

REPORT

CL 04 03-09

Committee	CIPFA/LASAAC LOCAL AUTHORITY CODE BOARD
Venue	Robert Street, London
Date	6 March 2009
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Subject	Format of Accounts under IFRS

1. INTRODUCTION

- 1.1. The CIPFA consultation 'Back to Basics' covered the format of the accounts under IFRS, and a report outlining the responses was brought to the Board in September 2008. It was agreed that CIPFA would convene a working group to consider in more detail the format of the accounts. The group was set up following the meeting, and discussion papers were circulated to the group during December 2008 and January 2009 (these are provided - for information only - in Appendix A). Two workshops were held to enable the group to discuss the preferred options; these meetings were held on 30 January and 6 February 2009.
- 1.2. The working group considered the core IFRS statements along with the notes to the accounts. In each case, the group was asked for its views on the format of the statement, appropriate level of detail, and terminology to be used. In considering the format of the accounts, views were also sought on the recent discussion paper issued jointly by the IASB and FASB (which can be found on the IASB's web site at <http://www.iasb.org/Current+Projects/IASB+Projects/Financial+Statement+Presentation/Financial+Statement+Presentation.htm>). This discussion paper considered the advantages of using the three way classification in the Statement of Cash Flows in the Statement of Financial Position and the Statement of Comprehensive Income.
- 1.3. This report does not consider whether the HRA should be presented as a separate (non-core) statement or shown only as part of the service information, as this may be dependent on the results of the CLG review of the HRA. It is proposed that any changes to the presentation of the HRA are deferred until after the review is completed.
- 1.4. The discussions in the workshops began with those statements that, under IFRS, are most similar to those in the SORP, and progressed to those that are least similar. This report follows the same structure, even though this is not the recommended order of the statements in the accounts, as this best reflects the flow of the working group's discussions.

- 1.5. This report makes recommendations on the format of the accounts based on the discussions of the working group. In most cases, the recommendations are based on those of the working group; in others the group did not reach a conclusion as to the preferred approach, and CIPFA/LASAAC is asked to determine the most appropriate approach in light of the comments made by the group. In a number of cases, the working group felt that the minimum level of detail permitted would not be sufficient to convey the relevant messages without reference to the notes to the accounts.
- 1.6. The Secretariat agree that this is likely to be the case in many instances; however it is possible that some authorities would be able to convey the relevant messages with less detail in the statements than recommended by the working group. In these cases, the secretariat is recommending that the Code requires, as a minimum, less detail than that recommended by the working group; but that the Code also states that more detail may be appropriate. This approach mirrors that of the working group itself in relation to the Statement of Changes in Equity. The level of detail recommended by the working group is expected to be the most common presentation of the statements.
- 1.7. If this approach is agreed, it is recommended that the Guidance Notes include a range of acceptable formats of the various statements, in addition to the minimum disclosure requirements.

2. STATEMENT OF FINANCIAL POSITION (BALANCE SHEET)

- 2.1. The majority of the group favoured the continued use of the term "Balance Sheet" to describe this statement, as the term was felt to be understood by the users of the accounts. However, there was also support for the term "Financial Position Statement" or "Statement of Assets and Liabilities". Those who favoured these terms felt that they better described the nature of the statement, and the fact that a different name was being used might encourage users to consider the statement where they might not look at a Balance Sheet.
- 2.2. **CIPFA/LASAAC is asked to consider whether the name for this statement should be "Balance Sheet", "Financial Position Statement" or "Statement of Assets and Liabilities".**
- 2.3. When considering the terminology to be used in the statement, the group felt that "plain English" descriptions would help users; in most cases this would be best met by using existing terminology rather than IFRS terminology – for example long-term investments rather than non-current financial assets. The proposed format for this statement follows this preference, which applied to all statements considered.
- 2.4. The various formats considered by the working group included separating reserves into different categories. Whilst a three-way split (available to fund services; unrealised gains and losses; and deferred impact on General Fund / HRA) had some merit in theory, practical problems prevent this approach being used. Both the Pensions Reserve and the Capital Adjustment Account include elements that would fall into both the second and third categories of reserves, and without separating these amounts – which might not be possible due to the way the balances were built up – the resulting presentation would be misleading. Instead, the group favoured a two-way split of reserves – those available to fund services, and those not. The proposed format for this statement follows this preference.
- 2.5. The group favoured including a detailed analysis of the reserves on the face of the Statement of Financial Position, as users of the accounts were expected to be interested in the General Fund and HRA balances, and items such as the Capital

Adjustment Account and Pensions Reserve are likely to be material. The Secretariat recommends that the minimum requirement be a total for the two groups of reserves – reserves available to fund services and reserves not available to fund services. This will allow authorities to adopt a minimal presentation where this meets their needs, or to group reserves if this is more appropriate; for example, a non-housing authority may choose to include the 'General Fund balance' and 'Other Reserves available to fund services' rather than the more detailed analysis.

