



14th Report *of the* **Financial Reporting** **Advisory Board**

Report for the period
April 2010 to March 2011

FINANCIAL REPORTING ADVISORY BOARD

Report for the period April 2010 to March 2011

This report of the Financial Reporting Advisory Board has been prepared in accordance with Section 24(3) of the Government Resources and Accounts Act 2000 and Section 20(2) of the Government Resources and Accounts Act (Northern Ireland) 2001

Presented to the House of Commons pursuant to Section 24(4) of the Government Resources and Accounts Act 2000

Laid before the Northern Ireland Assembly under Section 20(3) of the Government Resources and Accounts Act (Northern Ireland) 2001 by the Department of Finance and Personnel

The report is laid before the Scottish Parliament and presented to the Audit and Finance Committees of the Scottish Parliament by agreement with the Scottish Ministers

The report is submitted to the Audit Committee of the National Assembly for Wales by the Welsh Assembly Government

Ordered by The House of Commons to be printed 30 June 2011

HC 1076

SG/2011/111

London: The Stationery Office

£15.50

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This publication is available for download at www.official-documents.gov.uk.
This document is also available from our website at http://hm-treasury.gov.uk/psr_frab_index.htm

ISBN: 9780102971729

Printed in the UK by The Stationery Office Limited
on behalf of the Controller of Her Majesty's Stationery Office

ID 2432788 12716 06/11

Printed on paper containing 75% recycled fibre content minimum.

Chairman's Foreword

My first year as Chairman of the Financial Reporting Advisory Board (the Board) has been every bit as interesting and challenging as I imagined. As an advisory body to the Treasury and the other Relevant Authorities, and in accordance with its remit, the Board has focused primarily on ensuring it provides the right advice to all the Relevant Authorities, to ensure that a high standard of financial reporting is achieved and maintained by the Government.

Since the Board's inception in 1996, there have been major changes to its remit and structure. Until now, there was no formal review undertaken of the Board's future role, structure or operational processes. It is timely then that during my first year as Chairman, an independent review of the Board has taken place addressing these issues. The results of this review provides me and the other members of the Board with the relevant information, and the opportunity, to ensure that any necessary actions are taken to ensure that the Board remains fit for purpose going forward. Whilst the results of the review are currently under consideration, it is anticipated that any changes necessary to the Board's structure or operational processes will be implemented from the autumn of this year. This will ensure that going forward the Board continues to operate effectively and efficiently. I would like to extend my personal thanks to Peter Wyman CBE for his extremely effective chairmanship of the Review Group.

Following on from last year's reported progress on the Government's transition to International Financial Reporting Standards (IFRS), I am pleased to report that the transition to IFRS from financial year 2009-10 was successfully completed. This was a significant achievement and represents a substantial effort over a prolonged period of time. An exception is the Board's concerns over the recent decision taken by the Relevant Authorities with central government and health sector interests to postpone, for two further years, the consolidation requirements of IAS 27 *Consolidated and Separate Financial Statements* to NHS charities. This is a decision with which the Board disagrees. The Board is also concerned about the manner in which the decision was taken, which should not be regarded as setting a precedent. It is expected that, in future, the Board will be consulted on matters within its remit before a decision is taken.

Having provided its advice related to the preparation of the first set of IFRS based Whole of Government Accounts (WGA), for 2009-10, the Board looks forward to seeing the results of the process as the accounts are published later this calendar year. The Board welcomes the additional accountability and transparency these accounts will provide to stakeholders, including to Parliament. The Board looks forward to reviewing WGA, and to the opportunity, where relevant, to providing its advice on how financial reporting in the public sector may be further improved.

In the past, the Board has advised the Treasury in respect of its Alignment (Clear Line of Sight) project in respect of the introduction of changes to the Government Financial Reporting Manual, to achieve alignment of budgets, Estimates and accounts and to streamline financial reporting documents. The Board welcomes

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accounts and to streamline financial reporting documents. The Board welcomes the introduction of the major changes introduced from financial year 2011-12, which will result in increased accountability and transparency for users of these government produced publications.

The proposed introduction of sustainability reports within Annual Reports and Accounts continues to be an interesting and topical issue for the Board. It looks forward to receiving final proposals from the Treasury later this calendar year on the scope and form of reporting proposed for financial year 2011-12.

Looking forward, one of the significant challenges facing public sector financial reporting is keeping pace with the flow of changes, some very significant, expected to financial reporting standards issued by the accounting standards setters. The Board continues to monitor developments in this area, particularly where they may have a significant impact on public sector financial reporting. The Board remains well placed to provide the right advice to the Relevant Authorities, to help ensure that a high standard of financial reporting is maintained in the public sector.

Finally, I pay tribute to my predecessor, Elwyn Eilledge CBE, for his long service as FRAB Chairman and for the significant contribution he made to improving financial reporting by the Government. Similarly, I also acknowledge the significant and personal contributions made by Ken Wild OBE and Martin Sinclair, two of the Board's longest serving members, who stepped down from the Board as I assumed my appointment.

Kathryn Cearns

30 June 2011

Executive Summary

This is the fourteenth report of the Financial Reporting Advisory Board (the Board). The Board's primary objective is to promote the highest 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 2010 to March 2011. It reports on the outcome of a Review of the Board conducted by the FRAB Review Group, on the final aspects of the Government's transition to international financial reporting standards (IFRS), and other specific financial reporting developments in the public sector. The report also looks ahead to future issues that will be considered by the Board over the coming year. The following paragraphs summarise the key points covered in the report.

