13th Report *of the* Financial Reporting Advisory Board

Report for the period
April 2009 to March 2010

FINANCIAL REPORTING ADVISORY BOARD

Report for the period April 2009 to March 2010

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Preface

A message from members of the FRAB:

In this, the thirteenth report of the Financial Reporting Advisory Board, members of the FRAB wish to express their thanks to Elwyn Eilledge CBE, the retiring FRAB Chairman, for his long and dedicated service and for the strong leadership and vision shown by Elwyn in chairing the Board successfully since its inception in 1996.

Without doubt, Elwyn has been instrumental in ensuring that, as an advisory body to the Treasury and the other relevant authorities, the FRAB is held in high esteem by all those that have benefited from its sound and professional advice over the fourteen years in which Elwyn has chaired the Board.

The FRAB acts as an independent element in the process of setting accounting standards for government and exists to promote the highest possible standards in financial reporting by government. As a result of Elwyn's personal contribution to the FRAB, and his commitment and determination over the years to raise standards in government financial reporting, he was deservedly honoured in 2001 with the award of Commander of the Order of the British Empire.

As Elwyn steps down from the FRAB in June 2010, we thank him for his unselfish and valued contribution over the many years he has served the Board and the Government. We send our best wishes to him for the future and wish him good health in his retirement.

As we say farewell to Elwyn, we also wish to recognise the significant and personal contributions made to the FRAB by two of its long serving members, both also retiring from the Board in June 2010.

Ken Wild has been Elwyn's right hand man and technical accounting expert on the Board since its inception in 1996, and has been a key member of the FRAB. Martin Sinclair has been a key member of the Board since 2002, providing his valued expertise from the National Audit Office. To both Ken and Martin, we thank you for your valued service to the FRAB and pass on our best wishes for the future.

We also take this opportunity to congratulate Kathryn Cearns on her appointment as the new FRAB Chairman and we look forward to working with Kathryn over the coming years.

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Chairman's Foreword

My Foreword to last year's report reflected on significant developments in public sector financial reporting against the setting of a much-changed economic environment, and the different challenges that this brings. Following the recent general election, the economy has now taken centre stage and we now have, for the first time in over fifty years, a partnership government in the form of the Conservative and Liberal Democrat coalition, faced with the urgent task of tackling this country's record debts. Going forward, financial reporting has an increasingly important part to play in conveying necessary information to users of accounts and the Board remains committed to ensuring that the highest standards of public sector financial reporting are maintained by the Government.

Building on last year's reported progress in the Government's preparations for the move to International Financial Reporting Standards (IFRS), I am pleased to report that the Board is encouraged by the continued progress made by the Treasury and the devolved governments in this challenging task, and that reports received by the Board indicate that they remain on track to deliver IFRS based resource accounts for 2009-10. The Board also looks forward to the first publication of IFRS based Whole of Government Accounts for 2009-10.

I am delighted to report that the extension of the Board's remit to include oversight of the Code of Practice on Local Authority Accounting in the United Kingdom (the Code) has worked very well, with the Board reviewing successfully the first IFRS Code for implementation in 2010-11, when local authorities will complete their move to IFRS.

This year, the Board is also able to report a positive outcome related to the Treasury's Alignment project, in that it advised on and agreed changes to the Government Financial Reporting Manual to achieve alignment of budgets, Estimates and accounts and to streamline financial reporting documents. This will result in increased accountability, and greater transparency for users of these government produced publications.

The proposed introduction of sustainability reporting remains an interesting issue for the Board, and it was pleased to agree in principle to a Treasury proposal for the future introduction of sustainability reports within Annual Reports and Accounts, subject to the satisfactory completion of a dry run, planned for 2010-11. The Board looks forward to receiving a report from the Treasury on further developments in this topical and increasingly important area of reporting.

Having chaired the FRAB from its inception in 1996, when I recall I was initially asked to chair a 'few' meetings, it is something of a personal milestone for me to have now chaired more than 100 meetings spanning some fourteen years. By the time this report is published I will have stepped down from the Board and Kathryn Cearns will have succeeded me as FRAB Chairman. I take this opportunity to pass on my congratulations to Kathryn on her appointment, and also to pass on my best wishes for her future success.

With the change in FRAB Chairman and some other significant changes to the membership of the Board, it is an opportune time for a formal review of the Board to be undertaken, which will take place over the next few months. I wish the FRAB Review panel well in its work, due to report to the Board later in the year.

Although this is my last report as FRAB Chairman, I have great confidence in the future of the FRAB, which I'm sure will go from strength to strength in dealing with the future challenges it may face. I wish to take this opportunity to thank all present and previous members who have served on the FRAB, for the significant contributions they have made to government financial reporting, and for the personal support they have shown me as FRAB Chairman over the years. I also wish to pay particular recognition to two of the Board's longest serving members that will have stepped down from the FRAB as this report goes to print. My thanks and best wishes go to Ken Wild and Martin Sinclair for the particular expertise they have brought to the FRAB, and for the valued contribution they have made in making the Board so successful. My thanks also go to the present and previous members of the Secretariat, without which the Board would not have been able to function and contribute so effectively as I believe it has.

Looking back, it is appropriate for me to briefly recognise some of the most significant contributions that the Board has made in its role of advising the Treasury and other relevant authorities. In earlier days it advised on the move from cash appropriation accounts to the introduction of Resource Accounting and Budgeting (RAB), directly contributing to the improvements in greater accountability and transparency that RAB brought. Accounting for PFI was a long running concern of the Board for many years and I am delighted that its efforts have been rewarded with the introduction of more consistent accounting for PFI across the public sector in future years. More recently, the Board has advised on the move to IFRS based financial reporting for the Government and the drive towards publication for the first time of Whole of Government Accounts, yet one further important step towards enhancing government financial reporting.

As I take my leave of FRAB I take pride in its accomplishments over the years, and I wish it every success in the future.

Elwyn Eilledge CBE

30 June 2010

Executive Summary

This is the thirteenth report of the Financial Reporting Advisory Board (the Board). The Board's primary objective is to promote the highest possible standards of financial reporting by government. The report is addressed to the Committee of Public Accounts and the Treasury Select Committee in the Westminster Parliament, to the Northern Ireland Assembly, to Scottish Ministers and to the National Assembly for Wales. The report covers the year April 2009 to March 2010. It reports on the Government's progress on the move to International Financial Reporting Standards (IFRS) from 2009-10, and other specific financial reporting developments. The report also looks ahead to future issues that will be considered by the Board over the coming year. The following paragraphs summarise some of the key points discussed in the report.

Last year's report reflected on the satisfactory progress made to date by the Treasury in the implementation of its International Financial Reporting Standards (IFRS) trigger point process, with the completion of the first two trigger points. This reporting year has seen the completion of the remaining trigger points. This involved reporting entities restating their 2008-09 resource accounts onto an IFRS basis and their submission to the National Audit Office for their subsequent audit and the issuance of audit reports.

The Board is pleased to report that the Treasury and the devolved governments continue to work closely with their departments and the audit agencies to resolve remaining IFRS issues, and it is encouraged by the continued progress that has been made to deliver IFRS based resource accounts for 2009-10. The Board looks forward to receiving a report from the Treasury and the devolved governments on the results of the process (paragraphs 2.3 to 2.11).

The report reflects that the FReM was published to timetable for application from 2010-11. In the preparation and finalisation of the 2010-11 FReM, the Board continues to exercise due diligence in ensuring that any government departures from IFRS in the public sector context are justified and fully explained (paragraphs 2.12 to 2.13).

Last year's report confirmed the extension of the Board's remit to include oversight of the Code of Practice on Local Authority Accounting in the United Kingdom (the Code) with effect from 2010-11, when local authorities complete the move to IFRS based financial reporting. The extension of the Board's remit also resulted in a number of operational changes to the FRAB, including the revision of the FRAB terms of reference to reflect changes in membership and the introduction of a Memorandum of Understanding between the relevant authorities.