- 2.6. The group considered the possible impact of the IASB / FASB discussion paper on the statement, and felt that the resulting presentation would not be appropriate for local authorities. The format would provide totals for operating items, investment items and financing items, but required a note at the end of the statement to demonstrate that the statement balanced. It was felt that this presentation would be confusing to the users of the accounts, and that formats that more closely resembled the existing format would be more appropriate.
- 2.7. The group felt that presenting single entity and group accounts information side by side in a single statement had merit, allowing for easy comparison and reducing the number of statements in the accounts. It is recommended that this approach be adopted. The Secretariat recommend that this approach is an option within the Code for all statements and notes; the Code should allow authorities the flexibility to combine group and single information in some required statements, but produce separate group and single entity statements in other cases where the authority believes this would assist users to understand the information being presented.
- 2.8. The group also felt that ease of reconciliation with WGA and other returns would be an advantage, but should not be a critical factor in determining the format of the accounts.
- 2.9. The group also discussed the level of detail to be shown in the statement, and the preferred format. The minimum requirements of IAS 1 were considered to contain insufficient detail to allow users of the accounts to form a picture of an authority's financial position without reference to the notes to the accounts, and a more detailed presentation was favoured.
- 2.10. Some members of the group preferred a single line in the statement for property, plant and equipment, as a breakdown would be required in the notes anyway. However, for the majority of the group the ability to separately identify council housing on the face of the statement was seen as important, and the group's preferred format therefore includes a breakdown of property plant and equipment.
- 2.11. The Secretariat recommends that the minimum requirement in the Code should be a single line for property plant and equipment. This would also allow authorities to group classifications of assets where this would be appropriate for them. For example, a housing authority could include lines for council housing, other land and buildings and other property plant and equipment.
- 2.12. Appendix B includes the minimum lines required by IAS 1 for the Statement of Financial Position; the format preferred by the working group; and the format recommended by the Secretariat. The lines required by IAS 1 are indicated against each line in the formats, and where the format recommended by the Secretariat combines lines preferred by the working group, these are shown in italics.
- 2.13. **CIPFA/LASAAC is asked to approve the format of the Statement of Financial Position recommended by the Secretariat for inclusion in the IFRS-based Code of Practice.**

3. STATEMENT OF COMPREHENSIVE INCOME (INCOME AND EXPENDITURE ACCOUNT, STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES)
- 3.1. The group did not believe that "Statement of Comprehensive Income" was the appropriate term for local authorities, as it placed the emphasis on income, and hence profit, and would therefore be more relevant to the private sector. The preferred term was "Expenditure Statement" or "Expenditure and Income Statement", with the term statement being felt to be more appropriate than account.
- 3.2. **CIPFA/LASAAC is asked to consider whether the name for this statement should be "Expenditure Statement" or "Expenditure and Income Statement".**
- 3.3. The group considered whether there should be a single statement or two separate statements, an income statement (equivalent to the current Income and Expenditure Account) and a comprehensive income statement (equivalent to the current STRGL). A single statement was the preferred option.
- 3.4. IAS 1 requires an analysis of the income and expenditure included in the statement. This can be either on a "nature of expense" basis, which for local authorities would equate to a subjective analysis, or a "function of expense" basis, which, as interpreted by IPSAS 1, would equate to a service analysis. The group discussed this issue when considering the level of detail and possible formats for this statement. As part of this discussion, the group agreed that the net cost of services was an important figure for users of the accounts. The preferred format of the accounts incorporates a service analysis. This was generally (although not unanimously) agreed to be the aspect of the accounts in which users were interested, and as such it was felt that this should be included in the accounts.
- 3.5. This decision inevitably led to a discussion on segment reporting, and this is dealt with in section 5 of this report.
- 3.6. As with the Statement of Financial Position, the group considered the IASB / FASB discussion paper, and concluded that the resulting presentation did not increase the usability of this statement.
- 3.7. Initially some members of the working group indicated a preference for statutory adjustments being included in this statement. Following discussions regarding the Statement of Changes in Equity, these members agreed that statutory adjustments be shown in that statement rather than the Statement of Comprehensive Income. However, it was felt that a rubric at the start of the Statement of Comprehensive Income clarifying that the statement reported the economic cost of services rather than expenditure funded from taxation would avoid confusion for users of the accounts.
- 3.8. Appendix C includes the minimum lines required by IAS 1 for the Statement of Comprehensive Income, and the format preferred by the working group. As with the Statement of Financial Position, the Secretariat recommends that the minimum requirements of the Code should permit less detail to be presented than recommended by the working group. The recommended format is also shown in Appendix C. The lines required by IAS 1 are indicated against each line in the formats, and where the format recommended by the Secretariat combines lines preferred by the working group, these are shown in italics.
- 3.9. In both the format preferred by the working group and the format recommended by the Secretariat, services are presented in accordance with BVACOP. Authorities

