16th Report of the Financial Reporting Advisory Board

Report for the period

April 2012 to March 2013

HC55

FINANCIAL REPORTING ADVISORY BOARD

Report for the period April 2012 to March 2013

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Chairman's Foreword

The year reflected in this report saw the last – but certainly not the least – element of a series of major changes the public sector has faced in relation to financial reporting – the first Clear Line of Sight reports. The hope is now that these changes will embed and deliver steady improvements in financial reporting across the public sector. The introduction of accruals accounting, the move to IFRS and above all perhaps the production of Whole of Government Accounts have over the last few years been hugely demanding in terms of resources and commitment by all involved. The Financial Reporting Advisory Board (the Board) now looks forward to helping the public sector build on this work to ensure accountability is achieved in the best possible way.

Transparency in government finances has perhaps never been as crucial as it is today. The reported fiscal figures are of course key, but financial reporting can provide a different window onto public sector finances and the business of government. In particular, it can provide a valuable tool in terms of asset management and the stewardship of resources that are used and maintained by government for the public good. Where fiscal figures and financial reporting diverge, those differences can be illuminating for those to whom the public sector reports, namely to Parliament and ultimately the public, giving insight and understanding to the information produced on different bases.

Although many of the major public sector financial reporting projects are now complete, the current challenges facing financial reporting in the public sector should not be underestimated. New standards continue to be published by the International Accounting Standards Board and we expect some, for example on leasing, to be particularly demanding. In addition, there are more calls for wider governance reporting in terms of environmental impacts and key employee pay. The seemingly constant desire for more disclosure is now itself facing a contrary pressure, as many wish to see significant simplification and streamlining of financial disclosures, generally "cutting clutter" and restructuring to allow everyone to see the wood for the trees. It will be crucial to understand what key users of public sector financial statements need in order to make progress on this front.

All these challenges should also be seen in the context of some of the structural issues that are unique to the UK public sector's accountability to Parliament, developed over centuries. These highlight difficulties in interpreting the boundary of the public sector, how it is sub-divided within national statistics and the consequential implications for financial reporting. A more streamlined and efficient system may, in the end, require structural changes that are more than cosmetic, and we look forward to working with our public sector colleagues and with Parliament to deliver the clearest and most accountable system we can.

The Board does all it can to encourage early engagement on difficult and new financial reporting matters within the public sector, to ensure timely and robust solutions can be found. Although there is a system of issuing exposure drafts across the various parts of the public sector to obtain views, this only works to the extent that the right parties are properly engaged in it. We have experienced some problems with very late involvement of some interested parties, which has caused significant delay in reaching a suitable final consensus. We will be seeking in future to minimise these problems: the squeeze on resources across the public sector means we cannot afford the time and effort to revisit questions once a suitable due process has been completed. Very constructive recent discussions with and between the Relevant Authorities lead me to hope that we will see further improvements in engagement in future.

Finally, I would like to thank two long-serving members of the Board who stood down this year, Andrew Baigent and Russell Frith. My particular thanks also go to Larry Pinkney of HM Treasury, who has just retired as Secretary to the Board, in which role he has provided unstinting and invaluable support both to me and to the previous chairman.

Kathryn Cearns

8 May 2013

Executive Summary

This is the sixteenth 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 Public Accounts Committee of the National Assembly for Wales. The report covers the year April 2012 to March 2013.

Last year's report commented on the outcome of the review of the FRAB, and the actions taken on the recommendations contained within the FRAB Review Group's report. As a result of the review, changes were introduced related to the Board's structure, its membership, and its operational processes. The changes introduced were designed to balance better the Board's membership, and to facilitate its independence. The operational changes introduced were designed to ensure that the Board continues to operate effectively, and whilst continuing to operate in an independent way. Significant efforts were expended to ensure that the Board's operational processes were improved, to ensure that they are open and transparent. This report reflects on the effectiveness of the changes introduced and concludes that they have achieved their purpose, in that they have not only ensured that the FRAB remains fit for purpose, but also that it continues to act independently as an advisory body to the Relevant Authorities. Central to the Board's role is the continued importance of its independence, both actual and perceived. The Board will ensure that it continues to meet its independent role efficiently and effectively through future regular reviews (paragraphs 2.1 to 2.5).

Previously, the Board reported on local government's transition to IFRS, from 2010-11, and on CIPFA/LASAAC's intention to conduct a post implementation review of this project. This year the Board reports on the conclusions reached in this review, which confirms that the introduction of IFRS based reporting was very successful, although there was evidence that in a limited number of areas of the Code of Practice on Local Authority Accounting would benefit from further clarification or augmentation. As a result of this, CIPFA/LASAAC made changes to its 2013-14 Code, including the removal of those accounting disclosures that are no longer considered to add value. The Board also reports on the second year of IFRS-based reporting within local government (paragraphs 3.3 to 3.7).

This report confirms that the 2013-14 FReM was published to timetable and the 2013-14 Code of Practice on Local Authority Accounting was approved by all relevant parties by the end of March 2013 but has not yet been published due to the need for additional consultation. Although the Board has had sight of the draft financial chapters of the NHS Foundation Trust Annual Reporting Manual for 2013-14 prior to Monitor's consultation on its introduction, the Board has not yet had sight of the final version of the Manual. The Board has also not yet seen the NHS Manuals for Accounts for 2013-14. The late issue of some of the Manuals is not helpful to preparers of accounts and the Board looks forward to approving these manuals on a progressively improved timetable. In its review of the finalisation of the Manuals, the Board continues to exercise due diligence in ensuring that any departures from IFRS are justified and fully explained (paragraphs 3.8 to 3.11 and generally, Chapter 5).

Last year's report reflected on the Treasury's publication of fully audited Whole of Government Accounts (WGA) for 2009-10, which the Board reported was a significant achievement. The Board was also pleased to receive regular updates from the Treasury on its preparations for the production of WGA for 2010-11. During this reporting year, the Board was pleased to see the publication of an unaudited summary of the 2010-11 WGA in July 2012, followed by publication of the full audited accounts in October 2012. Whilst the 2010-11 WGA showed clear improvements over the previous year's accounts, it was recognised that the Treasury had met significant challenges in addressing some issues for the first time, e.g. large scale accounting policy restatements. The Treasury reported good progress with its preparations for the 2011-12 WGA, and it is already focused on the particular challenges facing 2012-13 WGA, where it will use its new Online System for Central Accounting and Reporting. Significant challenges do remain for the Treasury in driving to publish timelier WGA, whilst addressing positively the issues resulting in WGA audit qualifications. The Treasury is also considering how the information contained within WGA may be best utilised, which is of particular interest to the Committee of Public Accounts, and to the Board (paragraphs 4.2 to 4.8).

