



**FINANCIAL AND PERFORMANCE REPORTING  
REPUBLIC OF IRELAND**

**Diploma stage examination**

**5 December 2006**

**MARKING SCHEME**



**Question 1**

*Report format 1*

**1. Finance Lease**

	<b>DR</b>	<b>CR</b>	
Building	800,000		½
Capitalisation account		800,000	½
Lease liability	800,000		½
Lease repayment reserve		800,000	½
Bank		100,000	½
I&E	20,000		½
Lease liability	80,000		½
Buildings (depreciation)		16,000	½
Capitalisation account (depreciation)	16,000		½
Journal:			
I&E Transfer to/from Cap/Rev below the line (not included in any programme group)	80,000		1
Lease repayment reserve		80,000	1
			(6 ½)

**2. Depreciation**

	<b>DR</b>	<b>CR</b>	
Relevant fixed asset		650,000	½
Capitalisation account	650,000		½

Depreciation is not accounted for through the Income and Expenditure as is required by FRS 15. The policy of not charging depreciation to the I&E is based on the method of financing Fixed Assets which would result in a neutral impact on the I&E.

1 ½

(2 ½)

**3. Profit on disposal**

Machinery NBV (80,000 – 60,000)	20,000		
Receipts	<u>28,000</u>		
Profit on disposal	8,000		
	<b>DR</b>	<b>CR</b>	
Bank	28,000		½
Usable capital receipts reserve		28,000	½
Machinery asset		20,000	½
Capitalisation account	20,000		½

As per FRS 15, profit/loss on disposal should be recognised through the I&E. This is based on the fact that the notional profit/loss on disposal is essentially a correction of depreciation. As depreciation is not charged to the I&E in Local Authority accounting, then it would not be appropriate to account for a profit on disposal. Instead, any receipts from the sale of capital assets is transferred to a usable capital receipts account for funding future fixed asset investment.

2

(4)

#### 4. Related party transactions

The related parties of Local Authorities include:

- Government Departments
- Other local authorities including councils
- Subsidiary and associated companies
- Joint ventures and joint venture partners
- Members and employees

The above include family members and any group that has a controlling interest.

2

Details of material transactions undertaken with a related party should be disclosed as follows:

- i. Names of relating parties.
- ii. Description of relationship.
- iii. Description of transactions.
- iv. The amounts involved.
- v. Any other information that leads to a true representation in the AFS.
- vi. Relevant balance sheet assets/liabilities between related parties.
- vii. Provision for bad debts due from related parties.
- viii. Amounts written off during the year between related parties.

4

(20)

**Question 2**

**(a) Requirements for the production of a consolidated Balance Sheet for the ROI Public Service**

- The development of a framework for the introduction of consolidated accounting by the Department of Finance.
- The production of a manual detailing the accounting standards to be employed to support consolidation.
- The introduction of full accrual accounting to Central Government.
- The preparation of Local Authority, Health Sector and all other public sector bodies' Annual Financial Statements under the standards and policies identified in the manual as referenced above.
- The standardisation of the Balance Sheet date across all Public Sector bodies
- The elimination of intra-organisation transactions.

(8)

**(b) Holland Ltd  
Consolidated Balance Sheet at 30<sup>th</sup> June 2005**

*Layout 2*

	€	
<b>Fixed Assets</b>		
Goodwill	68,800	3
Tangible assets	<u>770,000</u>	
	838,000	
Net current assets	<u>390,000</u>	
	<u>1,228,800</u>	
Share capital	600,000	
Share premium	350,000	
Profit and loss account	<u>128,800</u>	4
	1,078,800	
Minority interest	<u>150,000</u>	3
	<u>1,228,800</u>	

**Goodwill calculation**

	€
Investment in Barnacle Ltd.	700,000
Less:	
Share capital 80%	320,000
Share premium 80%	160,000
Profit & loss pre acquisition 80%	<u>48,000</u>
	(528,000)
<b>Goodwill on consolidation</b>	<b>172,000</b>
Amortised 20% * 3 yrs	<u>103,200</u>
Balance	68,800

### Minority Interest calculation

	€
Share capital 20%	80,000
Share premium 20%	40,000
Profit & loss 20%	<u>30,000</u>
	150,000

### Profit and Loss calculation

	€
Profit Holland	160,000
Profit Barnacle	<u>150,000</u>
	310,000
<b>Less</b>	
Pre acquisition 80% * €60,000	48,000
Minority interest 20% * €150,000	30,000
Amortised goodwill	<u>103,200</u>
	(181,200)
<b>Balance CBS</b>	<b>128,800</b>

(12)

(20)

**Question 3**

There are many different approaches that the candidate may take in answering this question. Regardless of the approach, marks will be awarded for including the following in their discussion.