This year, under the revised governance arrangements, the Board reviewed the 2010-11 Code and concluded that it is consistent with IFRS as applied by the FReM for 2009-10, except for a number of required differences as a result of the specific context of local authority accounting that differs in some areas from central government accounting (paragraphs 3.2 to 3.8).

The Board has considered several financial reporting developments during the year, both continuing and new, which will lead to future changes to accounting guidance (see, generally, Chapter 3).

Accounting for transactions financed by PFI has been a continuing concern of the Board due to the inconsistency of PFI accounting treatment across the public sector. During the period covered by this report, the first year in which central government and the NHS will produce IFRS based resource accounts; the Board continues to monitor the application of the developed FReM accounting guidance on service concessions. Early indications are that a significant number of PFI schemes previously off balance sheet in central government bodies have now been capitalised, leading to greater consistency in accounting for PFI between the different parts of the public sector (paragraphs 3.9 to 3.10).

Following the move to IFRS by central government, from 2009-10, the first publication of Whole of Government Accounts (WGA) will occur. The Board received a report from the Treasury on its 2008-09 dry run process and its plans for producing an auditable account for 2009-10. The 2008-09 dry run was reported to be a significant improvement on previous dry runs, although the Treasury acknowledged that there were still significant challenges ahead. The Board noted that whilst significant challenges remain, it was encouraged by the Treasury's continued progress in developing WGA (paragraphs 3.17 to 3.18).

Last year, the Board reported that it had agreed in principle to a number of Treasury proposals under the Alignment project, seeking to improve the alignment of budgets, Estimates and accounts, and to streamline financial reporting documents. These included a proposal to introduce changes to the resource accounting boundary that will generally result in the consolidation of Executive non-departmental public bodies and other similar bodies.

During this year, the Board was pleased to agree changes to both the 2010-11 and 2011-12 versions of the FReM under the Alignment project, included relating to the departmental boundary, which will be based on control criteria used by the Office of National Statistics to determine the sector classification of bodies. The Constitutional Reform and Governance Bill received Royal Assent on the 8 April and it included two Alignment clauses relating to the requirement for the consolidation of Executive NDPBs and other central government bodies into departments' Estimates and resource accounts from 2011-12. A dry run is taking place in respect of the 2010-11 accounts (paragraphs 3.11 to 3.13 and 3.19 to 3.22).

In this report the Board was pleased to support changes to the 2010-11 FReM to reflect the further UK developments in accounting for heritage assets, given that there is no international accounting standard for heritage assets. The Treasury proposals reflected the requirements of the new accounting standard, FRS 30 *Accounting for Heritage Assets* issued by the UK Accounting Standards Board. Local authorities will adopt this in 2011-12 (paragraphs 3.14 to 3.16).

Last year, the Board reported that it was pleased to receive reports from the Treasury related to its progress with its Accounting for Sustainability project. The Board was keen to support the initiative and to see further development of sustainability reporting, and the efforts to build links in the public sector to enable this.

This year, the Board was pleased to receive a report from the Treasury on the summarised results of its FReM consultation, which proposed the mandatory introduction of sustainability reports within Annual Reports and Accounts from 2011-12, with a dry run from 2010-11. Sustainability reports for Whitehall bodies aim to cover as a minimum, performance against an entity's sustainable development targets for green house gas emissions, waste minimisation and management and the use of finite resources (water), together with related financial information. The Board agreed the dry run for 2010-11 should proceed as proposed, and agreed in principle with the introduction of sustainability reports from 2011-12, subject to satisfactory performance in the dry run (paragraphs 3.23 to 3.26).

The Board's remit has expanded over time, with subsequent changes in its membership, and there has been no formal review of the FRAB since its inception in 1996. The Board was pleased therefore to receive a proposal from the Treasury to conduct a formal review of the FRAB, and its intention to establish a FRAB review panel to conduct the Review, which will report in autumn 2010. The Board looks forward to the opportunity to consider and comment on any proposals for change resulting from the FRAB Review (paragraphs 4.6 to 4.8).

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ABOUT THE BOARD

Chapter 1

INTRODUCTION

Background to the Financial Reporting Advisory Board

1.1 The Financial Reporting Advisory Board (the Board) is an independent body fulfilling the statutory role as the 'group of persons who appear to the Treasury to be appropriate to advise on financial reporting principles and standards' for government, as required by the Government Resources and Accounts Act 2000.[1] The Terms of Reference of the Board is at Annex B, and details of the Board membership can be found at Annex D.

1.2 The Board acts as an independent element in the process of setting accounting standards for government and exists to promote the highest possible standards in financial reporting by government. In doing so, the Board ensures that any adaptations of, or departures from, generally accepted accounting practice in the public sector context, are justifiable and appropriate.

1.3 The Board's main focus is on examining proposals for amending current, or implementing new, accounting policies in the accounting guidance for central government departments, executive agencies, non-departmental public bodies and trading funds, and for examining the proposals for accounting guidance for local authorities. The Board also advises the Treasury on the implementation of accounting policies specific to Whole of Government Accounts.

Background to the Report

1.4 In accordance with its Terms of Reference, the Board has a responsibility to prepare an annual report of its activities, including its views on the changes made during the report period to accounting guidance that is within the Board's remit.

1.5 The Board is required to send a copy of its report direct to the Committee of Public Accounts and the Treasury Select Committee of the UK Parliament, to the Welsh Assembly Government, the Scottish Ministers and the Department of Finance and Personnel, Northern Ireland.

1.6 The Treasury, the Scottish Ministers, and the Department of Finance and Personnel in Northern Ireland formally lay the Board's report before respectively the House of Commons, the Scottish Parliament, and the Northern Ireland Assembly. The Welsh Assembly Government submits the report to the Audit Committee of the National Assembly for Wales.

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[1] Government Resources and Accounts Act 2000, section 24.

1.7 This is the Board's 13^{th} Report and the Report structure is summarised below.

Report structure

International Financial Reporting Standards

1.8 Chapter 2 of the Report provides information about the activities and views of the Board in relation to its consideration of International Financial Reporting Standards (IFRS) for the public sector.

Financial Reporting developments

1.9 Chapter 3 of the Report addresses those issues in financial reporting, both new and continuing, which will lead to changes in accounting guidance in the future.

Financial Reporting for 2009-10, 2010-11 and other matters

1.10 Chapter 4 of the Report considers all significant changes to the Government Financial Reporting Manual (FReM) for 2009-10 and 2010-11, whether they result from the introduction of new accounting standards, or other sources and considers other matters.

Future events and issues for the Board

1.11 Chapter 5 looks ahead to the next reporting year, and anticipates future events and those issues that the Board will consider.

Summary of IFRS included in the FReM

1.12 Annex A provides a summary of the applicability of individual international accounting standards included in the FReM.

The Terms of Reference of the FRAB

1.13 Annex B provides the detailed revised Terms of Reference for the Board.

Memorandum of Understanding between the relevant authorities

1.14 Annex C provides the Memorandum of Understanding between the relevant authorities for developing financial reporting guidance for the public sector.

Membership of the Board

1.15 Annex D provides information on the Board membership.

About the Board

1.16 Annex E provides general information about the Board.

Chapter 2

INTERNATIONAL FINANCIAL REPORTING STANDARDS

Introduction

2.1 This chapter reports on the Westminster Government's transition to adopt IFRS from financial year 2009-10. The Scottish Government, the Northern Ireland Assembly and the Welsh Assembly Government are following similar preparations for the adoption of IFRS from 2009-10 although they have slightly different reporting deadlines/trigger points. Local Authorities will adopt IFRS from 2010-11 (see Chapter 3).

2.2 This chapter also provides information on recent activities related to the FReM that is applied by central government and the NHS.

The transition to IFRS

2.3 In last year's report, the Board reported on the satisfactory progress made to date (involving trigger points 1 and 2) by the Treasury in implementation of its IFRS trigger point process, introduced to ensure the successful transition of resource accounts to an IFRS basis from financial year 2009-10. The main points of the four-stage trigger-point process are described below.

2.4 Trigger Point 1. By September 2008, all reporting entities were to have completed the restatement of their 31 March 2008 balances onto an IFRS basis and submitted the restatement to the NAO (covered in last year's report).