In last year's report, the Board received an update from the Treasury on the requirements of IFRS 13 *Fair Value Measurement* and received its views on the likely public sector impact of the Standard. The Board had some concerns over how the Standard will translate to public sector accounting, where exit values are generally not used. In this reporting year, the Board has received updates from both the Treasury and CIPFA/LASAAC on their analysis of IFRS 13, and whilst this has provided a better understanding of the Standard and its implications for the public sector, it is apparent that further work is required to be done by the Relevant Authorities. Whilst it is always disappointing that a standard is not adopted by its application date, there are occasions when it is appropriate to defer. In the case of IFRS 13, there is a need to ensure that the eventual accounting approach applied to the public sector is correct and appropriate on such a key issue as asset valuation. The Board therefore accepted the decision of the Treasury and CIPFA/LASAAC to defer introduction of IFRS 13 until 2014-15 (paragraphs 4.17 to 4.19).

The Board considers consolidation as an important area of financial reporting, setting aside ample time to consider what impact the new consolidation standards issued by the IASB may have on public sector financial reporting. Last year's report indicated that the Treasury was requested to carry out scoping work, comparing the present position with when the new structures are in place. In this reporting year the Board has received further updates from the Treasury, particularly related to the application of IFRS 10 *Consolidated Financial Statements* and IFRS 12 *Disclosures of Interests in Other Entities*, against the backdrop of the European Financial Reporting Advisory Group's decision to delay the mandatory effective date of the Standards to 1 January 2014. Whilst the Board is encouraged with the Treasury's progress on the analysis of the new Standards and the direction of its work, it is keen to ensure that there is further substantive progress, particularly involving all the Relevant Authorities. This work is also linked to the Accounting for Schools issue, also covered in this report, where the Board has suggested that a cross-cutting working group (on the application of IFRS 10) should aim to achieve clarity on the future accounting for schools, and report its progress to the Board. A sound understanding of the impact of the new consolidation standards on public sector financial reporting is essential to permit this group to conduct its work effectively, and the Board believes it is worth spending some time and effort to achieve the right outcome (paragraphs 4.22 to 4.27 and 4.43 to 4.48).

The Board reported last year that in accordance with the advice it provided to the Treasury, it supported the Treasury's proposal for the introduction of a revised methodology for setting discount rates for general provisions, which would bring improved compliance with IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*. During this reporting year, the Board was pleased to receive confirmation from the Treasury that it had implemented its proposal, introducing updated short and medium term discount rates. The Board noted that the long-term discount rate would be set at the next Spending Review, but indicated that it would have preferred the long-term rate to have also been updated this reporting year. The Board is content with the Treasury's confirmation that it will review regularly the discount rates (based on changes to current market data) and keep the Board informed. Given the general agreement that the new methodology is a suitable proxy for the relevant approach in IAS 37, and the flexibility already built into the approach to allow rates to be set well in advance of each year (for short and medium term rates), and only for every Spending Review (for long-term rates), the Board hopes that the methodology can remain stable for some time to come (paragraphs 4.28 to 4.31).

An important aspect of financial reporting is the need to ensure that what is reported is relevant and clear to users of financial statements. In last year's report, the Board reported it had debated the issue of improving relevance and clarity in Annual Reports and Accounts, particularly emphasising the need for the public sector to identify the users of its Annual Reports and Accounts, and their reporting needs. During this reporting year, the Board agreed a Treasury proposal to provide improved clarity in its Annual Reports and Accounts by ensuring a clear distinction between the Statement of Parliamentary Supply (and its supporting notes) from the traditional primary statements and their related notes. The Board was also pleased to receive an update from the Treasury on work it plans to improve further relevance and clarity in central government financial reporting. In this context, how information is delivered in the future (with the differing formats and delivery mechanisms that might apply) is, in the Board's view, a very important debate. It looks forward to further updates from the Treasury and the other Relevant Authorities on this important issue (paragraphs 4.32 to 4.36).

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 seeks to ensure 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 FRAB 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.

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

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 Public Accounts Committee of the National Assembly for Wales.

1.7 This is the Board's 16th Report and the Report structure is summarised below.

Report structure

The impact of the Review of the FRAB

1.8 Chapter 2 of the Report relates to the impact of the Review of the FRAB, one year on.

Applying International Financial Reporting Standards

1.9 Chapter 3 of the Report relates to the activities and views of the Board in respect of the application of International Financial Reporting Standards (IFRS) to 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 2012-13 and 2013-14

1.11 Chapter 5 of the Report considers all significant changes to financial reporting for 2012-13 and 2013-14, whether they result from the introduction of new accounting standards or other sources.

Future issues for the Board

1.12 Chapter 6 looks ahead to the next reporting year, and anticipates some of 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 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's membership.

The Terms of Reference of the FRAB Nominations Committee

1.17 Annex E provides the Terms of Reference for the FRAB Nominations Committee.

About the Board

1.18 Annex F provides general information about the Board.

Chapter 2

THE IMPACT OF THE REVIEW OF THE FRAB

Introduction

2.1 In last year's report, the Board commented on the recommendations made within a report issued by the FRAB Review Group, following its formal review of the FRAB. To address many of the report's recommendations, the Board introduced a number of changes designed to improve its structure, membership and its operational arrangements. One year on, the Board reflects on the effectiveness of the changes it introduced.

Changes introduced to the Board's structure, membership and its operational processes

2.2 The significant changes introduced to the Board's structure, membership and operational processes included:

<u>Structure and membership</u>

- The recruitment of one further independent accountant member to the Board's membership;
- The replacement of the vacant independent economist position on the Board with an independent professional academic member;
- The categorisation of the Board's membership into four membership groupings comprising:
  - Independents;
  - Preparers and users;
  - Auditors; and
  - The Relevant Authorities.
- Further flexibility introduced in respect of membership nominations for the auditors' membership group;
- The formalisation of the parliamentary observer role on FRAB;
- The tenure for the FRAB Chairman and members was set at a three year term, renewable once (although members may, by exception, serve for longer);
- The discontinuation of the attendance of alternates at FRAB meetings;

Operational

- The introduction of a FRAB Nominations Committee;
- The publication of relevant documents on the FRAB's website to ensure the FRAB's selection procedure is transparent;
- The documentation and publication of the roles of the FRAB Chairman and FRAB members;
- FRAB member code of conduct principles introduced and published on the FRAB website;
- FRAB members notified on appointment that they are a member of the Board in a personal capacity, and not as representatives of an organisation;
- Induction material provided to new members and further induction measures provided as needed;
- Increased use of technology to facilitate remote participation at meetings when members cannot physically attend; and
- Earlier publication on the FRAB website of meeting agendas, Minutes and related papers.

Effectiveness of the changes introduced

2.3 The changes introduced to the Board's membership and structure has resulted in a more balanced membership in terms of the breadth and variety of expertise on the Board. Increasing the number of 'independent' members has aided both the actual and perceived independence of the Board. The changes have also ensured consistency of engagement of FRAB members at FRAB meetings, with improved continuity of attendance at meetings, and more effective communication between meetings.

2.4 Some new operational changes were introduced and existing processes formalised to ensure that the Board continues to operate effectively, and in an independent manner. Significant efforts were made to ensure that the Board's operational processes are now fully documented, transparent and accessible via the FRAB website. FRAB members have clear guidelines on their role and conduct, and the increasing use of technology permits members to participate in meetings when they cannot physically attend meetings. Improvements have also been made to the administrative arrangements in support of the Board, with earlier publication of the meeting agendas, Minutes of meetings and related papers.

