15th Report of the Financial Reporting Advisory Board

Report for the period
April 2011 to March 2012

FINANCIAL REPORTING ADVISORY BOARD

Report for the period April 2011 to March 2012

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Chairman's Foreword

Given the general pace of change taking place in the financial reporting world and in the public sector generally, I am not entirely surprised that my second year as Chairman of the Financial Reporting Advisory Board (the Board) has been as equally interesting and challenging as my first. As an advisory body to the Treasury and the other Relevant Authorities, and in accordance with its remit, the Board has continued to focus primarily on ensuring it provides the right advice to all the Relevant Authorities at a time when government finances around the world are coming under increasing scrutiny. The Board aims to ensure that a high standard of financial reporting is achieved and maintained by the UK Government, thus providing an exemplar to those countries and regional authorities contemplating moving to better, more transparent financial reporting regimes.

In last year's report, and as a result of the independent review of the Board, I anticipated that there would be some changes to the Board's structure and operational processes to ensure it remains fit for purpose going forward. I am pleased to report that the anticipated changes have all been introduced, as I view them as instrumental to ensuring the Board remains effective, and continues not only to operate in an independent manner, but is also perceived to do so by its stakeholders. Significant efforts have been made to ensure the Board's operational processes are transparent, with much additional material published on its website. I am also pleased to report that the Board membership is more balanced than previously, with a full complement of members, and with membership succession planning in place. These changes put the Board in a very good position and so should ensure it can continue to deliver effectively in its role and in accordance with its remit.

The local government transition to International Financial Reporting Standards (IFRS) was successfully completed from 2010-11, which is the product of the significant efforts made by many over a prolonged period of time, particularly by the preparers and auditors of accounts. This followed the successful transition to IFRS by central government, the NHS and the devolved administrations from 2009-10. The only remaining issue related to the transition to IFRS concerns the delayed implementation of the consolidation requirements of IAS 27 *Consolidated and Separate Financial Statements* to NHS organisations in respect of their linked charities, due now to be implemented from 2013-14. This was the result of a decision taken by the Relevant Authorities with which the Board disagreed. The Board expects to see resolution of this remaining issue during the course of this coming financial year.

During this reporting year, the Board welcomed the opportunity to review the first set of published Whole of Government Accounts (WGA), for 2009-10, and particularly welcomed the additional accountability and transparency these accounts provide to WGA stakeholders, including to Parliament. The Treasury is to be congratulated on the progress made with WGA, and it should not underestimate the further significant work required to achieve an unqualified and timelier set of accounts. The Board looks forward to playing its part in helping to improve 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, thereby giving a better understanding of the wider liabilities of government and the only overall view of the asset base of the public sector based on a concrete set of high-quality accounting standards.

The Treasury proposal to introduce sustainability reports within Annual Reports and Accounts came to fruition during this reporting year, with the Board agreeing the mandatory introduction of this reporting for many central government bodies from 2011-12. The Board looks forward to receiving further updates from the Treasury over the forthcoming financial year on the results of this interesting and topical area of reporting.

The Board views consolidation as a key area of financial reporting. One of the challenges facing the Relevant Authorities over the coming year is to determine fully the impact of the new consolidation financial reporting standards (issued by the International Accounting Standards Board) on public sector financial reporting. The Board is eager to ensure that the implications of applying the new standards are fully considered and understood. This is a task that should be completed in a timely manner, to ensure there is adequate time to address properly any implementation issues that may arise in the public sector. The Board stands ready to offer its further advice to the Relevant Authorities in relation to this task.

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

Kathryn Cearns

26 April 2012

Executive Summary

This is the fifteenth report of the Financial Reporting Advisory Board (the Board). The Board's primary objective is to promote the highest standards of financial reporting by government. The report is addressed to the Committee of Public Accounts and the Treasury Select Committee in the Westminster Parliament, to the Northern Ireland Assembly, to Scottish Ministers and to the National Assembly for Wales. The report covers the year April 2011 to March 2012.

Last year's report reflected on the outcome of the review of the FRAB, which culminated in the issue of a report by the FRAB Review Group, providing recommendations relating to the Board's future role, structure and operational arrangements, and with the aim of ensuring that it remains fit for purpose. During this reporting year, and following careful consideration of each of the recommendations within the report, the Board agreed a series of actions to address each recommendation made. This has resulted in changes to the Board's membership, now categorised into four membership groupings, and changes to the Board's existing operational processes or introduction of new processes, including their formal documentation and publication. Some of the main changes introduced relate to the process for the selection of members, including the establishment of a FRAB Nominations Committee, the introduction of a FRAB member code of conduct, and generally enhanced transparency of the Board's operational processes (paragraphs 2.1 to 2.6 and Annex G).

Linked to the FRAB Review, during this reporting year the Relevant Authorities concluded the review of their Memorandum of Understanding (MOU). This document sets out the operational arrangements for the Relevant Authorities for developing financial reporting guidance for the UK public sector. It covers the circumstances where the Relevant Authorities may propose to adapt financial reporting standards for the public sector where they consider this is appropriate. The Board welcomed sight of the revised MOU. The FRAB's expectation is that the Relevant Authorities should apply EU-adopted IFRS in full, unless an adaptation of a standard is appropriate and justifiable in the public sector context. As previously, the Board will continue to consider proposals for adaptation on a case-by-case basis (paragraphs 2.7 to 2.12).

Previously, the Board reported that, other than the concerns it had over the repeated postponement of IAS 27 *Consolidated and Separate Financial Statements* for NHS organisations in respect of their linked charities (an ongoing issue), central government, the NHS and the devolved governments successfully completed the transition to IFRS from 2009-10. The Board is pleased to report this year that the local government transition to IFRS, from 2010-11, was also completed successfully. The Board notes that CIPFA/LASAAC will be undertaking a post-implementation review of the transition to IFRS in local government, and the Board looks forward to learning the results of the Review (paragraphs 3.3 to 3.5).

The report reflects that the 2012-13 FReM and the 2012-13 Code of Practice on Local Authority Accounting were published to timetable. The NHS Manuals were completed extremely late, however, and while the 2011-12 manuals have now been published, the 2012-13 manuals are still awaited. 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 3.6 to 3.9 and generally, Chapter 5).