Last year's report reflected on the intention to form a FRAB Review panel, to be tasked with conducting a formal review of the FRAB, and to produce a report providing its conclusions and recommendations. In this reporting year, a FRAB Review Group was formed with an independent Chairman, Peter Wyman CBE, to conduct a review of the FRAB's future role, structure and operational arrangements. The Review Group issued a consultation document in October 2010 inviting views on the preliminary views it had reached. The Review Group concluded its work and issued its report at the end of January 2011 to the FRAB and the Relevant Authorities. In its report, the Review Group concluded that the FRAB operates efficiently and effectively and has made a significant contribution over the years in raising the standard of financial reporting by the Government. However, the Review Group made a number of recommendations relating to the FRAB's future role, structure and operational arrangements, with the aim of ensuring it remains fit for purpose. The report findings and recommendations, and their implications, are being considered by the Board and the Relevant Authorities (Chapter 2).

Previously, the Board has reported that the central government and NHS move to IFRS from 2009-10 represented a major challenge to all concerned, and a task that should not be underestimated. The Board is therefore pleased to report that, other than for the concerns it has related to the repeated postponement of IAS 27 *Consolidated and Separate Financial Statements* for NHS organisations, central government, the NHS and the devolved governments successfully completed the move to IFRS. This represents a major achievement. Local Authorities complete the move to IFRS based accounts from 2010-11, but there remains a risk that a number of local authorities may not be able to fully comply with the 2010-11 IFRS based Code of Practice on Local Authority Accounting. The Board notes that much work remains to be done (paragraphs 3.1 to 3.12).

The report reflects that the 2011-12 FReM and the Code of Practice on Local Authority Accounting were published to timetable. In its review of the finalisation of the Manuals, the Board continues to exercise due diligence in ensuring that any

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departures from IFRS in the public sector context are justified and fully explained (paragraphs 3.13 to 3.15 and generally, Chapter 5).

The Board has considered several public sector financial reporting developments during the year, both continuing and new, which will lead to future changes to accounting guidance (see, generally, Chapter 4).

Following the move to IFRS by central government and the NHS, the first published Whole of Government accounts will be for financial year 2009-10. The Board was pleased to receive regular reports from the Treasury on its progress with the 2009-10 accounts and on the preparations for the 2010-11 accounts. Having reviewed the text of the WGA chapter in the FReM, the Board looks forward to seeing the results of the WGA process (paragraphs 4.2 to 4.4).

In this report, the Board draws attention to the previously agreed major changes to the FReM for 2011-12 under the Alignment project, relating to changes to the Statement of Parliamentary Supply and an adaptation of IAS 27 *Consolidated and Separate Financial Statements* related to the change in the departmental consolidation boundary. In this reporting year, the Board also agreed a further related Alignment amendment to the FReM for 2011-12 in respect of accounting for tax credits (paragraphs 4.5 to 4.7).

In previous reports, the Board was pleased to receive regular reports from the Treasury related to its progress with its Accounting for Sustainability project. This year, the Board was pleased to receive a further update on progress made, including on the launch of dry run sustainability reporting for 2010-11, together with the parallel issue of sustainability reporting guidance to facilitate the completion of dry run sustainability reports. The Board notes that work is proceeding on the preparation of sustainability reporting guidance for 2011-12, based on the Greening Government commitments, and looks forward in the autumn to a further update from the Treasury on the final results of the 2010-11 dry run, and on the finalised sustainability reporting guidance for 2011-12 (paragraphs 4.8 to 4.11).

The Board received a further update from the Treasury on progress with the Review of Accounting for NHS linked charities. The Review Group's report recommended the application of IAS 27 *Consolidated and Separate Financial Statements*, but also recommended that the Relevant Authorities consider the deferral of the implementation of the Standard, for possibly up to three years from 2011-12. A dissenting report from some members of the Review Group recommended that there be exemption from applying the Standard, but if not feasible, then deferral in line with the main report was proposed. Following consideration of the reports by the Relevant Authorities, the Board was informed that the Relevant Authorities with central government and health sector interests have decided to defer the application of IAS 27 to 1 April 2013. The Board is very concerned at this outcome for several reasons, as detailed in this report (paragraphs 4.14 to 4.21).

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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 Government Resources and Accounts Act 2000, section 24.

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- 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.
- 1.7 This is the Board's 14th Report and the Report structure is summarised below.

Report structure

Review of the FRAB

- 1.8 Chapter 2 of the Report considers the review of the FRAB.

International Financial Reporting Standards

- 1.9 Chapter 3 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

- 1.10 Chapter 4 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 2010-11, 2011-12, 2012-13 and other matters

- 1.11 Chapter 5 of the Report considers all significant changes to financial reporting for 2010-11, 2011-12 and 2012-13, whether they result from the introduction of new accounting standards or other sources, and considers other matters.

Future issues for the Board

- 1.12 Chapter 6 looks ahead to the next reporting year, and anticipates those issues that the Board will consider.

Summary of IFRS, Interpretations and Adaptations, included in the FReM

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

The Terms of Reference of the FRAB

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

Memorandum of Understanding between the Relevant Authorities

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

Membership of the Board

1.16 Annex D provides information on the Board membership.

About the Board

1.17 Annex E provides general information about the Board.

Summary of recommendations from the Report on the Review of the FRAB

1.18 A summary of the report's recommendations can be found at Annex F.

Chapter 2

REVIEW OF THE FRAB

Introduction

- 2.1 In last year's report, it was reported by the Board that it had been consulted by the Treasury on the proposal to conduct a formal review of the FRAB, and the establishment of a FRAB Review panel to conduct the review.
- 2.2 The FRAB welcomed the review for several reasons, not least that the Board's remit has expanded over time since the Board's inception in 1996, and without any formal review being undertaken since then. Also of significance, the FRAB's membership has increased and the 'balance' of the Board has also changed over time.
- 2.3 The Board expressed its preference for an independent Chairman 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 and other Relevant Authorities' needs from the Board.

