



Audit & Governance Committee  
24 March 2014

## Streamlining and Simplifying the Statement of Accounts

### Purpose of the report:

To examine the opportunities to make the annual Statement of Accounts more streamlined and focused on the needs of the users.

### Recommendations:

It is recommended that:

1. The suggested changes to disclosure notes, outlined in table 1, be adopted for the 2013/14 Statement of Accounts, which are due to be presented to the Committee on 31 July 2014.

### Introduction:

2. Audited accounts are the principal means by which public bodies discharge their accountability for the stewardship of public money. The timely publication of audited accounts, with an unqualified audit opinion, can demonstrate sound financial management arrangements.
3. Since the introduction of International Financial Reporting Standards (IFRS) in 2010/11 the statement of accounts has become an increasingly lengthy document due, in the main, to the number of disclosure notes included.
4. The adoption of IFRS represented a fundamental change in financial reporting, the scale of which Local Authorities had not previously encountered. This resulted in some nervousness and resulted in authorities following every aspect of the guidance precisely rather than assessing only those areas relevant to their individual organisations.
5. The requirement to produce financial statements that comply with both accounting standards and a legislative framework which determines what can be charged to the general fund and therefore impact on the levels of taxation raised, leads to complexity.

6. CIPFA believes that as a consequence of this 'dual reporting' requirement 'decision makers struggle to understand the financial statements, and the valuable information they contain can be overlooked<sup>1</sup>.'
7. Lengthy and complicated financial statements is not unique to the public sector and the end of 2012, the beginning of 2013 saw a number of institutions call for improvements to be made to simplify financial reporting. Many standards setting bodies, across the world, have embarked on projects to review the current levels of disclosure requirements and 'cut the clutter.'

#### **Financial Statements: Good Practice**

8. Surrey County Council are on track to deliver the finance service vision of becoming one of the fastest local authorities in relation to producing the Statement of Accounts. The closing programme for 2013/14 contains key tasks and deadlines which enable the authority to provide the auditors with a complete set of accounts and working papers by the end of May 2014.
9. Due to our excellent working relationship with our external auditors, Grant Thornton, we have also managed to agree to a condensed audit period and audited financial statements will be presented to this Committee on 31 July 2014, well in advance of the statutory deadline. As a direct consequence, the annual report for 2013/14 will for the first time contain audited summary financial information.
10. A more streamlined statement of accounts will aid this faster closure process in terms of both the production of the accounts and the audit of them.
11. In addition to demonstrating best practice in relation to the speed of our accounts closure, the finance service also aspires to develop a statement of accounts which is accessible to users. Local authorities are considered to produce high quality financial statements that are detailed and highly technical. The challenge is to make the key information more accessible and understandable by the majority of its users. If this is not achieved then the accounts are often not being used as a tool in inform decision making and demonstrate accountability.
12. It is such concerns that led the Financial Reporting Council to develop the following four principals for effective communication in reporting:
  - Focused – highlight important messages, transactions and policies and avoid distracting the readers with immaterial clutter
  - Open & Honest – provide a balanced explanation of the results – the good news and the bad

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<sup>1</sup> Financial Statements: A Good Practice Guide for Local Authorities (CIPFA)  
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- Clear & Understandable – use plain language, only well defined technical terms, consistent terminology and an easy-to-follow structure
  - Interesting & Engaging – get the point across with a report that holds the reader’s attention
13. While these principals were not designed specifically in relation to Statements of Accounts, they are transferable and were used as the basis for the recent internal review of the authority’s disclosure notes.

### **Internal Review**

14. As mentioned above, standard setting organisations are reviewing the levels of disclosures required, but CIPFA are advocating each organisation reviewing their own arrangements to try to streamline their statements. What is considered vital information for one authority may be immaterial in another and so each individual organisation is being encouraged to take a view dependant on their own circumstances.
15. One of the recommendations of the external Auditors, Grant Thornton, in their Audit Findings Report for the 2012/13 Statement of Accounts was to review the disclosure notes with a view to removing immaterial balances.
16. An internal review of the statement of accounts has been done and recommended amendments to disclosure notes highlighted below in Table 1. This internal review has taken into account considerations around streamlining, materiality and focusing who the actual users of the accounts are.

### **Streamlining**

17. The idea of streamlining the financial statements is supported by numerous professional organisational. Both CIPFA/LASAAC and HM Treasury have invited consultation responses on how to simplify the accounts in the public sector during late 2013.
18. The FRC identify two types of ‘clutter’:
- Immaterial disclosures that inhibit the ability to identify and understand relevant information; and
  - Explanatory information that remains unchanged from year to year
19. There is a need to balance views on what is clutter and what is essential information and in order to do this consideration need to be given to what is material to the users of their accounts.
20. It is also important to remember that there are other sources of financial information and other information request routes that interested parties can access in order to obtain specific information that may not be in a more streamlined Statement of Accounts.

