

FINANCIAL REPORTING

FOREWORD

- 1 The specific requirements of this SoPP are ***in addition*** to those set out in the general statements on '*Standards of Professional Practice*' on pages 1 to 4 inclusive. In particular, the attention of members is drawn to the section on *Standard of Care* at page 2.
- 2 An organisation's accounting records are the principal source of information for the preparation of the annual financial statements and for the efficient conduct of its affairs. It is therefore essential that they are accurate and appropriate for their purposes. The accounting and information systems must provide a basis for the generation of the management information necessary for the effective and efficient day-to-day operation of the organisation, and this should be consistent and compatible with the information in the financial statements. The records and the reports that are derived from them are fundamental to the exercise of members' responsibilities to the organisation and its stakeholders.

INTRODUCTION

Applicability

- 3 This SoPP is applicable to all members who are responsible for the management and implementation of an organisation's external and internal financial reporting. Some responsibilities will usually be more closely identified with the director of finance or equivalent postholder. However, the duty of care in carrying out this function belongs to all members involved in the process, at any level within the organisation.
 - 4 The detailed requirements of the financial statements and other financial reporting, as well as the responsibilities of the director of finance, will be determined by the legal and regulatory framework within which the organisation has to operate. Where specific professional accounting standards have been developed by recognised standard setting bodies for particular organisations, CIPFA's Ethics SoPP states that members are required also to comply with these standards.
 - 5 Members should use their judgement as to the best way of satisfying the organisation's financial reporting requirements within the resources available. Members' judgements will take account of statutory requirements, relevant accounting standards and professional requirements, as well as the objectives of the organisation.
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Scope

- 6 This SoPP covers both the integrity of the statutory accounts and the way they are presented and disseminated, and also the processes that underpin the financial management of the organisation.

- 7 Financial reporting can be defined in terms of those for whom the reports are intended. At one end of the spectrum are the annual financial statements of an organisation, which are the prime means of demonstrating its responsibility to its stakeholders; while at the other end are the internal reports, aimed at providing information for decision-making by managers. The integrity of an organisation's accounting records demands that all reports are compiled using consistent principles and data. Therefore, this standard covers both internal and external financial reporting.

- 8 Modern information and communications technology means that users in many organisations access data direct from the organisation's databases and do not need to rely on pre-determined reporting formats or frequencies. They can also manipulate that data to provide their own reports. This standard does not, therefore, apply to these user-generated reports, but *does* apply to the systems and processes that collect and assemble the data on which such reports are based.

- 9 For the purposes of this Standard, 'Financial Reporting' comprises:

- 9.1 Financial Statements

These comprise external reports of a general nature that relate to the organisation's financial position. Annual accounts are the most obvious example, but other reports might include the organisation's budget and periodic reports on financial performance.

- 9.2 Special-Purpose Financial Reports

These include financial reports that are required by regulators, tax authorities and others, where the requisite information and format are specified by an external authorised body.

The Standard applies to both types of report, whether they are printed or disseminated electronically.

9.3 Internal Financial Reports

These are formal reports that are produced for decision-makers within the organisation. Examples include policy papers with financial information, budgets and budget-monitoring reports, and project appraisals. Informal reports generated by managers themselves for daily control and similar purposes are not included in this definition, as it is neither practicable nor sensible for the finance director to have responsibility for any of these. However, the quality of the underlying finance systems used for generating such reports remains the responsibility of the director of finance.

- 10 The Standard also covers the electronic and paper-based systems that are used to provide the data contained in the reports that are subject to this Standard and in all other reports that use the financial information systems of the organisation.

Objectives

- 11 The objectives of financial reporting are the production of accurate, complete, relevant, timely and reliable financial information to demonstrate and maintain accountability, to meet statutory reporting requirements, to account to an organisation's stakeholders for its financial performance and to support decision-making.

KEY PRINCIPLES

Integrity of the accounting and financial systems

- 12 **Directors of finance should take all reasonable steps to ensure that the accounting and financial information systems provide an accessible, complete, comprehensive, consistent and accurate record of the organisation's financial transactions.**

Guidance

- 13 The director of finance should take all reasonable steps to:
- 13.1 Approve the design of all significant accounting and financial information systems, whether electronic or manual. This includes systems that are organisation-wide and those that are developed for use in a discrete part of the organisation. It also includes the financial components of service-specific management systems that are significant to or integrate with the main accounts.