Independence of the FRAB

2.5 The changes introduced have served not only to ensure the Board remains fit for purpose, but also to ensure that it continues to act independently as an advisory body to the Relevant Authorities. Central to the Board's role is the continued importance of its independence, both actual and perceived. Future regular reviews of the FRAB will help ensure that it continues to meet its independent role efficiently and effectively.

Chapter 3

APPLYING INTERNATIONAL FINANCIAL REPORTING STANDARDS

Introduction

3.1 This chapter reports on the outcome of the CIPFA/LASAAC post-implementation review of the 2010-11 transition to IFRS in local government, and on its second year of IFRS-based reporting.

3.2 This chapter also provides information on recent activities related to the FReM, which is applied by central government and the NHS (via the NHS Accounting Manuals and the NHS Foundation Trust Annual Reporting Manual), and the Code of Practice on Local Authority Accounting in the United Kingdom (the Code).

Post implementation review of the local government transition to IFRS

3.3 In last year's report, the Board reported that CIPFA/LASAAC would be undertaking a post-implementation review of the transition to IFRS in local government, including reasons for the significant differences in the lengths of the IFRS-based accounts produced by local authorities.

3.4 In this reporting year, the Board was pleased to receive an update from CIPFA/LASAAC, which summarised the outcomes of the post-implementation review. Overall, the review concluded that the implementation of the IFRS-based Code was very successful, although it did identify evidence that in a limited number of areas in the Code would benefit from further clarification or augmentation.

3.5 The post-implementation review also included a limited review of the main financial statements, and whilst significant issues were identified, the review group undertaking the review concluded that resources would be better focused on seeking and promoting best practice in the production of financial statements, building on the 'Let's be Clear' Audit Commission briefing and such initiatives as 'Cutting the Clutter'.

3.6 The review did identify a number of disclosures required by the Code where there is no equivalent requirement in financial reporting standards or in legislation, and which no longer add value. As a result of this, CIPFA/LASAAC made related changes to its 2013-14 Code to remove those disclosures that no longer add value.

Second year of IFRS-based reporting in local government

3.7 The second year of IFRS-based reporting in local government built on the successful implementation of IFRS in 2010/11 with further improvements. This was acknowledged in the Audit Commission report *Auditing the Accounts 2011/12:*

"Overall, both principal and small bodies improved their standard of performance on financial reporting for 2011/12. This is a notable achievement given the continuing financial constraints facing local public bodies."

The Government Financial Reporting Manual (FReM)

3.8 Following review by the Board the 2013-14 FReM was published to timetable, in December 2012.

3.9 Although the Board has had sight of the draft financial chapters of the NHS Foundation Trust Annual Reporting Manual for 2013-14 prior to Monitor's consultation on its introduction, the Board has not yet had sight of the final version of the Manual. The Board has also not yet seen the NHS Manuals for Accounts for 2013-14. The Board looks forward to approving these Manuals on a progressively improved timetable in future periods.

3.10 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.

Code of Practice on Local Authority Accounting in the United Kingdom (the Code)

3.11 Following review by the Board, the 2013-14 Code will be published to a slightly extended timetable and will be issued by May 2013.

Significant Changes to the FReM and the Code

3.12 Details of significant changes to the 2012-13 and 2013-14 versions of the FReM and the Code are at Chapter 5.

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 may 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, paragraph 6.10).

Whole of Government Accounts (WGA)

4.2 In last year's report, the Board was pleased to receive from the Treasury a copy of its audited 2009-10 WGA, together with a detailed update on preparations for the production of WGA for 2010-11. The Board noted that the 2009-10 WGA received a true and fair audit opinion, with the exception for issues that led to a qualification by the Comptroller and Auditor General related to:

- The WGA accounting boundary;
- Inconsistency of accounting policies;
- Counterparty eliminations;
- The treatment of the sale of 3G licenses; and
- Qualifications in some underlying accounts.

4.3 The Board acknowledged the significant task facing the Treasury to achieve more timely and unqualified WGA. The Board reported it was ready to assist the Treasury in achieving its aim by providing its advice to improve further the consistency of financial reporting across the public sector, and thus aid the WGA process, so that WGA can fulfil its potential to broaden and deepen available financial information about the public sector above and beyond that provided by the fiscal debt figures.

4.4 In this reporting year, the Board was pleased to receive further updates from the Treasury on progress with WGA. An unaudited summary of the 2010-11 WGA was published in July 2012, followed by publication of the audited accounts, in October 2012. The 2010-11 WGA showed clear improvement over the previous year's accounts, however the Treasury informed the Board that improvements made to the processes for producing the accounts had been offset by the challenges involved in addressing some issues for the first time, for example, large scale accounting policy restatements.

4.5 The Treasury reported good progress to-date with its 2011-12 WGA, having delivered the first draft of the accounts to the NAO in January, except for the management commentary and some missing data as a result of the impact of the late receipt of some underlying accounts, with final draft accounts delivered in April.

4.6 For the 2012-13 WGA, the focus of the Treasury is on introducing the Online System for Central Accounting and Reporting (OSCAR), with WGA consolidation due in July 2013. With the introduction of OSCAR, no significant change to the WGA timetable is expected, although the Treasury is ensuring that improvements are made to its internal non-system processes, which will benefit WGA reporting in future years.

4.7 Significant challenges remain for the Treasury to publish timelier WGA in future, whilst also addressing positively the issues that give rise to the audit qualifications. The Treasury is also considering how the information contained within WGA can be best utilised, which is of particular interest to the Committee of Public Accounts and the Board.

4.8 The Board looks forward to receiving further regular updates from the Treasury on WGA.

Accounting for PPP arrangements, including PFI, under IFRS following the issue of IPSAS 32 *Service Concession Arrangements: Grantor*

4.9 In last year's report, the Board was pleased to receive an update from the Treasury on its view on the impact of adopting the principles of IPSAS 32 in the absence of guidance from IFRS. Following initial debate of this issue, the Board considered that further technical debate was required, and also advised the Relevant Authorities that this is an area that they ought to consider in more detail.

4.10 In this reporting year, the Board received financial reporting proposals from both the Treasury and CIPFA/LASAAC to amend their respective accounting manuals, from 2013-14, in respect of the timing of asset and liability recognition, with which the Board agreed.

4.11 The Board received an update from the Treasury and CIPFA/LASAAC that joint proposals for amending their respective accounting manuals in respect of accounting for those arrangements that do not involve a unitary payment had been postponed. This was pending further analysis and discussion with their stakeholders before bringing firm proposals to the Board.

4.12 The Board advised that this issue might be deferred for the time being given that no current examples of such arrangements exist in the UK public sector. Were such transactions to become more common in future then the accounting issues would rightly require further attention.

4.13 The Board requested that it be kept informed of developments with this accounting issue, particularly following the government's review of PFI.

IAS 1: *Presentation of Financial Statements*

4.14 The Board agreed with the Treasury proposal to amend the FReM, from 2013-14, in the central government context to reflect the amendments made by the International Accounting Standards Board to IAS 1 *Presentation of Financial Statements*.

