



FINANCIAL AND PERFORMANCE REPORTING REPUBLIC OF IRELAND

Diploma stage examination

5 December 2006

From 2.00pm to 5.00pm
plus ten minutes reading time from 1.50pm to 2.00pm

Instructions to candidates

Answer five questions in total

Both compulsory questions from **Section A**

Three of the four questions from **Section B**

The questions each carry a total of 20 marks

All workings should be shown. Where calculations are required using formulae, calculators may be used but steps in the workings must be shown. Calculations with no evidence of this (for example, using the scientific functions of calculators) will receive no credit. Programmable calculators are not permitted in the examination room.

Formula sheets, Proforma booklets, graph paper and cash analysis paper are available from the invigilator, where applicable.

Where a question asks for a specific format or style, such as a letter, report or layout of accounts, marks will be awarded for presentation and written communication.

Candidates may use the proforma sheets provided and submit them as part of their answer.

SECTION A (Answer both questions)

1

As the Head of Finance of Collinswood Local Authority, one of your key functions is the production of the Annual Financial Statements. As a result of increased reporting requirements on the finance function, it was necessary to recruit a professionally qualified accountant. The candidate was recruited directly from private sector and their experience has been gained in one of the Big 4 firms.

The candidate has been employed by Collinswood LA since July 2005 and has been closely involved with the preparation of the Annual Financial Statements. However she is having some difficulty understanding the methods employed by the Local Authority in the treatment of certain transactions.

The accountant has approached you with the following list of transactions that she requires explanation on. She has consulted the Code of Practice as issued by the Dept. of the Environment, Heritage and Local Government but treatment outlined differs considerably from national GAAP.

Items for clarification:

1. Finance Lease

During the year a building with a fair value of €800,000 was purchased using a finance lease. The lease agreement allows for 10 annual repayments of €100,000 per annum. The apportionment of finance charges is done on an actuarial basis. The asset purchase and the lease repayment have yet to be accounted for. Buildings are depreciated at 2% per annum straight line with full depreciation in the year of purchase and none in the year of sale.

2. Depreciation

The total depreciation charge for the year has been calculated at €650,000 (excluding the asset in note 1 and note 3). This has yet to be accounted for.

3. Profit on disposal

During the year a piece of machinery was sold. The original cost of the machine was €80,000 and has been depreciated by €60,000. Cash received for the machine was €28,000. The receipts have been lodged to the bank but the transaction has not yet been accounted for.

4. Related party transactions

Some transactions have been deemed as related party transactions but it is not clear who those parties are. What groups constitute related parties of Local Authorities and what is the accounting treatment for these parties?

Requirement for question 1

Prepare a report for the accountant outlining the required treatment of each of the above, using journal entries where appropriate.

(20)

2

- (a) The Whole of Government Accounts initiative in the UK will be producing a consolidated Balance Sheet for the entire UK Public Service in 2007. Already there have been dry runs which, while not being without problems, have been a success. HM Treasury championed this initiative as part of the reform of the Financial and Performance Reporting procedures across the UK Public Service – this required the setting up of a dedicated division within the Treasury to lead the project.

• **Requirement for question 2 (a)**

Outline the key stages that would be required for the Republic of Ireland Public Service to produce a consolidated Balance Sheet.

8

- (b) Holland Limited acquired 80% of the ordinary share capital of Barnacle Limited for €700,000 on 1 July 2002, when the retained profits of Barnacle Limited amounted to €60,000. There have been no movements on Barnacle Ltd.'s share capital or share premium account since that date.

At 30 June 2002 the balance sheets of the two companies were as follows:

	Holland Ltd.	Barnacle Ltd.
	€'000	€'000
Tangible Fixed Assets	280	490
Investment in Barnacle Ltd.	700	-
Net Current Assets	<u>130</u>	<u>260</u>
	<u>1,110</u>	<u>750</u>
Share Capital	600	400
Share Premium Account	350	200
Profit & Loss	<u>160</u>	<u>150</u>
	<u>1,110</u>	<u>750</u>

The policy of Holland Ltd. is to amortise goodwill arising on consolidation over 5 years on the straight line basis.

• **Requirement for question 2 (b)**

Prepare the consolidated Balance Sheet of Holland Ltd. and its subsidiary as at 30 June 2005.

12

(20)

SECTION B (Answer three of the four questions from this section)

3

The programme of reform of the Health Service in Ireland began in 2003. To date many initiatives have been launched, some more successful than others. Currently the Health Service is under increasing pressure to provide a service that meets demand and provides value for money for the taxpayer.

- **Requirement for question 3**

Discuss how Financial and Performance Reporting can support the Health Service in achieving its objectives under the programme of reform.

