



**SCOTTISH LOCAL GOVERNMENT
FINANCIAL STATEMENTS:
SURVEY OF USER PREFERENCES**

Response from ICAS

May 2013



The Local Authority (Scotland) Accounts Advisory Committee (LASAAC) is constituted of volunteer members representing the Chartered Institute of Public Finance & Accountancy (CIPFA), the Association of Chartered Certified Accountants (ACCA), the Institute of Chartered Accountants of Scotland (ICAS), Audit Scotland and the Scottish Government. LASAAC is primarily concerned with the development and promotion of proper accounting practices for Scottish local authorities. A key task in achieving this is LASAAC's contribution to the development of the 'Code of Practice on Local Authority Accounting in the United Kingdom' ('the Code').

Further information about LASAAC can be obtained at <http://www.cipfascotland.org.uk/technical/lasaac.cfm>

CIPFA provide secretariat support for LASAAC. Please direct any correspondence to lasaac@cipfa.org or contact:

Gareth Davies
Policy & Technical Officer
CIPFA in Scotland
Beaverbank Business Park
22 Logie Mill
Edinburgh
EH7 4HG
lasaac@cipfa.org



SCOTTISH LOCAL GOVERNMENT FINANCIAL STATEMENTS

SURVEY OF USER PREFERENCES

1. Background and Objective

- 1.1 In an era of economic constraint it is particularly important that the financial statements of Scottish local government are relevant and useful for a variety of potential users of the statements.
- 1.2 The implementation of International Financial Reporting Standards (IFRS) in both the public and private sector has increased concerns regarding the complexity of financial statements.
- 1.3 This questionnaire is intended to gather information relating to your needs and views on the use of IFRS based financial statements. **The responses received will be used as the basis for reviewing the information in, and presentation of, Scottish local government financial statements to support your needs.**
- 1.4 You are encouraged to answer as many questions as possible, but you do not have to answer all questions. Please do not hesitate to add additional comments, as these provide the best insight into your needs. You are requested to be as explicit as possible about your requirements, existing experience and suggestions for improvements.
- 1.5 LASAAC also believe that individual discussion with stakeholders would be helpful and informative. LASAAC may therefore wish to discuss submissions with respondents. If you do not wish to be contacted please indicate this in Section 2.
- 1.7 Responses are requested by end of day Friday 24 May 2013 and should be returned, preferably by e-mail to lasaac@cipfa.org

If you have any comments or questions on this consultation please do not hesitate to contact Gareth Davies (LASAAC Secretary) on 0131-550-7534 or at the above e-mail address.

2.0 About You

2.1 Some information about you would be helpful.

Organisation Name (if applicable)	ICAS
Your Name (key contact)	Alice Telfer
Post Title (if applicable)	Assistant Director
E-mail	atelfer@icas.org.uk
Telephone	0131 347 0231
Postal Address	CA House 21 Haymarket Yards Edinburgh EH12 5BH

Q1	Can LASAAC make your response publicly available? (Please delete the non-applicable response)	YES	NO
Q2	Would you be willing to discuss your response in more detail with LASAAC? (Please delete the non-applicable response)	YES	NO
Q3	Please indicate if you are responding on behalf of an organisation or as an individual (Please delete the non-applicable response)	ORGANISATION	INDIVIDUAL

3.0 Your Interest in Scottish Local Government Financial Statements

Q4	Are you interested in:		
(a)	All (or virtually all) Scottish Local Government Financial Statements (e.g. for all authorities)	YES	NO
(b)	A group (or sub-set) of Scottish Local Government Financial Statements (e.g. for a group of authorities)	YES	NO
(c)	A single organisation's Financial Statements	YES	NO

Q5	For your response(s) to Q4 please indicate what the basis for your interest is. e.g. a member of the public interested in my local authority's statements; a contractor with business dealings with a sub-group of authorities etc.:
	As a professional accounting body, we have an interest in developing good practice, representing our members' views and acting in the public interest, as required by our Charter.

Q6	In general overview terms please indicate the decisions and/or judgements that the financial statements are used for (or you would like to use them for):	
(a)	I (or my organisation) currently use Scottish local government financial statements for:	
	See Q5.	
(b)	I (or my organisation) would like to use Scottish local government financial statements for:	
	See Q5.	

