12th Report
of the
Financial Reporting Advisory Board

Report for the period
April 2008 to March 2009

FINANCIAL REPORTING ADVISORY BOARD

Report for the period April 2008 to March 2009

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 by the Treasury to the House of Commons (the Committee of Public Accounts and the Treasury Select Committee) 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 2009*

HC 671

SG2009/95

NIA 138/08-09

London: The Stationery Office

£14.35

ISBN: 9780102959000

Chairman's Foreword

This year has seen significant developments in public sector financial reporting against the backdrop of a much-changed economic environment, and the different challenges that this brings. A significant challenge facing the Government is the change in the basis of its financial reporting from 2009-10, to one based on accounting under European Commission adopted International Financial Reporting Standards (IFRS). The Financial Reporting Advisory Board (the Board) has encouraged this change in basis of reporting, and it continues to advise the Treasury on the complexities of applying IFRS to public sector financial reporting.

I am pleased to report that the Board is encouraged by the reported progress made to date in the Government's preparations for moving to IFRS, and that the 2009-10 timetable remains achievable. The Board is also optimistic that the detailed implementation process, supported by the close co-operation that exists between the Treasury and the National Audit Office, will lead to a positive outcome. The Board will continue to monitor developments on progress with the IFRS trigger point strategy, introduced by the Treasury to identify difficult or problematic accounting issues for the public sector resulting from the implementation of the IFRS framework.

Over the coming year the Board will continue its role of providing independent advice on evolving international accounting issues and their implications for future public sector financial reporting. The Board will also strive to ensure that the Government continues to meet the highest possible standards in its financial reporting.

I am delighted to report that this year the Board extended its remit to include oversight of the Code of Practice on Local Authority Accounting in the United Kingdom, which will take effect from 2010-11. Under the new governance arrangements, the Board is already advising on technical accounting rules and minimum disclosure requirements in respect of local authority accounting. The extension of the Board's remit has inevitably resulted in additions to the Board's membership, and led to a number of operational changes, the latter expected to lead to improvements in how public sector financial reporting is developed and co-ordinated.

A positive development this year is the significant progress made by the Treasury in its Alignment project, seeking to improve alignment of budgets, Estimates and resource accounts and to streamline financial reporting documents. The Board was pleased to be able to agree in principle to several Alignment proposals, including a proposal for changes to the departmental resource account boundary, which are generally expected to result in the consolidation of Executive non-departmental public bodies into departments' resource accounts. The Board looks forward to receiving detailed papers from the Treasury related to the Alignment proposals later in the year.

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A very interesting new piece of work considered by the Board this year was draft guidance developed by a Treasury led working group, proposing a reporting model and guidance to facilitate sustainability reporting in the public sector. The Board supports strongly the further development of this work.

Finally, in what has been another busy and challenging year for the Board, I express my thanks to the Secretariat for ensuring the continued smooth operation of the Board's activities.

Elwyn Eilledge CBE

30 June 2009

Executive Summary

This is the twelfth 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 2008 to March 2009. 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 the Board's view of the importance of all government bodies successfully completing the necessary preparatory work needed to meet the timetable for the implementation of IFRS, and emphasised that this timetable should not be permitted to slip. The Board was also pleased to note that so as better to manage the transition to IFRS, the Treasury would follow its advice to require the production of IFRS-based shadow resource accounts for 2008-09, which will be subject to audit procedures, in preparation for full transition to IFRS from 2009-10.

This year, the Board is pleased to report that to ensure the successful transition to IFRS, the Treasury introduced a four-stage IFRS trigger point process to be completed by all relevant central government reporting entities (paragraph 2.5). An initial report from the Treasury on progress with the first two trigger points confirmed that satisfactory progress had been made to date and that the 2009-10 timetable remains achievable. The Board is also pleased to note that the Treasury continues to work closely with departments and the NAO to resolve remaining IFRS issues, and is encouraged by the progress made to date (paragraph 2.10 to 2.11).

The report reflects that the IFRS-based FReM was published to timetable for application from 2009-10, and will also apply to the production of the IFRS-based shadow resource accounts for 2008-09. In the preparation and finalisation of the IFRS-based FReM, the Board continued 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 Board's agreement in principle to the potential extension of its remit to include oversight of the Code of Practice on Local Authority Accounting in the United Kingdom with effect from 2010-11, when local authorities complete the move to IFRS-based financial reporting.

