

**Comparison of the Government’s Financial Reporting Manual and the Code of Practice of Local Authority Accounting in the United Kingdom 2011/12
Significant Requirements in Relation to a Management Commentary**

Government’s Financial Reporting Manual 2011/12		Code of Practice on Local Authority Accounting in the United Kingdom 2011/12		Comments
5.2.8	<p>The annual report shall contain a Management Commentary, which shall disclose the matters required to be disclosed in the business review under section 417 of the Companies Act 2006, taking into consideration the recommendations outlined in the ASB’s Reporting Statement <i>Operating and Financial Review (RS)</i>, as interpreted below.</p> <p>a) “Members” (s.417(2)) shall be interpreted to be all users of the accounts.</p> <p>b) (S.417(3) and s.417(4)) The Management Commentary should be self-standing and comprehensive in its scope. However, some information might be given in other documents in the cycle of accountability to Parliament and the public such as the Autumn Performance Statement or Departmental Report. In such cases, the Management Commentary should provide summarised information with adequate cross-references to the other documents.</p> <p>c) (S.417(5)(a)) For departments, the Management Commentary should disclose, where applicable, the financing implications of significant changes in the department’s objectives and activities, its investment strategy and its long-term liabilities (including significant provisions and PFI and other</p>	3.1.1.1	A local authority shall publish an Explanatory Foreword with the financial statements. The purpose of the foreword is to offer interested parties an easily understandable guide to the most significant matters reported in the accounts	<p>The management commentary required by the Explanatory Foreword directs commentary to focus on the financial statements and financial information. However, the latter part of section 3.1.1.2 does seek a wider narrative commentary on the major influences on the authority’s income etc in a manner more akin to a management commentary. This would depend on the authority’s interpretation of this paragraph in the Code.</p> <p>The requirements of the FReM stipulate that reporting bodies must follow the Companies Act 2006 (see below column 2) taking into consideration the recommendations of the Operating Financial Review (OFR) Reporting Statement (RS). This would require a wider report focusing on the objectives and strategies of</p>
		3.1.1.2	It shall provide an explanation in overall terms of the authority’s financial position, and assist in the interpretation of the accounting statements, including the Group Accounts. It shall also contain a commentary on the major influences affecting the authority’s income and expenditure and cash flow, and information on the financial needs and resources of the authority. It is not the purpose of the foreword to comment on the policies of the authority, rather to explain the financial facts. Content and style are left to local judgment	

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	<p>leasing contracts) in the light of the department's spending review settlement.</p> <p>d) Sections 417(5)(b)(i) and (iii) require information on environmental matters and social and community issues respectively.</p>			the department or reporting entity performance against these strategies (see column 2 and further comments below)
<p>Companies Act 2006 S 417</p> <p>Content of a directors report: business review</p> <p>Extracts</p>	<p>1) ... the directors' report must contain a business review.</p> <p>2) The purpose of the business review is to inform members of the company and help them assess how the directors have performed their duty under section 172 (duty to promote the success of the company).)</p> <p>3) The business review must contain—</p> <p>a) a fair review of the company's business, and</p> <p>b) a description of the principal risks and uncertainties facing the company.</p> <p>4) The review required is a balanced and comprehensive analysis of—</p> <p>a) the development and performance of the company's business during the financial year, and</p> <p>b) the position of the company's business at the end of that year, consistent with the size and complexity of the business.</p>	3.1.4.1	<p>It is recommended that the foreword include the following items that are likely to be significant to the understanding of the accounts (these recommended topics are not intended to restrict the content of the foreword):</p> <p>a) An explanation of which statements follow, their purpose and the relationship between them.</p> <p>b) Service expenditure, interest payable and other operating costs, income from grants, local taxpayers and other sources, compared in overall terms to the budget.</p> <p>c) A brief note of any material assets acquired or liabilities incurred. If these are unusual in scale, having regard to the normal activities of the authority, or for any other reason, the circumstances shall be explained.</p>	The reporting requirements of the Companies Act 2006 necessitate that the relevant reporting entity under the FReM provide a full and statutory business review including financial and non financial information, environmental matters, employee and social issues. It also requires the inclusion of financial and other key performance indicators to demonstrate development performance and position of the entity. Some of these issues may be picked up an explanatory foreword produced by local government, particularly taking into account the recommended topic list (see column 4). However, it is unlikely to meet the full

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<p>5) In the case of a quoted company the business review must, to the extent necessary for an understanding of the development, performance or position of the company's business, include—</p> <p>(a) the main trends and factors likely to affect the future development, performance and position of the company's business; and</p> <p>(b) information about—</p> <p>(i) environmental matters (including the impact of the company's business on the environment),</p> <p>(ii) the company's employees, and</p> <p>(iii) social and community issues, including information about any policies of the company in relation to those matters and the effectiveness of those policies; and</p> <p>(c) subject to subsection (11), information about persons with whom the company has contractual or other arrangements which are essential to the business of the company.</p> <p>If the review does not contain information of each kind mentioned in paragraphs (b)(i), (ii) and (iii) and (c), it must state which of those kinds of information it does not contain.</p> <p>6) The review must, to the extent necessary for an understanding of the development, performance or position of the company's business, include—</p> <p>(a) analysis using financial key performance</p>	<p>d) A brief note explaining the significance of any pensions liability or asset disclosed.</p> <p>e) An explanation of any material and unusual charge or credit in the accounts. This shall be provided whether the charge is made as part of the cost of services or as an adjustment to the cost of services.</p> <p>f) Any significant change in accounting policies. The reason for the change, and the effect on the accounts, shall be explained.</p> <p>g) Any major change in statutory functions, eg local government reorganisation, which has a significant impact on the accounts. In addition, a comment on planned future developments in service delivery, including a summary of revenue and capital investment plans, distinguishing between expenditure intended to maintain existing levels of service provision and that intended to expand existing services or develop new services.</p> <p>h) A brief note of the authority's current borrowing facilities and capital borrowing, outlining the purpose and impact of</p>	<p>requirements of a statutory business review.</p> <p>It should be noted that most of these requirements are likely to be met in the production of a management commentary produced under the presentation Framework of the IASB's Practice Statement, <i>Management Commentary</i> (PS).</p>