Q4	Are you primarily interested in:		
(a)	The funds that the organisation has available to support on-going public service provision (e.g. the 'statutory' fund balances as determined by legislation which can be used to support future expenditure)	YES	NO
(b)	The IFRS-based information which relates to the underlying use and generation of resources and the assets and liabilities of the organisation.	YES	NO
	If both have approximately equal importance to you or your organisation please answer YES to both.		

4.0 Which Aspects of the Financial Statements Do You Value?

Q7	<p>Please indicate which aspects of local government financial statements are most important for you or your organisation.</p> <p>Please indicate the importance of each aspect on a scale of 1 (low) to 10 (high importance).</p> <p>Please provide responses based on (i) the importance you currently attach to it and (ii) the importance that you could attach to it if some improvements could be made.</p> <p>You do not have to respond on each line. A blank response for a line will be taken to mean that it is not relevant for your purposes.</p>	<p>(I) Current</p> <p>1 (low) - 10 (high)</p>	<p>(II) Potential</p> <p>1 (low) - 10 (high)</p>
(a)	Explanatory Foreword by the Chief Financial Officer		
(b)	Statement of Responsibilities		
(c)	Annual Governance Statement (or Statement on the System of Internal Financial Control)		
(d)	Remuneration Report		
(e)	Movement in Reserves Statement		
(f)	Comprehensive Income and Expenditure Statement		
(g)	Balance Sheet		
(h)	Cash Flow Statement		
(i)	Accounting Policies		
(j)	Housing Revenue Account		
(k)	Council Tax Income Account		
(l)	Non-Domestic Rate Account		
(m)	Common Good Fund		
(n)	Sundry Trusts and Funds		
(o)	Group Accounts (generally, all group statements)		
(p)	Disclosure Notes to the Accounts (see question 8 below)		
(q)	Independent Auditor's Report		

Please add more rows as necessary. Please add any comments you would like to make on your preferences and use of any specific element(s) of the financial statements

Q8	Please add any comments you would like to make on your preferences and use of any specific element(s) of the financial statements
----	---

We have not provided a subjective score but comment on aspects below.

Explanatory Foreword

There is a lack of meaningful high level narrative in the accounts which pulls out key messages on how the organisation has performed, its key financial messages, strategy, risks, how managed and compliance with duties. This inhibits transparency and is a barrier to better understanding the organisation, its use of resources and holding to account more effectively.

The content, length and quality of the Explanatory Foreword in local authority (LA) accounts are variable. Although it can aid interpretation of the accounting statements, it does not extend to explaining how the organisation has performed against its objectives or demonstrate how well resources have been utilised. It can also contain material such as a glossary of accounts terminology which is extraneous detail and not appropriate in a strategic document.

Statement of Responsibilities

The Statement of Responsibilities focuses solely on responsibilities for financial affairs and the financial statements relating to the Authority and Head of Finance but does not mention the rest of the Management/Council Team, the Chief Executive or Leader. The accounts are signed off by the Head of Finance, but not on behalf of the full Management/Council Team.

Our recommendation for an operating financial review type commentary is likely to introduce a need for a wider statement of responsibilities that recognises the wider team of decision-makers (Executive Team / Council) out with the financial statements.

In a company annual report and accounts the Board of Directors has collective responsibility for the accounts¹ which is evidenced by requiring the signature of one of the Directors who signs on behalf of the Board. The Directors' responsibility statement comes after the Directors' report. This reflects the unitary board structure which is seen as UK corporate governance good practice as it strengthens the opportunity for challenge and proper scrutiny.

The gap in wider responsibilities out with the financial statements suggests a lack of clarity or even a gap in top responsibility. It is also inconsistent with the principle of the unitary board. The arrangements in place for local authorities are due to the legislative framework which has not kept pace with corporate governance good practice.

The accounts are a key communication document (especially as there is no requirement to produce an annual report) so if the statement of responsibilities is not comprehensive in the accounts, it is not clear where else this would fit.

¹ The Companies Act 2006 (s394) it is the responsibility of the directors of every company to prepare accounts and a directors' report (s 415).