This year the Board formally agreed to this extension of its remit, resulting in the appointment of three new Board members. A number of operational changes also resulted from the extension of the Board's remit. The Board's Terms of Reference were revised to reflect the change in membership (Annex B), and a Memorandum of Understanding was introduced between the relevant authorities for developing financial reporting guidance for the public sector (Annex C). A FRAB working group was also established to consider initial proposals for amending the IFRS-based FREM, the Local Authority Accounting Code and other manuals, to ensure consistency in accounting across the public sector before proposals are subject to general consultation. Under the new governance arrangements, the Board approved several chapters of the Local Authority Accounting Code for 2010-11, and looks forward to reviewing remaining proposed chapters (paragraphs 3.2 to 3.6, 3.18 to 3.19 and 5.2).

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. This year, the Board approved HM Treasury proposals for the inclusion of text within the IFRS-based FReM and the Local Authority Code based on IFRIC 12 *Service Concession Arrangements*. The Board believes that in the future this will lead to greater consistency in accounting for PFI in the public sector (paragraphs 3.7 to 3.13 and 3.19).

The move to IFRS, from 2009-10, will also see the first publication of Whole of Government Accounts (WGA). The Board received a report on progress in developing WGA and noted some recent improvements, although substantial additional work was still needed to complete this project (paragraphs 3.23 – 3.24).

In last year's report, the Board acknowledged that work carried out by the Treasury on proposing the inclusion of Executive non-departmental public bodies within the resource accounting boundary (something the Board has sought for some time) had been included within the Treasury's Alignment (Clear Line of Sight) project.

This year, the Board was pleased to agree 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 include a proposal to introduce changes to the resource accounting boundary that will generally result in the consolidation of Executive non-departmental public bodies. It is planned that some of the Alignment proposals, (particularly for budgets), will be introduced from 2010-11, with remaining proposals to be introduced from 2011-12 (paragraphs 3.29 to 3.30 and 5.3), subject to legislation.

Accounting for sustainability is an interesting and topical subject and the Board was pleased to receive an update from the Treasury on progress with work completed by the Sustainability Reporting Working Group, and for the opportunity to view developing proposed guidance on sustainability reporting. The Board looks forward to receiving further reports from the Treasury on progress with this work (paragraphs 3.31 to 3.34 and 5.4).

In the forthcoming year, the Board will continue its work in advising the relevant authorities in their preparations for the implementation of IFRS. The Board also expects to consider proposals for developments in IFRS and international public sector accounting standards, which may impact on future public sector accounting in the United Kingdom (paragraph 5.5).

Contents

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 departments, executive agencies, non-departmental public bodies and trading funds. The Board also advises the Treasury on the implementation of accounting policies specific to Whole of Government Accounts.

1.4 During the period covered by this report, the Board's remit was significantly extended 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. A number of operational changes resulted from this, including the appointment of additional board members and revised Terms of Reference for the Board, the establishment of a Memorandum of Understanding between relevant authorities and the formal establishment of a FRAB working group. Full details are included in Chapter 3, paragraphs 3.2 to 3.6.

Background to the Report

1.5 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.

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

1.6 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.

1.7 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.

1.8 This is the Board's 12th Report and the Report structure is summarised below.

Report structure

International Financial Reporting Standards

1.9 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

1.10 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 2008-09 and Other Matters

1.11 Chapter 4 of the Report considers all significant changes to the Government Financial Reporting Manual (FReM) for 2008-09, whether they result from the introduction of new accounting standards, or other sources.

Future issues for the Board

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

Summary of IFRS included in the IFRS-based FReM

1.13 Annex A provides a summary of the applicability of individual international accounting standards included in the IFRS-based 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 During this reporting year a significant change was the establishment of a detailed Memorandum of Understanding between the relevant authorities for developing financial reporting guidance for the public sector. This is provided at Annex C.

Membership of the Board

1.16 Annex D provides information on the Board membership, which has been expanded during the course of this reporting year.

About the Board

1.17 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 preparations 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. Local Authorities will adopt IFRS from 2010-11 (see Chapter 3).