2.5 Trigger Point 2. By 31 December 2008, the NAO was to have completed its dry-run audit of the opening IFRS balance sheets and reported initial results to reporting entities. Reporting entities were to have copied their NAO reports, together with details of planned actions in response to the NAO's recommendations, to the Treasury by 30 January 2009 (also covered in last year's report).

2.6 Trigger Point 3. During the financial year covered by this report – and by the 10 September 2009, reporting entities were to have completed their IFRS-based 2008-09 shadow accounts and submitted them to the NAO for audit.

2.7 Trigger Point 4. During the financial year covered by this report – and by 31 December 2009, the NAO was to complete its dry-run audit of the IFRS-based 2008-09 shadow accounts, and reported its initial results to reporting entities. Copies of the NAO reports, together with any actions intended as a result of the recommendations made, were to be forwarded by reporting entities to the Treasury by 29 January 2010.

2.8 In this reporting year, the Treasury provided the Board with an update on the further progress made with the transition to IFRS. To ensure that IFRS implementation remained on track, the Treasury had established an IFRS Implementation Steering Group, tasked with managing the final trigger-point stages and to ensure the successful delivery of 2009-10 IFRS based resource accounts.

2.9 On trigger point 3, not all restated departmental accounts were submitted to the NAO by the required deadline, however all were submitted in time to permit the NAO to complete its audit by the 31 December 2009, with very few new IFRS issues identified.

2.10 On trigger point 4, and based on a report produced by the NAO, the Treasury reported on the outcome of the restated 2008-09 resource accounts of all central government departments. The NAO was unable to provide an audit opinion on five resource accounts where departments had not managed to resolve various significant issues. A further four resource accounts received qualified opinions. No significant new IFRS issues had emerged in the audits and it was reported that central government departments were generally well placed to deliver their IFRS-based resource accounts by the summer parliamentary recess. The Treasury continues to work closely with departments and the NAO to resolve remaining IFRS issues. The devolved governments reported that similar satisfactory progress had been made in the transition to IFRS and that they remained on track to deliver IFRS-based accounts for 2009-10.

2.11 The Board was pleased to note that the Treasury and the devolved governments continue to work closely with their departments and audit agencies to resolve remaining IFRS issues, and it was encouraged by the continuing progress to deliver IFRS accounts for 2009-10. The Board looks forward to receiving a report on the results of the process from the Treasury and the devolved governments.

The FReM

2.12 The 2009-10 FReM was the first IFRS-based FReM, published in December 2008 to enable restated resource accounts to be completed for 2008-09. The 2010-11 FReM was published to timetable in December 2009.

2.13 Annex A to this report provides a table containing a quick reference guide to the applicability of individual International Accounting Standards in the FReM. It indicates where, in the public sector context, the Standards have been interpreted, and further indicates those relatively few areas in which the Standards have been adapted.

Recent significant changes to the FReM

2.14 Recent significant advance changes to the 2011-12 FReM were agreed by the Board, and relate to implementing the second stage of the Alignment Project. The changes to the FReM concern the change in the departmental accounting boundary, resulting in an extension of the existing accounting boundary from 2011-12 and changes to the Statement of Parliamentary

Supply, reflecting parliamentary agreement that from 2011-12 Estimates will be based on departmental budgets. Full details are in Chapter 3, paragraph 3.19.

Chapter 3

FINANCIAL REPORTING DEVELOPMENTS

Introduction

3.1 This chapter addresses the developments in financial reporting, both new and continuing, which will lead to changes in accounting guidance in the future. An update on each of the developments considered by the Board is provided below.

Extension of the Board's Remit – Code of Practice on Local Authority Accounting

3.2 In last year's report, the Board confirmed the extension of its remit to include oversight of the Code of Practice on Local Authority Accounting in the United Kingdom with effect from the Code for the financial year 2010-11, when local authorities complete the move to IFRS-based financial reporting.

3.3 The Code applies to all principal local authorities in the United Kingdom, including the Greater London Authority and its functional bodies, together with single purpose local bodies such as police authorities and fire and rescue authorities, in total more than 500 authorities.

3.4 Responsibility for preparing the Code lies with the CIPFA/LASAAC Local Authority Code Board, a joint committee of the Chartered Institute of Public Finance and Accountancy and the Local Authority (Scotland) Accounts Advisory Committee, a committee representing local government, central government and audit interests in Scotland. The membership of the Code Board includes local authority practitioners and representatives of audit bodies, together with observers appointed by central government, the devolved administrations and the UK Accounting Standards Board (ASB).

3.5 From the early 1990's the Code had the status of a Statement of Recommended Practice (SORP) under the ASB. During this period there was significant development of the Code requirements, progressively eliminating differences between local government accounting practice and UK financial reporting standards as well as keeping pace with changes in the standards. Alongside the move to IFRS, it was decided to bring oversight of the Code within the FRAB's remit rather than the ASB, and the 2009 edition was the last to rank as a SORP.

3.6 The extension of the Board's remit also resulted in a number of operational changes to the FRAB. The FRAB terms of reference were revised to reflect changes in membership as a result of the extension of the Board's remit; these are shown at Annex B. A Memorandum of Understanding was also introduced between the relevant authorities (HM Treasury, the Scottish Government, the Northern Ireland Assembly, the Welsh Assembly

Government, the Department of Health, Monitor and CIPFA/LASAAC[2] for developing financial reporting guidance for the public sector and to put the background processes of the Board onto a more formal basis.

3.7 The Memorandum of Understanding, which is shown at Annex C, details the accounting hierarchy that the FReM, the Local Authority Accounting Code and the other manuals are required to follow:

- EU-adopted IFRS[3];
- International Public Sector Accounting Standards;
- UK accounting standards issued by the Accounting Standards Board.

3.8 During the period covered by this report, the Board reviewed the 2010-11 Code of Practice on Local Authority Accounting in the United Kingdom and concluded that it is consistent with International Financial Reporting Standards as applied by the FReM for 2009-10, except for a number of differences as a result of the specific context of local authority accounting that differs in some areas from central government accounting.

Accounting for PPP Arrangements, including PFI

3.9 In last year's report, the Board reaffirmed its previously held view that that accounting for service concessions, including PFI, based on IFRIC 12 *Service Concession Arrangements* was appropriate for the public sector, and guidance was agreed by the Board for inclusion in the FReM from 2009-10. The guidance was also early adopted in the Local Authority SORP for 2009-10. This will, in the Board's view, lead to greater consistency in the accounting of PFI in the public sector.

3.10 During the period covered by this report, the first year in which central government and the NHS will produce IFRS-based accounts, the Board continues to monitor the application of the developed FReM accounting guidance on service concessions. Early indications are that a significant number of PFI schemes that were previously off balance sheet in central government bodies have now been capitalised as a result of the application of the 2009-10 FReM, leading to greater consistency in accounting for PFI between the different parts of the public sector.

The Departmental Boundary

3.11 In past reports, the Board had registered its disappointment that little real progress had been made on the issue of the extension of the departmental consolidation boundary to include Executive Non-Departmental Public Bodies. However, in last year's report, the Board reported that it had received an update from HM Treasury on progress with this issue, with work carried out within the scope of the Treasury's Alignment project.

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[2] The Chartered Institute of Public finance and Accountancy/Local Authority (Scotland) Accounts Advisory Committee Local Authority Accounting Code Board

[3] Taken to include IASs and interpretations of IFRSs and IASs issued by IFRIC or SIC.

3.12 The Treasury had previously proposed in principle that all entities classified to the central government sector by the Office for National Statistics be consolidated into departments' resource accounts. This will result in the consolidation of Executive Non-Departmental Public Bodies and other similar bodies into the departmental boundary, although the Scottish Government had no plans to introduce this change due to legislative issues. The Board had agreed this change in principle, pending the receipt of detailed proposals from the Treasury.