Annual Governance Statement/ Statement of Internal Control

There is inconsistent application of good practice. Some LAs use an Annual Governance Statement whereas others use a Statement of Internal Control. There is also inconsistency in where this is located in the accounts with some placing this statement upfront with the other statements and others including it at the end of the accounts after the notes. These disparities reduce transparency over important matters of governance; they are confusing and unhelpful to the reader.

Independent auditors' report

The auditors' report is presented in different locations in different LA accounts. We believe that the independent auditors' report should be consistently presented before the financial statements (as it is for central government and generally in the private sector). We do not believe it is appropriate for the report which gives readers an opinion on the accounts to be placed at the back of the accounts. This appears to present less priority to the matter and reduces transparency over whether the accounts are true and fair.

Statutory framework and specialist nature of accounts

Confusion arises due to the particular need for local authorities' accounts to meet legislative requirements which sit out with the scope of normal financial statements. The result is a set of accounts which are intended for external users and stakeholders that try to meet the varied needs of funding, management accounting and end up creating a more complex and confusing document for the public audience – tax payers and other stakeholders. This inconsistency needs resolved.

The Movement in Reserves Statement is an additional statement peculiar to local authorities which creates an additional layer of complexity and confusion for readers unused to LA accounts.

Local authority accounts mix the separate themes of funding and financial reporting in the Movement in Reserves Statement. Statutory interventions (SI) are required to square the difference between the LA legislation for calculating funding in the accounts (council tax and housing rents and the information in the accounts it is based on) and compliance with accounting practice. This link does not reflect current accounting practice and the SI is like a sticking plaster to ensure both requirements are met.

Although the Movement in Reserves Statement is important in the current legislative framework, consideration needs to be given to amending the legislation to separate the elements of funding and financial reporting. This would allow LAs to prepare accounts which better reflect GAAP rather than need to formulate various statutory interventions to square the difference between legislative requirements and funding calculations.

These legislative and technical peculiarities in LA accounts exacerbate the specialist nature of the accounts and reduce the ability of stakeholders to understand and hold the Authority to account. If the legislative framework is modified it would remove the root cause for a complex Movement in Reserves Statement.

Remuneration report

Demonstrating pay restraint with public funds is a strand of effective governance. ICAS support the inclusion of a remuneration report in local authority accounts.

Comprehensive I&E statement

This is a primary statement of revenue received and expenditure and likely to be one of the most important sources of information for readers. It is significantly complicated by its presentation style and the need to align with the council tax calculation. This specialist anomaly means specialist knowledge is required to fully understand what is going on which creates a barrier to understanding and importantly, this reduces accountability.

The presentation of this statement is significantly different from conventional accounts. It does not follow the traditional income less expenditure format and inverts +/- signs so a negative which would normally represent expenditure is actually income. This creates confusion.

The purpose of this statement needs to be streamlined to focus on accounting practice so it is more comparative with other sectors and therefore more easily understood by a wider range of stakeholders. Our preference is for it to do one job well (i.e. present GAAP-based I&E for a mixed audience of external users) rather than more than one at the expense of clarity.

Group accounts

These are inconsistently presented with some LAs showing this statement upfront as part of the primary statements and others showing this at the back after notes and other statements. Given their significance in terms of finance and governance as well as being a statement in themselves, we believe it is more appropriate to show group accounts figures as part of the primary statements and this approach should be consistent across the sector.

Ideally the figures for group and parent entity should be shown together on one page not just for simplicity but also so that comparisons can be drawn. An example is the increasing use of arms-length organisations to deliver services which is reducing entity level size and services but correspondingly increasing the group. The split presentation and inconsistency in location across LA accounts reduces the ability to make this comparison and appreciate the scale of service transfer. This reduces the ability to hold the Authority to account.

Structure of accounts and removal of unrelated material

The structure of LA accounts does not follow conventional accounts. There is a mix of primary statements, followed by notes and then more statements which are specialist to an LA (HRA Account, Council Tax Account etc.). A more logical flow would be to have all statements upfront followed by notes.

The pension fund accounts have been separated from the main LA accounts, this has helped to focus content and reduce the volume of information in one place. There are other additional accounts which are not related to the main council's activities such as Common Good and Charitable Trust Funds which may also be better placed for external users out with the main LA accounts but signposted as appropriate.