**Financial and Performance Techniques that will assist the Health Service in achieving its objectives are:**

- Performance measurement incorporating Key Performance Indicators.
- Full accrual accounting and financial reporting under the regulatory framework.
- Benchmarking and Value For Money audits.
- Consolidation of reporting practices across the entire Health Service including the Department of Health and Children.
- Improved methods of accountability incorporating Governance principles.

*2 marks per technique up to a maximum of 8*

**Examples of scenarios where these techniques could have an impact are as follows:**

- The PPARS project.
- Resource management e.g. staffing and budget allocation for current capital projects.
- The Accident and Emergency crisis incorporating the Department of Finance's decision to not allocate extra funding.
- The nursing homes issue.
- The threat of a pandemic.

Note: This is a sample of scenarios that may be used. However, marks will be awarded if the candidate can apply other scenarios in the discussion of techniques as above.

*2 marks for the **correct** use of examples to a maximum of 8*

**Programme of reform:**

Marks will be awarded to the candidate for making reference to aspects of the Health Service reform programme. This may include reference to the following:

- The Brennan Report.
- The Prospectus Report.
- The Hanly Report.
- The change in structure of the Health Service – the reorganisation into the HSE.

4

**(20)**

**Question 4**

**(a) Explanation of benchmarking**

*Answer to be written in a report format 1*

Benchmarking is a tool for performance assessment that compares in a systematic way a service or organisation. It should lead to continuous improvement in service delivery as each organisation within the benchmarking group strives to meet or better the benchmark. It can result in best practice being identified and shared. 2

Comparisons should be made over time and with similar bodies for benchmarking to be effective. 1

The development of performance indicators will be part of benchmarking to aid comparison of the service or organisation. 1

*Other valid points should attract credit*

*(5)*

**(b) Analysis of performance and identification of areas of concern/ good performance**

*Note: The question clearly identifies three areas where concerns have been raised for the libraries service: the overall cost of the service and whether savings can be made, the use of stock and whether any stock can be sold and staffing levels. Students may not frame their answer in the same way as indicated below but should be expected to complete analysis that focuses on the issues identified in the question. Credit to be given for appropriate analysis and comments where made.*

**Consideration of costs**

Indicators:

		<b>Avon.</b>		<b>Nat.</b>
		<b>Uni</b>		
Net cost per issue	$(20,000,000 - 1,500,000 - 1,750) / (350,000 + 25,000)$	€49.33	$(5,700,000 - 250,000 - 1,380) / (45,000 + 12,500)$	€94.76
Net cost per reader	$(20,000,000 - 1,500,000 - 1,750) / 8,750,000$	€2.11	$(5,700,000 - 250,000 - 1,380) / 500,000$	€10.90
Net cost per stock item	$(20,000,000 - 1,500,000 - 1,750) / 30,000,000$	€0.62	$(5,700,000 - 250,000 - 1,380) / 9,000,000$	€0.61

*½ mark per set of indicators calculated up to a maximum of 1 ½*

**Comments:**

Avondale University is cheaper when looking at the net cost per reader and per issue. This does not suggest that there is scope for further savings to be made based on this data alone. 1

The net cost per stock item held is almost identical indicating that the University is not incurring significant extra costs from holding high levels of stock. 1

The financial contribution to the university could be improved by increasing the average fine value as this is significantly lower than the national position (38% lower) ½

*Other valid comments to attract credit. Students need to look at the implications of their analysis however and not simply state what their indicators show to gain a full mark.*

### Use / holding of stock

Indicators:

			<b>Avon. Uni.</b>		<b>Nat.</b>
Percentage of printed matter items issued from stock	(350,000 / 30,000,000)		1.17%	(45,000 / 9,000,000)	0.50%
Percentage of new media items issued	(25,000 / 200,000)		12.50%	(12,500 / 125,000)	10.00%
Requests made as % of total stock	(404,500 / (30,000,000 + 200,000))		1.34%	(58,000 / (9,000,000 + 125,000))	0.64%
% Requests fulfilled	(350,000 + 25,000) / 404,500)		92.71%		99.14%

*½ mark for calculation of a set of indicators up to a maximum of 2*

### Comments:

Stock doesn't appear to be being held unnecessarily. The higher % of issues and requests suggests that stock is currently in demand and therefore that it should not be sold. 1

Lower levels of requests fulfilled implies that the university could need to increase stocks of some copies to meet demand (although not meeting demand may be due to the nature of the library having specialist/ out of date publications/ being of national importance that in some cases demand cannot be met as other readers are using the books) 1

Stock is also generating a higher level of income per stock item than the national position so to reduce stock levels could result in a financial loss rather than a financial gain.