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

The Government's preparations for the transition to IFRS

2.3 In last year's report, the Board emphasised the importance of all government bodies successfully completing the preparatory work necessary to meet the revised timetable for the transition to IFRS. The Board particularly emphasised that the timetable should not be permitted to slip further.

2.4 Previously, the Board was pleased to note that the Treasury had agreed to follow the Board's advice in requiring the production of IFRS-based shadow resource accounts for financial year 2008-09 in preparation for full transition to IFRS from financial year 2009-10. The IFRS-based shadow resource accounts will be subject to audit procedures carried out by the National Audit Office (NAO).

2.5 To ensure the successful transition to IFRS, in April 2008 the Treasury announced an IFRS trigger point process to be completed by all relevant central government reporting entities. The main points of the four-stage process are described below.

2.6 <u>Trigger Point 1</u>. By 30 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.

2.7 <u>Trigger Point 2</u>. 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.

2.8 Trigger Point 3. By 10 September 2009, reporting entities are to have completed their IFRS-based 2008-09 shadow accounts and passed them to the NAO.

2.9 Trigger Point 4. By 31 December 2009, the NAO is 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, are to be forwarded by reporting entities to the Treasury by 29 January 2010.

2.10 In this reporting year, the Treasury provided the Board with an update on progress with the trigger point process, which drew on the independent 2008 General Report of the Comptroller and Auditor General, published in February 2009[2]. It was reported that approximately half of all resource accounts subject to the trigger point process had received a clear audit opinion at trigger point 2, and that generally the remaining departments had single issues to resolve. Overall, the Board considered this to be a satisfactory result at this stage of the trigger point process, and that in terms of meeting the later trigger point actions, the IFRS timetable remains achievable.

2.11 The Board was pleased to note that the Treasury is working closely with departments and the NAO to resolve remaining IFRS issues, and is encouraged by the progress made to date. It looks forward to receiving further updates from the Treasury on progress with the remaining trigger point actions.

The IFRS-based FReM

2.12 The IFRS-based FReM, originally commenced in 2006 and subsequently updated, was published[3] to timetable for application from financial year 2009-10. For reporting entities that fall within the scope of the Manual, it will also apply to the production of their IFRS-based 2008-09 shadow resource accounts, as part of the Trigger Point process described above.

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 IFRS-based 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 IFRS-based FReM

2.14 Recent significant changes to the IFRS-based FReM that have been necessary are described below.

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[2] http://www.nao.org.uk/publications/0809/general_report_for_2008.aspx
[3] http://www.financial-reporting.gov.uk/documents/2009/2009_10_frem_full_version.pdf

Accounting for Intangible Assets

2.15 The Board received information from the Treasury that an unintended effect of some reporting entities applying existing interpretations of IAS 38 *Intangible Assets* and of SIC 32 *Intangible Assets – Website Costs* might be the de-recognition of some intangible assets from balance sheets.

2.16 The interpretations restricted the application of the Standard for internally generated intangible assets, so that only those that contribute to the delivery of services to the public could be capitalised. The Board viewed the interpretations as unintentionally restricting the scope of the Standard, which could result in the following consequences:

- Software assets previously capitalised under SSAP 13 and FRS 15 may have to be derecognised;
- It may create a future bias towards purchasing administrative software assets, rather than developing these assets in-house, as the FReM only allowed for purchased assets to be recognised as intangibles; and
- It would create an unintended unjustifiable divergence in accounting between the private and public sectors.

2.17 In the light of this information, the Treasury reconsidered the need for the relevant interpretations in the IFRS-based FReM and concluded that there was no good central government reason to retain them. The Treasury sought the Board's advice on their removal from the IFRS-based FReM. The Board agreed the Treasury's proposal and the IFRS-based FReM was subsequently amended for financial year 2009-10.

Accounting for PPP arrangements, including PFI

2.18 Following the issue of the accounting guidance for PPP arrangements, including PFI (see Chapter 3), the Treasury reported to the Board that, due to an area of the IFRS-based FReM text being interpreted inconsistently by some reporting entities, it would propose amended guidance to clarify when the risk free interest rate should be used in a service concession arrangement. In doing so, the Board requested the Treasury to explore whether it remained appropriate to use the real risk free market rate of interest where it is not possible to ascertain the interest rate implicit in a service concession contract, or whether the nominal risk free rate of interest should be used.