3.13 During the period covered by this report, the Board considered detailed proposals for changes to the FReM under the Alignment project (see paragraphs 3.19 to 3.22), including related to the departmental boundary. The Board confirmed its agreement to the proposal that from 2011-12, the departmental boundary will be based on control criteria used by the Office of National Statistics to determine the sector classification of bodies. This is subject to the inclusion in the FReM of an appropriate explanation that the boundary change is subject to the relevant legislative authority. The Constitutional Reform and Governance Bill received Royal Assent on the 8 April and it included two Alignment clauses relating to the requirement for the consolidation of Executive NDPBs and other central government bodies in to departments' Estimates and Resource Accounts from 2011-12. A dry run is taking place from 2010-11.

Heritage Assets

3.14 In last year's report, the Board noted that the Accounting Standards Board had issued FRED 42 *Heritage Assets*, proposing that enhanced disclosures should apply to all heritage assets, regardless of whether they are reported in the balance sheet.

3.15 In the period covered by this report, the Treasury proposed changes to the 2010-11 FReM to reflect the further developments in accounting for heritage assets. The Treasury proposals reflected the requirements of the new Standard, FRS 30 *Accounting for Heritage Assets* issued by the Accounting Standards Board.

3.16 In reviewing the Treasury proposals, and in applying the accounting hierarchy, the Board noted that there was no International Accounting Standard on heritage assets, from the IASB or IPSASB. The Board therefore agreed the proposals to amend the FReM, directly applying FRS 30. This will be adopted in local authorities in 2011-12.

Whole of Government Accounts (WGA)

3.17 In last year's report, the Board received an update from the Treasury on progress made in developing WGA, receiving a summary of the 2007-08 dry-run process and details of related improvements made in the Treasury's own internal processes. In response to the update, the Board requested the Treasury to confirm whether it had sufficient authority and staff resources to implement the WGA project to timetable. The Board received assurance from the Treasury that on the authority issue, it had made clear to Accounting Officers their responsibility to deliver WGA returns on time, and that the level of WGA resources was being kept under review. The

Board noted that the WGA project remained challenging and that additional work was required to address remaining significant issues.

3.18 During the period covered by this report, the Board was pleased to receive a further update on the progress made in developing WGA. The Treasury provided a summary of its 2008-09 dry run process and its plans for producing an auditable account for 2009-10. The 2008-09 dry run was reported to be a significant improvement on previous dry runs, although the Treasury acknowledged that there were significant challenges ahead. The Board noted that whilst significant challenges remain, it was encouraged by the Treasury's continued progress in developing WGA.

The Alignment (Clear line of Sight) Project

3.19 The Board reported last year that it had agreed in principle to several Alignment project proposals to amend the FReM, subject to receiving detailed papers from the Treasury. These related to:

- The format of the Resource Accounts – changes to the Statement of Parliamentary Supply;
- Changes to the Departmental Boundary;
- The removal of the Cost of Capital Charge from budgets, Estimates and accounts; and
- An adaptation of IAS 36 *Impairment of Assets* (agreed in principle by the Board, with the exception of the Scottish Government nominee).

3.20 In the period covered by this report, the Board reviewed papers from the Treasury detailing its proposed FReM amendments. The Alignment project is being implemented over two years, with full implementation of the major changes taking place in 2011-12, with a dry run in respect of the 2010-11 accounts.

3.21 For the 2010-11 FReM the Board agreed detailed proposals for the first stage of the Alignment project:

- The removal of the Cost of Capital Charge from Resource Accounts;
- The introduction of trust statements to remove a source of misalignment regarding revenue (and some associated expenditure) collected by entities that is due to the Consolidated Fund, and where the entity undertaking the collection is consequently acting as an agent rather than principal on behalf of the Consolidated Fund; and
- An adaptation of IAS 36 *Impairment of Assets* to allow the scoring of all impairments that are caused by a clear consumption of economic benefit to the Operating Cost Statement, thereby regaining alignment between budgets, Estimates and resource accounts that

existed under the UK GAAP based FReM (this was a Board decision agreed by majority).

3.22 For the 2011-12 FReM the Board agreed detailed proposals for the second stage of the Alignment project:

- Changes to the Statement of Parliamentary Supply so that it aligns with the new format of Estimates from 2011-12, which has been agreed by Parliament and which will be based on departmental budgets; and

- An adaptation of IAS 27 *Consolidated and Separate Financial Statements* related to the change in the departmental consolidation boundary (see paragraph 3.13).

Accounting for Sustainability

3.23 In last year's report the Board was pleased to receive reports from the Treasury related to its completion of the first two stages of its Accounting for Sustainability project. Although the draft sustainability guidance presented to the Board was work-in-progress, the Board was keen to support the sustainability reporting initiative and to see the further development of sustainability reporting.

3.24 During the period covered by this report the Treasury reported to the Board the summarised results of its FReM consultation, which proposed the mandatory introduction of sustainability reports within Annual Reports and Accounts from 2011-12, with a dry run from 2010-11.

3.25 The Treasury proposes that sustainability reports cover as a minimum, performance against an entity's sustainable development targets for green house gas emissions, waste minimisation and management and use of finite resources (water), together with related financial information. The environmental reporting requirements for the dry run year and the first year of implementation, i.e. for 2011-12, have been made consistent with reporting required by entities reporting under the Sustainable Development in Government framework until the two reporting requirements converge.

3.26 The Board agreed that the dry run for 2010-11 should proceed as planned for Whitehall bodies (this does not include the devolved nations who will be reporting under their own frameworks), and although it did not agree an amendment to the 2011-12 FReM at this time, it agreed in principle with the introduction of sustainability reports from 2011-12, subject to satisfactory performance in the dry run year.

Accounting for the use of European Funds

3.27 In last year's report, the Board received updates from the Treasury on progress made in developing a chapter for inclusion in the FReM on Accounting for the use of European Funds, due to be introduced from 2010-11. This work originated from the Treasury publication of the first Consolidated Statement on the use of European Funds for 2006-07, in which it was established that entities reporting income and expenditure consolidated into the Statement were not always consistent in their accounting approach. The proposed chapter in the FReM aims to ensure that future accounting is both correct and consistent.

3.28 During the period covered by this report, the Board received a further update on progress made by the Treasury in formulating proposals for revising the existing FReM chapter. The Treasury had consulted on its first re-draft of the FReM chapter, but this had caused some concerns with the devolved governments. Consequently, the Treasury is working on a further revised version of the FReM chapter, which will then be issued for consultation before it brings firm proposals to the Board.

3.29 The Board looks forward to receiving the Treasury's proposals later this calendar year.

Accounting for Capital Grants and similar financing from non-government sources

3.30 During this year, the Board received a paper from the Treasury, that informed the Board that subject to further discussions with departments, and subject to resolving budgetary implications, it intends to put forward firm proposals to amend the FReM so that all non-exchange funding of non-current assets is treated as income by the receiving body, and deferred only where the funder imposes a condition. This proposed change is to remove a misalignment of accounting treatments that currently exists between central and local government. When the Board agreed the local government accounting treatment for 2010-11, this was on the basis that it represented better accounting, and on the understanding that central government would follow the same accounting approach.

3.31 In spring 2010, the Board considered a further paper from the Treasury confirming its proposals to align the accounting for capital grants and similar financing from non-government sources to that previously agreed by the Board and adopted by local government. However, the Treasury proposed that it implement the accounting changes one year later than local government, i.e. from 2011-12, and also proposed additional disclosures within resource accounts in respect of the fixed assets note.

3.32 Although the Treasury's proposal would create a misalignment with Whole of Government Accounts, the Board was satisfied the resultant effect was manageable and temporary, and agreed that the 2011-12 FReM should be amended.

Accounting for Student Loans

3.33 In this reporting year, the Board received a proposal from the Treasury to amend the 2010-11 FReM to remove existing paragraphs from the FReM, related to accounting for student loans. The adoption of IFRS had necessitated a review of the existing accounting treatment for student loans to ensure that it is compliant with IAS 39 *Financial Instruments: Recognition and Measurement*. It was determined by the Treasury that student loans could be accounted for by following the relevant financial instrument standards without adaptation or interpretation.