IAS 19: *Post Employment Benefits*

4.15 In last year's report, the Board commented on initial proposals received from the Treasury proposing amendments to the FReM and the supporting illustrative statements, from 2013-14, to reflect changes made to IAS 19 *Post Employment Benefits*.

4.16 In this reporting year, the Treasury sought and secured the Board's agreement to the proposed changes, as previously detailed and discussed with the Board.

IFRS 13: *Fair Value Measurement*

4.17 In last year's report, the Board received an update from the Treasury on the requirements of IFRS 13 *Fair Value Measurement* and received its preliminary view on the likely public sector impact of the Standard. The Board had some concerns over how the Standard will translate to public sector accounting, where exit values are generally not used. The Treasury agreed to carry out further analysis work in conjunction with CIPFA/LASAAC on application of the Standard's requirements in relation to the public sector, and bring the issue back to the Board.

4.18 In this reporting year, the Board received further updates on progress from the Treasury and CIPFA/LASAAC on their analysis to-date of IFRS 13. The analysis undertaken provided a much better understanding of the Standard and its potential implications for the public sector context, with the potential requirement for departure from the standard appearing less extensive than initially thought. It was recognised, however, that further analysis work would be required, which will be followed by consultations within central and local government on how the Standard is intended to be applied.

4.19 Whilst it is always disappointing that a standard is not adopted by its application date, there are occasions when it is appropriate to defer. In the case of IFRS 13, the Board accepted the decision of the Treasury and CIPFA/LASAAC to defer application of the standard until 2014-15, recognising the need to ensure that the accounting approach applied is correct and appropriate for the public sector. In light of the usual practice of long-life asset revaluation in the public sector, this is a key issue for users of public sector financial statements. The Board looks forward to working with the Relevant Authorities to deliver a workable approach in time for application in 2014-15.

Implementation of the Hutton Review on Fair Pay, pay multiples, transparency and public accountability improvements

4.20 In last year's report, the Board reported it agreed Treasury proposals to amend the FReM, from 2011-12, requiring an extension of the Remuneration Report, adding disclosures as a result of the Government's commitment to follow the Hutton recommendations related to increasing transparency and accountability on pay. The Board also recommended that the Treasury review the additional disclosure requirements and supporting guidance following publication of departments' Annual Report and Accounts.

4.21 During this reporting year, the Treasury provided an update to the Board on the results of its review of disclosures, and sought and secured agreement to changes to its implementation guidance, which removed severance payments from the relevant calculations. The Board was provided with the opportunity to discuss the appropriateness of expansion of the disclosure requirements, from 2013-14, particularly related to the inclusion of pension figures. The Board encourages the Treasury to continue to consider this issue in the light of imminent changes relating to disclosure of executive remuneration in the private sector, which are far-reaching.

IFRS Consolidation Standards

4.22 In last year's report, the Board received an update from the Treasury on its view of the new consolidation standards (IFRS 10 *Consolidated Financial Statements,* IFRS 11 *Joint Arrangements* and IFRS 12 *Disclosures of Interests in Other Entities*), which, it considered, would not impact on the existing consolidation boundaries. These include the departmental accounting boundary and the WGA boundary, although in respect of the latter, the Comptroller & Auditor General has taken a different position and considers that all bodies that are owned and controlled by the government should be included within the WGA account in accordance with accounting standards.

4.23 To help determine the impact of the new Standards on public sector financial reporting, the Board requested the Treasury to carry out further scoping work comparing the present position with when the new structures are in place. This work was expected to involve a two-stage process involving the establishment of a preliminary set of tests followed by the development of interpretation guidance.

4.24 In this reporting year, the Board has received further updates from the Treasury, particularly related to the application of IFRS 10 and IFRS 12, and against the backdrop of the European Financial Reporting Advisory Group's decision to recommend a delayed mandatory effective date of the Standards to 1 January 2014.

4.25 Significant points raised with the Board related to the IFRS 10 definition referring to 'returns' rather than 'benefits', which includes risk as well as rewards in determining control; without the inclusion of service potential as a type of return for the public sector context, the basic control principles of IFRS 10 would likely fail, despite the intertwined relationship that may otherwise warrant consolidation under IAS 27/SIC 12. The Treasury viewed that an adaptation of the Standard would be required to reflect the substance of control relationships within the public sector, and that there would be a need for guidance to clarify agency/principle relationships. The Treasury also informed the Board that it may also be necessary to provide guidance for Special Purpose Entities as the guidance in IFRS 10 and IFRS 12 might be viewed as providing insufficient guidance for Special Purpose Entities, which were previously dealt with in an IASB interpretation, written to accompany IAS 27.

4.26 The Board is encouraged with the Treasury's progress on the analysis of the new Standards and the direction of the work. However, at this stage the Board was not convinced of the need for an adaptation of the guidance in IFRS 10 and noted that in practice, in the private sector, a broad interpretation is made of what constitutes 'returns'. In the majority of cases, the consolidation answer was unchanged in comparison with previous guidance, although the analysis and thought process applied in reaching this answer could be different. The Board suggested that examples of the application of the new Standards should be provided and encouraged pilot applications of the new Standards based on draft guidance, involving the Relevant Authorities.

4.27 The Board is keen to see the right principles established on this key financial reporting issue, the importance of which is highlighted by continuing debate on accounting for schools, which is discussed further below. The Board is pleased that working groups have been established to consider consolidation in general under the new standards, as well as the application of the new standards to the schools issue.

Discount rate for general provisions

4.28 In last year's report, the Board reported that it had received initial proposals from the Treasury for introducing a new methodology for determining discount rates to be applied to general provisions, which provided an opportunity for improved compliance with IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*. In accordance with the Board's previous advice, three discount rates were proposed (short, medium and long-term), which would be provided to Departments for the purposes of their Estimates and budgets for 2012-13. The Board supported the proposals for the revised methodology for setting the discount rates.

4.29 During this reporting year, the Board was pleased to receive confirmation from the Treasury that it was applying the methodology for determining the discount rates as originally proposed and agreed with the Board. In line with this, the Treasury issued revised short and medium term discount rates to Departments in December 2012. The Treasury confirmed it would set the new long-term discount rate at the next Spending Review. The Board noted this but indicated that it would have preferred for the long-term rate to be also updated for this reporting year.

4.30 The Board received the Treasury's confirmation that it would continue to regularly review the discount rates, and that it would inform the Board of any significant potential change to the discount rates (based on changes to current market data), or proposals to change the methodology employed to calculate the rates. Given the general agreement that the new methodology is a suitable proxy for the approach in the relevant accounting standards, and the flexibility already built into the approach to allow rates to be set well in advance of each year (for short and medium-term rates) and only every spending review (for long-term rates), it is hoped the methodology can remain stable for some time to come.

4.31 The Board looks forward to receiving regular updates from the Treasury on movements in rates as well as methodology issues given the substantial consequences changes in discount rates can have on the measurement of longer term liabilities in particular. This is particularly important given current market and wider economic conditions and the potential volatility of rates.