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

Last year's report reflected on the progress updates received from the Treasury related to its preparations for publishing Whole of Government Accounts (WGA). During this reporting year, the Board was pleased to see the publication of an unaudited summary of WGA for 2009-10, followed by the publication of the full audited accounts for 2009-10. This first set of audited WGA accounts is a significant achievement and it congratulates the Treasury on the progress made. The significant task now facing the Treasury is to make the accounts more timely and free of audit qualifications, and the Board stands ready to assist in achieving this aim by providing its advice to help further improve the consistency of financial reporting across the public sector, and thus aid the WGA process (paragraphs 4.2 to 4.8).

In previous reports, the Board was pleased to receive updates from the Treasury related to its progress with its Accounting for Sustainability project, including, last year, on the launch of dry run sustainability reporting for 2010-11. This year the Board was informed of the good progress made in the dry-run, with many departments and some other bodies publishing a sustainability report within their Annual Reports and Accounts for 2010-11, and many others working towards publishing a sustainability report from 2011-12. Following the Treasury's completion of sustainability reporting guidance for 2011-12, and consideration of the Treasury's proposal to mandate sustainability reporting within Annual Reports and Accounts from 2011-12 for all entities covered by the FReM and falling within the scope of Greening Government Commitments, the Board agreed the FReM reporting requirement. It noted that Local Authorities, NHS bodies and the devolved administrations fall outside the scope of the Greening Government Commitments. The Board looks forward to receiving further updates on progress with this project (paragraphs 4.9 to 4.12).

The Board views consolidation as an important area of financial reporting and it has included within its work programme ample time to debate the rationale for the existing departmental and WGA accounting boundaries, and to determine what impact the new consolidation standards issued by the IASB may have on public sector financial reporting. These include IFRS 10 *Consolidated Financial* Statements, IFRS 11 *Joint* Arrangements and IFRS 12 *Disclosure of Interests in Other* Entities. To help determine the impact of the new standards, the Board has requested the Treasury to carry out further scoping work, comparing the present position with when the new structures are in place. It looks forward to receiving the results of this work (paragraphs 4.39 to 4.42).

In last year's report, the Board reported that it supported a Treasury proposal to review the discount rate for general provisions annually in line with IAS 37 *Provisions, Contingent Liabilities and Contingent Assets,* as at 30 November. The Board also provided its preliminary advice on the Treasury's proposed approach to revise the methodology for determining suitable discount rates, which provides an opportunity for improved compliance with IAS 37. During this reporting year, the Board considered the Treasury's initial proposals for a revised methodology to determine three discount rates (short, medium and long term) to be provided to Departments for the purposes of Estimates and budgets for 2012-13, and it supports the proposed approach. The Board looks forward to receiving confirmation from the Treasury that it will proceed with the changes, and that it has introduced revised discount rates for 2012-13 (paragraphs 4.43 to 4.45).

In this reporting period, the Treasury sought the Board's view on whether there is scope for clarifying or amending the FReM related to merger accounting, applied on the transfers of public sector bodies and transfers of functions within the public sector, which are outside the scope of IFRS 3 *Business Combinations*. Previously, the Board accepted that 'common control' exists across the public sector based on the Office for National Statistics classification of the public sector as forming the boundary of common control, and thus merger accounting should be applied throughout. The Treasury has identified that merger accounting may no longer be appropriate in some circumstances given the significant government restructuring that is occurring. To ensure correct accounting is applied, the Board suggested the establishment of a working group to look at the specific issues and to report its finding to the Board. The preliminary findings of the working group are that the application of merger accounting at the WGA and the departmental group level may still be appropriate, with the need for accounting judgement exercised at the lower level, which might involve a type of absorption accounting. Following further development of the working group's proposals the Board looks forward to receiving a more detailed update on progress in the autumn (paragraphs 4.51 to 4.56).

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ABOUT THE BOARD

Annex G

SUMMARY OF RECOMMENDATIONS FROM THE REPORT ON THE REVIEW OF THE FRAB, AND ACTIONS TAKEN

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.

[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 Audit Committee of the National Assembly for Wales.

1.7 This is the Board's 15th Report and the Report structure is summarised below.

Report structure

Review of the FRAB

1.8 Chapter 2 of the Report considers the impact of the review of the FRAB, including changes to the Board's structure, membership and operational processes, with the aim of ensuring that the Board remains fit for purpose. The changes are also designed to ensure that the FRAB, as an independent advisory body to the Relevant Authorities, continues to act in an independent way, and is perceived to do so by its stakeholders. The chapter also covers the revision of the Memorandum of Understanding between the Relevant Authorities, a further related and recommended action contained within the FRAB Review Group report.

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 2011-12 and 2012-13

1.11 Chapter 5 of the Report considers all significant changes to financial reporting for 2011-12 and 2012-13, 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.

Summary of recommendations from the Report on the Review of the FRAB, and summary of actions taken

1.19 A summary of the report's recommendations, together with a summary of actions taken, is at Annex G.

Chapter 2

REVIEW OF THE FRAB

Introduction

2.1 In last year's report, the Board reported on the outcome of the Review of the FRAB, which was the first formal review of the Board undertaken since its inception in 1996.

2.2 The Review Group's report, published in January 2011, indicated that the FRAB operates effectively, and has made a significant contribution over the years in raising the standard of financial reporting by the Government. However, the Review Group suggested that there should be no complacency on the Board's part, and made a number of recommendations relating to the FRAB's future role, structure and operational arrangements, with the aim of ensuring the Board remains fit for purpose.

2.3 During the course of its meetings over this reporting year, the Board has considered carefully each of the recommendations made by the Review Group, and agreed a series of actions to address each point made, with the aim of ensuring it continues to remain fit for purpose to meet any challenges it may face.