3.34 The Board agreed the proposal to amend the 2010-11 FReM.

Accounting for Investments outside the Departmental Boundary

3.35 During the period covered by this report, the Board received a request from the Treasury to provide advice on the issue of whether fair value accounting should be applied to certain investments in public sector entities that fall outside the departmental accounting boundary. The FReM requires that investments held in public sector entities outside the departmental boundary be reported at historical cost less any impairment.

3.36 The Board advised the Treasury that the requirement to measure loans, public dividend capital and other interests in public bodies outside the departmental boundary at historical cost, less impairment, should be considered for removal from the FReM, subject to conducting further research on the practical valuation issues in applying IAS 39 *Financial Instruments: Measurement, Recognition and Derecognition*.

3.37 The Treasury is conducting further research on the practical valuation issues concerning public dividend capital and public corporations and will consult further on its proposals, bringing firm proposals to the Board later in the year.

The Pensions Discount Rate

3.38 The Treasury informed the Board that its current approach in setting the discount rate for valuing pension liabilities at the financial year end does not fully comply with IAS 19 *Employee Benefits*, and on the basis that there is no public sector-specific reason to depart from the Standard, it proposed full compliance with IAS 19 from 2010-11. The Board supported the proposal and also agreed that to meet the Supply Estimates preparation timetable, discount rates may be based on corporate bond rates as at 31 December (or later date, if there is a significant movement in Bond rates) rather than the end of the financial year.

Review of Intra Government Balance Disclosures

3.39 During the period covered by this report, and at the Board's request, the Treasury presented a paper that provided the results of a review of the current FReM requirement for disclosure within resource accounts of notes providing intra-government debtor and creditor balances. The Treasury proposed that the disclosure should be retained, as they are important for the purpose of producing WGA.

3.40 The Board reviewed the results of a consultation issued by the Treasury, which had proposed that the existing FReM requirement for the disclosures be retained. On balance, the Board considered that the advantages of retaining the disclosures outweighed any disadvantages, and agreed with the Treasury's proposal to retain the disclosure requirement in the FReM.

Charitable Funds Consolidation under IFRS

3.41 As reported last year, the Board had previously agreed a Treasury proposal to provide a one-year postponement for NHS organisations from the consolidation requirements of IAS 27 *Consolidation and Separate Financial Statements* in respect of their linked charitable funds. The postponement was aimed to permit those affected charitable organisations that may fall to be consolidated under IAS 27, to have the time to review and reorganise their future structure before the 'power to control' test of IAS 27 was applied.

3.42 The Board has further debated the issue, particularly in the light of widely publicised concerns raised by the Charity Commission that the consolidation requirements of IAS 27 may be perceived as conflicting with the independence of charitable bodies. The Board continues to believe that this is not a concern that should properly be attributed to changing accounting arrangements, and which is no different in principle from the wider consolidation requirement in both the private and the public sector for certain entities to be consolidated although they are constitutionally established to act independently of their parent bodies. The Board considers that this is rather a matter for governance and regulation of charities.

3.43 In the period covered by this report, the Board received further specific updates from the Treasury on recent events related to the potential consolidation of charitable funds. The Board was informed that the Treasury had agreed to a further one-year postponement from the application of IAS 27 in respect of those NHS bodies that have linked charitable funds, i.e. for 2010-11. The Treasury had also agreed that a 'Review of NHS-Linked Charities in the context of the government accounting framework' would take place by autumn 2010 to examine the accounting framework relating to NHS charities.

3.44 The Board looks forward to receiving a future update from the Treasury on the outcome of the Review.

Chapter 4

FINANCIAL REPORTING FOR 2009-10, 2010-11 AND OTHER MATTERS

Introduction

4.1 Over this reporting period, the Board agreed significant amendments to the 2009-10 and the 2010-11 versions of the FReM as described below.

The 2009-10 FReM

Re-measurement of in use non-specialised property under IAS 16, *Property, Plant and Equipment*

4.2 The Board agreed a Treasury proposal for the temporary adaptation of IAS 16 in both the 2009-10 and the 2010-11 FReM to permit reporting entities falling within their scope to continue to measure non-specialised property on an existing use basis. This temporary adaptation was agreed to avoid imposing on departments a number of accounting changes in quick succession and will be reviewed when the International Accounting Standard Board issues its Fair Value Standard.

IFRS 8 – *Operating Segments*

4.3 The Board agreed a Treasury proposal to amend the 2009-10 FReM to early adopt revised IFRS 8 requirements due to take effect from financial year 2010-11. This FReM amendment removed the mandatory disclosure for reportable segments to include 'total assets' within resource accounts and reporting entities will only need to include this segment if it is regularly reported to the chief operating decision maker. The Board also agreed the amendment for the 2010-11 FReM.

The 2010-11 FReM

Accounting for Heritage Assets

4.4 The Board agreed Treasury proposals to amend the FReM, directly applying FRS 30 *Accounting for Heritage Assets* issued by the Accounting Standards Board (see Chapter 3, paragraphs 3.14 to 3.16).

Alignment Project

4.5 The Board agreed Treasury Alignment project proposals to amend the FReM in relation to the removal of the Cost of Capital Charge from budgets, Estimates and accounts; the introduction of trust statements and an adaptation of IAS 36 *Impairment of Assets* (see Chapter 3, paragraph 3.21).

FRAB Review

4.6 The Treasury consulted the Board on its proposal to conduct a formal review of the FRAB, and its intention to establish a FRAB Review panel to conduct the Review, which would report in autumn 2010. The Board's views were sought on the focus of the Review and the membership of the Review panel.

4.7 The FRAB welcomed the Treasury's proposal for several reasons, not least that the Board's remit has expanded over time since its inception in 1996, that there has been no formal review of the FRAB since then, and because the FRAB's membership and 'balance' of the Board has changed over time.

4.8 The Board expressed its preference for an 'independent' Chair to head the Review panel and advised that the future needs of the devolved governments from FRAB should be considered in parallel with the Treasury's own future needs from the Board. The Board looks forward to the opportunity to consider and comment on any proposals for change resulting from the FRAB Review.

Chapter 5

FUTURE EVENTS AND ISSUES FOR THE BOARD

Introduction

5.1 The final chapter of this report looks ahead to future events and some of the issues that the Board can expect to consider over the coming year.

5.2 The retirement of the current FRAB, Chair Elwyn Eilledge CBE, on the 3 June and the appointment of a new FRAB Chairman, combined with an impending review of the role and structure of the FRAB, may result in significant changes to the way that the Board is currently structured and operated.

New FRAB Chairman appointed

5.3 Kathryn Cearns was appointed the new FRAB Chairman on the 4 June 2010.

FRAB Review

5.4 In the autumn, the Board anticipates that it will receive a report from the FRAB Review panel on its conclusions and recommendations, and it looks forward to the opportunity to consider and comment on any proposals for change resulting from the FRAB Review (see Chapter 4, paragraphs 4.6 to 4.8).

Local Authority Accounting Code

5.5 In the autumn the Board anticipates that it will received detailed proposals related to the development of the Local Authority Accounting Code, which will apply from financial year 2011-12.

The Alignment Project

5.6 In the autumn, the Board anticipates that it will receive detailed papers from the Treasury on further proposals related to the Alignment project.

Accounting for Sustainability

5.7 During winter 2010, the Board looks forward to receiving an update on progress with the 2010-11 dry run for implementing sustainability reports within Annual Reports and Accounts. It also looks forward to receiving an update from the Treasury on its work to develop guidance for the implementation of external assurance of sustainability reports (see Chapter 3, paragraphs 3.23 to 3.26).

Developments in international accounting standards

5.8 The Board continues to monitor developments in international accounting standards, receiving regular updates from the Secretariat, but is selective in deciding upon those papers for which it will provide a response. Current papers open to consultation issued by the International Accounting Standards Board (IASB) and the International Public Sector Accounting Standards Board (IPSASB) include:

IASB

- Exposure Draft: Financial Instruments: Amortised Cost and Impairment;

- Exposure Draft: Conceptual Framework for Financial reporting: The Reporting Entity;

- Discussion Paper: Extractive Activities; and

IPSASB

- Proposed IPSAS: Service Concession Arrangements: Grantor.