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	<p>indicators, and</p> <p>(b) where appropriate, analysis using other key performance indicators, including information relating to environmental matters and employee matters.</p> <p>“Key performance indicators” means factors by reference to which the development, performance or position of the company's business can be measured effectively.</p> <p>7) Where a company qualifies as medium-sized in relation to a financial year (see sections 465 to 467), the directors' report for the year need not comply with the requirements of subsection (6) so far as they relate to non-financial information.</p> <p>8) The review must, where appropriate, include references to, and additional explanations of, amounts included in the company's annual accounts.</p> <p>9) In relation to a group directors' report this section has effect as if the references to the company were references to the undertakings included in the consolidation.</p> <p>10) Nothing in this section requires the disclosure of information about impending developments or matters in the course of negotiation if the disclosure would, in the opinion of the directors, be seriously prejudicial to the interests of the</p>		<p>financing transactions entered into during the year and major non-current asset acquisitions and disposals.</p> <p>i) A summary of the authority's internal and external sources of funds available to meet its capital expenditure plans and other financial commitments including PFI schemes.</p> <p>j) Details of significant provisions or contingencies and material write-offs. To cover new items and any significant changes to existing items.</p> <p>k) Details of any material events after the reporting date (up to the date the accounts are authorised for issue).</p> <p>l) An explanation of the impact of the current economic climate on the authority and the services it provides.</p>	

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	<p>company.</p> <p>11) Nothing in subsection (5)(c) requires the disclosure of information about a person if the disclosure would, in the opinion of the directors, be seriously prejudicial to that person and contrary to the public interest.</p>			
FReM 5.2.10	<p>S417(6)) For departments, the Consolidated Statement of Operating Costs by Departmental Strategic Objectives and supporting notes will replace the requirement in the Reporting Statement to disclose performance against key performance indicators. Departments should report progress against Public Service Agreement targets. Other reporting entities should report progress against those targets agreed with the Minister and normally promulgated by means of a Parliamentary question. In disclosing information relating to the achievement of financial targets based on a return on capital employed, reporting entities should use the definitions of "return" and "capital employed" as agreed in their Treasury Minute or other document rather than those given in the Reporting Statement (IG example 1).</p>			<p>The FReM in paragraph 5.2.10 provides interpretation / replaces the performance indicator requirements with other performance measurement. The PS requires that entities provide information that is essential to the understanding of critical performance measures and indicators that management uses to evaluate the entity's performance against stated objectives. The explanatory foreword may result in performance information being produced by local authorities but is unlikely to produce the depth of detail required by the PS or by the Companies Act 2006/the RS.</p>

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FReM 5.2.11	<p>In addition to the matters described in section 417 of the Companies Act 2006, reporting entities to which this Manual applies shall disclose the following information:</p> <p>a) (departments to which paragraph 5.1.4 refers) a comparison of outturn against Estimate, with detailed explanations of the causes of significant variances where applicable;</p> <p>b) (departments preparing accounts under the Government Resources and Accounts Act 2000 or the Government Resources and Accounts Act (Northern Ireland) 2001) a reconciliation of resource expenditure between Estimates, Accounts and Budgets. The format, adapted from the reconciliation included in the Notes to the Main Estimate, is shown following this paragraph;</p> <p>c) (departments only) a description of the reporting entities within the departmental accounting boundary;</p> <p>d) (departments only) the names of any public sector bodies outside the boundary for which the department had lead policy responsibility in the year, together with a description of their status (for example, trading fund or public corporation);</p>			<p>This disclosure requirement would not be directly applicable to local authorities but could be interpreted for local authorities.</p> <p>As above</p> <p>As above</p> <p>NA – local authorities are required to disclose health partnerships</p>

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e)	(departments only) a description of the departmental reporting cycle, including an outline of the matters covered in the spring Departmental report, in the Estimates, and in the Autumn Performance Report, and information about how readers can obtain these documents;			As above - this is not directly applicable but could be interpreted for local authorities.
f)	(departments only) commentary on the department's significant remote contingent liabilities (that is, those that are disclosed under Parliamentary reporting requirements and not under IAS 37) to enable the reader to understand their nature and what steps the department is taking to minimise the risk of their crystallising;			No reports outside IAS 37
g)	(executive agencies that are not whole departments, trading funds and NDPBs only) a note that the accounts have been prepared under a direction issued by [relevant authority] under [reference to appropriate legislation];			NA
h)	(executive agencies that are not whole departments, trading funds and NDPBs only) a brief history of the entity and its statutory (or equivalent) background;			NA

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	<p>n) Public Sector Information Holders should also include a statement that [name of entity] has complied with the cost allocation and charging requirements set out in HM Treasury and Office of Public Sector Information guidance. In the case of Westminster departments and other entities, the Treasury Officer of Accounts team should be consulted where a reporting entity seeks an exemption from the FReM requirements on the grounds of commercial sensitivity; and</p> <p>o) reporting of personal data related incidents.</p>			<p>As above this could be interpreted for local authority circumstances</p> <p>Not disclosed</p>