FRAB Review Report – recommendations and actions taken

2.4 A summary of the Review Group's recommendations, an extract from the FRAB Review Report, is at Annex G. This has been annotated with a summary of the actions taken by the Board in response to the recommendations made. The actions taken by the Board have had a varying impact on its structure, membership and operational processes, as detailed below

Impact on the Board's structure and membership and its operational processes

2.5 In relation to the Board's structure and membership, the main change is the addition of one further independent accountant member, to further enhance the independence of the Board. Other significant changes, which are reflected in the Board's revised terms of reference, include:

- The replacement of the vacant independent economist position on the Board with an independent professional academic member;

- To help achieve balance in the Board's membership and to facilitate its independence, the Board's membership is now categorised into four membership groupings comprising:
    - Independents;
    - Preparers and users;
    - Auditors; and
    - The Relevant Authorities.
- Further flexibility introduced in respect of membership nominations for the auditor's membership group. Future nominations will include one nomination from the Comptroller and Auditor General, and a further two auditor member nominations from other public sector audit bodies. The latter two nominations were previously and specifically from the Audit Commission and the Auditor General for Scotland;
- The parliamentary observer role on FRAB has been formalised;
- The tenure for the FRAB Chairman and members has been set at a three year term, renewable once (although members may, by exception, serve for longer); and
- For continuity purposes and to ensure rigorous debate within meetings, FRAB members are no longer permitted to send alternates to FRAB meetings.

2.6 Some of the Board's operational processes have changed and others have been formalised, with the aim of ensuring that that Board continues to remain effective and continues to operate in an independent manner. Significant efforts have been made to ensure the Board's operational processes are open and transparent, with much new material published on the FRAB's website. The more significant changes introduced include:

- The introduction of the FRAB Nominations Committee. The committee forms part of the revised process for member selection and is responsible for FRAB member succession planning. The Committee's terms of reference are at Annex E;
- The FRAB selection procedure is more transparent, with publication of relevant documents on the FRAB website;
- Documentation and publication of the roles of the FRAB Chairman and FRAB members;
- FRAB member code of conduct principles introduced and published;

- 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;

- More use of technology to facilitate remote attendance at meetings when members cannot physically attend; and

- Earlier publication of meeting agendas, Minutes and related papers on the FRAB website.

Revised Memorandum of Understanding between the Relevant Authorities

2.7 The FRAB Review report included a recommendation that the Memorandum of Understanding between the Relevant Authorities be reviewed in light of the remaining recommendations within the report.

2.8 During this reporting year, the Relevant Authorities concluded their review of their Memorandum of Understanding (MOU), providing the Board with the opportunity to comment on the revised draft document. The MOU represents an important process document for the Relevant Authorities, as it sets out their operational arrangements for developing financial reporting guidance for the UK public sector. It also covers the circumstances where the Relevant Authorities may propose to adapt financial reporting standards for the public sector where they consider this is appropriate.

2.9 In providing its advice on financial reporting principles and standards to the Relevant Authorities, and particularly in relation to financial reporting proposals developed by the Relevant Authorities in line with their MOU that involve a proposed adaptation from a standard, the FRAB will continue to consider proposals on a case-by-case basis. This is from the FRAB perspective that full application of EU-adopted IFRS should apply, unless the adaptation is appropriate and justifiable in the public sector context.

2.10 The main changes to the previous MOU include:

- The use of the collective term ‘Manuals’ for the financial reporting guidance produced by the Relevant Authorities and reference to all the Manuals following EU-adopted IFRS, subject to such adaptations that are necessary in the public sector context;

- Removal of direct reference to an accounting hierarchy;

- Inclusion of the approach and process to be followed in formulating proposals that involve an adaptation (including adaptation, interpretation or deferral) of IFRS, including those factors that may affect such consideration; and

- Tightening up of the timing of the preparation of Manuals produced by the Relevant Authorities and restriction of the circumstances permitting mid-year changes to Manuals.

2.11 In addition, the signatories to the MOU were updated, as were the terms by which the MOU may be reviewed.

2.12 The revised MOU is at Annex C to this report.

Independence of the FRAB

2.13 The changes introduced following the FRAB Review are intended not only to ensure the Board remains effective and fit for purpose, but also to ensure that the Board continues to act independently as an advisory body to the Relevant Authorities. The Board is now up to full strength on its membership and the changes made are working well, ensuring the Board continues to fulfil its role.

2.14 As an independent advisory body, and central to the Board's role, is the importance of its actual and perceived independence. Regular future reviews of the FRAB should ensure that it continues to meet its independent role efficiently and effectively.

Chapter 3

INTERNATIONAL FINANCIAL REPORTING STANDARDS

Introduction

3.1 This chapter reports on the results of the Local Authority transition to IFRS from 2010-11.

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).

Local Government transition to IFRS

3.3 In last year's report, the Board reported that it had received several updates on progress with the implementation of IFRS by local authorities from 2010-11. It was explained that there was a risk that a number of local authorities would not be able to fully comply with the IFRS based Code, and that much work remained to be done to achieve the successful transition.

3.4 In this reporting year, the Board received a further update on the results of the transition. The Board was pleased to learn that the transition was completed successfully. However, a lot of material adjustments had been necessary during the finalisation process, indicating that further work is required to embed more completely the move to IFRS.

3.5 CIPFA/LASAAC will shortly be undertaking a post-implementation review of the transition to IFRS in local government, including consideration of the reasons for the significant differences in the lengths of the IFRS-based accounts. It was agreed that it will brief the Board on the outcome of the review. The Board looks forward to learning the results of the Review.

The Government Financial Reporting Manual (FReM)

3.6 Following review by the Board the 2012-13 FReM was published to timetable, in December 2011.

3.7 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)

3.8 Following review by the Board, the 2012-13 Code was published to timetable, in March 2012.

Significant Changes to the FReM and the Code

3.9 Details of significant changes to the 2011-12 and 2012-13 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, paragraphs 6.4 to 6.6).

Whole of Government Accounts (WGA)

4.2 In last year's report, the Board commented on the updates provided by the Treasury related to its preparations for preparing and publishing the first set of Whole of Government Accounts, for 2009-10. During the period covered by this report, the Board was pleased to receive several further updates from the Treasury on progress with WGA.

4.3 An unaudited summary of WGA for 2009-10 was published by the Treasury in July 2011, followed by publication of the full audited accounts in November 2011.

4.4 The Board received a copy of the audited 2009-10 accounts from the Treasury, noting that the accounts received a true and fair audit opinion, except for issues 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.