			<b>Avon. Uni.</b>		<b>Nat.</b>
Income generated per stock item	(1,500,000 + 1,750) / 30,000,000		€0.05	(250,000 + 1,380) / 9,000,000	€0.03

2

**Staffing**

Indicators:

		<b>Avon. Uni</b>		<b>Nat.</b>
Requests for issues per staff	(404,500 / 50)	8,090	(58,000 / 40)	1,450
Reader: staff ratio	(875,000 / 50)	175,000	(500,000 / 40)	12,500

*½ mark per indicator set calculated up to a maximum of 1*

**Comments**

There does not appear to be any scope to reduce staff as the university currently performs above the national average. ½

There may be a case for increasing staff levels to decrease waiting times for requests to be issued (although this could be due to the very high levels of stock that the university library holds compared to the national average) . ½

**Is it offering a good service?**

Overall from the data provided Avondale Library seems to be offering a good service on balance 1

*Students to be marked on their overall analysis here*

**Recommendations/ areas for further investigation**

*Note: comments/ recommendations made above not to cut staff/ sell stock included above.*

Given the university's library holds a collection of national importance and there are only 3 other universities in the ROI with the same type of stock held, it may be that performance here is a not truly comparable with the national average. Data should be collected comparing Avondale to these other libraries to make a fairer comparison. 1

Consideration cannot be given to the impact that the investment in IT has had since we have not got any data that relates to the period before the new IT investment has taken place. This would need to be considered in light of the need to generate efficiency savings across the university 1

(15)

**(20)**

**Question 5**

**(a) Key organisations in the regulatory framework include:**

- The Accounting Standards Board (ASB)
  - Produces SSAP's and FRS's.
  - Published the Statement of Principles which was then adjusted to take into account Public Sector needs and republished as the Statement of Principles for Public Benefit Entities.
  - CAPE
  - Consultation role with IASB and IPSASB.
  - SORP's e.g on Local Authorities and Charities.

4

- The International Public Sector Accounting Standards Board (IPSASB)
  - Produces International Public Sector Accounting Standards.
  - Part of IFAC and produces standards based on IFRS's.
  - Collaborative role with ASB most recently on the area of Heritage Assets.
  - Standards are not mandatory and at the time of writing were not a part of legislation but more outlining best practice.

4

(8)

*Other valid points should attract credit*

**(b) Examples of International Programmes of reform include:**

- France
- UK
- New Zealand
- USA.

These programmes of reform have been extensively researched and written on. The International Public Sector Accounting Standards Board has published reports on all of the programmes of reform as listed above. HM Treasury has also reported (and continues to) on the UK Whole of Government Accounting programme in the UK. The GASB in the USA has produced regular reports on the progress of the reform programme. Other relevant publications will receive credit.

*4 marks are to be awarded per programme of reform to a maximum of (12)*

**(20)**

**Question 6**

**(a) Objectives of Corporate Governance**

- Openness
- Integrity
- Accountability
- The prevention of abuse of power
- Inspire Public Confidence
- Prevention of fraud and management failure

*1 mark per objective to a maximum of (6)*

**(b) Key developments in Corporate Governance in the Private Sector**

The candidate should include the following in their answer:

- The Cadbury Committee
- The Greenbury Committee
- The Hampel Committee
- The Smith Committee
- The Higgs Report

*½ mark for each key development identified and ½ mark for brief explanation up to a maximum of (4)*

**(c) Corporate Governance in the ROI Public Sector**

The candidate's discussion should include reference to the following reports:

- Code of practice for the governance of state bodies
- The Mullarkey report

*3 marks for identification and brief explanation of each of the above up to a maximum of 6*

The discussion should also reference the work that has been done in the UK as a model for the developments in Corporate Governance in the ROI. Key issues are:

- "Corporate Governance – a Framework for Public Service Bodies" CIPFA 1
- "Code of Best Practice for Board Members of Public Bodies" HM Treasury 1
- The work of the Nolan Committee 2

*(10)*

**(20)**