FRAB Review Group - consultation

- 2.4 A FRAB Review Group (Review Group) was formed to conduct a time limited review of the future role, structure and operational arrangements of the FRAB, and the panel comprised:
- Peter Wyman CBE Chairman
 - Ken Beeton Representing the Head of the Government Finance Profession;
 - Chris Wobschall HM Treasury;
 - Kathryn Cearns FRAB Chairman;
 - Andrew Baigent Representing the Comptroller & Auditor General;
 - Ian Carruthers CIPFA/LASAAC;
 - Alyson Stafford Scottish Government (representing the Devolved Administrations); and
 - Janet Perry Department of Health.

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2.5 In conducting its review, the Review Group issued a consultation document² in October 2010, providing a three month consultation period to FRAB's stakeholders, and inviting views on the preliminary views it had reached, including related to:

- The FRAB's current role and determining its future role;
- The importance of the FRAB's actual and perceived independence;
- The FRAB's membership and the conduct of its meetings;
- The FRAB's terms of reference; and
- The operational arrangements of the FRAB.

FRAB Review Group – report findings and recommendations

2.6 The Review Group concluded its work and issued its report³ at the end of January 2011 to the Board and to the Relevant Authorities. In its findings, the Review Group considers that the FRAB operates effectively and has made a significant contribution over the years in raising the standard of financial reporting by the Government. However, the Review Group agrees with the views expressed by some respondents to the consultation, that there should not be any complacency. It has, therefore, made appropriate recommendations relating to the FRAB's future role, structure and operational arrangements, with the aim of ensuring it remains fit for purpose. A summary of the Review Group's recommendations is at Annex F to this report.

Implications of the FRAB Review

2.7 Following the receipt of the report on the review of the FRAB, the Board and the Relevant Authorities are considering the implications of the recommendations made.

2.8 The Relevant Authorities have provided their preliminary views on the report's recommendations, which have been discussed by the Board. Following the finalisation of the views of the Relevant Authorities over the summer, the Board will consider the implications of the review further in October, after which, some change to the Board's structure and operational arrangements are expected to be implemented.

² The consultation document can be accessed at www.hm-treasury.gov.uk/psr_frab_review.htm

³ The report can be accessed at www.hm-treasury.gov.uk/psr_frab_review.htm

Chapter 3

INTERNATIONAL FINANCIAL REPORTING STANDARDS

Introduction

- 3.1 This chapter reports on the Westminster Government's final aspects of its transition to adopt IFRS from financial year 2009-10. It also covers progress with Local Authorities adoption of IFRS from 2010-11 (see below). The devolved governments followed similar preparations to central government and the NHS for the adoption of IFRS from 2009-10, and this is also covered (see below).
- 3.2 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

Central Government and the NHS

- 3.3 In last year's report, the Board reported that it was encouraged by the continuing progress made by central government and the NHS towards resolving remaining IFRS issues and towards delivery of IFRS based accounts for 2009-10.
- 3.4 In this reporting year, the Treasury provided a final update on the move to IFRS for the 2009-10 accounts. The Board was pleased to learn that the process for the production and laying of accounts before Parliament had gone very well, with only one department's accounts qualified as a result of the move to IFRS. A similar satisfactory picture was reported in respect of the production of IFRS based accounts for departments' arms length bodies.
- 3.5 However, the Board notes that the application of the consolidation requirements of IAS 27 *Consolidated and Separate Financial Statements* has been postponed on a number of occasions for NHS organisations, first for 2009-10, with a subsequent extension then being granted for 2010-11 (see Chapter 4, paragraph 4.14). The Board was informed that the Relevant Authorities with central government and health sector interests have taken the decision to defer the application of IAS 27 to 1 April 2013. The Board is concerned about this outcome for several reasons, as detailed in this report (paragraphs 4.14 to 4.21).

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- 3.6 In a previous report, the Board had commented that the move to IFRS by central government bodies and the NHS was a major challenge to all concerned, and that the task should not be underestimated, given the private sector experience of moving to IFRS. The successful completion of the central government and the NHS move to IFRS (subject to the point noted at paragraph 3.5 above for NHS organisations) is therefore a major achievement. This is particularly so for the entities that produced the accounts, but also for the Treasury which provided accountancy support and managed the transition process, and for the National Audit Office and the Audit Commission and its appointed auditors, which met the challenging audit timetable. Also acknowledged are the efforts of the Department of Health, Monitor and the Ministry of Justice, all of whom helped smooth the transition to IFRS in their sectors. Without the high level of professionalism and close co-operation that existed between these entities, the task would have been significantly more difficult.
- 3.7 The significant tasks now facing central government and the NHS are for both of them to stay abreast of the significant changes to IFRS that are due to take place over the short to medium term, and for the NHS to resolve the consolidation issue referred to above, to ensure that accounts remain (or are fully) IFRS compliant. This includes, and is subject to, any future adaptations or interpretations that may be considered in the public sector context.
- 3.8 The Board also looks forward to receiving a further update on progress with delivery and publication of the IFRS based WGA accounts for 2009-10 (see Chapter 4, paragraph 4.2).

Devolved governments

- 3.9 Similar to central government and the NHS, the devolved governments also successfully achieved the transition to IFRS from 2009-10, with only one account receiving an IFRS related qualification. This is a very creditable result for all those involved.