Achieving an optimal balance between explanatory narrative and technical disclosures – options for discussion and review

We have suggested a need to expand the explanatory narrative (front half of the accounts). As a consequence, options need to be considered to reduce the length and complexity of the technical detail in the second half of the accounts to avoid contributing to even longer financial statements.

A shift in the balance is needed whereby less detailed financial statements are balanced by a more meaningful narrative which focuses on key messages to demonstrate stewardship. This would make the accounts less detailed, less complex and more accessible to a wider group of users.

Statutory requirements

Various other statements in the accounts reflect legislative requirements, some of which were set many years ago. These include the HRA, council tax income account and non-domestic rate account. The way which services are provided has changed since these requirements were first set. For example arms-length organisations which provide certain services have increased, so group accounts are more significant than they might have been 20 years ago and council house sales with the subsequent increase in housing associations have changed housing activity levels in local authorities since the [Housing \(Scotland\) Act 1987](#) (which details the income and expenditure which should be charged to the HRA) was enacted.

Legislative requirements are a significant driver of the form of local authority accounts and contribute to their complexity. We suggest that a review of whether the balance of information requirements fits the current landscape of how services are provided, the priorities for disclosure, significance, risks etc. would be an important contribution to identify actions for simplifying accounts. Such a review could highlight parts of the accounts that may be under/ over disclosed or areas that have a higher/ lower profile than befits the risk and impact. In our view, examples of under/ insufficient disclosure include narrative reporting and group accounts; an example of lower profile than befits the impact is the audit report at the end of the accounts. Consideration should also be given to whether additional statements such as the HRA, council tax income account and non-domestic rate account are best represented by a statement in the accounts or if a more succinct note would suffice.

	<p><i>IFRS</i></p> <p>We welcome the achievement of local authorities to successfully adopt IFRS. However, the application of full (i.e. EU endorsed) IFRS has contributed to the increasing length and complexity of accounts. The volume of information an authority can produce makes it more difficult for stakeholders to hold the authority to account. The combination of IFRS and the specialised complexities and additional statements in local authority accounts has made the need for simplification more urgent.</p> <p>Since the time of the decision to adopt full IFRS, recent developments include the introduction of IFRS for SMEs and new UK GAAP including FRS 102, which is substantially based on IFRS for SMEs. This is a less complex and more succinct version compared to full IFRS. The European Commission has not yet decided to adopt IFRS for SMEs, there is still on-going discussion on one aspect – the presentation of unpaid subscribed share capital (not relevant to the public sector), although it may be resolved during the current IASB consultation process.</p> <p>As part of longer term continuous improvement, it may now be beneficial to initiate discussions to reflect on where the changes are useful and less useful and in particular, to consider current developments in IFRS and question if it is balanced and reasonable for local authorities (and the wider public sector) to apply full IFRS as opposed to the new UK GAAP. Full IFRS is aimed primarily at listed companies who have to satisfy investors’ needs for detailed information. In contrast, potential users of public sector accounts include a wide range of financially and non-financially literate stakeholders. The new UK GAAP disclosures are less detailed and therefore less complex.</p>
Q9	<p>Where the Disclosure Notes to the Accounts are of interest to you, please indicate which ones are of particular interest.</p> <p>If possible in each section please also indicate:</p> <ul style="list-style-type: none"> • What decisions or judgements you use the information for • What aspects of the disclosure are helpful • What aspects are not helpful • What improvements you might suggest • Any other comments
	<p>Example:</p> <p>Pensions Disclosures</p> <ul style="list-style-type: none"> • Used to assess the long-term cost of service provision • The analysis by scheme type (e.g. LGPS, Teachers’ Liabilities etc.) is particularly useful • The analysis of charges to the Comprehensive Income & Expenditure Statement is not particularly relevant • A maturity profile of the expected liabilities (possibly as a graph) would be helpful
(a)	See comments in Q9.