would be permitted to adopt an internal management approach; this flexibility would also allow BVACOP lines to be combined if authorities felt this presentation would assist users of the accounts.

3.10. **CIPFA/LASAAC is asked to approve the format of the Statement of Comprehensive Income recommended by the Secretariat for inclusion in the IFRS-based Code of Practice.**

4. STATEMENT OF CHANGES IN EQUITY (STATEMENT OF MOVEMENT ON THE GENERAL FUND BALANCE, STATEMENT OF MOVEMENT ON THE HRA BALANCE, MOVEMENTS IN RESERVES)

4.1. The group did not believe that "Statement of Changes in Equity" was appropriate for local authorities, as the concept of equity does not translate well to the public sector. References to "taxpayers' equity" or "citizens' equity" were rejected for similar reasons. Following the Back to Basics consultation, the suggested title was the "Statement of Statutory Financial Performance and Changes in Reserves". This title was considered to be too long, and the group preferred either "Reserves Statement", "Movements in Reserves Statement" or "Net Worth Statement".

4.2. **CIPFA/LASAAC is asked to consider the name for this statement.**

4.3. The group considered whether the statement should include budget information. The general view was that including additional columns for budget information resulted in a presentation that was too cluttered, and was therefore not considered appropriate. It was also felt that including budgetary information against some lines only could be confusing for users of the accounts. Alternative approaches of including budgetary information in the explanatory foreword or including a reconciliation of the budget below the main statement were proposed (a possible format is shown in Appendix D).

4.4. **CIPFA/LASAAC is asked to consider whether the Code should require budgetary information to be included in the statement of accounts, and if so whether this should be in the explanatory foreword or as a reconciliation at the end of the Statement of Changes in Equity.**

4.5. The group considered whether the statement should follow the statutory position in relation to the HRA, with all amounts included in the Statement of Comprehensive Income reported initially in the General Fund followed by a transfer to the HRA, or whether the statement should disaggregate these amounts between the General Fund and HRA. The group preferred the second approach of disaggregating the amounts between the General Fund and HRA.

4.6. The group discussed possible formats and the level of detail to be included in the statement. There was agreement that more detail of the initial line in the statement (amounts included in the Statement of Comprehensive Income) would be helpful to make the statement more meaningful for users of the accounts – examples of the additional detail were revaluation reserve and pension reserve entries. However, there were differing views over how much more detail should be included. Some members of the group felt that a minimum level of detail, supplemented by notes, would enable the statement to have the desired impact. Others felt that users would require more details in order to understand the statement. The differing views appeared to reflect differing levels of understanding by users, and it was agreed that it would be appropriate for the Code to include the minimum level of detail, but to recommend that authorities consider if this needed to be supplemented for their users.