Annex A

SUMMARY OF ACCOUNTING STANDARDS AND INTERPRETATIONS INCLUDED IN THE FReM

The table below provides a quick reference summary of those international accounting standards included in the FReM. The table indicates where the individual standards are applied in full, including as interpreted for the public sector, and those that are adapted.

International Standard/ Interpretation	Applied in Full	Interpreted for public sector	Adapted for public sector
IAS 1 Presentation of Financial Statements	●	●	
IAS 2 Inventories		●	●
IAS 7 Statement of Cash Flows	●		
IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors	●		
IAS 10 Events after the Reporting Period	●	●	
IAS 11 Construction contracts	●		
IAS 12 Income Taxes	●		
IAS 16 Property, plant and equipment		●	●
IAS 17 Leases	●		
IAS 18 Revenue	●		
IAS 19 Employee Benefits		●	●
IAS 20 Accounting for government grants and disclosure of government assistance	●	●	
IAS 21 The effects of changes in foreign exchange rates	●	●	
IAS 23 Borrowing Costs	●	●	
IAS 24 Related party disclosures	●	●	
IAS 26 Accounting and Reporting by Retirement Benefit Plans		●	●
IAS 27 Consolidated and Separate Financial Statements			●

International Standard/ Interpretation	Applied in Full	Interpreted for public sector	Adapted for public sector
IAS 28 Investments in associates			●
IAS 29 Financial reporting in hyper-inflationary economies	●	●	
IAS 31 Interests in joint ventures		●	
IAS 32 Financial Instruments: Presentation	●	●	
IAS 33 Earnings per share	●		
IAS 34 Interim Financial Reporting	●		
IAS 36 Impairment of Assets		●	●
IAS 37 Provisions, Contingent Liabilities and Contingent Assets	●	●	
IAS 38 Intangible Assets	●	●	
IAS 39 Financial Instruments: Measurement, Recognition and Derecognition	●	●	
IAS 40 Investment Property	●	●	
IAS 41 Agriculture	●		
IFRS 1 First time adoption of IFRS	●	●	
IFRS 2 Share based payments	●		
IFRS 3 Business combinations	●		
IFRS 4 Insurance contracts	●		
IFRS 5 Non-current Assets Held for Resale and discontinued operations	●	●	
IFRS 6 Exploration for and evaluation of mineral resources	●		
IFRS 7 Financial Instruments: Disclosures	●	●	
IFRS 8 Operating Segments (was IAS 14 Segmental reporting)	●	●	
SIC 7 Introduction of the Euro	●		
SIC 10 Government assistance – No specific relation to Operating Activities	●	●	
SIC-12 Consolidation – Special Purposes Entities			●
SIC-13 Jointly Controlled Entities – Non-Monetary Contributions by Venturers			●
SIC 15 Operating Leases - Incentives	●		
SIC 21 Income Taxes – Recovery of Non-Depreciable Assets	●		
SIC 25 Income Taxes – Changes in the Tax status of an Entity or its Shareholders	●		

International Standard/ Interpretation	Applied in Full	Interpreted for public sector	Adapted for public sector
SIC 27 Evaluating the Substance of Transactions Involving the Legal form of a Lease	●		
SIC 29 Service Concession Arrangements: Disclosures	●		
SIC 31 Revenue – Barter Transactions Involving Advertising Services	●		
SIC 32 Intangible Assets – Web Site Costs	●	●	
IFRIC 1 Changes in decommissioning, restoration and similar liabilities	●		
IFRIC 2 Members' shares in co-operative entities and similar instruments	●		
IFRIC 4 Determining whether an arrangement contains a Lease	●		
IFRIC 5 Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds			●
IFRIC 6 Liabilities Arising from Participating in a Specific Market-Waste Electrical and Electronic Equipment	●		
IFRIC 7 Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies	●		
IFRIC 8 Scope of IFRS 2	●		
IFRIC 9 Re-assessment of embedded derivatives	●		
IFRIC 10 Interim Financial Reporting and Impairments	●		
IFRIC 11 IFRS 2 – Group and Treasury Share Transactions	●		
IFRIC 12 Service Concession Arrangements	●	●	
IFRIC 13 Customer Loyalty Programmes	●		
IFRIC 14 IAS 19 The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction	●		
IFRIC 15 Agreements for the Construction of Real Estate	●		
IFRIC 16 Hedges of a Net Investment in a Foreign Operation	●		
IFRIC 17 Distribution of Non-Cash Assets to Owners	●		
IFRIC 18 Transfer of Assets from Customers	●		
FRS 30 Heritage Assets	Follows the principles of the standard		

Annex B

THE TERMS OF REFERENCE OF THE FINANCIAL REPORTING ADVISORY BOARD

1 Context

1.1 The primary aims of financial reporting by public sector bodies are to demonstrate to the public and their nominees:

- the financial performance of the bodies;
- their accountability for public funds and assets; and
- that, where appropriate, public monies and other resources have been used for the purposes intended when the funds were authorised;

and to provide to elected nominees information which is reliable and sufficient as a basis for:

- their consideration and approval of the levels of resources and cash voted to services; and
- their examination of performance in carrying out policies, functions, programmes and projects.

1.2 Financial reporting is also intended to underpin the UK Government's planning, monitoring and management of public expenditure.

1.3 The authority to develop financial reporting requirements rests with:

- for the central government and health sectors, the Treasury, the Welsh Assembly Government, the Scottish Ministers and the Department of Finance and Personnel, Northern Ireland in respect of accounts meeting the criteria set out in paragraph 2.1.b. below; and
- for local government, the Secretary of State for Communities and Local Government, the Welsh Assembly Government, the Scottish Ministers, and the Department of the Environment, Northern Ireland.

1.4 Public sector financial reporting should be based on generally accepted accounting practice (GAAP) adapted where appropriate to take account of the public sector context. For Resource Accounts prepared by government departments for which an Estimate is laid before the House of Commons and for Whole of Government Accounts (UK), this requirement is set out in sections 5 and 9 of the Government Resources and Accounts Act 2000. A similar requirement is included in sections 9 and 14 of the Government Resources and Accounts Act (Northern Ireland) 2001.

1.5 Under section 24 of the Government Resources and Accounts Act 2000, the Treasury is required to consult an advisory group on financial reporting principles and standards for resource accounts (in practice, for England and Wales) and Whole of Government Accounts. Under section 20 of the Government Resources and Accounts Act (Northern Ireland) 2001, the Department of Finance and Personnel, Northern Ireland is also required to consult with and take account of the recommendations made by this advisory group before issuing directions on resource accounts or determining the form and content of Whole of Government Accounts (Northern Ireland). The Scottish Ministers, with the agreement of the Audit Committee of the Scottish Parliament, have determined that they should be similarly advised on such matters. The Financial Reporting Advisory Board will be the advisory group.

2. Terms of reference

2.1 Responsibilities of the Board:

(a) The Board will provide independent advice to the Treasury, the Scottish Ministers, and the Department of Finance and Personnel, Northern Ireland.

(b) The Board will advise the Treasury, the Scottish Ministers, the Department of Finance and Personnel, Northern Ireland and the Welsh Assembly Government on the application of financial reporting standards and principles:

(i) where the Treasury, the Department of Finance and Personnel, Northern Ireland and the Welsh Assembly Government are responsible for issuing reporting requirements in respect of:

- Departmental resource accounts
- Supply financed executive agencies
- Non-departmental public bodies
- Trading funds
- Whole of Government Accounts
- NHS trusts in England and Wales, and HSS trusts in Northern Ireland
- NHS Foundation Trusts in England

(ii) where the Scottish Ministers are responsible for issuing reporting requirements in respect of:

- accounts falling under sections 19 and 20 of the Public Finance and Accountability (Scotland) Act 2000[4].
- accounts of executive non departmental public bodies where the Scottish Ministers have the power of direction

[4] Public Finance and Accountability (Scotland) Act 2000 is available from the Stationery Office or can be located on the web at: www.legislation.hmso.gov.uk.