Improving relevance and clarity in Annual Reports and Accounts

4.32 In last year's report, the Board was pleased to receive a discussion paper from the Treasury inviting it to note the Treasury's initial view of what further areas it might explore (beyond what the standard setters were doing or planning to do) to improve relevance and clarity in Annual reports and Accounts, and specifically related to central government financial reporting.

4.33 The Board was pleased to debate the issues raised in the discussion paper, which focused particularly on relevance of information, presenting information in a separate way or via alternative mechanisms, and the needs of users of Annual Reports and Accounts. The Board considered that 'materiality' and the way information is structured in Annual Reports and Accounts are particularly important considerations.

4.34 During this reporting year, the Board received and agreed proposals from the Treasury to amend the FReM, from 2013-14, to ensure a clear distinction between the Statement of Parliamentary Supply (with its own accounting policy and disclosure notes) from the traditional primary financial statements and their associated notes contained within Annual Reports and Accounts. The Board also received an update from the Treasury on further work planned by it to improve relevance and clarity in central government financial reporting.

4.35 The Board emphasised the need to identify the primary users and potential users of central government financial statements and that consideration needs to be given as to how information is delivered in the future, with different formats possibly applying. The Board viewed this as a very important debate.

4.36 The Board looks forward to receiving further updates from the Treasury and the other Relevant Authorities on their progress to improve relevance and clarity in public sector financial reporting.

Merger accounting

4.37 In last year's report, the Board reported that the Treasury had sought its view on whether there was scope for clarifying or amending the relevant financial reporting guidance on merger accounting. This topic also formed part of the Board's discussions with the Treasury on consolidation issues.

4.38 In its discussions with the Board, the Treasury's position was that that the FReM applied merger accounting for the transfers of public sector bodies and transfers of function within the public sector, which are outside the scope of IFRS 3 *Business Combinations*. The Treasury adopts the Office for National Statistics (ONS) classification of the public sector as forming the boundary of common control. This comprises local and central government including NDPBs and public corporations.

4.39 However, the Board was informed that the earlier acceptance by the Treasury and the Board (in 2006) that common control exists across the public sector based on ONS classifications to Government as a whole (Central, local and public corporations), and thus the principles of merger accounting should be applied throughout, was not always working in practice. In some circumstances merger accounting was proving impracticable or inappropriate as a result of the wholesale government restructuring that was taking place.

4.40 To ensure the most appropriate accounting approach could be identified, the Board recommended the establishment of a working group to look at the specific issues and to report its findings back to the Board.

4.41 During this reporting year, the Board was pleased to receive updates on progress from the working group and the Treasury with this work, which culminated in a Treasury proposal, which was agreed by the Board to amend the FReM, from 2012-13, to:

- The continued application of merger accounting (transfer by merger) for departmental-group level transfers of function within central government;
- To account for all other transfers of function within the public sector from the date of transfer (transfer by absorption); and in parallel
- For the Treasury to issue a guidance note for practitioners applying the FReM change.

4.42 The Board considered this solution to be correct from both an accounting and accountability perspective, with practical gains for the preparers of accounts. This has been a good example of how the Board can help the public sector get to a better, more appropriate solution where practical difficulties have emerged. The Board has asked to be kept informed as to whether the new approach is operating satisfactorily having been made aware that application of the guidance may not always lead to appropriate outcomes in certain situations.

Accounting for schools

4.43 In last year's report, the Board commented on a planned review by CIPFA/LASAAC of the accounting treatment of non-current school assets. This review was considered timely due to a degree of confusion existing for some time as to whether the assets for different types of schools should be included on local authority balance sheets. This is because the correct accounting treatment is not clear from referring to financial reporting standards alone, meaning further guidance is required for the public sector.

4.44 In this reporting year, the Board received an update from CIPFA/LASAAC on progress with its working group tasked with considering accounting for schools in England and Wales purely from a local authority perspective. As a result of this work, the Board was informed that only community and community special schools were considered to be controlled under IAS 27 and SIC 12 (standards which are due to be replaced by IFRS 10 in 2014-15), and that remaining schools were not recognised in local authority accounts.

4.45 The Board's view is that if there is a genuine mismatch within the public sector for accounting for schools in terms of central and local authority classification, then there needs to be an appropriate mechanism to deal with the issue. This has also highlighted problems arising from the fact that consolidation in central government departments is based on ONS classifications, whilst for arms-length bodies and local government, consolidation is based on IFRS.

4.46 The Board therefore suggested that a cross-cutting working group should form to take forward the issue, focussing on applying the new standard IFRS 10, and that there was a continuing role here for the Office for National Statistics. It should aim to achieve clarity on accounting for schools and report its progress to the Board.

4.47 The Board looks forward to receiving a report from this new working group in due course. In the meantime, local authorities will not be required to make any changes in their accounting for schools in 2013-14.

4.48 In addition, the working group established by CIPFA/LASAAC will continue to consider the schools issue from a local authority perspective, and will consider the outputs of the new working group discussed above as an integral part of its debates. The Board encourages all parties to work together to ensure a consistent and high quality solution across all parts of the public sector.

Clear Line of Sight Consolidation

4.49 The Board was pleased to receive an update from the Treasury on the results of the Clear Line of Sight (CLOS) consolidation process. The Board was encouraged to learn that although there were recurring audit qualifications related to some of the fifty sets of consolidated accounts, none of these was as a result of the consolidation process. The Board was also pleased to learn that the Treasury is conducting a CLOS post implementation review to identify best practice and lessons learned from the implementation process.

4.50 The Board congratulated the Treasury and other stakeholders on the successful implementation of the project.

Mid-year reporting

4.51 The Board was pleased to receive a request from the Treasury to note its work undertaken so far in assessing the feasibility of requiring departments to prepare a mid-year report, and sought the Board's view on the concept.

4.52 Whilst supportive of the project in the longer term, the Board advised that it is important to bear in mind the practicality of doing this and in taking forward the proposal the Treasury needs to consider the needs of users, and how information is reported and communicated. Initial pilot proposals are not to introduce private sector style interim reporting, which would be a considerable burden on the public sector, but rather the production of a high level document that provides a summary of key issues. The Board is supportive of this approach.

4.53 The Board looks forward to receiving a further update on the Treasury's progress with this work, but has advised that for the moment other financial reporting issues should probably have higher priority, subject to the views of Parliament.

Finance Transformation Programme

4.54 The Board was pleased to receive a presentation from the Treasury on the background and overall strategy and progress of its Finance Transformation Programme.

4.55 The presentation provided the Board with the opportunity to provide its views on several of the key work strands within the programme, including those related to reducing the timeframe for accounts and reducing costs, on sharing best practice, financial management training and identification of success measures.

4.56 The Board looks forward to receiving a future update from the Treasury on progress with this important project.

Eurostat IPSAS project

4.57 The Board received a report from the Treasury on the European Commission's project to assess the feasibility of adopting a common basis of reporting for all EU governments, based on IPSAS. This is part of the fiscal stability package of measures.