All such systems should:

- 13.1.1 Have adequate security to prevent unauthorised access to data.
 - 13.1.2 Have adequate recovery procedures in the event of a technical failure.
 - 13.1.3 Provide an audit trail of transactions.
 - 13.1.4 Handle data in a structured but flexible way.
 - 13.1.5 Have a system of internal controls that ensures accuracy and authenticity, including procedures for the prompt correction of errors or irregularities.
 - 13.1.6 Be consistent with the organisation's financial regulations.
- 13.2 Ensure that, as a minimum, accounting records are kept which are sufficient to show and explain the organisation's transactions and commitments, such that:
- 13.2.1 Throughout the year, the current financial position and financial viability of the organisation can be determined and reported.
 - 13.2.2 Material items affecting the accounts and the financial position of the organisation can be identified and satisfy any investigation by regulatory bodies.
 - 13.2.3 Statutory requirements can be complied with.
- 13.3 Ensure that the accounting records, in particular, contain:
- 13.3.1 Entries for all sums received and expended by the organisation and disclose the matters to which the income and expenditure relates.
 - 13.3.2 A record of assets and liabilities of the organisation.
- 13.4 Ensure that transactions are recorded as they arise, where possible, and in any event within a reasonable time given the nature and frequency of the transactions involved.

- 13.5 Maintain an effective monitoring system to ensure that accounting and financial information systems and records remain relevant to changing circumstances.

Quality of financial reports

- 14 **Directors of finance should take all reasonable steps to ensure that all financial reports are relevant, reliable and consistent and are compatible with the organisation's accounting and financial information systems.**

Guidance

- 15 The Accounting Standards Board, in its Statement of Principles for Financial Reporting, defines the objective of financial statements as being 'to provide information about the reporting entity's financial performance and financial position that is useful to a wide range of users for assessing the stewardship of the entity's management and for making economic decisions'.
- 16 An organisation's accounting records are the principal source of information for the preparation of financial statements. The accounting and financial information systems should provide a basis for the generation of the management information and financial reports necessary for the day-to-day operation of the organisation, and these should be consistent and compatible with the information in the financial statements.
- 17 Directors of finance should take all reasonable steps to ensure the quality and integrity of all financial information contained not only in financial statements but also that used in any special purpose financial report which may be issued or published, and also in internal financial reports including those that link operational to financial performance.
- 18 Where 'informal' financial reports (e.g. those that assist management in operational and policy-formulating tasks) are produced by users from data provided by the accounting and financial information systems, the director of finance's responsibility is to ensure that the data made available accords with the appropriate standards of accuracy and consistency. The director of finance should also make every effort to see that users are properly trained in the use of financial data and systems. Any subsequent translation of these informal reports into significant formal internal financial reports (e.g. those on which policy decisions are taken) will then fall within the responsibilities of the director of finance as described above.
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- 19 Responsibilities for the interpretation of financial information in internal financial reports should be clearly defined by the organisation.
- 20 In ensuring that financial reports are relevant, reliable, comparable and understandable, directors of finance should keep in mind the following principles:
- 20.1 Information is relevant if:
- 20.1.1 It has the ability to influence the user and is provided in time to influence those decisions.
- 20.1.2 It is material (e.g. if its mis-statement or omission might influence the decisions of users).
- 20.2 Information is reliable if:
- 20.2.1 It reflects the reality and substance of transactions and events.
- 20.2.2 It is free from bias and material error, and is complete.
- 20.2.3 Where uncertainty exists, a known degree of caution has been applied in exercising the necessary judgements and the nature of those judgements is made explicit.
- 20.3 Information is comparable if:
- 20.3.1 It is prepared and presented in a way that enables users to discern and evaluate the effects of transactions and events over time and between different reporting entities.
- 20.3.2 It uses consistent accounting policies and practices.
- 20.3.3 It is comparable with other financial reports.
- 20.4 Information is understandable if its significance can be perceived by users who have a reasonable knowledge of the organisation's activities and of financial matters (information should not be excluded just because it might not be understood by some users).
- 20.5 Aggregation of items of information into broader categories of information is appropriate when it is used to:
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20.5.1 Convey information that would otherwise have been obscured.

