	19	13
PFI & Finance Leases on face of balance sheet	8	24
Usable Reserves analysed	8	24
Unusable Reserves analysed	5	27

E2. The following are provided as potential helpful practices where they would be appropriate.

	Possible Practice	Key Principle(s) Supported			
		Focus	Open & Honest	Clear & Understood	Engaging
	[NB These practices intended as supplementing Code of Practice recommendations]				
1	'Two-sided' presentation showing Net Assets on the left of the page 'balanced' by the Reserves on the right of the page (cf two columns).			√	
2	Consideration of whether any individual items or categories are significant enough, or of specific interest to readers, to warrant presentation on the face of the balance sheet.	√	√	√	√

Appendix F. Cash Flow Statement

F1. Overview analysis of format of statements:

Landscape	8		Yes	No
Portrait	24	Explanation on same page	21	11

Specific Items	Yes	No
Direct method used	4	28
Indirect method: Detailed analysis of adjustments to Surplus / Deficit on Provision of Services [SDPS]	3	25
Operating activities analysed on face of statement	4	28
Investing activities analysed on face of statement	8	24
Financing activities analysed on face of statement	8	24

F2. The following are provided as potential helpful practices where they would be appropriate.

	Possible Practice	Key Principle(s) Supported			
		Focus	Open & Honest	Clear & Understood	Engaging
	[NB These practices intended as supplementing Code of Practice recommendations]				
1	Separate note [especially under indirect method] of interest paid and interest receivable included within 'operating activities' total cash flows.		√	√	
2	Analysis of adjustments to the SDPS		√		

Appendix G. Selected Disclosure Notes

G1. **Judgements** disclosed (Code 10/11 3.4.2.78) included the following items. It is not suggested that these would be appropriately disclosed for every council, since this would be likely to weaken the focus on the most critical items.

	Item	Example Details	Key Principle(s) Supported			
			Focus	Open & Honest	Clear & Understood	Engaging
1	Group boundary	Reference to police & fire reform; immateriality of subsidiary; non-control of related party, determination of associates		√	√	
2	PFI Assets	Control of assets, one PFI example off balance sheet		√	√	
3	Leases	Lease determination process, criteria, sampling		√		
4	Employee benefits	Generally determination of annual leave at 31 March using samples		√		
5	Icelandic banks	Judgement on recovery of funds		√	√	
6	Capital	Significant capital project [trams] referenced; capital funding		√		
7	Pensions	Judgement re treatment of indexation change [RPI -> CPI] as curtailment		√	√	
8	Componentisation			√		
9	Legal disputes	Land procurement / compulsory order; flood defences claim; accounting treatment based on legal opinion		√	√	
10	Common Good/ Trusts	Assets treated as if on a finance lease to the authority; charity fund statement prepared under Charity SORP; unresolved charitable trust qualification		√	√	
11	Equal Pay			√	√	
12	Service Demands	Influence of population, fuel inflation, weather; possible service reductions leading to impairment (obsolescence) of assets	√	√	√	

13	Investment Property			√		
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G2. **Future assumptions and estimation uncertainty** disclosures included the following. It is not suggested that these would be appropriately disclosed for every council, since this would be likely to weaken the focus on the most critical items.

	Item	Example Details	Key Principle(s) Supported			
			Focus	Open & Honest	Clear & Understood	Engaging
1	PPE	Estimation of useful life, especially given pressure on maintenance budgets		√	√	
2	Equal Pay			√		
3	Debtor Impairment	Especially given the uncertainty of the economic situation, sometimes a sensitivity analysis was provided		√	√	
4	Pensions Liability	Volatility of pensions liability generally noted, sometimes a sensitivity analysis was provided		√	√	
5	Supplier failure	Southern Cross referenced noting no significant impact on position noted	√	√	√	
6	Severance Costs	Including early retirements		√	√	
7	PFI			√		
8	VAT Recovery	Dependency on meeting partial exemption test noted		√	√	
9	Tram Project		√			
10	Inflation	Especially in relation to long-term contracts		√	√	
11	Reserves			√		

G3. **Statutory adjustment** (between accounting basis and legislative requirements) disclosures, where made in the disclosure notes, were generally relatively detailed, although some table layouts could be regarded as easier to follow compared to others. With reference to the 'pensions' statutory adjustment 13 authorities appeared to show this on a 'net' basis (one row) while 19 used a 'gross' basis [2 rows].

	Possible Practice	Key Principle(s) Supported			
		Focus	Open & Honest	Clear & Understood	Engaging
1	Use of shorter descriptions for each statutory adjustment could help to make tables clearer, possibly at the loss of specific accuracy regarding the nature of the adjustment.	✓		✓	✓
2	Use of explanatory text below tables to explain, briefly, the basis of the most significant adjustments and the impact they have upon the financial management of the organisation.		✓	✓	
3	Consideration as to whether a 'net' presentation of adjustments (where applicable) or a 'gross' presentation is more appropriate. [i.e. gross = showing reversal of item from CIES with the statutory charge shown separately]		✓		

G4. **Segment reporting [amounts reported for resource allocation decisions [Code 10/11 3.4.2.82]** disclosures varied quite considerably, as should be expected given the different management arrangements that will exist from council to council.