4.5 The Treasury explained in detail to the Board the reasons behind the account qualifications and re-iterated its aim to work towards removing them. However, it was noted that certain of these may take some time to resolve. The Treasury also informed the Board of its next steps for WGA, with the production of WGA for 2010-11 to a slightly faster timetable.

4.6 The Board notes the further significant work required to achieve an unqualified set of WGA, a task it considers should not be underestimated. This first set of audited WGA accounts is a significant achievement and it congratulates the Treasury on the progress made. The significant task now for the Treasury is to make the accounts more timely and free of audit qualifications. The Board stands ready to assist in achieving this aim by providing its advice to help further improve 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.

4.7 Areas where the Board may assist the WGA process include ensuring that papers received from the Relevant Authorities that propose accounting policy changes do fully reflect the impact on WGA; that differences in accounting policies are identified and investigated; and that any areas of the accounting Manuals issued by the Relevant Authorities causing any differences in practical application and inconsistent accounting treatment due to interpretative differences are identified and investigated.

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

Accounting for Sustainability

Sustainability Reporting

4.9 In the period covered by last year's report, the Board was pleased to receive updates from the Treasury on developments with its Accounting for Sustainability project, related to its aim of proposing the mandatory introduction of sustainability reports within Annual Reports and Accounts from 2011-12.

4.10 During this reporting year, the Board received further updates on progress with the project, including related to the Treasury consultation on proposed changes to its 2011-12 sustainability guidance as a result of changes to the developing Greening Government Commitment guidance, and on the results of the dry-run sustainability reporting for 2010-11. The Board was informed that the dry-run reporting had progressed well, with many departments and some other bodies having published a sustainability report within their 2010-11 Annual Report and Accounts, and many others working towards producing a dry-run report later in 2011 for their internal purposes, geared towards producing a published report for 2011-12.

4.11 Following the Treasury completion of the sustainability reporting guidance for 2011-12, and following receipt of the finalised proposed text for the 2011-12 FReM, the Board agreed the FReM reporting requirement. This mandates the requirement for all entities covered by the FReM and falling under the scope of Greening Government Commitments (departments, non-ministerial departments, Executive Agencies and Executive Non-departmental public bodies unless exempt by de minimis limit or other exemption) to report from 2011-12. This followed the Board's previous agreement in principle to the reporting requirement. Local authorities and the devolved administrations fall outside the scope of the Greening Government Commitments.

4.12 The Treasury informed the Board that external assurance is not required for the 2011-12 reports, although this may be required in the future. The Treasury is developing proposals on this and the Board was informed that a consultation paper is expected in the autumn. The Board looks forward to further updates on progress with this work.

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

4.13 In last year's report, the Board reported that following consideration of a report issued by a review group tasked with a review of NHS-linked charities in the context of the government accounting framework, the Relevant Authorities with central government and health sector interests had made the decision to defer the application of IAS 27 to 1 April 2013. This followed postponement of the standard for the prior two financial years, 2009-10 and 2010-11. As reported last year, the Board considers this latest postponement an adaptation of the accounting standard although it was not described as such by the Relevant Authorities.

4.14 The Board normally supports any proposal to move from accounting standards on the basis that such adaptations should be exceptional and only based on a specific public sector context, which requires a change to an accounting requirement. In this case, and for the reasons provided in last year's report, it did not see that that these specific requirements were met.

4.15 As reported last year, the Board expects that, in future, it will be consulted on such matters within its remit before a decision is taken, and it will continue to work with the Relevant Authorities to achieve a clearer articulation of the criteria to be applied to determine which matters should be referred to the FRAB for its advice.

Accounting for levy funded initiatives (Tax and spend schemes)

4.16 In last year's report, the Board reported that the Treasury has sought its preliminary view on what the financial reporting obligations may be in relation to a number of tax and spend schemes, examples being the existing schemes that relate to environmental levy funded subsidy schemes. The Board debated the issue but was unable to provide a conclusive view based on the information provided by the Treasury, requesting further Treasury articulation of the criteria by which schemes would be considered for financial reporting, and requested consideration of the wider consequences that flow from the proposed approach, beyond merely the accounting.

4.17 During this reporting year, the Treasury has provided further updates to the Board on this issue. The Board was informed that these schemes are compulsory, are not undertaken in pursuit of the private sector entity's commercial interests and carry no benefit to the operator. Some of the schemes been classified as taxation and government expenditure by the Office for National Statistics. The transactions are to be included in the relevant departments' Estimates from 2012-13, and those departments are therefore accountable to Parliament for the tax raised and the expenditure incurred.

4.18 It was explained by the Treasury that the Department of Energy and Climate Change (DECC) and the Department for Transport (DfT) are required to have plans in place to report tax and spend schemes in Estimates and departmental accounts and that current financial reporting standards do not cover this scenario. The main issue concerning measuring tax and spend by agents is whether such schemes are capable of meeting financial reporting recognition criteria.

4.19 The Treasury is considering the accounting treatment for 2012-13 and it will consult the Board further as required. The Board's advice remains that whatever treatment is applied would need to be permitted by IFRS, meeting the criteria for recognition and relevant definitions of the standards, and be applied consistently across similar schemes.

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

4.20 In this reporting year, and following the issue of IPSAS 32 *Service Concession Arrangements: Grantor* by the International Public Sector Accounting Standards Board (IPSASB), the Board was pleased to receive an update from the Treasury on its view on the impact of adopting the principles of the IPSAS in the absence of guidance from IFRS.

4.21 Following initial debate of this issue, the Board's view is that further technical debate is required, and this is an issue that the Relevant Authorities may wish to consider. The Board looks further to receiving a further update on the proposals for the future accounting of PPP arrangements, including PFI.

IAS 19 – *Post Employment Benefits*

4.22 During this reporting period, the Treasury provided an update to the Board on amendments to IAS 19, and in principle proposed amendments to the FReM and the supporting illustrative statements from 2013-14, to reflect changes to the Standard.

4.23 The main potential change arising from the amendments to IAS 19 is the removal of the corridor approach. However, this will have no impact on the existing FReM as it contains an interpretation of IAS 19, prohibiting entities from applying the corridor approach. Once the EU has adopted the amended IAS 19, it will be necessary to remove the interpretation from the FReM.