(20)

Note: Marks will be awarded for critical appraisal incorporating examples of performance from the Republic of Ireland Health Service.

4

You are the recently appointed Financial and Performance Manager for the libraries service of Avondale University. Avondale University has a library collection of national importance and it includes many rare and out of print books. There are a further three such libraries in the Republic of Ireland providing such a collection so in addition to providing a service to its own students and academic staff it also loans books to other academic libraries for a small fee to cover administration costs. The library holds both books and journals (printed matter items) and new media items (such as CD Roms, access to on line journals and other multi-media items) for use and loan.

The Director of Finance and Performance is keen to make use of your knowledge of benchmarking and performance measurement from your previous employment as the financial and performance accountant of Avondale's City Council's library service. The following data has been made available to you on the library's service provision for the year and you are asked to prepare a report for the University's performance committee and library committee assessing performance for the year. This will be the first time such an exercise has been undertaken for the libraries service and whilst it is recognised that you may not be able to draw clear conclusions as to whether the service is operating well, it is expected that you can identify some key messages in relation to the service's performance.

Performance data for Avondale University and the national average for the year ending 31 December 2005:

	Avondale University	National average
Number of printed matter items stocked	30,000,000	9,000,000
Number of new media items stocked	200,000	125,000
Printed matter items issued on request *	350,000	45,000
New media items issued on request *	25,000	12,500
Requests made for items	404,500	58,000
Waiting time for requests to be issued (average)	90 minutes	20 minutes
Staff numbers (Whole time equivalent)	50	40
Cost of providing the library service (includes all overheads)	€20,000,000	€5,700,000
Income received from fee generating activity	€1,500,000	€250,000
Income received from fines on late returns	€1,750	€1,380
Average fine per late item per day	€0.25	€0.40
Readers per annum	8,750,000	500,000

* Excludes "free standing stock" issues which can be accessed for use without issuing a request

The libraries service has recently invested significantly in IT to help provide an improved service to users and reduce costs. Other departments and faculties are lobbying for further savings to be made in support functions, such as the library, to improve the financial outlook of the university overall whilst avoiding the need to reduce teaching budgets. There is some concern that the library is holding stock that is excess to requirements and should be looking to refine its collection where possible to realise one-off sales income and other ongoing savings. Critics of the service have also suggested that cuts in staffing levels may be necessary to reduce costs and that the service is currently over staffed compared with other universities.

- **Requirement for question 4**

Draft a report for the committees in which you:

- (a) Briefly explain how benchmarking could be used to assess the performance of Avondale University's library service. 5
- (b) Using the data available, identify any areas of key concern or good performance. Your report should include recommendations where appropriate, including highlighting areas where further work or better information is needed to investigate areas more thoroughly. 15

(20)

5

The Regulatory Framework for financial reporting has long been established for the Private Sector. Internationally, programmes of reform of Financial and Performance Reporting are based on this framework. Accounting standards are written primarily with Private Sector needs in mind i.e. the reporting of profit. Because of this it is clear that the Regulatory Framework will not entirely apply to the Public Sector.

Recently however, there has been an increased focus on the Regulatory Framework for the Public Sector and an acknowledgement of the incompatibility of current accounting standards to the Public Sector.

- **Requirement for question 5**

- (a) Identify and describe the work of the key organisations involved in the creation of a Regulatory Framework for the Public Sector. 8
- (b) The programme of reform of Financial Reporting procedures is underway in the Republic of Ireland but is far from complete. The advantage of this being that lessons can be learnt from other programmes of reform. Identify 3 other programmes of reform and for each of these, outline the key distinguishing features that contributed to the outcome of each programme.

Note: Marks will be awarded for reference to any research that has been carried out on the programmes of reform that you have identified in (b)

12

(20)

6

Good governance is essential to inspire confidence in organisational stakeholders – this applies equally to Public Sector as it does to Private Sector. The highly publicised private sector cases of fraud, misappropriation of funds and compromised leadership began the move to excellent Corporate Governance.

As often happens, the Private Sector leads the way for change in the Public Sector. Over the last decade we have seen great strides being made in Corporate Governance in the Republic of Ireland Public Sector – the many tribunals of investigation are evidence of that and ultimately, these are of great benefit to the taxpayer and members of the general public.

- **Requirement for question 6**

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| (a) What objectives does the Corporate Governance function hope to achieve? | 6 |
| (b) What have been the key developments in Corporate Governance in the Private Sector. | 4 |
| (c) Discuss how Corporate Governance has translated into the Public Services in the Republic of Ireland. | 10 |

(20)
