



**FINANCIAL AND PERFORMANCE REPORTING
REPUBLIC OF IRELAND**

Diploma stage examination

4 December 2007

MARKING SCHEME



Question 1

Altonborough County Council

1. Income and Expenditure account

	€'000	
Income		
Grants and subsidies	58,980	¼
Goods and Services	32,593	¼
Local Government Fund – General Purpose Grant	42,356	¼
Rates	<u>25,074</u>	¼
Total Income	159,003	
Expenditure		
Payroll Expenses	51,309	¼
Operational Expenses - 6000	53,850	1
Administration Expenses –800-60	6,245	2
Establishment Expenses	3,982	¼
Financial Expenses +60+100+60	8,748	1 ¼
Miscellaneous Expenses	<u>528</u>	¼
Total Expenditure	(124,662)	
Surplus/(Deficit) for the year before transfers	34,341	
Transfer (to)/from reserves	590	1
Overall Surplus	34,931	
General reserve 1/1/06	50,250	
General reserves 31/12/06	85,181	

BALANCE SHEET AT 31 DECEMBER 2004

	€'000	€'000	Marks
Fixed Assets			
Operational -950		456,232	1
Infrastructural		2,785,080	¼
Community		379	¼
Non-operational		<u>15,856</u>	¼
		3,257,547	
Work in Progress and Preliminary Expenses		217,271	¼
Long Term Debtors		54,524	¼
Current Assets			
Stocks	506		¼
Trade Debtors & Prepayments 19,696 – 4,510	15,186		1
Bank Investments	101		¼
Cash at Bank			
Cash on Hand	<u>4,171</u>		¼
	19,964		
Current Liabilities (Amounts falling due within one year)			
Bank Overdraft	23,870		½
Creditors & Accruals	119,616		¼
Finance Leases -250	<u>250</u>		1 ¼
	(143,736)		
Net Current Assets / (Liabilities)		(123,772)	
Provisions for liabilities and charges			½
Creditors (Amounts falling due after more than one year)			
Loans Payable	113,652		¼
Finance Leases	750		1 ¼
Other		<u>(114,402)</u>	
Net Assets		3,291,168	
Financed by			
Capitalisation Account – 950 - 6000		3,257,547	2
Income WIP			
Specific Revenue Reserve + 1400		3,642	1
General Revenue Reserve		85,181	
Other Balances + 700 + 590		(55,202)	2
Total Reserves		3,291,168	

Working 1: Correction of Suspense account

(a) Finance Lease	€00	€00
	0	0
Dr: Finance Lease C.L.	250	
Dr: I&E	60	
Cr: Suspense a/c		310

(b) Fixed Asset disposals	€000	€000
Dr: Suspense account	1,400	
Cr: Usable capital receipts		
Show under specific revenue reserve account		1,400
Cr: Fixed Asset		950
Dr: Capitalisation account	950	

Working 2: Correction of Depreciation charge

	€000	€000
Dr: Capitalisation account.	6,000	
Cr: Operational expenses		6,000

Working 3: Correction of Mortgage and Non-Mortgage loan payment

	€00	€00
	0	0
Dr: Other balances	700	
Dr: I&E financing expenses	100	
Cr: Administration expenses		800
Dr: I&E financing charges	60	
Cr: Administration expenses		60
Dr: Transfer to reserves		590
Cr: Other balances	590	

(20)

Question 2

(a) Financial Reporting for vote funding

- The regulations governing vote reporting are laid out in the “Public Financial Procedures” manual issued by the Department of Finance.
- The Department of Finance also regularly issues circulars providing guidance and further regulations for reporting on the uses of vote funding.
- The key financial reports are called Appropriation Accounts.
- These reports are based on the principles of cash accounting.
- The Government reform programme resulted in the inclusion of other information including:
 - i. Details of liabilities and accrued income
 - ii. Statement of current assets and Liabilities
 - iii. An operating cast statement
- This extra information aims to incorporate some accrual information into the process.

1 mark per valid point to a maximum of (6)

(b) Financial reporting for the HSE

- The regulations governing the financial reporting of the HSE to the DoHC are contained within the Accounting Code of Practice for the HSE.
- The code has its foundations in the principles of accrual accounting and best practice Generally Accepted Accounting Practice.
- The code outlines the selection of accounting standards that are deemed to be appropriate for HSE financial reporting.
- Specific provisions have been made for fixed asset reporting and contingencies (among many others).

1 mark per valid point to a maximum of (6)

(c) Dual reporting

Dual financial reporting, for any organisation, is an administratively onerous task. The current situation facing the finance function of the HSE is particularly so. For organisations that employ best practice accounting procedures there are very strict guidelines governing such a scenario. Financial Reports must be restated to reflect both the old and new methods of reporting. But the information used is of the same format and available from the same system. The situation that faces the HSE is made more difficult as the data required for each set of reports is prepared on a different basis.