4.24 The changes to IAS 19 will lead to increased disclosure requirements and the Treasury informed the Board that it will work with the pension schemes to develop proposed amendments to the FReM and the Magenta illustrated pension scheme account.

4.25 The Board is content with the Treasury's approach and looked forward to seeing the final proposals in due course.

IFRS 13: *Fair Value Measurement*

4.26 In this reporting period, the Board received an update from the Treasury on the requirements of IFRS 13 *Fair Value Measurement* and the Treasury's preliminary view on the likely public sector impact.

4.27 The Standard defines fair value and sets out the disclosure requirements, and has established a hierarchy of input quality based on whether or not there is an active market.

4.28 Following debate of the issue, the Board had some concerns over how the Standard will translate to public sector accounting, where exit values would generally not be appropriate. However the disclosure requirements of the Standard might be adopted, subject to confirmation, following further analysis of the Standard's requirements. The Treasury agreed to carry out further analysis of the likely impact of the Standard and will return the issue to the Board. The Board looks forward to receiving a further update from the Treasury.

IFRIC 19: *Extinguishing Financial Liabilities with Equity Instruments*

4.29 In this reporting year, the Board received a proposal from the Treasury proposing a mid-year amendment to the FReM for 2011-12, to apply IFRIC 19: *Extinguishing Financial Liabilities with Equity Instruments* in full.

4.30 The Board emphasised that the FReM amendment should make clear that Public Dividend Capital would not be considered to give rise to equity instruments under IFRIC 19, but supported the Treasury proposal.

IFRS 8: *Operating Segments*

4.31 In the reporting period, the Board received a Treasury proposal for a mid-year amendment to the 2011-12 FReM, to apply IFRS 8 *Operating Segments* in full.

4.32 The Board supported the proposal.

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

4.33 During this reporting year, the Board received a proposal from the Treasury to amend the 2011-12 FReM, requiring an extension of the Remuneration Report, requiring additional disclosures as a result of the Government's commitment to follow the Hutton recommendations related to increasing transparency and accountability on pay.

4.34 The additional disclosures cover:

- The banded total remuneration of the highest paid director, which will already be disclosed in the Remuneration Report;
- The median total remuneration of all staff, excluding the highest paid director;
- The pay multiple (ratio) between the two, as at the reporting period end date; and
- Additional narrative explaining the calculation, as appropriate.

4.35 The Board provided a number of suggested amendments to the guidance but, overall, supported the proposed approach, which is considered an important additional transparency measure where the public sector is leading by example and where it looks likely the private sector will follow.

Easing the process – amendments/clarifications to the FReM from 2011-12

4.36 In this reporting period, the Board was pleased to receive a proposal from the Treasury for a mid-year amendment to the 2011-12 FReM, designed to ease resource pressures for both preparers and auditors, without reducing transparency or accountability, in relation to preparation and audit of the 2011-12 consolidated accounts.

4.37 This proposal to the Board was in the context of the 2011-12 FReM and illustrative accounts, which incorporated significant changes to reflect the second phase of the Clear Line of Sight (Alignment) Project. Following a review of the 2010-11 departmental accounts process and due to the challenge faced by departments, which are required to lay their consolidated accounts by 30 June, consideration was given as to what disclosures could be dispensed with to ease the 2011-12 accounts preparation process.

4.38 The Board was content to support the proposal.

Accounting boundaries and new Consolidation Standards

4.39 In this reporting period, the Treasury requested the Board to note the current application of IFRS in determining the accounting boundaries of reporting entities covered by the FReM, and it provided its view of the new consolidation standards in this context, which, it considered, would not impact on the existing consolidation boundaries. These include the departmental accounting boundary and the Whole of Government Accounts accounting boundary, although in relation to the latter, it was evident that the Comptroller & Auditor General reserves the right to form a different opinion.

4.40 The new standards are effective from 1 January 2013 but are yet to be adopted by the EU. They include:

- IFRS 10 *Consolidated Financial Statements*;
- IFRS 11 *Joint Arrangements*; and
- IFRS 12 *Disclosure of Interests in Other Entities*.

4.41 The Board views consolidation as an important area of financial reporting and it has included in its work programme ample time to debate the rationale for the existing accounting boundaries, and to determine the impact the new consolidation standards may have on public sector financial reporting.

4.42 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 is expected to involve a two-stage process involving the establishment of a preliminary set of tests followed by the development of interpretation guidance. The Board looks forward to receiving the results of this further work.

Discount rate for general provisions

4.43 In last year's report, the Board reported that it had supported a Treasury proposal to review the discount rate for general provisions annually in line with IAS 37 *Provisions, Contingent Liabilities and Contingent Assets,* as at 30 November. The Board also provided its preliminary advice on the Treasury's proposed approach to revise the methodology for determining a suitable discount rate, and the options for its implementation.

4.44 During this reporting year, the Board received initial proposals from the Treasury for introducing a new methodology for determining discount rates to be applied to general provisions, which provides an opportunity for improved compliance with IAS 37. In accordance with the Board's advice, three discount rates were proposed (short, medium and long-term) to be provided to Departments for the purposes of Estimates and budgets for 2012-13. The Treasury proposals highlighted a number of risks but these would be mitigated as far as possible. It also re-assured the Board that the discount rates would be regularly reviewed to ensure their continued appropriateness in subsequent periods.

4.45 The Board supports the proposals for the revised methodology for setting the discount rates. It looks forward to receiving confirmation from the Treasury that it will proceed with the changes, and that it has introduced revised discount rates for 2012-13.

NHS comparatives

4.46 During this reporting year, the Department of Health requested the Board to approve its proposal to apply the impracticability criteria of IAS 8 to the requirement to restate the 2010-11 accounts of both the Department and its underlying consolidating bodies, for the retrospective application of two changes in accounting policy:

a) Restatement to reflect HM Treasury's new budgetary control over administration and programme expenditure; and

b) Restatement for the application of merger accounting principles to the transfer of provider functions between NHS organisations (including for Foundation Trusts).