2.19 Following subsequent research the Treasury proposed to the Board an amendment to the IFRS-based FReM. The Board debated various options in respect of the interest rate that should be applied when it was not possible to ascertain the interest rate implicit in a service concession contract. The Board concluded that, given the urgency of issuing revised guidance, the rate to be used should be the entity's cost of capital rate plus inflation for both new and existing contracts, and advised the Treasury accordingly, noting that it would revisit this advice after a year. The Treasury subsequently amended the IFRS-based FReM for financial year 2009-10 to reflect the advice provided by the Board.

2.20 The amended FReM guidance makes clear that reporting entities should only need to apply this stipulated interest rate in the rare circumstances when it is not possible to determine the interest rate implicit in a service concession contract. The Board noted that, on these rare occasions, the amended guidance would ensure consistent accounting by any affected reporting entities.

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 its agreement in principle to the potential 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 During this reporting year, the Board formally agreed to the extension of its remit, which resulted in the appointment of three new Board members; a CIPFA/LASAAC[4] Secretariat nominee; a Department for Communities and Local Government nominee and a CIPFA/LASAAC nominated local authority account preparer.

3.4 A number of operational changes resulted from the decision to extend the Board's remit. The FRAB Terms of Reference were revised to reflect the change in membership; these are shown at Annex B. A Memorandum of Understanding was 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) for developing financial reporting guidance for the public sector to put the background processes of the Board onto a more formal basis.

3.5 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[5];
- International Public Sector Accounting Standards;

[4] The Chartered Institute of Public Finance and Accountancy/Local Authority (Scotland) Accounts Advisory Committee Local Authority Accounting Code Board.
[5] Taken to include IASs and interpretations of IFRSs and IASs issued by IFRIC or SIC.

- UK accounting standards issued by the Accounting Standards Board.

3.6 A further procedural change agreed by the Board was the establishment of a FRAB working group to consider initial proposals for amending the FReM, the Local Authority Accounting Code and other manuals to ensure accounting consistency across the public sector, before proposals are subject to general consultation.

Accounting for PPP Arrangements, including PFI

3.7 Last year's report welcomed the work conducted by the Treasury in developing accounting guidance on service concessions, including PFI. The developed guidance based on IFRIC 12 *Service Concession Arrangements* was approved by the Board for inclusion in the IFRS-based FReM from financial year 2009-10, and will in the Board's view lead to greater consistency in the accounting of PFI in the public sector.

3.8 During the period covered by this report and leading up to the Board's agreement to the Treasury proposed guidance, the Board considered several significant issues, including the accounting approach, the definition of infrastructure assets, and the scope of the guidance, as described below.

3.9 On the accounting approach, the Board reaffirmed its previously held view that accounting based on IFRIC 12 *Service Concession Arrangements* was appropriate for central government and the NHS.

3.10 The Board agreed with the Treasury proposal that there should be no attempt to define 'infrastructure' assets in the IFRS-based FReM, restricting the text to include examples only.

3.11 On considering the scope of the guidance, the Board debated whether the assets covered by the guidance should be restricted to infrastructure used by a third party in the 'direct' delivery of services to the public under a service concession arrangement. The Board considered that the likely effect of doing so would result in buildings used for administrative purposes falling outside the scope of the guidance, which would then fall to be accounted for under IFRIC 4 *Determining whether an Arrangement contains a Lease* and IAS 17 *Leases*. Whilst the latter approach would probably result in the same accounting treatment and recognition on balance sheet of buildings used for administrative purposes, it would also carry the risk of further types of administrative assets falling outside the scope of the guidance.

3.12 On balance, the Board agreed with the Treasury that including within the list of examples of infrastructure assets 'non-current assets used for administrative purposes in delivering services to the public', would provide sufficient guidance on what assets come within the scope of the guidance.

3.13 In approving the guidance for inclusion in the IFRS-based FReM, the Board agreed with the Treasury that not all PPP arrangements or PFI contracts will involve infrastructure assets, and that, in those cases, IFRIC 4 *Determining whether an Arrangement contains a Lease* and IAS 17 *Leases* may apply. Following publication of the guidance, a subsequent significant amendment to Accounting for PPP Arrangements, including PFI, was made within the IFRS-based FReM related to when the risk free interest rate should be used, (see Chapter 2 for details).