Please add more rows as necessary

5. Your Suggestions for Improvement

Q10	<p>Please provide your suggestions for improving the relevance and usability of Scottish local government financial statements to you or your organisation.</p> <p>Please list in order of priority or importance for you / your organisation, with (a) being the most important</p> <p>Suggestions may include comments on the basis of the information provided, presentation choices, consistency between authorities, or any other aspects.</p>
	<p><i>Overview</i></p> <p>Local authority accounts are an important and necessary document to demonstrate accountability and stewardship of public funds to external users. The accounts are complex, technical and specialist. This creates a barrier to wider understanding. Greater prioritisation of a user-focused approach to presentation which reflects normal conventional accounts and reduces the need for specialist knowledge is needed.</p> <p>We suggest that more emphasis is required on providing an explanatory narrative which pulls out the key messages and links the financial and non-financial performance. This should be counter-balanced by actions to reduce the technical complexity and length of the second-half of the accounts. Our view is that a shift in the balance to less technical detail supported by greater narrative analysis would improve understanding and accessibility. Consideration should be given to removing both legislative and technical barriers to user-focused accounts.</p> <p>There are not only inconsistencies with standard accounting practice but also across local authority accounts² which creates an additional and unnecessary layer of confusion. This includes the extent to which good practice is adopted, the positioning of statements in the accounts, content, length and quality of narrative commentary.</p> <p>More consistent application of good practice and ordering of accounts content are required. In particular all statements and the auditors' report should be upfront in the accounts (not with some at the back), more meaningful narrative analysis, whether a Statement of Internal Control is used or an Annual Governance Statement.</p> <p>We have set out some suggestions for improvement below.</p>
(a)	<p>i) Clarify the purpose of published accounts as a key communication document to external users of how a local authority has undertaken its stewardship duties and is of public interest.</p> <p>ii) Remove legislative barriers which complicate the published accounts to separate the various objectives related to funding and tax-raising, management information and accounting requirements.</p>
(b)	<p>Ideally an annual report and accounts would be prepared for each LA. As the former is not a requirement, we suggest that it is all the more important for meaningful narrative to support the accounts. The Explanatory Foreword could be removed and replaced with a directors' style report/ operating financial review as used in other public and private sector annual report and accounts. This could signpost to other more detailed information. The IASB Management Commentary is a good model.</p>

² Examples include financial statements 2012 of West Dunbartonshire, Glasgow, West Lothian and City of Edinburgh.

(c)	Presentation and format of the accounts could mirror conventional accounting practice more closely, starting with the I&E and group accounts – parent and group balances should ideally be on the one page to enable comparisons to be drawn. Significant risks and issues arising in subsidiaries (such as going concern problems or qualified audit reports) should be more clearly and consistently communicated in the parent accounts as a matter of public interest.
(d)	<p>A shift in the balance of information to demonstrate stewardship so that more meaningful narrative draws out the key messages, supported by less detailed financial statements. Options to progress could include:</p> <ul style="list-style-type: none"> (i) A review of how well the balance of information requirements fits the current landscape of how services are provided, the priorities for disclosure, significance, risks etc. to help identify areas of over and under disclosures with actions for simplifying accounts. (ii) Initiating a debate to consider recent accounting developments, reflect on the cost versus benefit for key users of full IFRS and question whether it is balanced and reasonable to apply full IFRS as opposed to the new UK GAAP. (This could be applied to the wider public sector, not just local authorities).
(e)	All statements to the accounts should be positioned upfront in the accounts, not at the back. This should be consistent across all local authorities. An example of inconsistent treatment is the annual governance statement, group accounts and remuneration report.
(f)	There is inconsistent application of good practice. Examples include: some LAs use an Annual Governance Statement whereas others use a Statement of Internal Control; the content, length and quality of the Foreword and performance reporting is variable. If LAs are not consistently applying good practice in areas of importance, this needs to be highlighted by auditors to encourage self-improvement otherwise as a last resort, a statutory intervention would be needed.
(g)	Detail on topics which do not relate to main council activity should be removed from the main accounts such as Charitable Funds and the Common Good Fund. These can be cross referenced as appropriate.
(h)	

Please add more rows as necessary

6. Preferred form of Publication

Q11	Please indicate whether you have a preferred form of publication for local authority financial statements e.g. hard (paper) copy, pdf, on-line viewer etc.
	All methods to increase accessibility.

7. Any Other Comments You Would Like To Make

Q12	Please do not hesitate to provide any other comments that you would like to make
(a)	We would like to see consistency with the rest of the UK if there any actions/findings arising out of the exercise to simplify Scottish LA accounts.
(b)	
(c)	
(d)	
(e)	
(f)	
(g)	

LASAAC thanks you for completing this survey.