4.47 The rationale for the proposal is that the restatement would result in inconsistent accounting as some NHS organisations would be able to complete the restatement process, but many would not be able to do so. The restatement exercise would also divert resources from completing the current year's accounts and would result in significant estimated information. It was also explained that not all Primary Care Trusts have segmented information and many of the transactions involved are very complex. The additional work required would incur a significant cost and would not represent value for money.

4.48 The Board supported a one year exemption at the entity level in respect of the restatement, but not at group level, on the grounds of dealing with the functional transfers, and to achieve consistency of accounting, but without setting a precedent. It expressed the hope that an improved timetable for approving and issuing the NHS Manuals in future would mean such issues could be dealt with in a timelier manner.

Cutting the clutter (improving relevance and clarity in Annual Reports and Accounts)

4.49 During this reporting year, the Board was pleased to receive a discussion paper from the Treasury inviting it to note the Treasury's initial view on what further areas it might explore (beyond what standard setters are doing or are planning to do) to improve relevance and clarity in Annual Reports and Accounts, and specifically related to central government financial reporting.

4.50 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 considers that 'materiality' and the way information is structured in Annual Reports and Accounts are particularly important considerations. It looks forward to receiving further updates from the Treasury on its proposals for 'cutting the clutter' in Annual Reports and Accounts.

Merger accounting

4.51 In this reporting period, the Treasury sought the Board's view on whether there is scope for clarifying or amending the relevant financial reporting guidance on merger accounting. This topic also forms part of the Board's discussions with the Treasury on consolidation issues.

4.52 The Treasury explained that that the FReM applies 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.

4.53 The Board's earlier discussions on merger accounting in 2006 focused on Foundation Trusts and restructuring within the NHS. At that time, the Board accepted 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. However there was limited consideration of the wholesale government restructuring that is currently occurring and in some circumstances merger accounting is proving impracticable or inappropriate.

4.54 The Treasury informed the Board that there are arguments to suggest that supply could be used as the basis of common control, but the FReM states that it will not overrule any statutory obligation. Furthermore, in general restructuring it can be impracticable to apply merger accounting because of the complexities involved in transferring a function. There are examples of alternative approaches, e.g. South Africa takes an absorption approach. Both the IASB and IPSASB have projects looking at this subject, but the IASB project is currently on hold, and IPSASB is at present developing a consultation paper on the topic.

4.55 To ensure the most appropriate approach could be identified, the Board suggested the establishment of a working group to look at the specific issues and to report its findings back to the Board. Initial feedback from the working group suggests that the accounting options considered included acquisition accounting, merger accounting (as now), or a third option of the application of principled-based accounting judgement for those circumstances when merger accounting is impracticable or inappropriate. The preliminary view of the working group is that the application of merger accounting at the WGA and the departmental group level may still be appropriate, with accounting judgement exercised at the lower level, which might involve a type of absorption accounting.

4.56 Following further development of the working group's proposals, and following a Treasury consultation with departments on accounting options, the Board anticipates receiving a more detailed progress update in the autumn.

Accounting for school assets

4.57 During this reporting year, and as part of the due process for reviewing the update of the Code of Practice on Local Authority Accounting for 2011-12, the Board was asked for its view on a planned review by CIPFA/LASAAC of the accounting treatment of non-current school assets. The review is timely due to a degree of confusion that has existed for some time as to whether the assets for the different types of schools should be included on the balance sheet. This is because the correct accounting treatment is not clear from referring to accounting standards alone.

4.58 In the update provided by CIPFA/LASAAC, the Board considered that a good balanced analysis of the current accounting position and the rationale for existing accounting decisions had been provided, and it supported the proposal for a working group to be established to progress the accounting issue further.

4.59 The working group's initial focus has been on asset recognition criteria, control and income and expenditure recognition. In relation to the control test, and as to whether individual schools should be consolidated into group financial statements, the existence of residual risk for local authorities and their ability to alter school funding streams has also been considered. The group continues its work and the Board looks forward to receiving further updates on its progress.

Chapter 5

FINANCIAL REPORTING FOR 2011-12 and 2012-13

Introduction

5.1 Over this reporting period, the Board agreed amendments to the 2011-12 FReM and agreed the 2012-13 version of the FReM. It also agreed the 2011-12 versions of the Foundation Trust Annual Reporting Manual and the NHS Manual for Accounts. There was further agreement for amendments to the 2011-12 Code of Practice on Local Authority Accounting (the Code) and agreement to the 2012-13 Code. Significant changes are described below.

The 2011-12 FReM

IFRS 8: *Operating Segments*

5.2 The Board agreed the Treasury proposal for full application of IFRS 8 *Operating Segments* from 2011-12.

Sustainability Reporting

5.3 The Board agreed the Treasury proposal for the mandatory introduction of sustainability reports within Annual Reports and Accounts from 2011-12 for entities covered by the FReM, and falling under the scope of Greening Government commitments (departments, non-ministerial departments, agencies and Executive non-departmental public bodies unless exempt by de minimis limit or other exemption). Local authorities and the devolved administrations fall outside the scope of Greening Government commitments (see Chapter 4 paragraphs 4.9 to 4.12).

Governance Statement

5.4 The Board agreed a Treasury proposal to amend the FReM to replace the current Statement on Internal Control with reference to the Governance Statement.

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

5.5 The Board agreed a Treasury proposal for an extension of the Remuneration Report, requiring additional disclosures as a result of the Government's commitment to follow the Hutton recommendations related to increasing transparency and accountability on pay (see Chapter 4, paragraphs 4.33 to 4.35). A later implementation date has been considered more appropriate for Northern Ireland entities.

The 2012-13 FReM

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

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

The 2011-12 Foundation Trust Annual Reporting Manual

5.7 The Board approved the NHS Foundation Trusts Annual Reporting Manual for 2011-12, with no new divergences from the FReM. The Manual was consulted on in October 2011, but it was not issued in its final form until 26 January 2012. The late issuance of the Manual is not helpful to preparers, although, as a result of the consultation, it had been available to preparers in draft form from October 2011. The Board looks forward to approving the 2012-13 Manual in its final form, and those beyond, on a progressively improved timetable.

