



Financial Reporting Advisory Board Paper

IFRS - Group Accounting Standards

Issue:	<p>The IASB issued IFRS 10, <i>Consolidated Financial Statements</i>, IFRS 11, <i>Joint Arrangements</i> and IFRS 12, <i>Disclosure of Interests in Other Entities</i> in 2011. These standards, along with amendments made to IAS 27, <i>Separate Financial Statements</i> and IAS 28, <i>Investments in Associates and Joint Ventures</i> constitute the Group Accounting Standards, which remove inconsistencies within IFRS. These standards were EU-adopted for annual periods beginning on or after 1 January 2014.</p> <p>Following public consultation, the Treasury is now in a position to recommend the application of the Group Accounting Standards to the FReM with adaptation to maintain the departmental and WGA accounting boundaries. To assist practitioners in implementing the changes, the Treasury will also provide additional guidance to the FReM.</p>
Impact on guidance:	Yes, as detailed in Annex A.
IAS/IFRS adaptation?	Yes, to maintain the existing departmental and WGA accounting boundary.
Impact on WGA?	No, the WGA boundary will continue to follow national accounts.
IPSAS compliant?	IPSAS have yet to apply the new IFRS Group Accounting Standards.
Interpretation for the public sector context?	No.
Impact on budgetary regime?	No. Departmental accounts apply the same accounting boundary as Budgets.
Alignment with National Accounts	The departmental accounting boundary and WGA boundary will continue to align to national accounts. However a new misalignment relating to the departmental recognition of investments in associates and joint ventures outside of the public sector will be created.
Impact on Estimates?	No. Estimates follow budgets, aligned with accounts.
Recommendation:	HM Treasury asks the Board to note and approve the application of the Group Accounting Standards as adapted above.
Timing:	Effective from 1 April 2014.



DETAIL

Background

1. As noted on 24 May the Treasury has been working with CIPFA and a Technical Advisory Group (TAG) to discuss the technical application of the new IFRS Group Accounting Standards, issued in May 2011 with an effective date in the EU from 1 January 2014.

2. The new Group Accounting Standards introduce a single concept of control to clarify the basis for producing consolidated accounts and develop disclosure requirements to allow users a better understanding of the nature, extent and financial effects of the reporting entity's relationship with other entities and joint arrangements, including off balance sheet vehicles.

3. Under IFRS 10, an investor is deemed to control an investee when it is exposed to or has rights to variable returns through its power over an investee. An investor controls an investee if it has all of the following:

- power over the investee - the existing rights that give it the current ability to direct the relevant activities (the activities that significantly affect the investee's returns);
- exposure or rights to variable returns from its involvement with an investee ; and
- the ability to use its power over the investee to affect the amount of the investor's returns.

4. IFRS 11 replaces IAS 31 in outlining the accounting by entities that jointly control an arrangement. If control exists under IFRS 10, but it is determined that an investor does not control an entity by itself, then a joint arrangement may exist. IFRS 11 focuses more on the underlying nature (substance) of contractual rights and obligations than the legal form of arrangements in determining the accounting for joint arrangements. It also simplifies the types of joint arrangements to just two – joint operations and joint ventures.

5. IFRS 12, replaces the disclosure requirements in IAS 27¹, IAS 28² and IAS 31³, except for the disclosure requirements that apply only when preparing separate financial statements, which are included in the new IAS 27 Separate Financial Statements. IFRS 12 was produced to address the need for better information about the subsidiaries that are consolidated, as well as an entity's interests in joint arrangements and associates that are not consolidated but with which the entity has a special relationship. It was also a response to the global financial crisis which highlighted a lack of transparency about the risks to which a reporting entity was exposed from its involvement with structured entities, including those that it had sponsored.

6. The objectives of IFRS 12 are to require entities to disclose information that enables users of financial statements to evaluate:

¹ IAS 27 *Consolidated and Separate Financial Statements*

² IAS 28 *Investments in Associates*

³ IAS 31 *Interests in Joint Ventures*



- the nature of, and risks associated with, its interests in other entities; and
- the effects of those interests on its financial position, financial performance and cash flows.