Local Government

- 3.10 Local authorities move to IFRS based accounts from 2010-11. However, the IFRS standards on financial instruments and IFRIC 12 accounting for PPP schemes were implemented early to ease the transition to IFRS, and to reduce risk. This was particularly important, as it had not been possible to adopt a milestone approach for the transition, as employed by central government and the NHS.
- 3.11 The Board has received several reports on progress with the implementation of IFRS by local authorities, but there remains a risk that a number of authorities may not be able to fully comply with the IFRS based Code of Practice on Local Authority Accounting for 2010-11.

- 3.12 The Board notes that despite the significant progress made towards the transition to IFRS, much work remains to be done with an increase in the number of authorities that have significant issues that are yet to be fully resolved at January 2011 in comparison with the position as at July 2010. The Board looks further to receiving a further update later in this calendar year.

The FReM

- 3.13 The 2011-12 FReM was published to timetable in December 2010, following review by the Board.
- 3.14 Annex A to this report provides a table containing a quick reference guide to the applicability of individual International Financial Reporting Standards in the FReM. It indicates where, in the public sector context, the Standards have been interpreted, and further indicates those relatively few Standards and interpretations of which certain limited aspects have been adapted in the public sector context.

Significant Changes to the FReM

- 3.15 Significant changes to the 2011-12 FReM previously agreed by the Board related to the implementation of the second stage of the Alignment Project, resulting in an extension of the accounting boundary and changes to the Statement of Parliamentary Supply, reflecting that from 2011-12, Whitehall Parliamentary Estimates will be based on departments budgets (for further details see Chapter 4, paragraph 4.6).

Chapter 4

FINANCIAL REPORTING DEVELOPMENTS

Introduction

- 4.1 This chapter addresses the developments in financial reporting in the public sector, 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. These developments are separate from, and in addition to, future developments in the requirements of IFRS Standards and Interpretations (see Chapter 6, paragraphs 6.6 and 6.7).

Whole of Government Accounts (WGA)

Progress with WGA

- 4.2 In the Board's last report, it commented on the latest updates received from the Treasury on its progress with developing WGA. This covered progress with the 2008-09 WGA dry run process and the Treasury's plans for producing an auditable account for 2009-10. The Board was encouraged by the progress reported.
- 4.3 During the period covered by this report, the Board was pleased to receive further information on the development of WGA. The Treasury provided an update on its preparations for preparing and publishing the first set of Whole of Government Accounts, for 2009-10, and its initial work on preparations for WGA for 2010-11.
- 4.4 Having reviewed the text of the WGA chapter in the FReM, the Board looks forward to seeing the results of the WGA process.

The Alignment (Clear line of Sight) Project

Major changes for 2011-12

- 4.5 The Board reported last year that it had reviewed papers from the Treasury detailing a number of FReM amendments related to the Alignment project. The project is being implemented over two years (although the Scottish Government has no plans to introduce the changes due to legislative issues), with full implementation of the major changes taking place from 2011-12, following the dry run in respect of the 2010-11 accounts.
- 4.6 The major changes from 2011-12 relate to:

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- Changes to the Statement of Parliamentary Supply so that it aligns with the new format of Estimates from 2011-12, as agreed by Parliament and which are now based on departmental budgets; and
- An adaptation of IAS 27 *Consolidated and Separate Financial Statements* related to the change in the departmental consolidation boundary.

Accounting for Tax Credits

4.7 In the period covered by this report, the Board agreed a further amendment to the 2011-12 FReM to improve the way that tax credit payments are accounted for in accounts, which has arisen from the way in which national insurance contributions are received by HMRC and paid to the NHS, to part fund its costs.

Accounting for Sustainability

4.8 In the period covered by last year's report, the Board was pleased to receive updates from the Treasury on developments with its Accounting for Sustainability project.

4.9 The Treasury provided 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 proposed from 2010-11. The Board agreed that the 2010-11 dry run should proceed as planned for Whitehall bodies (not including the devolved governments who will report under their own frameworks), and agreed in principle with the proposal to introduce sustainability reports from 2011-12, subject to an evaluation of the dry run experience.

4.10 In the period covered by this report, the Treasury provided further updates on developments with Accounting for Sustainability. The 2010-11 dry run received Treasury ministerial approval and arrangements for it were communicated to departments. In parallel with this, sustainability reporting guidance was published on the Treasury website to facilitate the completion of dry run sustainability reports. The Treasury reported it would periodically monitor departments' readiness to prepare sustainability reports for 2011-12 and would continue to monitor developments on expected changes to the government's sustainable development framework, which was expected to impact on its sustainability reporting guidance.

4.11 The Treasury also informed the Board that it is preparing draft sustainability reporting guidance for 2011-12 (not relevant to the devolved governments as they report under their own frameworks), based on the recently introduced 'Greening Government' commitments. The Board anticipates that in the autumn the Treasury will provide to the Board:

- The final results of the 2010-11 dry run;
- The final draft of the 2011-12 sustainability reporting guidance

following a consultation with departments and other reporting entities; and

- A paper seeking the Board's agreement to proposed changes to the 2011-12 FReM, introducing the sustainability reporting requirement, and reflecting the local authority position.

Accounting for the use of European Funds (2008-09 Statement)

- 4.12 In last year's report, the Board received an update from the Treasury on progress made towards developing a chapter for inclusion in the FReM on Accounting for the use of European Funds.
- 4.13 In this reporting year, the Treasury provided an update on progress made towards presenting the 2008-09 EU Statement on the use of EU funds in the UK. This will be the third published EU Statement, aimed at improving financial management and providing assurance to the European Court of Auditors on the use of EU funds. Following the laying of the EU Statement before Parliament, the Board anticipates receiving a further update from the Treasury on its proposals to issue further guidance on the accounting for EU funds, to be included in the FReM.

