



FINANCIAL AND PERFORMANCE REPORTING REPUBLIC OF IRELAND

Diploma stage examination

4 December 2007

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

Instructions to candidates

There are **six** questions on this question paper

Answer **five** questions in total

Two compulsory questions from **Section A**
Three of the four questions from **Section B**

The questions in Section A carry, in total, **40** marks
The questions in Section B 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 examinations room.

Formula sheets, Proforma booklets, statistical tables, 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.

SECTION A (Compulsory – answer both questions)

1

The following trial balance has been extracted from the financial ledgers of Altonborough County Council for the financial year ending 31/12/06:

	€000	€000
Operational assets	457,182	
Infrastructural assets	2,785,080	
Community assets	379	
Non-Operational	15,856	
Work-In-Progress & preliminary expenses	217,271	
Long term debtors	54,524	
Stock	506	
Trade Debtors & prepayments	19,696	
Bank Investments	101	
Cash on hand	4,171	
Creditors and accruals		119,616
Bank overdraft		23,870
Long term loans payable		113,652
Capitalisation account		3,264,497
General revenue reserve		50,250
Specific Revenue Reserve		2,242
Provision for bad and doubtful debts		4,510
Goods and services		32,593
Grants and subsidies		58,980
Local Government Fund – general purpose grant		42,356
Finance lease		1,250
Rates		25,074
Payroll expenses	51,309	
Operational expenses	59,850	
Establishment expenses	3,982	
Administration expenses	7,105	
Financial expenses	8,528	
Miscellaneous expenses	528	
Suspense account		1,090
Other balances	53,912	
	<u>3,739,980</u>	<u>3,739,980</u>

Additional Information

- (i) Suspense Account is made up of:
- a. Last year, an infrastructural property was purchased using a Finance Lease. The fair value of the property was €1,500,000. The lease is to be paid over a 6 year period with annual payments in arrears of €310,000. Finance charges are apportioned on a straight-line basis. The finance lease payment for this year of €310,000 has been credited to the bank account, but the corresponding entry has not yet been recorded.
 - b. During the year operational assets with a net book value of €950,000 was sold for €1.4m. The suspense account represents the receipts that have been lodged to the bank but the disposal transaction has yet to be accounted for.

- (ii) The total annual infrastructural depreciation charge, as calculated by the financial accountant, is €6m. This was deducted from the relevant asset and charged to Operational Expenses.
 - (iii) During the year a mortgage loan payment of €800,000 (principal €700,000) and a non-mortgage loan payment €650,000 (principal €590,000) were made. Both were credited to the bank and both were debited to administration expenses
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- **Requirement for question 1**

Using the pro-forma statements provided, prepare Altonborough's Income and Expenditure for the year ending 31 December 2006, and the balance sheet as at this date.

(20)

2

Financial Reporting in the Irish Health Services is undergoing significant development and reform in order that excellent financial information will be available to support better decision-making and efficient use of resources. The Health Services Executive is now funded directly by government and is given its own "vote". As such, there is now a legal requirement to report on the expenditure of this vote in the manner that is prescribed by the Department of Finance. The HSE must also continue to report to the Department of Health and Children as prescribed in the Code of Practice for Financial Reporting for Health Boards.

- **Requirement for question 2**

- (a) Outline and briefly explain the financial reporting requirements as laid down by the Department of Finance for the HSE Vote expenditure 6
- (b) Outline and briefly explain the financial reporting requirements as laid down by the Department of Health and Children for the HSE revenue and capital expenditure 6
- (c) Identify, if any, difficulties that this dual reporting poses for the Finance function of the HSE. 8

(20)

SECTION B (Answer three from four questions)

3

You are a trainee accountant employed by Wryley City Council, and your boss, the Head of Finance, has received the following letter from a newly elected councillor and she has asked you to draft a reply.

12 Stewart Road
Wryley

Ms Louise Doyle
Head of Finance
Wryley City Council

Dear Ms Doyle

I have recently been elected as a councillor, and was wondering if you could be of assistance to me. As a retired solicitor, I have no experience of local government but I have been reading about various issues currently facing local government finance that I was hoping you could clarify for me.