7. IAS 28, as amended in 2011, applies to entities that are investors with joint control of, or significant influence over, an investee. It prescribes the accounting for investments in associates and sets out the requirements for the application of equity accounting when accounting for investments in associates and joint ventures.

Exposure Draft and Proposed Amendments to the FReM

8. Incorporating the advice from the TAG, the Treasury produced an exposure draft on the proposed application of the Group Accounting Standards to the FReM. The Exposure Draft noted the following expected impacts to the FReM and accounting and reporting by entities.

Reporting by departments

9. The ED proposed that existing adaptation to the current group accounting standards in respect of the departmental consolidation boundary, reflecting the ONS's classification of an entity to the central government sector, should continue. This will maintain alignment with financial control applied through the budgets and the Estimates processes.

10. However, the ED also proposed that the recognition of departmental investments in associates and joint ventures outside of the public sector should now apply the equity accounting method under IAS 28, as opposed to the existing requirements to disclose interests under IAS 39, *Financial Instruments: Recognition and Measurement*. Although this represents a misalignment to budgeting and Estimates, the Treasury considers that this will present a more useful understanding of the public sectors joint arrangements with the private sector, notably as government bodies invest in more joint arrangements with the private sector. The misalignment will be monitored and managed.

Executive agencies

11. Executive Agencies are legally part of a department, and the ED proposed that they should continue to report within the control criteria applied by the ONS, as directed by the Relevant Authority. The FReM text in Annex A seeks to clarify the reporting boundary so that the requirements of the Group Accounting Standards are applied insofar as those subsidiaries and investments are within the controlling department's consolidation boundary.

Executive NDPBs and trading funds

12. Executive NDPBs and trading funds currently prepare consolidated accounts in line with current Group Accounting standards without adaptation or interpretation.

13. The ED considers how the new Group Accounting Standards should apply to those entities reporting under FReM requirements. Additional guidance has been provided to clarify how terminology intended for the private sector can be used in the public sector context. This includes definitions focused on investee-investor relationships, clarification that 'returns' include non-financial returns and how protective rights differ from substantive rights, the latter of which are required for control.



14. The existing differences between NDPB reporting under fully-applied IFRS and the departmental boundary will remain, requiring adjustments to NDPB group positions where subsidiaries of NDPBs are not classified to the central government. The scope of the FReM does not extend to the consolidation requirements of several categories of arm's length bodies included with departmental reporting boundaries, such as charities and registered companies, thus full application of IFRS for NDPBs will maintain a level of consistency across the all ALBs.

Whole of Government Accounts (WGA)

15. The ED proposed to maintain the adaptation to the WGA consolidation boundary, based on the national accounts classification of bodies to the public sector as determined by the ONS. Aligning the WGA boundary with the national accounts definition remains an important principle in driving the usefulness of WGA, as a tool to support the macro-economic management of the UK's finances.

Disclosure

16. The standard requires entities to disclose information about their interests in:

- subsidiaries;
- joint arrangements and associates; and
- structured entities that are not controlled by the entity i.e. unconsolidated structured entities.

17. The ED proposed to apply the disclosure requirements in full for all entities. This included the new structured entity requirements, despite the possible increase in volume of information. The additional guidance highlights that materiality is an important disclosure consideration.

18. The proposed date for application is 1 April 2014.

Responses to the Exposure Draft

19. The Exposure Draft posed six questions to reporting entities:

Question 1 - Do you agree that the current adaptations to the departmental accounting boundary should remain in applying the new Group Accounting Standards? If not why not, and what alternative do you propose?

Question 2 - Do you agree that the application principles of IAS 28, Investments in Associates and Joint Ventures, should apply to departments and Executive Agencies for investments in Associates and Joint Ventures classified outside of the public sector by the ONS? If not why not, and what alternative do you propose?

Question 3 - Do you agree with HM Treasury's proposal to apply the new Group Accounting Standards in full to Executive NDPB's and trading funds? If not why not, and what alternative do you propose?

Question 4 - Do you agree that the definition of Structured Entities in IFRS 12 does not require interpretation or adaptation for the public sector context? If not, why not, and what alternative do you propose?