4.58 The Board was informed that in addition to considering the implications of EU member states adopting IPSAS, the taskforce is considering the costs of accrual accounting and the pros and cons of various options. It is anticipated that there will be a requirement for some form of accrual accounting throughout Europe, with a bridge to ESA 95/10.

4.59 It was acknowledged that Eurostat has some complex issues to consider, including the timing of any changes. The Board believes that the great progress made by the UK in public sector reporting provides a useful example of what can be done to achieve transparent financial reporting by governments.

4.60 The Board looks forward to receiving a further update from the Treasury on this issue.

Accounting for the Carbon Reduction Energy Efficiency Scheme

4.61 In this reporting year, the Treasury sought and secured the Board's agreement to an amendment to the FReM, from 2012-13, for accounting for the Carbon Reduction Commitment Energy Efficiency Scheme.

4.62 Given the potential changing nature of the Scheme, and the potential for trading scheme allowances if there is an active market for doing so, the Board agreed to revisit the agreed accounting approach in autumn 2013, to ensure it remained appropriate.

Chapter 5

FINANCIAL REPORTING FOR 2012-13 and 2013-14

Introduction

5.1 Over this reporting period, the Board agreed in-year amendments to the 2012-13 FReM and agreed the 2013-14 version of the FReM. It also agreed the 2012-13 versions of the Foundation Trust Annual Reporting Manual and the NHS Manual for Accounts. It also considered the draft 2013-14 Foundation Trust Annual Reporting Manual prior to its issue for consultation with Foundation Trusts.

5.2 The Board agreed in-year amendments to the 2012-13 Code of Practice on Local Authority Accounting (the Code) and agreed the 2013-14 version of the Code.

5.3 Significant changes are described below.

The 2012-13 FReM

The application of merger accounting in the public sector context

5.4 The Board agreed the Treasury proposal to amend the FReM, from 2012-13, to:

- Continue to apply merger accounting (transfer by merger) for department-group level transfers of function within central government;
- Account for all other transfers of function within the public sector from the date of transfer (transfer by absorption); and in parallel
- For the Treasury to issue a guidance note for practitioners applying the FReM change.

Accounting for the Carbon Reduction Commitment (CRC) Energy Efficiency Scheme

5.5 The Board agreed a Treasury proposal to amend the FReM, from 2012-13, for accounting for the Carbon Reduction Commitment Energy Efficiency Scheme, although due to the potential changing nature of the Scheme, it agreed to revisit the agreed accounting approach in autumn 2013, to ensure it remains appropriate.

The 2013-14 FReM

Accounting for PPP arrangements, including PFI contracts under IFRS

5.6 The Board agreed a Treasury proposal to amend the FReM, from 2013-14, in respect of the timing of asset and liability recognition.

Improving Relevance and Clarity in Central Government Financial Reporting

5.7 The Board agreed a Treasury proposal to amend the FReM, from 2013-14, to ensure a clear distinction between the Statement of Parliamentary Supply (with its own accounting policy and disclosure notes) from the traditional primary financial statements and their associated notes contained within Annual Reports and Accounts.

The 2012-13 and 2013-14 Foundation Trust Annual Reporting Manual

5.8 The Board agreed the NHS Foundation Trust Annual Reporting Manual for 2012-13, with no new divergences from the FReM.

5.9 The Board also had sight of the draft financial chapters of the NHS Foundation Trust Annual Reporting Manual for 2013-14 prior to Monitor's consultation on this with Foundation Trusts, but has not yet had sight of the final version. No new divergences from the FReM were proposed.

5.10 The Board looks forward to approving future versions of the Manual on a progressively improved timetable.

The 2012-13 and 2013-14 NHS Manuals for Accounts

5.11 The Board approved the NHS Manuals for Accounts for 2012-13 in December 2012, with no new divergences from the FReM.

5.12 The Board has not yet had sight of the NHS Manuals for Accounts for 2013-14. The late issue of the Manuals is not helpful to preparers of accounts, and the Board looks forward to approving the 2013-14 manuals, and those beyond, on a progressively improved timetable.

The 2012-13 and 2013-14 Code of Practice on Local Authority Accounting

5.13 The 2012-13 Code mid-year update was the result of a number of legislative changes made after the Code was published, together with an update for accounting for the Carbon Reduction Commitment Energy Efficiency Scheme.

5.14 The amendments to the 2013-14 Code relate to changes to accounting standards, other amendments and legislative changes.

5.15 The more significant changes to the 2013-14 Code related to:

- The adoption in full of the June 2011 amendments to IAS 19 *Employee Benefits*;

- Amendments to the Comprehensive Income and Expenditure Statement to reflect the 2011 amendments to IAS 1 *Presentation of Financial Statements* and IAS 19 *Employee Benefits*;

- Augmentation of the Code's provisions in relation to Service Concession Arrangements;

- IFRS 7 Financial Instruments: Disclosures (2011 amendments) and IAS 12 *Income Taxes* (2010 amendments); and

- Accounting for Business Rates.

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.

Whole of Government Accounts (WGA)

6.2 Over the coming year, the Board looks forward to receiving updates from the Treasury on its further progress with WGA, particularly related to its future timetabling for the accounts and the Treasury's plans to address the audit qualifications in the 2010-11 accounts.

Mid-year reporting

6.3 The Board looks forward to receiving a report from the Treasury on whether it has plans for, or intends to consult on the feasibility of introducing, mid-year reporting in some form for central government and the NHS.

Accounting for PPP arrangements, including PFI, under IFRS

6.4 Accounting for those PPP arrangements that do not involve unitary payments remains an unresolved issue for both central and local government accounting. At present this work is on hold with the agreement of the Board until such time as specific accounting guidance for these arrangements is required.

IFRS 13: *Fair Value Measurement*

6.5 The analysis of IFRS 13 presented to the Board, so far, by the Treasury and CIPFA/LASAAC has not yet resulted in consistent proposals submitted to the Board on the proposed application of the Standard in the public sector context. Further analysis work is required by the Relevant Authorities in order that the Board can understand fully the potential impact of the Standard on public sector financial reporting, and in order that it can advise on a jointly proposed accounting approach.

6.6 It is regrettable that the Standard will be not be applied to public sector financial reporting until 2014-15, however the Board acknowledges that the delay is in the interests of ensuring the correct accounting approach is applied. This should not, however, be regarded as a precedent for the possible delay of future standards.

IFRS Consolidation Standards

6.7 Over this reporting period the Board has been encouraged with the Treasury's progress on the analysis of the new Standards and the general direction of its work. The Board looks forward to receiving further progress updates, including examples of the application of the Standards in the public sector, and it encourages the introduction of pilot applications of the Standards based on draft guidance, involving the Relevant Authorities.

Improving Relevance and Clarity in Annual Reports and Accounts

6.8 During this reporting year, the Board received an update from the Treasury on the further work planned by it to improve relevance and clarity in central government financial reporting. The Board looks forward to receiving further updates on this work and emphasised to the Treasury the need to identify the users of central government financial statements, and the need for consideration as to how information is delivered in the future.