The NHS Manuals for Accounts 2011-12

5.8 The Board approved the NHS Manuals for Accounts for 2011-12, which includes a reference to a one year divergence at entity level only from restating their 2010-11 accounts in connection with the retrospective application of two changes in accounting policy (see Chapter 4, paragraphs 4.46 to 4.48):

a) Restatement to reflect HM Treasury's new budgetary control over administration and programme expenditure; and

b) Restatement for the application of merger accounting principles to the transfer of provider functions between NHS organisations.

The draft Manuals were issued for comment to a preparers representative group in November 2011, but they were not issued in their final form to preparers until March 2012. The very late issuance of the Manuals is not helpful to preparers. The Board looks forward to approving the 2012-13 Manuals in their final form, and those beyond, on a progressively improved timetable.

The 2011-12 and 2012-13 Code of Practice on Local Authority Accounting

5.9 The 2011-12 Code mid-year update was the result of a number of legislative changes made after the Code was published. The amendments to the 2012-13 Code relate to changes to accounting standards are fairly minor and were agreed by the Board.

5.10 The more significant changes to the 2010-11 Code included:

- The 2011-12 Code Update now introduces a requirement for Scottish local authorities to produce a (statutory) Remuneration Report as a part of the statutory statement of accounts and includes a recommendation to include non-statutory remuneration disclosures (e.g. exit packages) in the Remuneration Report;

- The 2011-12 Code Update provides clarification in relation to the recognition of Business Rate Supplements. It also includes additional minor amendments and clarification in relation to the recognition of the Community Infrastructure Levy; and

- The 2011-12 Code Update includes the November 2009 amendments to IAS 24 Related Party Disclosures i.e. to the definition of a related party, related party transactions, close members of the family of a person and the guidance on the treatment of a related party.

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 reporting year, the Board looks forward to receiving further updates from the Treasury on progress with WGA, particularly related to preparations and accelerated timetabling for future accounts and the Treasury's plans to address the qualifications in the 2009-10 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 for central government and the NHS, and the relevant timetable.

Monitoring and responding to international accounting standard setters

6.4 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

6.5 The IASB has recently issued new Standards, which include new, and in certain respects, significantly changed requirements for the consolidation of subsidiaries and the accounting for joint ventures, effective from 1 January 2013. The Board anticipates spending a significant amount of its time over the coming year on assessing the potential impact of the new consolidation standards on public sector financial reporting (see Chapter 4, paragraphs 4.39 to 4.42).

6.6 The IASB also continues its work on a number of long term and very significant projects, including on financial instruments and leases. Whilst the IASB's current forecast is that the new Standards will not be effective before 1 January 2015, they are expected to bring very significant changes to accounting requirements. 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		●	●

International Standard/ Interpretation	Applied in Full	Interpreted for public sector	Adapted for public sector
IAS 27 Consolidated and Separate Financial Statements			●
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

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[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, 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 the Independent Regulator of NHS Foundation Trusts 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:

[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).

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

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

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

2.3 The Treasury, the Scottish Ministers, and the 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, the Independent Regulator of NHS Foundation Trusts; 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.

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

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

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[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.

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 LLP.

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

Ron Hodges, Professor of Accounting, University of Birmingham (from January 2012).

Roger Marshall, Chairman, Accounting Standards Board (from January 2012).

Veronica Poole, Global Managing Director IFRS Technical, Deloitte LLP (from January 2012).

Preparers/users:

Bob Branson, Head of Financial Management, Environment Agency (from January 2012).

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

Janet Dougharty, Deputy Director Local Government Finance, DCLG.

Kathryn Gillatt, Finance and Corporate Services Director, Driving Standards Agency (from January 2012).

Ieuan Griffiths, Director of Finance and Strategy, Driver and Vehicle Licensing Agency (until December 2011).

Sue Higgins, Director-General (Finance and Corporate Services), Communities and Local Government (from March 2012).

David Hobbs, Head of Accountancy Advice, Office for National Statistics (from January 2012).

Jon Thompson, Director General Finance, Ministry of Defence (until December 2011).

Auditors:

David Aldous, Head of Audit Policy, Audit Commission (from January 2012).

Andrew Baigent, Director General for Financial Audit, National Audit Office.

Martin Evans, Managing Director, Audit Policy, Audit Commission (until January 2012).

Russell Frith, Assistant Auditor General, Audit Scotland.

Relevant Authorities:

Ian Carruthers, Policy and Technical Director, CIPFA.

Miranda Carter, Assessment Director, Monitor (until January 2012).

Robert Davidson, Portfolio Director, Monitor (from January 2012).

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

Fiona Hamill, Treasury Officer of Accounts, Department of Finance and Personnel Northern Ireland (from January 2012).

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

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

Martin Sollis, Deputy Director of Finance, Welsh Assembly Government (from January 2012).

Alyson Stafford, Director General - Finance, Scottish Government (until January 2012).

Aileen Wright, Deputy Director Finance, Scottish Government (from January 2012).

Parliamentary observer:

Edward Leigh, MP.

Alternates:

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

David Ash, Andrew Gravener and Larry Honeysett for the Parliamentary observer.

Bob Branson, for the NDPB member.

Andrew Evans, for HM Treasury member.

Colin Forsyth, for the Department of Health member.

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

David Hobbs, for the ONS member.

Martin Sollis, for the Welsh Assembly Government member.

Heather Tayler, for the MOD member.

Steve Warren, for the Audit Commission member.

Secretariat:

Secretary:

Larry Pinkney.

Secretariat support:

Mangai Rajasingham.

Sarah Solomon.

Guests

1.2 Paul Mason and Sarah Sheen, from CIPFA, presented papers related to both the 2011-12 and 2012-13 Code of Practice on Local Authority Accounting.