Question 5 - Do you agree that the disclosure requirements for unconsolidated Structured Entities in IFRS 12 do not require interpretation or adaptation for the public sector context? If not, why not, and what alternative do you propose?

Question 6 - Do you agree with the proposed effective date, detailed in the exposure draft? If not, why not, and what alternative do you propose?

20. A summary of responses received within the consultation period prior to this paper being sent to the Board are included in Annex B. There was broad support for the proposed changes from all responses. However, the following key points were made which the Treasury has taken on board in revising the FReM text and supporting guidance annexed to this paper.

21. **Additional guidance** on applying materiality judgements to disclosures - Several responses recommended additional guidance to highlight the importance of applying materiality judgements in: the disclosure of unconsolidated structured entities; in making adjustments between subsidiary and department consolidations that are based on different consolidation requirements; and to support the identification of the differences between substantive and protective rights in determining control. Along with clarification of the transition arrangements, these recommendations have been taken forward and reflected in the revised guidance.

22. **FReM clarification** - The Treasury has sought to clarify the different consolidation requirements for each type of entity reporting under the FReM. This includes the consolidation requirements for executive agencies as proposed in the consultation, whereby these agencies should apply the Group Accounting Standards insofar as those subsidiaries and investments are within the controlling department's consolidation boundary. This will allow for a consistent approach to control between an agency and its parent department, which are legally indivisible from each other.

23. **FReM clarification** of movements into and out of departmental boundaries. The consultation on Chapter 4 of the FReM also provided an opportunity to clarify the reporting requirements for changes to reporting boundaries, with reference to accounting for business combinations under merger and absorption accounting. The FReM was silent on the practical impact of changes to a departmental designation order caused by retrospective re-classification into or out of the central government. Such a reclassification is comparable to an error in previous reporting and IAS 8 restatement principles should be applied, which will also align to budget and Estimates expectations, subject to immateriality. The proposed FReM text has been amended to reflect this.

Recommendation

24. HM Treasury requests that the Board notes and agrees the proposed amendments to the FReM and the additional Treasury guidance, which have resulted from the publication of the IFRS Group Accounting Standards.

25. The Treasury asks the board to note that further consideration will be given to the differing consolidation requirements of reporting entities applying the FReM and that the Treasury will monitor and report back to the Board on the impact of the changes to accounting for investments classified to the private sector.

HM Treasury



HM TREASURY

FRAB (118) 03
10 OCTOBER 2013

10 October 2013



Annex A

Proposed FReM amendments

4. Accounting boundaries

Chapter 4 Contents

4.1	Introduction	1
4.2	Accounting standards	1
	<i>Applicability</i>	1
	<i>Objective of IFRS 10</i>	2
	<i>Objective of IFRS 11</i>	2
	<i>Objective of IFRS 12</i>	2
	<i>Objective of IAS 27</i>	2
	<i>Objective of IAS 28</i>	2
	<i>Objective of IAS 31</i>	10
	<i>Objective of SIC 12</i>	10
	<i>Objective of SIC 13</i>	10
	<i>The departmental accounting boundary</i>	3
	 IFRS 3 Business Combinations.....	 4
	<i>Applicability</i>	4
	<i>Objective of IFRS 3</i>	4
	<i>Transfer by Merger or Transfer by Absorption</i>	4
	<i>Disclosure</i>	<u>5</u>
	<i>Other requirements</i>	<u>5</u>



4.1 Introduction

4.1.1 This chapter sets out the accounting principles and standards that should be applied in determining the accounting boundaries of the reporting entities covered by this Manual.