20.5.2 Highlight significant items and relationships.

20.5.3 Facilitate comparisons with other entities' reports.

- 21 To safeguard the quality and the transparency of financial reporting, comprehensive working papers should be maintained which set out the basis on which sums have been estimated and assumptions made. If appropriate, notes should be added to a financial report in order to clarify estimated figures.
- 22 In summarising, or in any other way altering financial statements for inclusion in an abbreviated annual report or some other document, the director of finance should ensure that the summarised version does not distort, but remains a fair presentation of, the financial position of the organisation.

Accessibility, appropriateness and timeliness of information

- 23 **Directors of finance should take all reasonable steps to ensure that the accounting and financial information systems make available, at the relevant time to all users, the appropriate information for their responsibilities and for the objectives of the organisation.**

Guidance

- 24 The provision of appropriate information is dependent on the design of accounting and financial information systems that generate, classify and structure that information. Meeting the corporate need for financial information about the organisation, whether for decision-taking or accountability, is the responsibility of the director of finance, but the needs of management, front-line users and non-executives for financial information should be established in consultation with representatives of those groups.
- 25 Directors of finance, within an overall framework of corporate governance and risk management, have a responsibility to try to meet the needs of those groups; and should consult them on data gathering, systems design, report formats and dissemination.
- 26 Wherever possible, information should be made available directly to managers and front-line users and in a way that enables them to interpret it and produce their own reports. Adequate safeguards must be in place to prevent unauthorised

alterations and access to data. The director of finance should take all reasonable steps to ensure that the information needs of users are met in a way that is consistent with the financial information and accounting systems of the organisation as a whole, and in a way that permits ready and consistent aggregation into those systems.

- 27 There is a balance to be struck between the need to produce financial information quickly in order to make it relevant and the time required to make the information reliable. If financial reports are to be useful to the user, they should be produced and published together, if relevant, with an audit opinion, as soon as possible. Directors of finance should take all reasonable steps to have audited financial statements published within the timescales applicable to their organisations. Good practice within both the private and public sectors is to publish well within the timescales, and sectoral requirements are likely to move publication dates earlier. Directors of finance should take all reasonable steps to ensure that their organisations are able to respond to earlier publication requirements.
- 28 It is recognised that the timing of the external auditor's work programme is not always in the director of finance's control. However, if timely reporting is to be achieved, the director of finance should ensure that the work of preparing the annual financial statement is planned, monitored and controlled. In this respect, it is important that at the planning stage, due consideration is given to the relationship with the external auditor's work programme. The director of finance should take all reasonable steps to ensure that the draft annual financial statements are made available to the external auditor in sufficient time to enable the audited financial statement to be published within the timetable agreed at the planning stage and in compliance with any legally-stipulated period for the organisation.
- 29 The director of finance should plan to be in a position to make a timely presentation to other directors, the management board and any elected representatives, or their equivalent, on the content of the financial statements.
- 30 The director of finance should ensure that financial statements are distributed in accordance with any statutory requirements and, where appropriate, to interested parties identified by the organisation; and also that other potential users are aware of their availability and how to obtain a copy of them.

Compliance

- 31 **Members should observe and comply with relevant statutory requirements and regulations, financial reporting standards, professional standards and directions from government departments.**

Guidance

- 32 It is expected that members who assume responsibility in respect of financial statements and other financial reports will observe financial reporting standards issued by the UK Accounting Standards Board and where relevant, the International Accounting Standards Board . The Institute's Standard of Professional Practice on Ethics stresses the continuing duty on members to maintain their professional knowledge. The principal organisations whose pronouncements should be followed are listed in the Appendix.
- 33 The Institute Council has agreed that where this responsibility exists by the association of members' names with such financial statements in their capacity as directors or other officers, other than as auditors, the onus will be on them to ensure that the existence and purpose of financial reporting standards and other relevant recommended practice is understood by fellow directors and other officers. Members should also ensure that financial reporting standards are observed and that any significant departures found to be necessary are adequately disclosed and explained in the financial statements.