Monitoring and responding to international accounting standard setters

6.9 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. These include consultation documents issued by the International Accounting Standards Board (IASB), the IFRS Interpretations Committee and the International Public Sector Accounting Standards Board (IPSASB).

International Financial Reporting Standards

6.10 The IASB also continues its work on a number of long term and very significant projects, including on financial instruments, leases and revenue recognition. During 2013, IFRSs on hedge accounting and revenue recognition are due to be released, in addition to an exposure draft on leasing. Consequently, the Board anticipates early consideration of their potential impact 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			●

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	●		
IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments	●		
FRS 30 Heritage Assets	Follows the principles of the standard		

Annex B

THE TERMS OF REFERENCE OF THE FINANCIAL REPORTING ADVISORY BOARD

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

- 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 representatives 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 Executive Committee of the Northern Ireland Assembly 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 Executive Committee of the Northern Ireland Assembly.

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

(i) where the Treasury, the Executive Committee of the Northern Ireland Assembly 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[2]
- accounts of executive non departmental public bodies where the Scottish Ministers have the power of direction

[2] 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[3], 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 Executive Committee of the Northern Ireland Assembly 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 Executive Committee of the Northern Ireland Assembly.

(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 Executive Committee of the Northern Ireland Assembly, 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 Executive Committee of the Northern Ireland Assembly.

2.2 The Treasury, (in conjunction with the Department of Health in respect of NHS trusts in England and Monitor in respect of NHS Foundation Trusts in England), the Welsh Assembly Government, the Scottish Ministers, the Executive Committee of the Northern Ireland Assembly 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

[3] 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; and

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

2.3 The Treasury, the Scottish Ministers, and the Executive Committee of the Northern Ireland Assembly 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, analysed into four membership groupings will comprise:

Independents

- An independent Chairman, appointed, following open advertisement, by the Head of the Government Finance Profession, with the consent of the Relevant Authorities;
- 1 member, a professional academic with relevant accounting or economics experience, appointed by the FRAB Nominations Committee following open advertisement;
- 2 independent members, appointed by the FRAB Nominations Committee following open advertisement;
- 1 member nominated by the Accounting Standards Board;

Preparers/Users

- 3 members nominated by the Finance Directors of UK government departments from respectively, a department, a trading fund and a non-departmental public body;
- 1 member nominated by the National Statistician;
- 1 member nominated by the Department for Communities and Local Government;
- 1 member (local authority preparer) nominated by CIPFA/LASAAC from its membership.

Auditors

- 1 member nominated by the Comptroller & Auditor General;
- 2 members nominated by other public sector audit bodies.

Relevant Authorities

- 1 member nominated by the Treasury;
- 1 member nominated by the Scottish Ministers;
- 1 member nominated by the Executive Committee of the Northern Ireland Assembly;
- 1 member nominated by the Welsh Assembly Government;
- 1 member nominated by the Department of Health;
- 1 member nominated by Monitor; and
- 1 member nominated by the Chartered Institute of Public Finance and Accountancy.

3.2 Nominations for FRAB membership will be considered by the FRAB Nominations Committee, in accordance with its terms of reference.

3.3 There will be 1 parliamentary observer, nominated by the Government Chief Whip.

3.4 The FRAB Chairman will be appointed for three years, renewable once.

3.5 Members will normally be appointed for three years, with a rebuttable presumption that membership is renewable only once.

3.6 Temporary FRAB membership is permitted at the discretion of the FRAB Chairman to cover the long-term absence of a FRAB member.

3.7 Alternates are not permitted to attend FRAB meetings, however other participants from the Relevant Authorities are permitted to participate in meetings if Relevant Authority members are unable to do so, purely to provide a Relevant Authority perspective.

3.8 Observers at FRAB meetings may be permitted, at the discretion of the FRAB Chairman.

3.9 The FRAB membership will be subject to regular review by the FRAB Nominations Committee, covering succession planning.

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

4 Review of Terms of Reference

4.1 These Terms of Reference should be subject to regular review and at least every five years.

Annex C

DEVELOPING FINANCIAL REPORTING GUIDANCE FOR THE UK 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 HM Treasury in respect of central government, the Scottish Government, the Executive Committee of 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[1] 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 in the United Kingdom (UK).

Financial reporting guidance for the public sector

3. Financial reporting guidance for the UK public sector is set out in the following; collectively referred to in this document as 'the Manuals':

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

4. The Manuals shall be prepared using EU adopted IFRS, subject to such adaptations[2] as are necessary for the public sector context. When

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

[2] An adaptation of EU-adopted IFRS includes an adaptation, interpretation, deferral or clarification of IFRS as considered necessary in the context of the UK public sector.

considering an amendment to the Manuals, which may involve an adaptation of EU-adopted IFRS, this will be determined by reference to the guidance in Annex A. Proposals for adaptation of EU adopted IFRS shall normally be shared with the FRAB prior to proceeding with public consultation.

5. The Relevant Authorities ensure that the financial reporting guidance set out in the Manuals is kept up to date.

Due Process

The FRAB Working Group

6. The Relevant Authorities shall establish a FRAB Working Group whose membership shall comprise:

- the FRAB Secretary; and
- representatives from each of the other relevant authorities.

The Group shall be chaired by the FRAB Secretary.

7. When proposing amendments to the Manuals the Relevant Authorities shall discuss those proposals with the FRAB Working Group.

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

9. The representatives 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

10. 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 on the HM Treasury website 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.

11. 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.

12. The public consultation shall comprise placement on the Relevant Authority’s own website and by targeted circulation or consultation as appropriate. The public consultation period shall be at least eight weeks.

13. The Relevant Authority shall, except where respondents have requested confidentiality, place responses on their websites.

Papers considered by the FRAB or other bodies

14. 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.

15. The FRAB secretariat shall aim to distribute papers to FRAB members at least ten days prior to the meeting date. Other bodies need to build into their Due Process arrangements an allowance for adherence to this timetable.

16. All FRAB papers and Minutes of meetings shall be published on the FRAB website by the FRAB Secretariat in accordance with the FRAB's publication policy.

17. Where a separate body considers the responses to its consultation, that body shall be responsible for agreeing the content of its Manual(s). That separate body shall present for approval to the FRAB:

- the full and final text of the Manual(s) prior to its being issued for the first time; and, thereafter
- a list of differences between the Manual(s) and the FReM.

18. 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 17.

Implementation dates

19. The version of the FReM for financial years starting on 1 April shall be available by the preceding 1 January and shall incorporate all EU- adopted IFRS effective as at that date – that is, 15 months before the end of the financial year to which the FReM relates, unless exceptional circumstances prevent this. The Relevant Authorities should aim to have the relevant versions of the other Manuals available by 1 April for the financial year starting on that day and ending on the following 31 March.

20. Mid-year updates to the Manuals should not be driven by changes in accounting standards, but only by those necessary to address regulatory or adaptation issues that emerge after publication of the relevant version of the Manual.

Influencing the development of accounting standards

21. 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 Consultation Papers and Exposure Drafts issued by either standard setter, for discussion with the FRAB and prepare responses as directed.

Review

22. This Memorandum of Understanding shall be reviewed at least every five years or earlier at the request of one of the Relevant Authorities.