1.3 Caroline Windsor, from Monitor

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

Annex G

SUMMARY OF RECOMMENDATIONS FROM THE REPORT ON THE REVIEW OF THE FRAB, AND ACTIONS TAKEN

The Review Group recommends that:

1. The groupings from which members are drawn are more clearly identified as independent, users and Relevant Authorities and that:

    a. Future FRAB members are selected on the basis of their seniority, skill-set and expertise, so that they can fully and effectively contribute to the work of the Board;

       Action taken: The revised FRAB member selection process incorporates consideration of these factors.

    b. FRAB members are proposed rather than nominated for the different groupings and that the proposers be clarified for each grouping;

       Action taken: The term 'nominated' has been retained, but clarification is provided in the terms of reference to distinguish between those posts where specific nominations are required, followed by selection and appointment, and those posts requiring open advertisement, followed by selection and appointment.

    c. A Nominations Committee is introduced, with the suggestion that this be chaired by the FRAB Chairman;

       Action taken: A FRAB Nominations Committee has been established, chaired by the FRAB Chairman.

    d. The Nominations Committee should lay down the arrangements for proposing new members;

       Action taken: The FRAB terms of reference have been amended to reflect the arrangements for nomination and selection of members by the membership groupings.

e. The FRAB selection process is published to increase transparency;

Action taken: Process published on the FRAB website.

f. An additional independent accountant member be recruited to the Board, but not at the expense of an existing member;

Action taken: An additional independent accountant member has been recruited to the Board.

g. The current independent economist member, as detailed in the Board's terms of reference, be changed to a professional academic member;

Action taken: The FRAB terms of reference have incorporated the change and a professional academic member has been recruited to the Board.

h. The existing three audit nominations (from the Comptroller and Auditor General, the Audit Commission and Auditor General for Scotland) as detailed in the Board's terms of reference, be revised to one place from the Comptroller and Auditor General, and two places available for applications from other public sector auditors, whether from the audit agencies or private firms carrying out public sector audits;

Action taken: The FRAB terms of reference have been amended to reflect 1 member nominated by the Comptroller & Auditor General and 2 members by other public sector audit bodies.

i. The role of the FRAB Chairman be documented and published; and

Action taken: The role has been documented and published on the FRAB website.

j. The role of the parliamentary observer is retained and that this is formalised in the FRAB's terms of reference.

Action taken: The parliamentary observer role has been retained and formalised by incorporation into the Board's terms of reference.

2. The FRAB membership should be kept under regular review;

Action taken: The FRAB Nominations Committee keeps FRAB membership under review as part of its responsibility for succession planning.

3. Clear code of conduct principles are provided to board members;

Action taken: FRAB member code of conduct developed, which is issued to new members and is published on the FRAB website.

4. Board members be formally notified on their appointment that they are a member of the Board in a personal capacity and not as representatives of an organisation;

   Action taken: Incorporated into the FRAB membership code of conduct provided to members.

5. Appointed FRAB members to undergo appropriate induction training, prior to or on assuming their appointment;

   Action taken: A FRAB induction pack is issued to new members, on appointment, with further induction carried out as necessary.

6. FRAB members (other than from the Relevant Authorities) are provided with the opportunity to meet at least annually, without the attendance of members from the Relevant Authorities;

   Action taken: Agree by the FRAB that members, other than from the Relevant Authorities, are free to determine when they meet and the frequency of their meetings, however this is likely to be annually and preceding a scheduled FRAB meeting).

7. The rotation of FRAB meetings between the Relevant Authorities is considered;

   Action taken: For practical purposes, FRAB meetings are likely to take place in London, but meetings are regularly scheduled outside the Treasury, including at CIPFA and the National Audit Office.

8. The consensus decision-making process employed by the FRAB to-date should continue, but the process to be followed when consensus is not achievable should be documented;

   Action taken: The process has been documented.

9. An appropriate tenure for FRAB members is three years, with the rebuttable presumption that this is renewable only once;

   Action taken: Agreed by the FRAB and incorporated into the Board's terms of reference.

10. An appropriate tenure for the FRAB Chairman is three years, renewable once;

    Action taken: Agreed by the FRAB and incorporated into the Board's terms of reference.

11. Given a change in the expected tenure of members, that a membership transition process be agreed;

    Action taken: Membership transition process agreed by the FRAB, with the FRAB Nominations Committee responsible for membership succession planning.

12. Alternates are not permitted at FRAB meetings;

Action taken: Agreed by the FRAB and incorporated into the Board's terms of reference.

13. Temporary membership is permitted to cover the long-term absence of a FRAB member, for example on maternity leave;

    Action taken: Agreed by the FRAB and incorporated into the Board's terms of reference.

14. The FRAB Chairman should have the discretion to permit the attendance of an observer at meetings and to allow the ad-hoc attendance of individuals who will enhance the Board's knowledge of the issues being debated or contribute to the quality of the debate;

    Action taken: Agreed by the FRAB and incorporated into the Board's terms of reference.

15. The FRAB should explore the availability and use of technology in conducting its meetings;

    Action taken: Agreed by the FRAB with arrangements introduced to permit members to attend meetings remotely.

16. The FRAB should continue to meet in closed session;

    Action taken: Agreed by the FRAB and reflected in the Board's terms of reference.

17. The FRAB should approve its Minutes out of meeting following the relevant meeting and thus agree their publication at the earliest feasible time, together with the related FRAB papers;

    Action taken: Agreed by the FRAB. Minutes are now agreed out of meeting at the earliest possible time and then published on the FRAB website with the related agenda and papers.

18. The FRAB has a secondary role to its core function, contributing to the development of financial reporting standards by responding selectively to financial reporting standards in development issued by the international accounting standard setters, within the constraints of the resources available to it;

    Action taken: Agreed by the FRAB that it will respond selectively on those publications issued by the international accounting standard-setters.

19. The requirement for periodic future reviews of the FRAB is enshrined in the Board's terms of reference;

    Action taken: Agreed by the FRAB that its terms of reference should be subject to regular review and at least every five years, now reflected in terms of reference.

20. The Review Group recommends that in the interests of transparency and consistency, the FRAB should formalise and

document the process it follows when considering proposals for the interpretation or adaptation of financial reporting standards.

Action taken: Agreed by the FRAB that it continues to consider proposals from the Relevant Authorities for the interpretation or adaptation of financial reporting standards on a case-by-case basis. The FRAB has also had the opportunity to comment on the revised Memorandum of Understanding between the Relevant Authorities, which incorporates the circumstance under which the Relevant Authorities may propose an adaptation of an accounting standard to the FRAB.

21. The Memorandum of Understanding between the Relevant Authorities is reviewed in light of the recommendations resulting from this review.

Action taken: The Relevant Authorities have reviewed the Memorandum of Understanding and a revised version has been published on the FRAB website and is incorporated in this report at Annex C.

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