- 4.7. Similarly, there were differing views about whether the statement should group reserves into two headings (reserves available to fund services and reserves not available to fund services), or whether a more detailed breakdown should be provided. For the same reason, it is recommended that the Code include the two headings as the minimum requirement, but note that a more detailed presentation should be provided if this would assist users of the accounts.
- 4.8. In addition to the flexibility recommended by the working group, the Secretariat recommends that this flexibility be extended to the lines covering the amounts included in the Statement of Comprehensive Income. Whilst the working group recommended that a line for each element of comprehensive income be shown, the Secretariat recommends that the Code requires, as a minimum, only two lines – the Surplus or deficit on the provision of services (equivalent to the Income and Expenditure Account figure), and other comprehensive expenditure and income (equivalent to the Statement of Total Recognised Gains and Losses figure); it would assist users to identify the movement of information from one statement to another if other comprehensive expenditure and income were included as a sub total in the Statement of Comprehensive Income, and this line is therefore included in both formats in Appendix C.
- 4.9. The Secretariat also recommends that, as with the Statement of Comprehensive Income, a rubric at the start of the statement explaining its purpose, and the information it contained would assist users.
- 4.10. Appendix D includes the minimum lines required by IAS 1 for the Statement of Changes in Equity; the format preferred by the working group; and the format recommended by the Secretariat. Where the format recommended by the Secretariat combines lines preferred by the working group, these are shown in italics. Two orders for the column headings in this statement have been suggested, and CIPFA/LASAAC is asked to indicate its preferred order.
- 4.11. **CIPFA/LASAAC is asked to approve the format of the Statement of Changes in Equity recommended by the Secretariat for inclusion in the IFRS-based Code of Practice, and indicate its preference for the order of the columns.**

5. SEGMENT REPORTING

- 5.1. Following the group's decision to recommend that service information be included in the Statement of Comprehensive Income, there was a discussion as to whether this information should be based on BVACOP or on internal management arrangements. Some members of the group felt that the internal management approach would be more relevant to users of the accounts; for example, members were used to seeing information in this format, and authorities' web sites provided details of services by department. However, comparability was also seen as an important factor for users of the accounts, and BVACOP was considered important in allowing these comparisons to be made.
- 5.2. Following discussions, the group considered that the best approach would be to continue the existing arrangement of allowing authorities the choice of presenting service information in the statement on the basis of either BVACOP or internal management arrangements. The group agreed that where the internal management approach was used, an analysis in line with BVACOP should be included as a note to the accounts. The group also agreed that where the BVACOP approach was to be used, total cost should be reported for each service, with no separate disclosure of support services and their recharges. This is because the group felt that support

services recharges did not equate to segment income as set out in IFRS 8, and this decision was reflected in the preferred format for disclosing service information.

- 5.3. The discussion paper had asked the group to consider the criteria to be used in determining which internal management services were to be included for segment reporting purposes. As service information is to be included on the face of the Statement of Comprehensive Income, segments will equate to services, and all services would need to be included; discussion of the criteria was therefore irrelevant. Authorities may have more than one internal management arrangement for presenting financial information. In such circumstances, IFRS 8 requires the information presented to the 'chief operating decision maker' to be included in the statement of accounts. The group agreed that each authority would (where necessary) need to determine which individual or group fulfilled this role, as it was unlikely that there would be a consistent approach.
- 5.4. IAS 1 (as interpreted by IPSAS 1) will require a subjective analysis to be presented as a note to the accounts where service information is included in the Statement of Comprehensive Income. IFRS 8 would also require this information to be disclosed on a service basis. The group agreed that the Code should require the minimum level of detail to be disclosed, with authorities having the option to provide further information if this would be useful to users of the accounts. A complication arises in that, whilst a minimum level of detail is required to be included in the notes to the accounts, more detail is required where this is provided to the operating decision maker'; the minimum requirement may therefore vary from authority to authority. Appendix E includes two example formats; a 'likely' level of detail and a 'minimum' level of detail. The Secretariat recommends that the Code require the minimum level of detail to be included in the notes to the accounts, with more detail being provided in two cases – where further detail is included in internal management reports, or where the authority decides that further detail would assist users to understand the accounts.
- 5.5. Very little (if any) information regarding service assets and liabilities is currently produced by authorities. It was agreed that information would be available for fixed asset by service, although an 'other' category may be required to hold corporate assets. The availability of other information at service level was less certain, and the group recommended that the inclusion in the accounts of any further information should be optional. Where additional items are included, these should be clearly related to lines in the Statement of Financial Position; amounts that cannot be allocated to services should be collected in the "Other" column.
- 5.6. The discussion paper had asked the group to consider whether service information should be required only in the group accounts. If service information is included in the Statement of Comprehensive Income, then this will automatically ensure that service information is included in both the single entity and group accounts. Notes to the accounts giving the subjective analysis would only be required in the group accounts (where authorities choose to produce separate sets of notes for the group and single entity accounts); although authorities would be able to include a note to the single entity accounts if they thought this would assist readers of the accounts.
- 5.7. The group also agreed that the entity-wide disclosures required by IFRS 8 (geographical information where activities took place in more than one country; information about major customers; and information about products or services) were either not likely to be relevant to local authorities, or would be disclosed elsewhere in the accounts.

