

FRC Exposure Draft: Guidance on the Strategic Report

response to exposure draft

14 November 2013

CIPFA, the Chartered Institute of Public Finance and Accountancy, is the professional body for people in public finance. Our 14,000 members work throughout the public services, in national audit agencies, in major accountancy firms, and in other bodies where public money needs to be effectively and efficiently managed.

As the world's only professional accountancy body to specialise in public services, CIPFA's portfolio of qualifications are the foundation for a career in public finance. They include the benchmark professional qualification for public sector accountants as well as a postgraduate diploma for people already working in leadership positions. They are taught by our in-house CIPFA Education and Training Centre as well as other places of learning around the world.

We also champion high performance in public services, translating our experience and insight into clear advice and practical services. They include information and guidance, courses and conferences, property and asset management solutions, consultancy and interim people for a range of public sector clients.

Globally, CIPFA shows the way in public finance by standing up for sound public financial management and good governance. We work with donors, partner governments, accountancy bodies and the public sector around the world to advance public finance and support better public services.

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Deepa Raval
Financial Reporting Council
5th Floor
Aldwych House
71-91 Aldwych
LONDON WC2B 4HN
By email to narrative@frc.org.uk
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Dear Deepa Raval

FRC Exposure Draft: Guidance on the Strategic Report

CIPFA is pleased to present its comments on this Exposure Draft, which have been reviewed by CIPFA's Accounting and Auditing Standards Panel.

Background

While CIPFA has an interest in financial reporting generally, we have a specific interest in public sector and wider not-for-profit reporting. We therefore have a particular interest in the application of guidance and standards by these entities, whether directly applicable or where applied by analogy.

Narrative reporting is an important matter in all sectors, and CIPFA has been to promote best practice in this area for many years.

CIPFA responded to previous ASB consultations on the *Operating and Financial Review* in 2005, and to similar consultations in 2005 and 2009 by the IASB on *Management Commentary*. While not all parts of the public sector and wider public benefit sector are required to provide narrative reporting in support of their financial statements, CIPFA has been keen to promote the OFR model as best practice.

We would note that the OFR model is required to be applied by bodies applying the government Financial Reporting Manual (FRoM) and health sector manuals, is recommended practice in the Further and Higher Education SORP, and is considered best practice for larger RSLs in the SORP on accounting by Registered Social Landlords.

In the specific area of local government financial reporting where application of the OFR model can be difficult, CIPFA produced the report *Telling the Whole Story* in 2008 as a basis for consultation and development of how financial and other reporting to stakeholders might best be carried out.

CIPFA also contributed to the development and responded to consultations on the International Public Sector Accounting Standards Board (IPSASB) Practice Statement *Financial Statements Discussion and Analysis*.

CIPFA is of course, also aware of and supportive of wider developments in integrated reporting, and has commented on the potential application of IIRC frameworks to public sector reporting.

Comments

Against this background, we are generally supportive of the new guidance; we have a small number of minor drafting points which are attached as an Annex.

Our principal concern when reading over the guidance was in connection with its application by entities other than companies. While the guidance suggests itself as a model for wider classes of entity, we did find some parts of the guidance read rather unsympathetically when applied to entities which may not be companies, may not have shareholders and which may not conduct their business in the pursuit of profit seeking.

In our response to the ASB in its development of Reporting Standard 1 *Operating and Financial Review* (subsequently reformulated as a Reporting Statement), CIPFA suggested that it would be better if this were drafted in a more sector neutral style. We were pleased to see that the IASB Discussion Paper *Management Commentary*, which had considerable UK drafting input was more generically framed, in part because of the potentially wider classes of reporting entity that might be encountered in the international context.

Having said this, we can see that the framing of the current draft guidance, written in connection with a specific BIS request and targeted at quoted companies, is probably better for its intended audience.

I hope this is a helpful contribution to this discussion. If you have any questions about this response, please contact Steven Cain (e:steven.cain@cipfa.org, t: +44(0)20 7543 5794).

Yours sincerely

Paul Mason
Assistant Director
Professional Standards and Central Government
CIPFA
3 Robert Street
London WC2N 6RL
t: 020 7543 5691
e:paul.mason@cipfa.org
www.cipfa.org

Drafting observationsThe legal requirements following paragraph 5.7

This 'summary of legal requirements' is more of an explanation that, in the context of prejudicial disclosures, the normal requirements do not apply even where the matter is material. As such, it reads as a non sequitur when reviewed against the preceding text. It would be better if this were preceded by text setting out the general expectation that material items will be disclosed.

The example following 6.12

This example relates to settlement of a legal claim which may be 'other important information' that may be required under 6.12. However, the explanation is not as clear as it could be, principally because it starts by explaining that the settlement may not be 'strategically important information'.

It would be clearer if the example began by explaining what the claim is, rather than beginning by discussing what it might not be.