Charitable Funds Consolidation under IFRS (Review of NHS linked charities)

- 4.14 In its 2008-09 report, the Board reported that it had agreed a Treasury proposal to provide a one-year postponement (for 2009-10) to NHS organisations from the consolidation requirements of IAS 27 *Consolidated and Separate Financial Statements* in respect of their linked charitable funds. This was in order to provide the NHS time to reorganise its future governance structure before the 'power to control' test of IAS 27 was applied.
- 4.15 In last year's report, the Board reported that it had been informed by the Treasury that it had agreed to a further one-year postponement (for 2010-11) from the application of IAS 27 in respect of those NHS bodies that have linked charitable funds. The Treasury also agreed that a 'Review of NHS-linked Charities in the context of the government accounting framework' be conducted in 2010 to examine the accounting framework relating to NHS charities.
- 4.16 In this reporting year, the Board received further updates from the Treasury on progress with the review of Accounting for NHS linked charities. The Board was informed that the draft review report from the Review Group had gone through several iterations in an attempt to capture a position that could be endorsed by the majority of the Review Group.
- 4.17 The final report from the Review Group was published in April 2011 and it recommended the application of IAS 27. However, consideration for the deferral of the application of IAS 27 by the Relevant Authorities was also recommended. The latter recommendation was made in the context of any requirements to change the governance arrangements of NHS linked

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requirements to change the governance arrangements of NHS linked charities (a possible one year deferral), and to permit further time to understand and fully address the impact of proposed NHS reforms (a possible additional two year deferral).

- 4.18 A minority of members in the Review Group produced a dissenting report to the main report, which concluded that the costs associated with applying IAS 27 outweighed the benefits achieved from doing so. Exemption from applying the Standard was recommended, but if this was not considered feasible, deferral of the Standard in line with the main report's recommendations was proposed.
- 4.19 Following consideration by the Relevant Authorities of the Review Group's report and the accompanying dissenting report, the Board was informed that the Relevant Authorities with central government and health sector interests had made the decision to defer the application of IAS 27 to 1 April 2013. The Board is concerned that it was not provided with the opportunity to debate this proposal further and offer its advice prior to the decision by the Relevant Authorities. This is despite having previously provided its preliminary advice on this developing issue, in the expectation that it would have an opportunity to debate further and advise on final proposals, and before a decision was made on this important consolidation issue.
- 4.20 The Board normally endorses any proposal to move from accounting standards on the basis that such adaptations should be exceptional and only based on a specific public sector context which requires a change to an accounting requirement. In this case the Board does not see that these specific requirements have been met by the decision to defer the application of IAS 27 for several reasons:
- It considers this deferral an adaptation of IAS 27, although it has not been described as such by the Relevant Authorities;
 - It does not believe that extending the period for implementation of IAS 27 on the basis of possible future governance changes in charity governance, or potential changes to the organisation of the NHS in England, is a reason for adaptation, according to criteria it has adopted;
 - The FRAB is anxious to avoid the selective and inconsistent application of IAS 27 within the public sector. Consolidation is an accounting issue of fundamental importance, which has been specifically addressed in accounting standards over recent years.
- 4.21 The Board expects that, in future, it will be consulted on matters within its remit before a decision is taken and (a matter also identified as requiring action by the FRAB review) will work with the Relevant Authorities to achieve a clearer articulation of the criteria to be applied to determine which matters should be referred to the FRAB for its advice. In this context, the Board also hopes that the decision outlined in paragraph 4.19 should not be regarded as setting what it views as a dangerous and unhelpful precedent for decisions to be taken about future reporting policy issues.

Prompt Payment Performance Measures

- 4.22 In this reporting year, the Board received a proposal from the Treasury to amend the 2010-11 FReM to allow for the reporting or performance against prompt payment policies, either already existing, or that may be introduced by the government. The Treasury proposed that the FReM amendment wording be sufficiently flexible to accommodate future changes in government policy on this issue, without the need for regular and ongoing amendments to the FReM.
- 4.23 In considering the proposal, the Board advised against the proposal for amending the FReM for several reasons. A major factor was that the proposed information disclosure was not related to financial reporting and would not apply to all entities applying the FReM. The Treasury agreed to reconsider its proposal on amending the FReM.

Central and local government accounting for the CRC Energy Efficiency Scheme

- 4.24 During this reporting period, the Treasury and CIPFA/LASAAC presented a joint paper to the Board proposing text for inclusion in the 2010-11 FReM and Local Authority Code for accounting for the CRC Energy Efficiency Scheme. The scheme is a new mandatory emissions trading scheme that aims to reduce carbon emissions through achieving energy efficiency. The Department for Energy and Climate Change leads the policy on the scheme and the Environment Agency administers the scheme.
- 4.25 In initially discussing and agreeing the accounting proposal, the Board agreed that IAS 38 *Intangible Assets* should apply, but that the accounting should remain under review, so if there are significant changes to the scheme or it gives rise to volatility in amounts reported in accounts, the issue should be returned to the Board.
- 4.26 At the end of 2010, the Treasury provided a further update to the Board on two major changes to the scheme. It was also reported that further changes to the scheme could follow, and as a result, finalisation of the scheme is not expected until summer 2011. Due to the current uncertainty related to the scheme, the Board was informed that the Treasury and CIPFA/LASAAC did not propose to include guidance on accounting for the scheme in the FReM and Local Authority Code until the scheme is finalised, and due process for proposals to amend the accounting manuals has been completed.
- 4.27 Once the scheme is finalised, the Board looks forward to receiving a joint paper from the Treasury and CIPFA/LASAAC on the proposed accounting arrangements.