4.2 Accounting standards

4.2.1 The following accounting standards deal with accounting boundaries:

IFRS 10, Consolidated Financial Statements

IFRS 11, Joint Arrangements

IFRS 12, Disclosure of Interests in Other Entities

IAS 27, Separate Financial Statements

IAS 28, Investments in Associates and Joint Ventures

~~*IAS 27 Consolidated and Separate Financial Statements*~~

~~*IAS 28 Investments in Associates*~~

~~*IAS 31 Interests in Joint Ventures*~~

~~*SIC 12 Consolidation—Special Purpose Entities*~~

~~*SIC 13 Jointly Controlled Entities—Non-monetary Contributions by Venturers.*~~

IFRS 3 Business Combinations

Applicability

4.2.2 Entities defined in this Manual shall prepare annual reports and consolidated financial statements as follows:

- a) Departments shall prepare annual reports and consolidated financial statements (as defined in Chapter 5 of this Manual) covering all entities within their consolidation boundary.
- b) Executive agencies shall prepare annual reports and consolidated financial statements in accordance with the requirements of IFRS 10, IFRS 11, IFRS 12, IAS 27 and IAS 28, 'the Group Accounting Standards' insofar as those subsidiaries and investments are within the controlling department's consolidation boundary.
- c) Executive NDPBs and trading funds shall prepare consolidated financial statements in accordance with the requirements of *Group Accounting Standards*, ~~and IAS 31~~ without adaptation and interpretation.

4.2.3 The departmental boundary is similar to the concept of a group under generally accepted accounting practice, but is based on control criteria used by the Office for National Statistics to determine the sector classification of the relevant sponsored bodies. Except where legislation requires otherwise, departments will account for subsidiary undertakings, associated undertakings or joint ventures in accordance with the Group Accounting Standards only if they are designated for consolidation by order of the relevant authority under statutory instrument, which will reflect the ONS's classification of an entity to the central government sector. In accordance with the principles set out in *Managing Public Money*, executive non-departmental and similar public bodies classified to central government by the ONS will normally be controlled for accountability purposes by only one department. ~~executive non-~~

~~departmental and similar public bodies that satisfy the IAS 27, IAS 28, IAS 31 and SIC 12 criteria for consolidation as subsidiary undertakings, associated undertakings or joint ventures will be accounted for in accordance with IAS 27, IAS 28 and IAS 31 only if they are designated for consolidation by order of the relevant authority under statutory instrument, which will reflect the ONS's classification of an entity to the central government sector.~~

- 4.2.4 Where a department has an **formal** investment in another public sector entity that **has not been designated for consolidation** ~~does not meet the criteria for consolidation~~, it should be reported following the requirements of IAS 39 (see FReM chapter 9). **This includes all interests in bodies classified as public corporations by the ONS, which are within the scope of Managing Public Money principles.**
- 4.2.5 Where a department has an investment in another entity that is not classified to the public sector but which does satisfy the criteria for consolidation as an associate or joint venture, it should be reported as in accordance with IFRS 11, IFRS 12 and IAS 28 to provide transparency and accountability of the departments interest. The department should report this interest consistently in the single entity account and the departmental group account.
- 4.2.6 For the purposes of applying the principles of consolidation, the department will be the parent entity in departmental consolidations. The financial statements of all entities whose results are to be consolidated will generally have the same accounting reference date. The relevant authority will consider the treatment of non-coterminous reference dates if cases arise.

~~4.2.7 SIC 13 applies to non-monetary contributions in joint ventures that fall within the accounting boundary.~~

Objective of IFRS 10

- 4.2.8 The objective of IFRS 10 is to provide a single basis of consolidation in its definition of control. It specifies that control by a parent entity (investor) exists only if the investor: has power over an investee; has exposure to variable returns from its involvement with an investee; and has the ability to use its power to affect the level of variable returns.

Objective of IFRS 11

- 4.2.9 IFRS 11 outlines the accounting by entities that jointly control an arrangement. If control exists under IFRS 10, but it is determined that an investor does not control an entity by itself, then a joint arrangement may exist. IFRS 11 focuses more on the underlying nature (substance) of contractual rights and obligations than the legal form of arrangements in determining the accounting for joint arrangements.

Objective of IFRS 12

- 4.2.10 IFRS 12, provides a single source of guidance on disclosure requirements for consolidated financial statements. The objectives of IFRS 12 are to require entities to disclose information that enables users of financial statements to evaluate: the nature of, and risks associated with, its interests in other entities; and the effects of those interests on its financial position, financial performance and cash flows.

Objective of IAS 27

- 4.2.11 The objective of IAS 27 is to set the standards to be applied in accounting for investments in subsidiaries, joint ventures, and associates when an entity elects, or is required by local regulations, to present separate (non-consolidated) financial statements. Separate financial statements are those normally prepared in addition to consolidated financial statements.