The Departmental Boundary

3.14 In previous reports, the Board has reported on 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.

3.15 At present, in the context of IFRS, the Treasury effectively overrides IAS 27 *Consolidated and Separate Financial Statements*, IAS 28 *Investments in Associates*, IAS 31 *Interests in Joint Ventures* and related interpretations within the IFRS-based FReM, thereby placing most Executive non-departmental public bodies outside the departmental boundary.

3.16 However, the Treasury had advised the Board that it was exploring the scope for further alignment of the basis for the preparation of budgets, Estimates and accounts, which would in practice bring Executive non-departmental bodies into the resource accounting boundary.

3.17 During the period covered by this report, the Board received an update from HM Treasury on progress with this work, being carried out within the scope of the Treasury's Alignment project (paragraphs 3.29 to 3.30).

Local Authority Accounting Code

3.18 Following the extension of its remit, the Board considered the initial draft chapters for inclusion in the Local Authority Accounting Code for financial year 2010-11. In this context, the Board was informed of several differences between GAAP and local government legislation that will necessitate a number of accounting adjustments to address the impact on the General Fund of local authorities. The related proposed adaptations and interpretations are clearly identified and explained in the proposed text of the Local Authority Accounting Code.

3.19 In reviewing initial draft chapters of the Local Authority Accounting Code, the Board considered a number of areas and approved chapters on:

- Revenue Expenditure funded from Capital under Statute;
- Property, Plant and Equipment;
- Investment Properties;
- Intangible Assets;
- Impairment of Assets;

- Non-current Assets Held for Sale and Discontinued Operations;
- Leases;
- PFI/PPP Arrangements;
- Benefits payable during Employment;
- Termination Benefits;
- Employee Benefits and Retirement Benefit Plans;
- Inventories;
- Work in Progress (Construction Contracts);
- Revenue Recognition;
- Trade and other Receivables;
- Cash and Cash Equivalents; and
- Biological Assets (Agriculture).

Cost of Capital Charging

3.20 Last year the Treasury advised the Board that its planned work on the cost of capital charge was to be included within the scope of the Alignment project. The Treasury's initial proposal to the Board is described at paragraph 3.30.

Heritage Assets

3.21 In last year's report, the Board reported an update from the Treasury on accounting for heritage assets that confirmed that the Accounting Standards Board had decided not to proceed with proposed changes to the accounting treatment of heritage assets. Instead, it was intended that heritage assets would continue to be reported under FRS 15 *Tangible Fixed Assets*, but with enhanced disclosures as set out in the ASB Discussion Paper and Financial Reporting Exposure Draft (FRED) 40 *Accounting for Heritage Assets*. The Treasury sought the Board's view on continuing with the existing accounting treatment for heritage assets, pending the result of project work being undertaken by the IPSASB. Reluctantly, the Board accepted that this represented the only practical course.

3.22 During this reporting year, the ASB issued FRED 42 *Heritage Assets* for comment, proposing that enhanced disclosures should apply to all heritage assets, regardless of whether they are reported in the balance sheet. The ASB recently issued a reporting standard on Heritage Assets, FRS 30, and the Board will consider this topic later in the year.

Whole of Government Accounts (WGA)

Progress with WGA

3.23 The Board was pleased to receive an update from the Treasury on progress made in developing WGA. The Treasury provided a summary of the 2007-08 dry-run process and reported some improvements in respect of local authority data and returns, and in the Treasury's own internal processes. The Board noted, that, as it reported last year, significant concerns remain over the quality of data received from the entities to be consolidated.

3.24 The Board noted that the WGA project remains challenging, and that additional work is required to address remaining significant issues. The Board continues to monitor progress and looks forward to receiving further regular updates from the Treasury.

WGA chapter in the IFRS-based FReM

3.25 During the period covered by this report, the Treasury proposed a WGA chapter for inclusion in the IFRS-based FReM. The Board was pleased to approve the chapter, which indicates those adaptations of IFRS necessary in the public sector context for the reporting of WGA.

WGA consolidation boundary

3.26 During this reporting period, the Board debated a Treasury proposal for the determination of the WGA consolidation boundary.