Tax and Spend Incentives

- 4.28 In this reporting year, the Treasury sought, in principle, the Board's preliminary view on what the financial reporting obligations may be related to a number of tax and spend schemes; examples being the existing schemes that relate to environmental levy funded subsidy schemes.

- 4.29 One particular example is the Feed in Tariff scheme. Under the scheme, eligible renewable electricity generators (including homeowners and businesses) are paid a premium price for any renewable electricity they produce and provide to the National Grid. Typically, regional or national electric grid utilities are obliged to take the electricity provided and pay the producers of the electricity generated (generation tariff payment). These costs are passed on to consumers of electricity by the utilities through energy bills (imputed tax). The obligation based expenditure and associated revenue is classified in the national accounts as imputed tax and spend. Such schemes would be included in departmental budgets and parliamentary Estimates from 2011-12, but the accounting remains unclear.
- 4.30 The Treasury view to the Board is that the government is in a unique position where it can direct such expenditure and provide a means to recoup it. As such, it is viewed as unlikely to occur elsewhere and hence, in substance, these are viewed as transactions of the government, and therefore in principle should be reported accordingly.
- 4.31 The Board debated the issues presented by the Treasury, but was unable to form a conclusive view based on the information provided. The Board therefore requested the Treasury to further articulate the criteria by which schemes would be considered for financial reporting, and to consider the wider consequences that flow from the proposed approach, beyond merely the accounting.
- 4.32 The Board looks forward to receiving a further update from the Treasury on this issue before providing its further advice.

Update on Accounting for PPP arrangements, including PFI, under IFRS following the release of the IPSASB Exposure Draft 43 Service Concession Arrangements: Grantor

- 4.33 The Board had previously agreed an accounting treatment for PPP arrangements, including PFI contracts, under IFRS for inclusion in the FReM (and the Local Authority Code for Accounting) for 2009-10, based on an interpretation of IFRIC 12 *Service Concession Arrangements*.
- 4.34 In the period covered by this report, the Treasury provided the Board with an update on developments in accounting for PPP arrangements, including PFI, following the release of IPSASB Exposure Draft (ED) 43 – *Service Concession Arrangements: Grantor*. An IPSASB Standard is not expected before autumn 2011. Issues raised in the consultation process included the scope of the ED; the recognition by the grantor of assets that the operator is constructing; initial measurement of service concession assets and the concept of a ‘performance obligation’ as a liability.
- 4.35 The Board confirmed that it looks forward to receiving a further update from the Treasury on developments with the IPSASB Standard on Service Concession Arrangements, with a view to determining what impact this may have on existing guidance provided in the FReM or the Local Authority Code for Accounting.

Chapter 5

FINANCIAL REPORTING FOR 2010-11, 2011-12 and 2012-13 and other matters

Introduction

- 5.1 Over this reporting period, the Board agreed significant amendments to the 2010-11, 2011-12 and 2012-13 versions of the FReM, the 2010-11 Foundation Trust Annual Reporting Manual and the 2011-12 Code of Practice on Local Authority Accounting, as described below.

The 2010-11 FReM

Disclosure of Senior Staff Salary and Bonuses, and of exit packages for Civil Service and other compensation schemes

- 5.2 The Board agreed a Treasury proposal to amend the FReM from 2010-11 to require the separate reporting of bonuses and salaries in the Remuneration Report, and the reporting by way of note to the accounts of exit packages awarded under the Civil Service and other compensation schemes.

True and Fair Override Provision

- 5.3 The Board agreed a Treasury proposal to amend the FReM from 2010-11 to require the re-instatement of the true and fair override provision in the FReM, for those exceptional circumstances where compliance with the FReM would not result in a true and fair presentation.

Changes to Annual Reporting and Segment Reporting

- 5.4 The Treasury provided an update to the Board on the due process to be followed in consulting on a proposal to amend the FReM from 2011-12 arising from the end of Public Service Agreements and Departmental Strategic Objectives. As an interim measure, the Treasury has issued implementation guidance on the application of IFRS 8 to departments and informed them that IFRS 8 will apply in full for the 2010-11 accounts. The Board looks forward to receiving a further update from the Treasury on its proposals following completion of its due process.

The 2011-12 FReM

Disclosure of Senior Staff Salary and Bonuses, and of exit packages for Civil Service and other compensation schemes and the True and Fair Override Provision

- 5.5 The changes agreed to the 2010-11 FReM in respect of disclosure of Senior Staff Salary and Bonuses etc and the True and Fair Override provision will also be reflected in the 2011-12 FReM.

Governance Statement

- 5.6 The Board approved a Treasury proposal to amend the FReM, in advance of its consultation with departments, to introduce a Governance Statement to incorporate and replace the current Statement on Internal Control (SIC). This will also result in the withdrawal of the SIC template, replaced by a reference to guidance in the Treasury publication 'Managing Public Money'.

Alignment (Clear Line of Sight) project

- 5.7 Amendments to the FReM were approved related to changes to the Statement of Parliamentary Supply and the adaptation of IAS 27 *Consolidated and Separate Financial Statements* (see Chapter 4, paragraph 4.6) and in the way tax credits are accounted for in accounts (see Chapter 4, paragraph 4.7).

The 2012-13 FReM

Accounting for Loans, Public Dividend Capital and Investments in Entities outside the Departmental Boundary

- 5.8 The Board agreed an advance amendment to the FReM to require investments held in entities outside the departmental accounting boundary, other than Public Dividend Capital, to be measured at fair value. The Board agreed the Treasury proposal that Public Dividend Capital should continue to be measured at historical cost, less any impairment.