## Materiality

21. 'The key to achieving focus is to concentrate on the information that the user needs to get a proper picture of the organisation and its financial position whilst avoiding unnecessary clutter and superfluous information.'<sup>2</sup>
22. In order to produce focused accounts, it is essential to try to identify the user of the accounts. Information can then be targeted at these users and any information that is not vital to their understanding of the organisations financial position can be removed. Recent reports conclude that too much information can lead to users missing the key messages.
23. The main users of the authority's accounts are considered to be elected members, service users, taxpayers and the general public and so the proposals below attempt to remove disclosures and technical information which may hinder these stakeholders from focusing on the material items to gain an understanding of the financial position of the authority.
24. The overarching objective of this review is to make the accounts more "user friendly". This is achieved by producing shorter, more focused financial statements which should make them easier to use for the reader who should be able to identify the important messages and find them more quickly without the clutter of less important information obscuring those messages.
25. In addition to streamlining, this review has looked at the presentation of the accounts. Presentation of complex and often very technical financial information needs to be as accessible as possible and CIPFA is also encouraging the use of graphical and narrative approaches where appropriate and where the users understanding would be assisted.

### Proposed Changes

26. The table below outlines the proposed changes to the current disclosures notes and the justifications why.
27. In addition to the specific areas listed below, as part of the process of compiling the 2013/14 Statement of Accounts, consideration will be given to the principals outlined in this report and any further opportunities to condense or re-phase information contained within the document will be assessed and discussed with external audit.

Table 1: Proposed Changes to Disclosure Notes:

Note	Action	Justification
Inventories	Remove	The council generally holds little stock, the total balance on this note has been just over £1m for the last two years. This not expected to change for 13/14 therefore the amounts involved are below materiality. The balance will still be disclosed on the face of the balance sheet.

<sup>2</sup> 'Principals of Effective Communication in Financial Performance Reporting', CIPFA (2012)

Landfill allowance trading scheme/carbon reduction commitment allowances	Remove	These environmental schemes involve low value transactions in the I&E statement and small balances on the balance sheet that are well below materiality. This note contains a lot of information but is not part of the council's core business so can distract the user from the key messages the accounts are trying to communicate.
Contingent assets	Remove	The Council has previously reported a nil return for contingent assets but there is no requirement to do so therefore can be removed.
Trust funds	Remove	The council acts as a trustee for numerous trust funds. A consolidated version of the Trusts' balances has previously been included in the accounts. The total balance of these funds is below materiality and do not form part of the council's core business so can distract the user from key messages. Larger trust funds produce their own set of accounts for interest parties.
Heritage assets	Remove	The heritage asset balance is about £600,000 and therefore below materiality. This note contains a lot of information but it is not part of the council's core business so can distract the user from key messages. The balance of heritage assets will still be disclosed on the face of the balance sheet.
Intangible assets	Remove	The intangible asset balance is reducing due to the amortisation of the main assets classified as intangible. The balance of intangible assets will still be disclosed on the face of the balance sheet.
Financial instruments	Reduce	The current note is over 6 pages long and the Council has a very straight forward list of investments and borrowing, so this note could be considerably reduced. Focus the written element of note on the key risks currently faced by the council and what is being done to mitigate them. Information on possible, but not current or necessarily likely risks could be removed. Generic statements on risk management could be condensed.
Cash flow notes: Operating activities, investing activities and financing activities	Move	Put this information on the face of the cash flow statement to assist users understanding.
Accounting Policies	Reduce	Summarising the key accounting policies and any changes in accounting policies since the previous year in the main body of the report is considered enough to give the users of the accounts the information they require. More comprehensive, technical accounting policies will be provided in an Annex to the main statements.

### **Audit Engagement**

28. CIPFA are clear that streamlining, simplifying and focusing the accounts is not something that can be done in isolation there is a change in historic behaviour for all parties involved in the closing process. This includes the role of the external auditors not questioning the omission of disclosures that are immaterial.
29. Discussion have been had with Grant Thornton regarding the proposals outlined above and they support the benefits of simplification and are encouraging all the public sector organisations which they audit to carry out a similar review.

### **Conclusions:**

30. A complex set of requirements continues to govern the production of local authority accounts, however by simplifying, streamlining and targeting our Statement of Accounts we can assist the users of our financial statements to gain a clearer understanding of the financial position of the organisation.
31. In some cases complex technical information may have to be included in an annex to the accounts, for example in relation to the accounting policies. The complete removal of this more detailed technical information in a separate document or making it available on the internet would not met regulatory requirements. As a direct result, this review will not streamline the accounts as much as desired, in some areas, but it will achieve the aim of reducing the number of pages to which most users need to refer and in making it Statement of Accounts more fit for purpose.

### **Financial and value for money implications**

32. There are no direct financial implications of this report, all financial implications in the accounts will be made in line with the Code of Practice.

### **Equalities and Diversity Implications**

33. There are no direct equalities implications of this report.

### **Risk Management Implications**

34. There are no direct risk management implications of this report.

### **Next steps:**

35. The new approach will be adopted for the preparation of the Statement of Accounts for the 2013/14 financial year which are due to be presented to this Committee on 31 July 2014.
36. A review of the Statement of Accounts and the disclosure note requirements will be carried out annually to ensure that only relevant notes are included and any that were not previously but need to be because circumstances have changed are reinstated. In addition, opportunities to avoid the use of technical jargon and use graphs or other techniques to assist the understanding of the users will be assessed.

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**Sources/background papers:**

- CIPFA: 'Financial Statements: A Good Practice Guide for Local Authorities' (2013)
- Report to the International Accounting Standards Board: 'Loosing the Excess Baggage –reducing Disclosures in Financial Statements to what's important' (2011)
- Financial Reporting Council: 'Louder than Words' (2009)

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