3.27 The Treasury has duties under the Government Resources and Accounts Act (2000) in relation to those entities to be consolidated into WGA. In practice, the Treasury would normally form its view on what entities would be included in WGA on the basis of its classification for the National Accounts.

3.28 As a pragmatic measure, the Treasury proposed to the Board that the WGA consolidation boundary be set in line with the Office for National Statistics classification of public sector bodies. The Board agreed that this represented an acceptable course of action, but noted that this does not compromise in any way the Comptroller and Auditor General's freedom to reach a different conclusion.

Alignment (Clear line of Sight) project proposals

3.29 During this reporting year, the Board was pleased to receive an update from the Treasury on the Alignment project, and considered a request to agree in principle to several proposed related changes to the IFRS-based FReM. The proposals were aimed at improving the alignment of budgets, Estimates and accounts and streamlining financial reporting documents. It is planned that two of the proposals be introduced from financial year 2010-11 (removal of the Cost of Capital charge and scoring of impairments in the Operating Cost Statement, detailed below) with remaining proposals planned to be introduced from 2011-12.

3.30 The Board agreed in principle to the proposals summarised below, subject to receiving detailed papers from the Treasury in due course:

- Format of the Resource Accounts. In order to reduce the number of existing misalignments in budgets, Estimates and accounts, changes are proposed to the Statement of Parliamentary Supply, that will, in particular, impact on the resource Estimate and outturn figures;

- Changes to the Departmental Boundary. The Treasury proposed that all entities classified to the central government sector by the Office for National Statistics be consolidated into departments' resource accounts. This will generally result in the consolidation of Executive non-departmental public bodies into the departmental boundary, although the Scottish Government has no plans to introduce this change;

- Cost of Capital Charge. The Treasury proposed that the cost of capital charges be removed from budgets, Estimates and accounts;

- Impairment of Property, Plant and Equipment. To remove a misalignment between budgets and the accounting treatment of impairments under IFRS, an adaptation is proposed in applying IAS 36 *Impairments* in the IFRS-based FReM. This will result in the scoring of all impairments that are caused by a clear consumption of economic benefit to the Operating Cost Statement in resource accounts, with the balance of any revaluation reserve to which the impairment would have been charged under IAS 36, to be transferred to the General Fund within resource accounts. (The Board agreed this proposal in principle with the exception of the Scottish Government nominee, who indicated that this proposal would need to be considered further when the detailed paper is submitted to the Board);

- Other proposals. The Board noted that the Treasury has proposals for four further areas that are unlikely to result in changes to the IFRS-based FReM, covering capital grants, provisions, prior period adjustments and publications.

Accounting for Sustainability

3.31 In last year's report, the Board welcomed the establishment by the Treasury of a Sustainability Reporting Working Group, tasked by the Sustainability Steering Group with developing a sustainability reporting methodology for measuring performance against sustainable development targets, and for developing a sustainability reporting model, for possible application in the public sector from 2010-11. The work is being conducted in three discrete phases. During the period covered by this report, the Board was pleased to receive reports from the Treasury related to the completion of the first two phases of the project.

3.32 The first phase involved some of those entities represented on the sustainability working group reporting against their sustainability targets for 2007-08, using, as far as was appropriate, the connected reporting framework developed by the Prince of Wales's Accounting for Sustainability project. This phase involved some of the entities represented in the working group reporting within their Annual Report and Accounts, but more usually reporting by other methods, including via their dedicated websites.

3.33 The second phase of the project, based on the experience obtained from phase one, involved the development of a methodology for reporting sustainability and a reporting model that may be applied from 2010-11. In this phase, the working group developed draft sustainability reporting guidance, including the reporting model, which could form the basis for public sector reporting of performance against sustainability targets in discrete areas, including greenhouse gas emissions, waste disposal and use of finite resources. The Board was pleased to have the opportunity to view the developing guidance.

3.34 Although the guidance remains work-in-progress, the Board agreed that it represented a good piece of work by the Sustainability Reporting Working Group. The Board is keen to support the sustainability reporting initiative and to see further development of sustainability reporting, and the efforts to build links in the public sector to enable this. It looks forward to receiving further updates from the Treasury on progress with this work.

Accounting for the use of European Funds and Government Grants

3.35 In this reporting year, the Board received updates from the Treasury on progress made in developing a chapter in the IFRS-based FReM on Accounting for the use of European Funds, planned to be introduced from 2010-11.