- 5.8. **CIPFA/LASAAC is asked to approve the “minimum” format in Appendix E as the format for the service reporting note to be included in the IFRS-based Code of Practice.**
- 5.9. **CIPFA/LASAAC is also asked to agree that the Code permit authorities to choose whether the service information to be included in the Statement of Comprehensive Income is based on BVACOP or an internal management approach.**
6. NOTES TO THE ACCOUNTS
- 6.1. IAS 1 requires some information to be presented either on the face of the statements or in the notes to the accounts. Where this information is not included in the formats recommended above, it will need to be included in the notes to the accounts. The approach recommended by the working group of including more than the minimum requirements on the face of the accounts means that, where authorities adopt this approach, the amount of additional information that will need to be disclosed in the notes will be limited. More information would need to be disclosed in the notes to the accounts where authorities include only the minimum required information on the face of the statements.
- 6.2. IAS 1 also states that even where a disclosure is specifically required by another standard, the disclosure need only be included in the statement of accounts where it is material. Similarly, information that a standard requires to be presented separately may be combined with other information where the amounts are not material. At present, many authorities provided all the disclosures required by the SORP or suggested in the Guidance Notes, whether they are material or not. This is partly because of concerns that auditors will require all such disclosures to be in place. The group also reported experiences of auditors requiring disclosure of non-material information to be included.
- 6.3. The group accepted the approach recommended in the discussion paper that the Code state that non-material disclosures are not required. The group also supported the approach recommended in the discussion paper that the Code list disclosures in three categories - required of all authorities; required where material; only required in exceptional circumstances. The group noted that the first category may need to be qualified - for example, information on debt is likely to be a required disclosure, but some authorities may not have any debt, and hence disclosure would not be required for that authority.
- 6.4. The group's main concern in this area was that the Code would need to provide guidance on materiality, as it was felt that in the absence of such guidance, authorities and auditors would err on the side of caution, and the number of disclosures would creep up.
- 6.5. **CIPFA/LASAAC is asked to agree that the Code state that non-material disclosures are not required. CIPFA/LASAAC is also asked to agree that the Code includes disclosures in three categories - required of all authorities (except where not applicable); required where material; only required in exceptional circumstances.**
- 6.6. **It is also recommended that CIPFA/LASAAC discuss with the audit bodies the approach to materiality of disclosures.**

7. RECOMMENDATION

CIPFA/LASAAC is asked to:

- a) **decide whether the name for the Statement of Financial Position should be "Balance Sheet", "Financial Position Statement" or "Statement of Assets and Liabilities";**
- b) **approve the format of the Statement of Financial Position in Appendix B;**
- c) **decide whether the name for the Statement of Comprehensive Income should be "Expenditure Statement" or "Expenditure and Income Statement";**
- d) **approve the format of the Statement of Comprehensive Income in Appendix C;**
- e) **decide whether the name for the Statement of Changes in Equity should be "Reserves Statement", "Movements in Reserves Statement" or "Net Worth Statement";**
- f) **consider whether the Code should require budgetary information to be included in the statement of accounts, and if so whether this should be in the explanatory foreword or as a reconciliation at the end of the Statement of Changes in Equity**
- g) **approve the format of the Statement of Changes in Equity in Appendix D, indicating the preferred column order;**
- h) **agree that the Code provide guidance that further details be provided in the Statement of Changes in Equity where this would assist users of the accounts;**
- i) **approve the format of the service reporting disclosure note in Appendix E;**
- j) **agree that the Code permit authorities to choose whether the service information to be included in the Statement of Comprehensive Income is based on an internal management approach or BVACOP;**
- k) **agree that the Code state that non-material disclosures are not required;**
- l) **agree that the Code includes disclosures in three categories - required of all authorities (except where not applicable); required where material; only required in exceptional circumstances;**
- m) **agree to hold discussions with the audit bodies regarding the approach to the materiality of disclosures.**