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The International Integrated Reporting Council
(electronic submission)

8 July 2013

Dear Sir,

Consultation Draft of the International Integrated Reporting Framework

The Local Authority [Scotland] Accounts Advisory Committee (LASAAC) welcomes the opportunity to comment on the consultation paper. LASAAC's remit is principally related to accounting issues affecting Scottish local government.

LASAAC recognises that there is a significant need to ensure that organisational reporting properly informs and, equally importantly, engages with relevant stakeholder groups. LASAAC is primarily concerned with IFRS-based financial reporting by Scottish local government. Based on a recent survey it seems evident that this is not currently providing sufficient engagement with all relevant stakeholder groups. This issue does not appear to be confined to any specific sector, with various initiatives in both the public and private sectors seeking to de-clutter or simplify financial statements.

The following comments are therefore intended to assist and support the development and direction of the IR Framework, particularly for the local government sector.

The six capitals model as proposed provides a valuable basis for enhanced stakeholder engagement

In the current era there appears, for many stakeholders, to be a multi-dimensional interest in organisational activities. This exceeds a one-dimensional focus on financial information which expresses resource usage and control in currency terms. To meet this interest LASAAC agrees that non-financial information on the extent of resources used, earned and controlled is appropriate. This multi-dimensional view of value creation, over different time horizons, by an organisation is regarded as particularly relevant for the public sector, albeit value can be difficult to measure in a public sector context.

The costs and benefits of implementing the IR Framework need to be clearly articulated.

The perception of the costs and benefits of implementation will largely determine the successful adoption of IR. Ensuring that the IR Framework report fits within the existing, or an amended, organisational reporting regime would assist. For the public sector demonstrating that the implementation of the IR Framework is an efficient use of taxpayer resources will be a critical requirement. IR potentially provides a means of further reducing the burden of inspection if used well.

The IR Framework should ensure that reports are concise.

Users of integrated reports are anticipated to seek clear, informative reports not extensively detailed and lengthy documents. Clear direction or guidance on the need to limit the length and complexity of reports may also help to minimise the perceived cost burden while enhancing the potential benefits.

For the IR Framework to succeed as envisaged legislative support would be desirable.

Adding more reporting, without amending any existing legislative based reporting requirements, would decrease the efficient use of taxpayer resources and lead to a confusing variety of overlapping, and potentially contradictory, public reports. The support of legislative bodies in amending existing requirements is therefore likely to be highly desirable.

The IR Framework should provide more detail on the longer-term plan for integrating an “assurance process” into integrated reporting.

The role of audit in relation to existing organisational reporting is well established. Not providing a proposed model for an IR assurance process incurs a risk that IR reports are not regarded as reliable, independent or verifiable. A balanced IR report without an assurance process will still be relevant and useful for many stakeholders. To gain wider acceptance and more substantial support however the IR Framework should include a proposed model for an assurance process, even where immediate implementation of this is not envisaged.

The IR Framework should consider the needs of the public sector.

The IR Framework provides a good basis for future organisational reporting. To apply this to the public sector consideration of the following would be helpful:

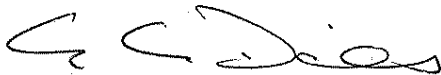
- **Accountability:** The public sector has a diverse range of accountabilities which the IR Framework could helpfully consider. Key accountability stakeholders for the public sector include the electorate, taxpayers and service recipients.
- **Inter-generational financing:** for the public sector a clear distinction exists between the resources consumed in current service provision and the funding of these resources from taxation. In effect the current taxpayer may not be supporting the full costs of the resources consumed in current service provision, but may also be funding service provision which has already ceased. Explaining the impact of this ‘intergenerational financing’ to public sector accountability stakeholders can be challenging.

Voluntary adoption of the IR's 'six capitals' approach within existing reporting structures should be considered.

Wholesale replacement of existing organisational reporting structures is likely to face a significant number of challenges to overcome. An initial approach, which may support quicker initial adoption and provide a basis for the extension of a more comprehensive IR Framework in the future, could be to encourage adoption of the core 'six capitals' approach within existing reports. As an example management commentaries in financial statements could include a brief commentary on the six capitals. As this practice becomes more accepted further enhancements to support more consistency and detail in line with the IR Framework could be supported.

LASAAC trusts that the above comments are of assistance. Naturally if you have any questions on this, or any other Scottish local government accounting matter, please do not hesitate to contact the Committee secretary (Gareth Davies, 0131 550 7534, gareth.davies@cipfa.org.uk) in this respect.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'G. Davies', is positioned above the typed name.

Gareth Davies
LASAAC Secretary