3.36 This work originated as a result of the Treasury publishing 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 IFRS-based FReM aims to ensure that future accounting is both correct and consistent.

3.37 The Board noted that the Treasury is continuing to work with departments and the devolved governments to finalise the proposed guidance for inclusion in the FReM, and looks forward to receiving the Treasury's proposal later in the year.

Charitable Funds Consolidation under IFRS

3.38 In this reporting year, the Board received a request from the Treasury to agree to a one-year postponement for NHS organisations from the consolidation requirements of IAS 27 *Consolidation and Separate Financial Statements* in respect of their charitable funds, to apply for financial year 2009-10 only.

3.39 The postponement is aimed to permit those affected charitable organisations that would fall to be consolidated under IAS 27, to have the time to re-organise their structure where necessary to ensure that they would not be consolidated under the Standard. The Treasury emphasised to the Board the issue of the 'perceived' loss of charities independence should such charitable bodies be consolidated into government accounts, and the potential detrimental effect this may have on the receipt of charitable donations by affected charities.

3.40 The Board debated the issue, considering the concerns raised by the Charity Commission and expressed by the Treasury, that the consolidation requirements of IAS 27 may be perceived as conflicting with the independence of charitable bodies. The Board concluded that, in principle, this was not a concern that can properly be addressed through changing accounting arrangements. The Board considers that this represents a governance and regulatory, rather than an accounting issue.

Chapter 4

FINANCIAL REPORTING FOR 2008-09 AND OTHER MATTERS

Introduction

4.1 The IFRS-based FReM applies from financial year 2009-10. During financial year 2008-09, the FReM continued to be based on UK Generally Accepted Accounting Practice (UK GAAP), as adapted for the public sector context.

4.2 Over this reporting period, the Board considered amendments to the UK-GAAP based FReM as described below.

The 2008-09 FReM

4.3 Following the postponement of the move to IFRS, the Board received proposals from the Treasury to update the 2008-09 version of the FReM to incorporate the inclusion of:

- The ASB financial instrument standards;
- Changes necessary to refer to the Companies Act 2006 requirements;
- The requirement for the disclosure of sickness absences; and
- A requirement for reporting entities to disclose compliance with Treasury fees and charges requirements.

4.4 The Board agreed the revisions to the FReM and amended versions of the illustrated financial statements for publication.

Board Responses to Standard Setters

4.5 Since the publication of last year's report, the Board responded to the following papers issued by the IPSASB:

- Consultation Paper: Social Benefits: Issues in Recognition and Measurement;
- Exposure Draft 34 Social Benefits: Disclosures of Cash Transfers to Individuals or Households;
- Project Brief: Long-term Fiscal Sustainability Reporting;
- Consultation Paper: Accounting and Financial Reporting for Service Concession Arrangements;

- Consultation Paper: Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities:
    - The Objectives of Financial Reporting;
    - The Scope of Financial Reporting;
    - The Qualitative Characteristics of Information included in General Purpose Financial Reports;
    - The Reporting Entity.

4.6 The Board's responses can be found at http://www.hm-treasury.gov.uk/psr_reporting_statistics_boardresponses.htm.

Chapter 5

FUTURE ISSUES FOR THE BOARD

Introduction

5.1 The final chapter of this report looks ahead to some of the topics that the Board can expect to consider over the coming year. The development of the Local Authority Code remains a significant continuing area of work for the Board. Additionally, the Board is also likely to consider further issues in the development of IFRS and in International Public Sector Accounting Standards (IPSAS), as described below.

Local Authority Accounting Code

5.2 In the summer, the Board will consider further papers related to the development of the Local Authority Accounting Code, which will apply from financial year 2010-11.

The Alignment Project

5.3 In the autumn, the Board anticipates that it will receive detailed papers from the Treasury related to the Alignment proposals, which have already been agreed in principle by the Board.

Accounting for Sustainability

5.4 In the autumn, the Board anticipates that it will receive firm proposals from the Treasury related to sustainability reporting in the public sector.