The 2010-11 Foundation Trust Annual Reporting Manual

Governance Statement

- 5.9 The Board agreed a proposal from Monitor for a change to the Foundation Trust Annual Reporting Manual; in respect of proposed change of name of the Statement on Internal Control and for the disclosure of additional information on quality governance.

The 2011-12 Code of Practice on Local Authority Accounting

- 5.10 The Board agreed proposals to amend the Code of Practice on Local Authority Accounting in respect of:

- Adopting the accounting treatment for Heritage Assets as set out in FRS 30 *Heritage Assets*;
- The inclusion of guidance on the accounting treatment for the Community Infrastructure Levy and the Business Rate Supplements;
- The inclusion within remuneration reporting of disclosures of exit packages awarded;
- The requirement for local authorities to disclose their benchmarked arrangements against CIPFA's Statement on the Role of the Chief Financial Officer in Local Government; and
- An interpretation of IAS 31 *Interests in Joint Ventures* to ensure that the accounts of Police and Fire Boards in Scotland are consolidated into the local authority's group accounts.

Discount rate for post employment benefits

- 5.11 In this reporting year, the Board agreed a Treasury proposal to change the method by which it calculates the discount rate used to value service pension liabilities, in order for it to be fully compliant with IAS 19 *Employee Benefits*.
- 5.12 The Board also agreed a Treasury proposal that the post employment benefits discount rate, that is set annually, should be based on the yields of high quality corporate bonds as at 30 November, and prior to the financial year-end. The Board's agreement is subject to the requirement for the Treasury to re-assess the discount rate should bond yields change significantly between the November assessment and the end of the financial year.

Discount rate for general provisions

- 5.13 In this reporting year, and similar to the discount rate for post employment benefits, the Board agreed a Treasury proposal to review the discount rate for general provisions annually in line with IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*, as at 30 November.
- 5.14 The Board also provided its preliminary advice to the Treasury on its proposed approach to revise the methodology for determining a suitable general provisions discount rate, and the options for its implementation. The Board looks forward to advising on the Treasury's finalised proposal.

Chapter 6

FUTURE ISSUES FOR THE BOARD

Introduction

6.1 The final chapter of this report looks ahead to some of the topics that the Board can expect to consider over the coming year.

Impact of the FRAB Review Report Recommendations

6.2 The Board looks forward to implementing any agreed changes to its role, structure and operational arrangements arising from the review, to ensure it remains fit for purpose.

Accounting for Sustainability

6.3 During the autumn 2011, the Board looks forward to receiving a final update from the Treasury on the results of the 2010-11 dry-run for implementing sustainability reports within Annual Reports and Accounts. It also looks forward to considering revised guidance on sustainability reporting to apply to central government and the NHS from 2011-12 (see Chapter 4, paragraph 4.11) and receiving an update on the local authority position.

Whole of Government Accounts (WGA)

6.4 During the autumn 2011, the Board looks forward to receiving a further update on the finalisation and publication of the 2009-10 WGA, and on preparations for WGA for 2010-11.

Monitoring and responding to international accounting standard setters

6.5 The Board will continue to monitor developments in international accounting standards and will respond selectively to those consultations which have implications for public sector financial reporting and in which the Board has a particular interest, for example, consultation documents issued by the International Accounting Standards Board (IASB) and IFRS Interpretations Committee, the IPSASB Exposure Draft on the Conceptual Framework and FRED 45: Financial Reporting Standard for Public Benefit Entities.

International Financial Reporting Standards

- 6.6 The IASB has recently issued new Standards, which include new, and in certain respects, significantly changed requirements for the consolidation of subsidiaries and the accounting for joint ventures, and additional guidance for fair value measurement. Although the IASB's effective date for these new Standards is annual periods beginning on or after 1 January 2013 and they are yet to be considered for endorsement by the European Commission, the Board will discuss the new requirements and their potential effect on financial reporting by the public sector at meetings later in 2011 and 2012.
- 6.7 The IASB also continues its work on a number of long term and very significant projects, which includes new accounting requirements for financial instruments, leases and revenue recognition. The IASB's current forecast is that new Standards will be published by the end of 2011 with effective dates of periods beginning on or after 1 January 2015. Although this means that it will be some time before their requirements will be reflected in accounts, these new Standards are expected to bring very significant changes to accounting requirements. Consequently, the Board anticipates early consideration of their potential effect on financial reporting by the public sector.

Annex A

SUMMARY OF FINANCIAL REPORTING STANDARDS, INTERPRETATIONS AND ADAPTATIONS, INCLUDED IN THE FReM

The table below provides a quick reference summary of those international accounting standards included in the IFRS-based 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			●

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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 2000⁴.
 - 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.hmsso.gov.uk.

- (c) The Board will advise CIPFA/LASAAC⁵, 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/LASAAC⁶ 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 (FRoM) for government departments and their arms length bodies;
 - the NHS Accounting Manuals for the NHS;
 - the FT FRoM for Foundation Trusts; and
 - the Code of Practice on Local Authority Accounting in the United Kingdom (the Code).

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

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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 IFRS⁷;
 - International Public Sector Accounting Standards;
 - UK accounting standards issued by the Accounting Standards Board.

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 (until June 2010).

Kathryn Cearns, Consultant Accountant, Herbert Smith LLP. (From October 2010)

Members:

Andrew Baigent. Director General for Financial Audit, National Audit Office (from October 2010).

Andrew Buchanan. Global Head of IFRS, BDO IFR Advisory Limited (from October 2010).

Ian Carruthers. Policy and Technical Director, CIPFA

Miranda Carter. Assessment Director, Monitor.

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

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

Martin Evans. Managing Director, Audit Policy, Audit Commission.