The result is the need for the employment of extra resources to convert the existing accounting information into cash based information needed for the appropriation account.

2 marks per valid point to a maximum of (8)

(20)

Question 3

Department of Finance
Wryley City Council

Mr. Duncan Byrne
12 Stewart Road
Wryley

Dear Mr. Byrne

Thank you very much for your letter. I have set out below an explanation for the queries that you raised.

Letter format (1)

(a) Corporate Governance Developments

In response to the developments that you mentioned in your letter in establishing good corporate governance in the private sector, CIPFA published a discussion paper 'Corporate Governance in the Public Services' which concluded that the principles established by one of the main private sector corporate governance projects (the Cadbury Committee) were equally relevant in the public sector.

However, there are of course a number of distinctive characteristics, which must be taken into account when considering corporate governance issues in the public sector. These include the fact that public sector organisational objectives tend to be multi-various, and must take into consideration the unique public service ethic and motivational issues.

The publication of the Code of Practice for State Bodies was a key development for Irish public sector entities. The Mullarkey report also made a crucial contribution to Irish corporate governance

*Up to 1 mark per well explained point regarding the application of corporate Governance principles to the public sector up to a maximum of 3
Credit to be given for other relevant points*

Better Local Government launched the move to better corporate governance by implementing

- Improved financial accounting
- Performance indicators
- Improved HR and IT operations and policy
- A requirement for Internal Audit and Audit Committees.

*Up to 1 mark per well explained point regarding the application of corporate Governance principles to Local Authorities up to a maximum of 3
Credit to be given for other relevant points*

(7)

(b) Benchmarking

Benchmarking involves comparing our performance in a particular area to that of other similar organisations in order to identify areas of best practice and areas where we can learn from other organisations and improve.

Up to 2 marks for explanation of benchmarking

42 performance indicators have been identified for local government and all authorities are mandated with reporting on these indicators. The benchmarking process has to follow a systematic and planned approach as follows:

- 1) Agree a structured approach
- 2) Identify areas where performance could be improved.
- 3) Compare similar practices and process in other parts of the organisation or other organisations to identify good and best practice.
- 4) Identify the changes in procedures and process which must be made to improve performance.
- 5) Generate ownership of the process and recognition of the need for change amongst staff and other stakeholders.

Up to 3 marks for explanation of the benchmarking process

The advantage of benchmarking is that it will usually highlight areas where other organisations are performing better than us and so will highlight a need for improvement in some area of performance, such as cost reduction or improving service quality.

It can also provide motivation among officers and members to improve performance in specific areas.

1 mark per advantage up to a maximum of 2

(7)

(c) Local Authority Financial Statements

Historically Public Sector accounting was done on a cash basis. Private Sector financial reporting has always been based on the concept of accruals ie acknowledging revenues and payments at the time of earning and incurring respectively.

With the publication of Better Local Government, financial reporting in Local Authorities moved to accrual accounting. This was a very substantial change and the Private Sector model was used as the basis for the structure and form of financial statements.

While the objectives of the Private Sector and the Public Sector can not be compared, the principles of sound financial reporting and accountability are the same. The format of financial statements reflects the services and operations of the entity involved, therefore, the format and layout of the financial statements of Wryley City Council will reflect its operations and services.

The regulatory framework that supports financial reporting in the private sector does not apply directly to the public sector. It is used as a framework and adapted to reflect the objectives of Local Government. The Department of the Environment, Heritage and Local Government, in conjunction with the Department of Finance will select those aspects to the regulatory framework that are applicable to Local Government. There are many areas that differ and Fixed Assets are one of the Balance Sheet items that require a different approach for local government. (6)

I hope that you find this useful. Please don't hesitate to let me know if I can be of further assistance.

Yours sincerely,

Ms L. Doyle
Director of Corporate Affairs

(20)

Question 4

This is an essay style question that affords the candidate the opportunity to demonstrate:

- Their knowledge of the content of all aspects of the syllabus of FPR.
- The level of independent research that they have undertaken as part of their studies.
- Their understanding of the ROI Public Sector as a whole – not just the organisation/sector they work in.
- Their understanding of how financial and performance reporting can influence and support Government and Agencies in achieving value for money.
- Their ability to apply knowledge to support critical thinking and analysis.

4 marks per objective outlined above

(20)

Question 5

(a) Definition of Public Benefit Entities

Public Benefit Entities are reporting entities whose primary objective is to provide goods or services for the general public or social benefit where any equity has been provided with a view to supporting that primary objective rather than with a view to providing a financial return to equity shareholders.