(c) The Board will advise CIPFA/LASAAC[5], which is responsible for developing the Code of Practice on Local Authority Accounting in the United Kingdom (the Code). The Code constitutes a 'proper accounting practice' under section 12 of the Local Government in Scotland Act 2003 and in England and Wales under section 21(2) of the Local Government Act 2003. In Northern Ireland, the Code's status and authority derive from accounts directions under article 24 of the Local Government (Northern Ireland) Order 2005.

(d) The Board will decide how it reaches its conclusions.

(e) The Board's advice to the Scottish Ministers will be restricted to the technical rules of accounting and to minimum disclosure requirements. It will not extend to the format of accounts or to disclosures beyond the minimum requirements.

(f) The Board's advice to the Department of Finance and Personnel, Northern Ireland will incorporate accounting, formatting and minimum disclosure requirements.

(g) The Board will examine all amendments to the guidance in respect of the bodies listed in b and c above, with the aim of ensuring that they comply with GAAP, and that departures or modifications from GAAP, due to public sector and spending control contexts, are fully explained and justified. The Board will also examine, with the same aim, amendments to accounts directions referred to the Board, issued by the Treasury, the Welsh Assembly Government, the Scottish Ministers and the Department of Finance and Personnel, Northern Ireland.

(h) The Board will prepare an annual report of its activities, including its views on the changes made during the period to the accounting guidance, or, as appropriate, accounts directions, issued by the Treasury, the National Assembly for Wales, the Scottish Ministers and the Department of Finance and Personnel, Northern Ireland in respect of bodies listed in 2.1 b. above and the Code, and will send a copy of its report direct to the Committee of Public Accounts and the Treasury Select Committee of the UK Parliament, the Welsh Assembly Government, the Scottish Ministers, and the Department of Finance and Personnel, Northern Ireland.

2.2 The Treasury, (in conjunction with the Department of Health in respect of NHS trusts in England and the Independent Regulator of NHS Foundation Trusts in respect of NHS Foundation Trusts in England), the Welsh Assembly Government, the Scottish Ministers, the Department of Finance and Personnel, Northern Ireland and CIPFA/LASAAC in respect of local authorities in England, Wales, Scotland and Northern Ireland:

(a) will ensure that all relevant matters, including proposed changes to the guidance, or, as appropriate, accounts directions, in respect of

[5] The CIPFA/LASAAC Local Authority Accounting Code Board is a standing committee of the Chartered Institute of Public Finance and Accountancy (CIPFA) and the Local Authority (Scotland) Accounts Advisory Committee (LASAAC).

accounts meeting the criteria in 2.1.b above and the Code, are brought to the Board's attention within a reasonable time. In particular, changes to International Financial Reporting Standards and other elements of GAAP that affect such guidance or accounts directions will, as far as possible, be brought to attention in sufficient time to enable their implementation, as appropriate, within the same timescale as changes are to be made generally;

(b) will examine all issues raised by the Board within its terms of reference;

(c) will consider all advice received from the Board.

2.3 The Treasury, the Scottish Ministers, and the Department of Finance and Personnel, Northern Ireland, will formally lay the Board's report before the House of Commons, the Scottish Parliament and the Northern Ireland Assembly respectively. The Welsh Assembly Government submits the report to the Audit Committee of the National Assembly for Wales.

2.4 The Treasury will provide the secretariat to the Board.

3 Membership

3.1 The Board will comprise:

An independent Chairman, nominated by the Chief Accountancy Adviser to the Treasury, and in respect of future appointments, in agreement with the Scottish Ministers, the Department of Finance and Personnel, Northern Ireland and the Department for Communities and Local Government.

1 member nominated by the Treasury (a Treasury Official)

1 member nominated by the Scottish Ministers

1 member nominated by the Department of Finance and Personnel, Northern Ireland

1 member nominated by the Welsh Assembly Government

1 member nominated by the Comptroller and Auditor General

1 member nominated by the Auditor General for Scotland

1 member nominated by the Audit Commission

3 members nominated by the Finance Directors of UK government departments to represent respectively departments, trading funds, and non-departmental public bodies.

1 member nominated by the Department of Health

1 member nominated by the Executive Chair of Monitor, the Independent Regulator of NHS Foundation Trusts

1 member nominated by the National Statistician

1 member nominated by the Accounting Standards Board

1 member, an independent economist, nominated by the Head of the Government Economic Service.

1 independent member nominated by the Chief Accountancy Advisor to the Treasury and approved by the Chairman.

1 member, a nominee of the secretariat to the CIPFA/LASAAC Local Authority SORP Board, nominated by the Chartered Institute of Public Finance and Accountancy.

1 member nominated by the Department for Communities and Local Government.

1 local authority accounts preparer, nominated by CIPFA/LASAAC from its membership.

3.2 Members will normally be appointed for five year, renewable, terms.

3.3 The Board will meet as required in each year to discuss matters relating to financial reporting as they arise.

Annex C

DEVELOPING FINANCIAL REPORTING GUIDANCE FOR THE PUBLIC SECTOR: MEMORANDUM OF UNDERSTANDING BETWEEN THE RELEVANT AUTHORITIES

1. The Financial Reporting Advisory Board (FRAB) is responsible for providing independent advice to the relevant authorities on financial reporting principles and standards. The "relevant authorities" for this purpose are The Treasury in respect of central government, the Scottish Government, the Northern Ireland Assembly and the Welsh Assembly Government in respect of central government and the health sector in their territories, the Department of Health and Monitor in respect of the health sector in England, and CIPFA/LASAAC[6] in respect of local authority accounts across England, Wales, Scotland and Northern Ireland.

2. This Memorandum of Understanding sets out the operational arrangements for developing financial reporting guidance for the public sector.

Financial reporting guidance for the public sector

3. Financial reporting guidance for the public sector is based on EU-adopted International Financial Reporting Standards (IFRS), adapted as necessary for the public sector context. Financial reporting guidance for the UK public sector is set out in:

- the Financial Reporting Manual (FReM) for government departments and their arms length bodies;
- the NHS Accounting Manuals for the NHS;
- the FT FReM for Foundation Trusts; and
- the Code of Practice on Local Authority Accounting in the United Kingdom (the Code).

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[6] The Chartered Institute of Public Finance and Accountancy/Local Authority (Scotland) Accounts Advisory Committee Local Authority Accounting Code Board

Due Process

The FRAB Working Group

4. The relevant authorities ensure that the financial reporting guidance set out in the manuals and the Code is kept up to date.

5. The relevant authorities shall establish a FRAB Working Group whose membership shall comprise:

   - the Secretaries of the FRAB and CIPFA/LASAAC; and
   - nominees from each of the other relevant authorities.

   The Group shall be chaired by the FRAB Secretary, and its members shall be approved by the FRAB.

6. When proposing amendments to the FReM or, for the Code and other manuals, adoption of a divergence from IFRS and/or the FReM, the relevant authority shall discuss those proposals with the FRAB Working Group.

7. The Working Group shall consider the proposals for consistency across the public sector, or seek reasons for sector-specific differences being proposed.

8. The nominees from CIPFA/LASAAC and the devolved administrations shall advise of any impacts the proposals might have on Council Tax and whether there are acceptable alternative treatments.

Public consultation

9. Once discussed by the Working Group, the relevant authority shall consult publicly on the proposal. Where the proposal will be considered by the FRAB without deliberation by any other body, the proposal shall be published by the FRAB Secretariat in a FReM Exposure Draft (FED). Each FED shall be numbered and the FRAB secretariat shall be responsible for maintaining a FED register.

10. Where the proposal will instead be considered by another body as part of its Due Process (for example, CIPFA/LASAAC), the proposal shall be published in a suitable document for the purpose.

11. The public consultation shall comprise placement on the relevant authority's website and by targeted circulation or consultation as appropriate. The public consultation period shall be eight weeks.

12. The relevant authority shall, except where respondents have requested confidentiality, place responses on their websites.