Russell Frith. Assistant Auditor General, Audit Scotland.

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

Martin Kellaway. Head of National Accounts Classification, Office for National Statistics (until December 2010).

Ian Mackintosh. Chairman, Accounting Standards Board (until October 2010).

Roger Marshall, Chairman, Accounting Standards Board (from December 2010).

Janet Perry. NHS Financial Controller, Department of Health.

Beth Russell. Team Leader General Expenditure Policy, HM Treasury (until April 2011).

Martin Sinclair. Assistant Auditor General, National Audit Office (until June 2010).

Alyson Stafford. Director General - Finance, Scottish Government.

Jon Thompson. Director General Finance, Ministry of Defence.

Ken Wild. Partner, Deloitte LLP, and Member of the International Financial Reporting Interpretations Committee and former Member of the Accounting Standards Board (until June 2010).

Parliamentary observer:

Robert Flello, MP.

Alternates:

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

Tarnya Abel, alternate for the NDPB member.

Jason Dorsett, Harriet Aldridge and Caroline Windsor for Miranda Carter.

David Ash, alternate for the Parliamentary observer.

Andrew Baigent for Martin Sinclair.

Bob Branson, alternate for the NDPB member.

Sam Caughey for Beth Russell.

Diana Davey and Heather Tayler for Jon Thompson.

Cris Farmer alternate for the Department of Finance and Personnel, Northern Ireland.

Colin Forsyth for Janet Perry

Andrew Gravener, alternate for the Parliamentary observer.

Fiona Hamill alternate for the Department of Finance and Personnel, Northern Ireland.

David Hobbs, alternate for the ONS.

Andrew Lennard for Ian Mackintosh.

Martin Sollis, alternate for the Welsh Assembly.

Kerry Twyman for Alyson Stafford.

Steve Warren for Martin Evans.

Secretariat:

Secretary:

Larry Pinkney.

Secretariat support:

James McGovern (until October 2010)

Mangai Rajasingham.

Sarah Solomon.

Guests

- 1.2 Paul Mason, from CIPFA, presented papers covering draft chapters for inclusion in the IFRS-based 2011-12 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 2000⁸.

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

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.

Local authority accounts across England, Wales, Scotland and Northern Ireland	2010-11
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Annex F

SUMMARY OF RECOMMENDATIONS FROM THE REPORT ON THE REVIEW OF THE FRAB

The Review Group recommends that:

1. The groupings from which members are drawn are more clearly identified as independent, users and Relevant Authorities and that:
 - a. Future FRAB members are selected on the basis of their seniority, skill-set and expertise, so that they can fully and effectively contribute to the work of the Board;
 - b. FRAB members are proposed rather than nominated for the different groupings and that the proposers be clarified for each grouping;
 - c. A Nominations Committee is introduced, with the suggestion that this be chaired by the FRAB Chairman;
 - d. The Nominations Committee should lay down the arrangements for proposing new members;
 - e. The FRAB selection process is published to increase transparency;
 - f. An additional independent accountant member be recruited to the Board, but not at the expense of an existing member;
 - g. The current independent economist member, as detailed in the Board's terms of reference, be changed to a professional academic member;
 - h. The existing three audit nominations (from the Comptroller and Auditor General, the Audit Commission and Auditor General for Scotland) as detailed in the Board's terms of reference, be revised to one place from the Comptroller and Auditor General, and two places available for applications from other public sector auditors, whether from the audit agencies or private firms carrying out public sector audits;
 - i. The role of the FRAB Chairman be documented and published; and
 - j. The role of the parliamentary observer is retained and that this is formalised in the FRAB's terms of reference.

2. The FRAB membership should be kept under regular review;
3. Clear code of conduct principles are provided to board members;
4. Board members be formally notified on their appointment that they are a member of the Board in a personal capacity and not as representatives of an organisation;
5. Appointed FRAB members to undergo appropriate induction training, prior to or on assuming their appointment;
6. FRAB members (other than from the Relevant Authorities) are provided with the opportunity to meet at least annually, without the attendance of members from the Relevant Authorities;
7. The rotation of FRAB meetings between the Relevant Authorities is considered;
8. The consensus decision-making process employed by the FRAB to-date should continue, but the process to be followed when consensus is not achievable should be documented;
9. An appropriate tenure for FRAB members is three years, with the rebuttable presumption that this is renewable only once;
10. An appropriate tenure for the FRAB Chairman is three years, renewable once;
11. Given a change in the expected tenure of members, that a membership transition process be agreed;
12. Alternates are not permitted at FRAB meetings;
13. Temporary membership is permitted to cover the long-term absence of a FRAB member, for example on maternity leave;
14. The FRAB Chairman should have the discretion to permit the attendance of an observer at meetings and to allow the ad-hoc attendance of individuals who will enhance the Board's knowledge of the issues being debated or contribute to the quality of the debate;
15. The FRAB should explore the availability and use of technology in conducting its meetings;
16. The FRAB should continue to meet in closed session;
17. The FRAB should approve its Minutes out of meeting following the relevant meeting and thus agree their publication at the earliest feasible time, together with the related FRAB papers;
18. The FRAB has a secondary role to its core function, contributing to the development of financial reporting standards by responding selectively to financial reporting standards in development issued by the international accounting standard setters, within the constraints of the resources available to it;

19. The requirement for periodic future reviews of the FRAB is enshrined in the Board's terms of reference;
20. The Review Group recommends that in the interests of transparency and consistency, the FRAB should formalise and document the process it follows when considering proposals for the interpretation or adaptation of financial reporting standards; and
21. The Memorandum of Understanding between the Relevant Authorities is reviewed in light of the recommendations resulting from this review.



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