Objective of IAS 28

4.2.12 IAS 28 applies to all entities that are investors with joint control of, or significant influence over, an investee. The objectives are to prescribe the accounting for investments in associates and it sets out the requirements for the application of equity accounting when accounting for investments in associates and joint ventures.

~~Objective of IAS 27~~

~~4.2.13 The objective of IAS 27 is to require parent undertakings to provide financial information about the economic activities of their group in consolidated financial statements. These consolidated financial statements should present the financial information of the group as a single economic entity.~~

~~Objective of IAS 28~~

~~4.2.14 The objective of IAS 28 is to reflect the effect of investments in associates where the reporting entity is partly accountable for the associate's activities.~~

~~Objective of IAS 31~~

~~4.2.15 The objective of IAS 31 is to reflect the effect of a venturer's shares in joint ventures. The IAS also deals with joint arrangements relating to operations and assets that are not entities.~~

~~Objective of SIC 12~~

~~4.2.16 The objective of SIC 12 is to ensure that, regardless of the equity holding and control structure, where in substance the special purpose entity is controlled by the sponsor, it should be consolidated.~~

~~Objective of SIC 13~~

~~4.2.17 SIC 13 requires that, where venturers make non-monetary contributions in exchange for an equity share in a jointly controlled entity, the venturer recognises in profit and loss the element of any gain or loss that is attributable to the equity interests of the other venturers, except in specific circumstances.~~

The departmental accounting boundary

4.2.18 In addition to reportable activities, the following reporting entities are outside the departmental accounting boundary:

- a) any body classified as a public corporation by the Office for National Statistics (which includes trading funds);
- b) any body classified to the local government sector by the Office for National Statistics;
- c) health bodies not classified to the central government sector by the Office for National Statistics
- d) any body classified to the private or rest of the world sectors by the Office for National Statistics.

4.2.19 The departmental resource accounting boundary will, therefore, include the following entities:

- a) Supply-financed agencies;

- b) non-agency parts of the department accounted for through the Supply process and other bodies whose expenditure is accounted for in separate financial statements, including non-executive NDPBs such as Advisory NDPBs and Tribunal NDPBs;
- c) executive NDPBs or other public bodies that produce their own financial statements and which are classified by the Office for National Statistics to the central government sector; and
- d) Health bodies classified to central government by the Office for National Statistics.

IFRS 3 Business Combinations

Applicability

- 4.2.20 IFRS 3 excludes from its scope business combinations involving entities or businesses under common control. Public sector bodies are deemed to be under common control. The combination of two or more public sector bodies into one new body, or the transfer of functions from the responsibility of one part of the public sector to another, will be accounted for as either a Transfer by Merger or as a Transfer by Absorption, as detailed below.
- 4.2.21 For the purposes of this manual, a function is defined as an identifiable business operation with an integrated set of activities, staff and recognised assets and/ or liabilities that are capable of being conducted and managed to achieve the objectives of that business operation.
- 4.2.22 IFRS 3 applies to all combinations involving an entity or entities within the public sector with an entity outside the sector.
- 4.2.23 When a business combination has been incorrectly reported by preparers, IAS 8 should be applied in determining whether it is necessary to adjust retrospectively for material errors, as set out in Chapter 2 of this Manual. Any prospective change to an entity's reporting boundary where the business combination is not under common control should apply IFRS 3 in full.

Objective of IFRS 3

- 4.2.24 The objective of IFRS 3 is to specify that all business combinations (except those excluded from its scope) should be accounted for using the purchase method (also known as the acquisition method). IFRS 3 requires that all such combinations be accounted for at fair value at the date of the combination and that goodwill arising from such transactions is accounted for as an asset. Goodwill is not amortised but subject to impairment testing as required by IAS 36 *Impairment of Assets*.