- a) The business pages seem to be full of stories regarding corporate governance failings in private sector companies, and I gather that the private sector has now taken many steps to put improved corporate governance procedures in place. Please can you explain to me what steps are being taken in the public sector to improve corporate governance, and the specific corporate governance developments affecting local authorities.
- b) One of my fellow councillors told me that the council is a member of a benchmarking group, as she was looking at a report comparing the performance of our leisure services to some other local authorities in this area. Please can you explain what benchmarking is, how the process works and what its advantages are?
- c) I was browsing through Wryley's recent financial statements, and I noticed that they differ substantially to any annual reports that I have seen before. In my legal practice, clients were often required to submit annual reports as part of support documentation and I have grown familiar with the format of these reports. Can you explain the underlying differences between private sector financial statements and local authority financial statements?

I would appreciate clarification of the above points as soon as possible.

Yours sincerely,
Duncan Byrne LLB
Councillor

• **Requirement for question 3**

Draft a letter from Ms Doyle to Mr. Byrne, ensuring that you address all of the points raised in Mr. Byrne's letter. Marks will be awarded as follows:

(a) Corporate Governance developments	7
(b) Benchmarking	7
(c) Local Authority Financial Statements	6
	(20)

4

The ROI Government Reform programme is now moving into its second decade. Over the last 10 years the ROI economy has grown and expanded considerably. We have seen significant changes in demographics, trade, the property market, commercial enterprise, political stability and prosperity.

The ROI Public Sector has also undergone transformation through initiatives such as Decentralisation, Better Government, Health Sector reform, Better Local Government, Corporate Governance and many other initiatives.

- **Requirement for question 4**

Using the content of your financial and performance reporting studies, and independent research, discuss the above commentary and give your views on the future of the ROI Public Service in the coming decade.

(20)

5

The ASB published an Interpretation for Public Benefit Entities of its Statement of Principles for Financial Reporting in June 2007.

The intention of the ASB is that this statement will operate in conjunction with the original Statement of Principles issued in 1999.

- **Requirement for question 5**

- (a) Define "Public Benefit Entities" 5
- (b) What are the key issues for examination in the Interpretation of the Statement of Principles in respect of Public Benefit Entities 8
- (c) Identify and explain the role of the International Public Sector Accounting Standards Board (IPSASB) in the regulatory framework for Financial Reporting in the Public Sector 7

(20)

6

- (a) Darnvale Housing Association (DHA) was set up 20 years ago to provide affordable housing in deprived areas of Darnvale City.

5 years ago, DHA could no longer afford the fees charged by local tradespeople to perform work on its housing stock, and so it set up a company called Maintenance Services Ltd (MSL). MSL was set up in order to provide electrical, plumbing and other maintenance services both to DHA's own housing stock and to private house owners in the local area. DHA owns 90% of MSL's share capital, with the remaining 10% being owned by MSL's employees.

During 2006 year, MSL's total invoiced sales of work performed was €369,000, of which €207,000 relates to work performed on behalf of DHA. As at 31 December 2006, €84,000 of the invoices to DHA remain unpaid.

DHA also owns 50% of the share capital in Good As New Ltd, a company set up two years ago with a local private sector partner to sell affordable good quality secondhand furniture to its tenants.

• **Requirement for question 6 (a)**

- (i) Explain how MSL should be treated in the DHA group consolidated accounts, with reference to applicable accounting standards. 3
- (ii) Explain how the work performed by MSL for DHA must be treated in the DHA group consolidated accounts, with reference to relevant accounting standards. 3
- (iii) Explain what type of relationship exists between DHA and Good As New Ltd with reference to relevant accounting standards. How should Good As New Ltd be treated in DHA's consolidated accounts, and how does this differ to the treatment of MSL? 3
- (iv) Explain one other adjustment that groups may need to consider making when preparing consolidated accounts. 1

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- (b) Consolidation is becoming more widespread within the public service of those jurisdictions that have adopted Group Accounting, including the Whole of Government Accounts Initiative in the UK.

• **Requirement for question 6 (b)**

What are the advantages of having Whole of Government Accounts? Can you think of any potential disadvantages? 10

(20)