Developments in international accounting standards

5.5 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 Discussion Paper: Leases Preliminary Views;
- IPSASB Exposure Draft: Agriculture;
- IPSASB Exposure Draft: Financial Instruments: Recognition and Measurement;
- IPSASB Exposure Draft: Financial Instruments: Presentation;
- IPSASB Exposure Draft: Financial Instruments: Disclosures;

- IPSASB Exposure Draft: Entity Combinations from Exchange Transactions; and

- IPSASB Exposure Draft: Intangible Assets.

Annex A

SUMMARY OF IFRS INCLUDED IN THE IFRS-BASED 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			●
IAS 28 Investments in associates			●

International Standard/ Interpretation	Applied in Full	Interpreted for public sector	Adapted for public sector
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	●		
SIC 27 Evaluating the Substance of Transactions Involving the Legal form of a Lease	●		

International Standard/ Interpretation	Applied in Full	Interpreted for public sector	Adapted for public sector
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	●		

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[6].
- accounts of executive non departmental public bodies where the Scottish Ministers have the power of direction

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[6] 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[7], 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

[7] 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[8] 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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[8] 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[9] ;
- International Public Sector Accounting Standards;
- UK accounting standards issued by the Accounting Standards Board.

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[9] 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 was expanded during this reporting period and 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:

Kirstin Baker. Team Leader General Expenditure Policy, The Treasury (until June 2008).

Ian Carruthers. Policy and Technical Director, CIPFA (from November 2008).

Miranda Carter. Assessment Director, Monitor.

Peter Davies. Assistant Head of Finance, Monmouthshire County Council (from December 2008).

Dr Christine Daws. Director of Finance, Welsh Assembly Government.

Janet Dougharty. Deputy Director Analysis & Capital Finance, DCLG (from November 2008).

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 (from January 2009).

Professor David Heald. Professor of Accountancy, University of Aberdeen Business School.

Clive Heaphy. Finance Director, FCO Services (until October 2008).

Robin Lynch. Director of National Accounts Group, Office for National Statistics (until February 2008).

Ian Mackintosh. Chairman, Accounting Standards Board.

Fenella Maitland-Smith. Deputy Director: National Expenditure and Income, Office for National Statistics (from May 2008).

Janet Perry. Deputy Director, Department of Health (from December 2008).

Nigel Reader, CBE. Director of Finance, Environment Agency.

Beth Russell. Team Leader General Expenditure Policy, HM Treasury (from October 2008).

Martin Sinclair. Assistant Auditor General, National Audit Office.

Alyson Stafford. Finance Director, Scottish Government.

Jon Thompson. Finance Director, Ministry of Defence (from April 2009).

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

Jeff Tomlinson. Head of Accounting, Department of Health, England (until November 2008).

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

Trevor Woolley, CB. Finance Director, Ministry of Defence (until December 2008).

Parliamentary observer:

Robert Flello, MP.

CIPFA/LASAAC Observer:

Ian Carruthers. Policy and Technical Director, CIPFA (until November 2008).

Alternates:

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

Andrew Baigent for Martin Sinclair.

Bob Branson for Nigel Reader.

Sam Caughey for Kirstin Baker and Beth Russell.

Diana Davey for Trevor Woolley.

Ciaran Doran for David Thomson.

Simon Fiander for Robert Flello.

Stacey George for Miranda Carter.

Andrew Lennard for Ian Mackintosh.

Rosemary Reay for Trevor Woolley.

Peter Ryland for Christine Daws.

Anne Rylatt for Jeff Tomlinson.

Kerry Twyman for Alyson Stafford.

Secretariat:

Secretary:

Larry Pinkney.

Secretariat support:

Christine Ruston.

Sarah Solomon.

Guests

1.2 Mike Hathorn, (Chair of the International Public Sector Accounting Standards Board (IPSASB) gave an update at the Board's April 2008 meeting.

1.3 John Stanford, (Deputy Director), International Public Sector Accounting Standards Board attended introduced a paper on social benefits at the Board's June 2008 meeting.

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[10].

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

[10] 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.

Printed in the UK by The Stationery Office Limited on behalf of the Controller of Her Majesty's Stationery Office
ID6085621 07/09
Printed on Paper containing 75% recycled fibre content minimum.

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information & publishing solutions

Published by TSO (The Stationery Office) and available from:

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www.tsoshop.co.uk

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ISBN 978-0-10-295900-0
9 780102 959000