G5. An analysis of the disclosures shows:

	Average	Max	Min
Number of segments	9 [7 excl max]	65	3
Subjective reconciliation – number of reconciliation adjustments [see 3.4.2.90]	5	15	0
Subjective analysis – number of subjective groupings	11	23	4

G6. Possible practices which may be appropriate:

	Possible Practice	Key Principle(s) Supported			
		Focus	Open & Honest	Clear & Understood	Engaging
1	Explanatory text outlining the council's management structure and budgetary control arrangements including items which are managed corporately.			√	
2	Use of headings and groupings for the subjective reconciliation to identify: <ul style="list-style-type: none"> • Costs Excluded From Net Cost Of Services • Costs Added To Net Cost Of Services 	√		√	
3	Potentially more consistency in the subjective groupings used may be useful for some readers, especially if aligned to Whole of Government Accounts. This however could impose an additional compliance burden.			√	

G7. **Impairment and Depreciation** disclosures vary in the level of detail provided. Audit Scotland has noted that a consequence of this has been the existence of validation errors in Whole of Government Accounts [WGA] returns. Specifically WGA requires a reconciliation between:

Reconciliation Required [A = B]	
A	B
<ul style="list-style-type: none"> • Impairment charged to [or reversed in] the SDPS 	<ul style="list-style-type: none"> • Impairment (historic cost) charged against [credited to] the Capital Adjustment Account • Impairment (valuation element) charged against [credited to] the Revaluation Reserve
<ul style="list-style-type: none"> • Depreciation charged to the SDPS 	<ul style="list-style-type: none"> • Depreciation (historic cost) charged against the Capital Adjustment Account • Depreciation (valuation element) charged against the Revaluation Reserve

G8. It has been suggested that these reconciliations could be explicitly supported by more detailed analysis in the 'adjustments between accounting and funding' section (or disclosure note) of the MiRS. This issue is planned for inclusion within the LAAP 'Closure of Accounts' bulletin.

	Possible Practice	Key Principle(s) Supported			
		Focus	Open & Honest	Clear & Understood	Engaging
1	Detailed analysis in MiRS (or disclosure note) with separate lines for: <ul style="list-style-type: none"> • Reversal of Impairment charges / credits [potentially with entries in the General Fund, HRA, CAA and Revaluation Reserve columns] • Reversal of Depreciation charges /credits [potentially with entries in the General Fund, HRA, CAA and Revaluation Reserve columns] 			√	

G9. **Transition [First time adoption of IFRS]** disclosures varied considerably in the level of detail provided. Some councils provided an overview reconciliation of changes in Net Assets and the results for the 2009/10 year. Other authorities provided significant detail on the specific adjustments and items changed. An analysis shows:

Detailed	20
Intermediate	4
Summary	8

G10. **Transition balance sheet disclosure notes** [debtors used as an example]. Authorities made different decisions regarding whether disclosure notes for transition balance sheets [1 April 2009] were required.

	YES	NO	
Debtors at 1/4/09 analysed	20	12	
Impairment of debtors shown	8	24	One council showed a line for impairment with no impairment shown

G11. While first time adoption is not likely to recur consideration of the presentation choices made may help to inform views about the level of information which different readers are considered to find beneficial.

Appendix H. Group Accounts

H1. Overview analysis of format of statements:

Length of Group Accounts	Average	Max	Min
Number of Group Account pages	13	38	6
1) One council (Edinburgh) presented group accounts primary statements alongside the authority only primary statements 2) One council (Dumfries & Galloway) did not prepare group accounts 3) The number of disclosure notes varied significantly 4) One council (East Lothian) noted a disagreement re inclusion of Fire & Police Joint Boards, but did include them			

MIRS – Columns for Group Reserves	No.
One column – Authority’s share of the reserves of subsidiaries, associates and joint ventures	22
Two columns – common good reserves shown separately	1
Two columns – one for associates; one for Joint Ventures & Common Good	1
Two columns - one for group entity usable; one for group entity unusable	4
Two columns – one for subsidiaries; one for associates	2
Three columns – Common Good Usable Reserves (in usable block; one column for subsidiary reserves; one column for associates	1

Balance Sheet – Group Reserves Presentation	Yes	No
Other Entity Group Reserves presented separately on face of balance sheet	23	8
One separate row for total other 'Group Reserves'	16	
Two separate rows – <ul style="list-style-type: none"> • other group usable • other group unusable 	2	
Two separate rows – <ul style="list-style-type: none"> • other group reserves • Common Good reserves 	2	
Two separate rows – <ul style="list-style-type: none"> • other group revenue reserves • other group capital 	1	
Three separate rows – <ul style="list-style-type: none"> • other group usable reserves • other group unusable reserves • minority interests [i.e. shown separately on face of balance sheet] 	2	

H2. The following are provided as potential helpful practices where they would be appropriate.

	Possible Practice	Key Principle(s) Supported			
		Focus	Open & Honest	Clear & Understood	Engaging
	[NB These practices intended as supplementing Code of Practice recommendations]				
1	Separate columns in the MiRS for subsidiaries; associates; joint ventures; common good		√	√	
2	Group accounts given 'primary statement' status in the accounts	√			
3	Use of 'Group reserves' as a term should specifically include single entity reserves. Potentially refer to 'non-council' group reserves as 'Reserves of Other Group Entities'			√	
4	Clear list of non-material interests in other entities (i.e. those excluded from group)		√		
5	Separate analysis of group reserves provided in the notes to the financial statements		√	√	