Papers considered by the FRAB or other bodies

13. The relevant authorities shall analyse and summarise the responses in the paper that is taken either to the FRAB for approval or, where a separate body (for example, CIPFA/LASAAC) deliberates, to that body. Only where the responses to the consultation do not support the proposal should the FRAB Working Group be consulted again.

14. The FRAB secretariat shall aim to distribute papers to FRAB members at least one week prior to the meeting date. Other bodies (for example, CIPFA/LASAAC) need to build into their Due Process arrangements an allowance for adherence to this timetable.

15. Papers for meetings of the FRAB and the other bodies shall be published on the relevant authority's website together with the minutes for those meetings, once these have been agreed at the next meeting.

16 Where a separate body considers the responses to its consultation, that body shall be responsible for agreeing the content of the manuals or Code. That separate body shall present for approval to the FRAB:

- the full and final text of the manuals or Code prior to its being issued for the first time; and, thereafter
- a list of differences between the manual or Code and the FReM.

17. Where requested, the FRAB Chairman shall provide a letter to the separate body summarising the results of FRAB's considerations of the proposals under paragraph 16.

Implementation dates

18. The version of the FReM for financial years starting on 1 April shall be available by the preceding 1 January and shall incorporate all IFRS effective as at that date – that is, 15 months before the end of the financial year to which the FReM relates. The relevant versions of the other manuals and the Code shall be available by 1 April for the financial year starting on that day and ending on the following 31 March. Exceptions in respect of the NHS Accounting Manuals, the FT FReM and the Code may be made to this general rule, with the agreement of the FRAB, where additional time is needed to change charging regimes or regulations in order to mitigate the potential impact of guidance changes on Council Tax.

Hierarchy

19. The manuals and the Code shall be prepared using the following hierarchy:

- EU-adopted IFRS[7];
- International Public Sector Accounting Standards;
- UK accounting standards issued by the Accounting Standards Board.

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[7] Taken to include IASs and interpretations of IFRSs and IASs issued by IFRIC or SIC.

Influencing the development of accounting standards

20. The secretariats of the FRAB and CIPFA/LASAAC shall monitor the activities of the International Accounting Standards Board (IASB) and the International Public Sector Accounting Standards Board (IPSASB). The two secretariats shall, working together, prepare analyses of relevant Discussion Papers and Exposure Drafts issued by either standard setter, for discussion with the FRAB Working Group. The Working Group shall determine whether or not to recommend that the FRAB submit a response to the IASB or IPSASB. In the event that a response is required, the Working Group shall also discuss the draft of the response before it is considered by the FRAB.

Review

21. This Memorandum of Understanding shall be reviewed every two years or at the request of one of the relevant authorities.

Signatures

22. Signed on behalf of the relevant authorities:

Ken Beeton
Director, Financial Management and Reporting
The Treasury

Alyson Stafford
Finance Director
Scottish Government

Dr Christine Daws
Finance Director
Welsh Assembly Government

Jeff Tomlinson
Deputy Director of Group Financial Accounting
Department of Health

David Thomson
Treasury Officer of Accounts
Department of Finance and Personnel
Northern Ireland Assembly

Stacey George
Finance and Procurement Manager
MONITOR

Ian Carruthers
Policy and Technical Director
For CIPFA/LASAAC Secretariat

Annex D

MEMBERSHIP OF THE BOARD

1.1 The membership of the Board reflects the relevant spread of interests, as well as ensuring its independence and accounting expertise. Board membership during this reporting period comprised:

Chairman:

Elwyn Eilledge, CBE. Former positions include Director of BG Group plc, Chairman of BTR plc, Senior Partner of Ernst and Young and Member of the Accounting Standards Board and Financial Reporting Council.

Members:

Ian Carruthers. Policy and Technical Director, CIPFA

Miranda Carter. Assessment Director, Monitor.

Peter Davies. Assistant Head of Finance, Monmouthshire County Council.

Dr Christine Daws. Director of Finance, Welsh Assembly Government (until December 2009).

Janet Dougharty. Deputy Director Analysis & Capital Finance, DCLG.

Martin Evans. Managing Director, Audit, Audit Commission.

Russell Frith. Director of Audit Strategy, Audit Scotland.

Ieuan Griffiths. Director of Finance and Strategy, Driver and Vehicle Licensing Agency.

Professor David Heald. Professor of Accountancy, University of Aberdeen Business School (until July 2009).

Martin Kellaway. Head of National Accounts Classification, Office for National Statistics (from October 2009).

Ian Mackintosh. Chairman, Accounting Standards Board.

Fenella Maitland-Smith. Deputy Director: National Expenditure and Income, Office for National Statistics (until March 2009).

Janet Perry. Deputy Director, Department of Health.

Nigel Reader, CBE. Director of Finance, Environment Agency (until October 2009).

Beth Russell. Team Leader General Expenditure Policy, HM Treasury.

Martin Sinclair. Assistant Auditor General, National Audit Office.

Alyson Stafford. Finance Director, Scottish Government.

Jon Thompson. Director General Finance, Ministry of Defence.

David Thomson. Treasury Officer of Accounts, Northern Ireland (Department of Finance and Personnel) (until December 2009).

Ken Wild. Partner, Deloitte LLP, former member of both the International Financial Reporting Interpretations Committee and the Accounting Standards Board.

Parliamentary observer:

Robert Flello, MP.

Alternates:

During the reporting period, the following have served as alternates to Members:

Andrew Baigent for Martin Sinclair.

David Bailes for Beth Russell.

Bob Branson for Nigel Reader.

Sam Caughey for Beth Russell.

Diana Davey for Jon Thompson.

Sharon Davies for Ieuan Griffiths.

Jason Dorsett for Miranda Carter.

Simon Fiander for Robert Flello.

Stacey George for Miranda Carter.

Lynn Hine for Peter Davies.

David Hobbs, acting as ONS representative.

Mike Langley for Martin Evans.

Andrew Lennard for Ian Mackintosh.

Peter Ryland for Christine Daws.

Ann Searle for Nigel Reader and as acting NDPB/Environment Agency representative.

Martin Sollis for Christine Daws.

Kerry Twyman for Alyson Stafford.

Steve Warren for Martin Evans

Secretariat:

Secretary:

Larry Pinkney.

Secretariat support:

Mangai Rajasingham.

Christine Ruston (until October 2009)

Sarah Solomon.

Guests

1.2 Paul Mason, Colin Stratton and Dave Baldam, from CIPFA, presented papers covering initial draft chapters for inclusion in the IFRS-based 2010-11 Code of Practice on Local Authority Accounting.

Annex E

ABOUT THE BOARD

1 Independence of the Board

1.1 The Board was established by the Treasury to provide independent advice on financial reporting principles and standards. The Treasury hosts the Board's meetings, provides a small Secretariat and bears the minimal costs of the Board. Such arrangements do not compromise the Board's independence and, indeed, are common to nearly all such groups.

1.2 As an independent body (recognised as such by the Office for National Statistics), the Board has been added to the list of bodies in Schedule 1 of the Freedom of Information Act 2000[8].

2 Publication Scheme

2.1 The FRAB complies with the model publication scheme produced by the Information Commissioner in 2008. The FRAB web pages are the source of all information covered by the model publication scheme. This includes its reports, its terms of reference, membership details, publication scheme and its press notices as well as Board minutes and associated papers. The Board minutes and associated papers are posted on the website once the Board has approved the minutes of the meeting.

3 Evolution of the Board's coverage

3.1 The table below shows how the Board's remit has extended in the years following its establishment.

AREA	YEAR REMIT EXTENDED
Established	1996
NDPBs and Trading Funds	1999-2000
Scottish Executive	2001-02
Northern Ireland Executive	2001-02
NHS Trusts in England	2001-02
NHS Trusts in Wales	2003-04
NHS Trusts in Northern Ireland	2003-04
NHS Foundation Trusts	2004-05
Local authority accounts across England, Wales, Scotland and Northern Ireland	2010-11

[8] The Freedom of Information Act 2000 is available from the Stationery Office or can be located on the web at www.opsi.gov.uk/legislation.

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