

CHAPTER THREE

Financial statements

3.1 EXPLANATORY FOREWORD

3.1.1 Introduction

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. Local authorities are encouraged to prepare the Explanatory Foreword taking into consideration either:

a) the IASB's Practice Statement, Management Commentary; or.

b) the provisions of the Government's Financial Reporting Model (FRoM) paragraphs 5.2.8-5.2.11 where these paragraphs disclose information relevant to local authorities.

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-financial~~ 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.

3.1.2 Accounting Requirements

3.1.2.1 Information provided in the explanatory foreword shall reflect the accounting requirements of the Code.

3.1.3 Statutory Accounting Requirements

3.1.3.1 There are no statutory accounting requirements in respect of the explanatory foreword.

3.1.4 Disclosure Requirements

3.1.4.1 It is recommended that the foreword include the following items that are likely to be significant to the understanding of the ~~accounts~~ financial statements (these recommended topics are not intended to restrict the content of the foreword):

- a) An explanation of which statements follow, their purpose and the relationship between them.
- b) Service expenditure, interest payable and other operating costs, income from grants, local taxpayers and other sources, compared in overall terms to the budget.
- 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.
- d) A ~~brief~~ note explaining the significance of any pensions liability or asset disclosed.
- 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.
- f) Any significant change in accounting policies. The reason for the change, and the effect on the accounts, shall be explained.
- 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 and the impact of any reduction in services.
- h) A ~~brief~~ note of the authority's current borrowing facilities and capital borrowing, outlining the purpose and impact of financing transactions entered into during the year and major non-current asset acquisitions and disposals.
- 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.
- j) Details of significant provisions or contingencies and material write-offs. This disclosure should focus on ~~cover~~ new items and any significant changes to existing items.
- k) Details of any material events after the reporting date (up to the date the accounts are authorised for issue).
- l) An explanation of the impact of the current economic climate on the authority and the services it provides.

3.1.5 Statutory Disclosure Requirements

3.1.5.1 There are no statutory disclosure requirements in relation to the explanatory foreword.

3.1.6 Changes since the ~~2010~~2011/11-12 Code

- 3.1.6.1 ~~The Management Commentary provided by the Explanatory Foreword now includes encouragement that authorities produce the Explanatory Foreword taking into consideration either the IASB Practice Statement, Management Commentary or the reporting approach in the FReM in relation to the Management Commentary. An explanation of the significance of the move from a UK GAAP basis to an IFRS basis was included in the 2010/11 Code. This has been removed from the 2011/12 Code.~~