(5)

(b) Key issues under examination

Stewardship: The interpretation suggests that the importance of information on stewardship requires special emphasis in the context of public-benefit-entities.

Funders and financial supporters: This group is identified as the defining class of user in the public benefit sector

Funds: The interpretation notes that more designation of funds (fund accounting), reflecting no more than management intent, should not be recognized as a transaction in the financial statements.

Assets: Under the interpretation, the view is that historic and “unalienable” items are assets because they provide services to the entity, or through it, to its beneficiaries. This is the view the ASB has consistently expressed in relation to Heritage Assets

2 marks each to a maximum of (8)

(c) The International Public Sector Accounting Standards Board

The IPSASB’s goal is to serve the public interest by developing high quality accounting standards for use by public sector entities around the world in the preparation of general-purpose financial statements. This will enhance the quality and transparency of public sector financial reporting and strengthen public confidence in public sector financial management. In pursuit of this objective, the IPSASB supports the convergence of international and national public sector accounting standards and the convergence of accounting and statistical bases of financial reporting where appropriate.

The IPSASB follows a rigorous and transparent due process in the development of all International Public Sector Accounting Standards (IPSASs). This process provides the opportunity for all those interested in financial reporting in the public sector, including those preparers and users directly affected by the IPSASs, to make their views known to the IPSASB and ensure that those views are considered in the standards development process. The due process is outlined below:

- Exposure for public comment — Exposure drafts of all proposed IPSASs are developed, usually with the input from a task force or project advisory panel. In some cases, the development of an exposure draft is preceded by the issuance of an information paper or consultation paper prepared by a task force or other authors.
- Consideration of comments received on exposure — The comments received as a result of the exposure process are considered by the IPSASB and the exposure draft is revised as appropriate.
- Affirmative approval — Approval of exposure drafts, re-exposure drafts and IPSASs is made by the affirmative vote of at least two-thirds of the members.

(7)

(20)

Question 6

- (a) (i) Under *FRS 2 Accounting For Subsidiary Undertakings*, MSL is a subsidiary of DHA as DHA owns 90% of its share capital and hence controls MSL.

FRS 2 requires that where an organisation controls another organisation, group accounts need to be produced. The financial results of the subsidiary need to be reported in the group accounts.

Under FRS 2, all the assets, liabilities, incomes and expenditures of MSL should be consolidated into the group's balance sheet regardless of the fact that DHA does not own 100% of its share capital.

The 10% interest owned by the employees will then be shown as a minority interest at the bottom of the balance sheet and income and expenditure account.

1 mark per relevant point to a maximum of 3

- (ii) FRS 2 requires that any transactions between organisations within the group need to be adjusted so that only transactions between the group and the outside world are reported in the group accounts. Therefore, whilst MSL's own individual accounts will include all transactions that it entered into in the year, the transactions between DHA and MSL will need to be eliminated in the consolidated group accounts.

Up to 3 marks for explanation of elimination

- (iii) Under *FRS 9 Associates and Joint Ventures* Good as New Limited is a Joint Venture as it is jointly controlled by DHA and another party.

Under FRS 9, joint ventures must be consolidated into group accounts but unlike consolidating a subsidiary where all the assets, liabilities, incomes and expenditures are included, the stakeholder in a joint venture will only consolidate a proportional value of the joint venture's net assets/liabilities and net surplus/deficit for the year.

Therefore, DHA's consolidated accounts will include only 50% of Good As New Ltd's net assets and liabilities and no minority interest is included.

1 mark per relevant point to a maximum of 3

- (iv) Credit to be given for all reasonable examples, eg adjustments to align accounting policies if parent and subsidiary have for example different policies regarding revaluing fixed assets, e.g. adjustments for alignments of year-ends if the subsidiary does not have the same year-end as parent.

1

(b) Advantages include:

- Greater comparisons can be made both across the UK public services and, as WGA extends across other jurisdictions.
- Provides for the first time a complete picture of the financial performance of the public services.
- Aid financial planning and monitoring. Will also be able to support better non-financial planning as it will be clearer where investment is needed.
- Increase accountability to stakeholders as it will become clearer to stakeholders where funds have been spent and what has resulted from this investment.
- Encourage more unified approach to financial reporting across the UK public sector, where different sectors (e.g. central government and local government) currently have significant differences. This in turn should enhance the usefulness of the financial statements of individual organisations and aid decision making.
- Improve capital planning as a comprehensive set of information on fixed assets will be available.
- Provide Parliament and other users with an overall audited view of the performance of the public services.

2 mark per advantage up to a maximum of 8

Disadvantages

- Time and cost taken, both by individual organisations providing the information required and the consolidation process itself.
- The benefits of the information from the consolidation process is dependent on the adoption of the process across the broader public service

2

(20)