Signatures

23. Dated and signed on behalf of the Relevant Authorities:

Lindsey Fussell
Director, Financial Management and Reporting
HM Treasury

Alyson Stafford CBE
Director General Finance
Scottish Government

Martin Sollis
Deputy Director of Finance
Welsh Assembly Government

Janet Perry
NHS Chief Financial Controller
Department of Health

Fiona Hamill
Treasury Officer of Accounts
Department of Finance and Personnel
Northern Ireland Assembly

Robert Davidson
Portfolio Director
Monitor

Ian Carruthers
Policy and Technical Director
CIPFA

Dated: 18 April 2012

Annex A

Adaptations of EU-adopted IFRS for the UK public sector context.

Overall Approach

In determining whether the public sector context requires an adaptation of EU-adopted IFRS, the Relevant Authorities will consider the following:

i) Whether applying the requirements of the relevant financial reporting standard would mean that the accountability and decision making objectives of public sector financial reporting would not be adequately met;

ii) Whether applying the requirements of the relevant financial reporting standard would mean that the qualitative characteristics of public sector financial reporting would not be adequately met; and

iii) Whether applying the requirements of the relevant financial reporting standard would result in impracticability issues.

Indicators of the potential need for an adaptation

The factors below may indicate an adaptation of EU-adopted IFRS is necessary for the public sector context:

- Accountability or regulatory framework differences;
- Governance or financial management differences;
- Alignment with other government financial frameworks;
- The existence of specific powers;
- The impact of social benefits or other non-exchange activities;
- The existence of contributed/donated assets;
- The existence of non-cash generating activities or assets;
- Differences related to the structure or service potential of assets;
- Sustainability issues;
- EU-adopted IFRS not addressing the public sector circumstances, or not doing so adequately;
- Different or additional guidance in a relevant International Public Sector Accounting Standard (IPSAS); or
- Practical difficulties with implementation in the public sector or cost/benefit considerations.

Development Process

In determining the type and form of the proposed adaptation of EU-adopted IFRS the Relevant Authority shall consider the applicability in the context of the following guidance sources:

- International Public Sector Accounting Standards, as issued by the International Public Sector Accounting Standards Board;

- The relevant international Conceptual Framework, as developed by the standard setters in the absence of more specific guidance in a standard;
- Other financial reporting standards relevant to the public sector.

In following normal due process for developing proposed amendments to the Manuals, relevant papers are to document the extent and reasons for proposing any adaptation of EU-adopted IFRS.

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, by groupings, during this reporting period comprised:

Independent/External members:

Chairman: Kathryn Cearns, Consultant Accountant, Herbert Smith Freehills LLP.

Andrew Buchanan, Global Head of IFRS, BDO IFR Advisory Limited.

Ron Hodges, Professor of Accounting, University of Birmingham.

Roger Marshall, Chairman, UK Accounting Council.

Veronica Poole, Global Managing Director IFRS Technical, Deloitte LLP.

Preparers/users:

Bob Branson, Head of Financial Management, Environment Agency.

Peter Davies, Assistant Head of Finance, Monmouthshire County Council (until October 2012).

Janet Dougharty, Deputy Director Local Government Finance, DCLG.

Kathryn Gillatt, Finance and Corporate Services Director, Driving Standards Agency.

Sue Higgins, Director-General (Finance and Corporate Services), Communities and Local Government.

David Hobbs, Head of Accountancy Advice, Office for National Statistics.

Auditors:

David Aldous, Associate Controller – Audit Technical Support, Audit Commission.

Andrew Baigent, Director General for Financial Audit, National Audit Office (until October 2012).

Russell Frith, Assistant Auditor General, Audit Scotland (until October 2012).

Maggie McGhee, Director General for Financial Audit, National Audit Office (from December 2012).

Mike Usher, Group Director, Wales Audit Office (from January 2013).

Relevant Authorities:

Ian Carruthers, Policy and Technical Director, CIPFA.

Robert Davidson, Interim Director of Finance and Reporting, Monitor.

Gawain Evans, Deputy Director of Finance, Welsh Assembly Government (from February 2013).

Jean-Christophe Gray, Deputy Director General Expenditure Policy, HM Treasury (Until October 2012).

Fiona Hamill, Treasury Officer of Accounts, Department of Finance and Personnel Northern Ireland.

Janet Perry, NHS Chief Financial Controller, Department of Health.

Karen Sanderson, Deputy Director, Government Financial Reporting, HM Treasury (from February 2013).

Martin Sollis, Deputy Director of Finance, Welsh Assembly Government (until October 2012).

Aileen Wright, Deputy Director Finance, Scottish Government.

Parliamentary observer:

Edward Leigh, MP.

Alternates:

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

Larry Honeysett for the Parliamentary observer.

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

Secretariat:

Secretary:

Larry Pinkney.

Secretariat support:

Sue Bryant.

Dennis Lu.

Sarah Solomon.

Guests

1.2 Paul Mason and Sarah Sheen, from CIPFA, presented papers related to both the 2012-13 and the 2013-14 Code of Practice on Local Authority Accounting.

1.3 Ian Ratcliffe from Monitor presented papers related to the 2012-13 NHS Foundation Trust Annual Reporting Manual.

Annex E

TERMS OF REFERENCE OF THE FRAB NOMINATIONS COMMITTEE

Objective

1. The FRAB Nominations Committee aims to ensure that the FRAB operates with a full complement of members in accordance with its Terms of Reference.

Nominations Committee members

2. The Nominations Committee will comprise of:

- The FRAB Chairman, who will chair the committee;
- An additional member from the 'independent/external' group of FRAB members;
- A member from the 'preparers/users' group of FRAB members; and
- The FRAB member nominated by the Comptroller & Auditor General.

3. The FRAB member Code of Conduct will apply.

4. Length of appointment of members will be as agreed with the Committee Chairman.

Role of the Nominations Committee

5. The Nominations Committee will receive nominations for FRAB membership as detailed within the FRAB's Terms of Reference, ratifying nominations based on compliance with the FRAB member role specification, available at (http://www.hm-treasury.gov.uk/d/psr_frab_member_rolespec.pdf).

6. Vacancies for the two independent member posts and the academic post on FRAB will be subject to open advertisement, with consideration of applications for membership by the Nominations Committee.

7. When considering multiple nominations or applications for FRAB membership, the Nominations Committee will filter applications and conduct interviews as necessary to determine the most suitable candidate.

8. The Treasury will consult the Comptroller & Auditor General, as required by the Government Resources and Accounts Act 2000.

Appointment of FRAB members

9. FRAB members will receive their letters of appointment from the FRAB Chairman, indicating their term of appointment.

FRAB membership succession planning

10. The Nominations Committee will monitor membership end dates to ensure appropriate succession planning is in place to replace members in a timely manner.

Meetings and correspondence

11. The FRAB Nominations Committee will meet as necessary, and also conduct its business by telephone and e-mail.

Secretariat Support

12. Secretariat support for the FRAB Nominations Committee will be provided by the FRAB Secretary.

Annex F

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[1].

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

[1] 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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