

CHAPTER THREE

Financial statements

3.1 ~~EXPLANATORY FOREWORD~~MANAGEMENT COMMENTARY

3.1.1 Introduction

- 3.1.1.1 Local authorities shall publish a Management Commentary with the financial statements. In preparing this Management Commentary a local authority shall take into consideration the recommendations outlined in the IASB's Practice Statement *Management Commentary*. Local authorities must also disclose in the Management Commentary the matters required to be disclosed in the business review under section 417 of the Companies Act 2006 as if this Section of the Act applies to a local authority and as interpreted below: ~~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.~~
- a) "Members" (Section 417(2)) shall be interpreted to be all users of the financial statements
 - b) Sections 417(3) and 417(4) - the Management Commentary should be self-standing and comprehensive in its scope. However, some information might be given in other documents of the authority such as an Annual Report or in other strategic documents. In such cases, the Management Commentary should provide summarised information with adequate cross-references to the other documents.
 - c) Section 417(5)(a) - the Management Commentary should disclose, where applicable, the financing implications of significant changes in the authority's objectives and activities, its investment strategy, its internal and external sources of funds available to meet its expenditure plans and other financial commitments and its long-term liabilities (including significant provisions and PFI and other leasing contracts) in the light of the authority's budget requirement.
 - d) Section 417(5)(b)(i) and (iii) require information on environmental matters and social and community issues respectively. Where authorities provide other reports on sustainability local authorities may cross reference to these reports but summarised information should be included in the Management Commentary.

Interpretation and adaptation for the public sector context

- 3.1.1.2 The Code requires a Management Commentary to be provided with the financial statements. The option permitted by paragraph 5 of the IASB Practice Statement *Management Commentary* to identify in the commentary the financial statements to

which it relates is withdrawn.

3.1.2 Accounting Requirements

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

Definitions

3.1.2.2 Management Commentary is a narrative report that relates to financial statements that have been prepared in accordance with the Code. A Management Commentary provides users with historical explanation of the amounts presented in the financial statements, specifically the authority's financial position, financial performance and cash flows. It also provides commentary on an authority's prospects and other information not presented in the financial statements. A Management Commentary also serves as a basis for understanding management's objectives and its strategies for achieving those objectives.

3.1.2.4 For other definitions in relation to a Management Commentary see the IASB Practice Statement Management Commentary in the Appendix.

3.1.3 Statutory Accounting Requirements

3.1.3.1 There are no statutory accounting requirements in respect of the ~~explanatory foreword~~. Management Commentary. [This may be subject to a change in the future as the Department for Communities and Local Government's has consulted on an option which would require local authorities to produce an annual report.]

3.1.4 Disclosure Requirements

3.1.4.1 In addition to the matters described in Section 417 of the Companies Act 2006 and to the extent that these disclosures have not already been addressed by meeting the requirements of the Act, local authorities shall disclose the following information:

- a) An explanation of which statements follow, their purpose and the relationship between them.
- b) A comparison of service expenditure, interest payable and other operating expenditure, income from grants, local taxpayers and other sources compared to the budget reported in the authority's budget statement, with detailed explanations of the causes of significant variances where applicable.
- c) A note setting out 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 description of the subsidiaries, associates and joint ventures reported within the authority's group accounts.

- e) A description of the authority's financial reporting and monitoring arrangements, including an outline of the significant matters covered in the budget report and the budget statement and information about how users of the financial statements can obtain these documents.
- f) An explanation of the adoption of the going concern basis on any area of the authority where this might be called into doubt.
- g) An indication of how pension liabilities or assets are treated in the financial statements and a reference to the financial statements of the relevant pension scheme if the authority is not the administering authority.
- h) An explanation of any significant 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.
- i) Any significant change in accounting policies. The reason for the change, and the effect on the accounts, shall be explained.
- j) 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.
- k) A note explaining 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.
- l) Details of significant provisions or contingencies and material write-offs. This disclosure should focus on new items and any significant changes to existing items.
- m) Details of any material events after the reporting date (up to the date the accounts are authorised for issue).
- n) An explanation of the impact of the current economic climate on the authority and the services it provides.
- o) Details of any significant interests held by elected members which may conflict with their responsibilities to the authority. This may be satisfied by a reference to an Authority's Statutory Register of Member's Interests with an explanation how users of the financial statements may access the Register.
- p) Sickness absence data.
- q) Reporting of personal data related incidents.———

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):

- 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.

- ~~e) 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.~~
- ~~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. To 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.~~

3.1.3.5 A local authority should identify clearly what it is presenting as management commentary and distinguish it from other information.

3.1.3.6 It is recommended that the management commentary is authorised by the Leader, the Chief Executive (or equivalent positions/posts) and the Chief Financial Officer.

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 2010/11 Code

3.1.6.1 ~~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. [This Section will need to be amended to reflect the changes made in a future edition of the Code].~~