Transfer by Merger or Transfer by Absorption

- 4.2.25 The accounting treatment for transfers of function under common control should be determined by aligning the reporting with the accountability for financial performance. The underlying objective is to ensure the financial reporting supports the accountability for the transferring function, and to do so in a symmetrical way to ensure there is no transparency gap. A transfer may require both treatments at different levels.
- 4.2.26 Transfer by Merger accounting should be applied at the group level for bodies applying this Manual. That is, for transfers of function between departments within central government, but not between a Westminster Department and the Welsh Government, Northern Ireland Assembly or Scottish Government, whose income and expenditure is controlled directly by Parliamentary Supply processes (departmental group accounts).

- 4.2.27 As a Transfer by Merger, the carrying value of the assets and liabilities of the combining bodies or functions are not adjusted to fair value on consolidation. Appropriate adjustments should be made to achieve uniformity of accounting policies in the combining bodies.
- 4.2.28 The results and cash flows of all the combining bodies (or functions) should be brought into the financial statements of the combined body from the beginning of the financial year in which the combination occurred, adjusted to achieve uniformity of accounting policies. Restatement of comparatives, including that of the results for all the combining bodies (or functions) for the previous period, should be provided in accordance with IAS 1 as interpreted by this manual. Comparatives should be adjusted as necessary to achieve uniformity of accounting policies and consistency of presentation.
- 4.2.29 All other transfers of function between public sector bodies should be accounted for as Transfers by Absorption. This includes transfers: to or from Local Government, to or from Public Corporations; between Devolved Administrations and Whitehall Departments; within a departmental boundary; and for all transfers reported by Executive NDPB's, other arm's length bodies within central government and trading funds.
- 4.2.30 The carrying value of the assets and liabilities of the combining bodies or functions are not adjusted to fair value on consolidation. There should be no recognition of goodwill and no restatement of comparatives in the primary financial statements. The recorded amounts of net assets should be brought into the financial statements of the transferee from the date of transfer. The net asset/liability carrying value should be recorded as a non-operating gain/loss from the transfer of function, through net expenditure, with the transferor recording symmetrical entries. Revaluation reserves should be transferred in full, with the remaining balance transferred to the General Fund.
- 4.2.31 For all adjustments required to achieve uniformity of accounting policies, the double entry will be to the General Fund (or equivalent).

Disclosure

- 4.2.32 A reporting entity that receives a transfer of functions should disclose in its financial statements that the transfer has taken place (including a brief description of the transferred function), giving the date of the transfer, the name of the transferring body and the effect on the financial statements. Where accounted for as a Transfer by Absorption, the reporting entity should apply judgment as to whether the additional disclosure of historical financial performance of the function should be provided, to enable users to understand the operational performance
- 4.2.33 Both the transferor and the transferee of a business combination under common control should apply a symmetrical accounting treatment for the transfer. A reporting entity that transfers functions to another reporting entity should also provide the same information about the transfer in its financial statements. Public bodies controlled by a parent entity should provide the necessary information required by the parent entity to meet the requirements set out in paragraphs [4.2.20](#) to [4.2.32](#).

Other requirements

- 4.2.34 Transfers of non-current assets that are not machinery of government changes⁴ or part of a transfer of functions should be transferred at fair value following the fair value measures in IFRS 3.
- 4.2.35 Any departure from the accounting treatments in [4.2.20 to 4.2.32](#) must be agreed with the Relevant Authority, and applied symmetrically by the transferor and transferee.

⁴ Machinery of Government changes are those changes that transfer responsibility for a function from one part of the public sector to another.

14 Whole of Government Accounts

Chapter 14 Contents

14.1 Introduction.....	1
14.2 Accounting standards applied to Whole of Government Accounts	1
<i>IAS 1 Presentation of financial statements</i>	<i>3</i>
<i>IAS 2 Inventories.....</i>	<i>3</i>
<i>IAS 10 Events after the Reporting Period.....</i>	<i>3</i>
<i>IAS 16 Property, plant and equipment.....</i>	<i>3</i>
<i>IAS 19 Employee benefits.....</i>	<i>3</i>
<i>IAS 20 Accounting for government grants and disclosure of government assistance</i>	<i>4</i>
<i>IAS 21 The effects of changes in foreign exchange rates</i>	<i>4</i>
<i>IAS 24 Related party disclosures.....</i>	<i>4</i>
<i>IFRS 10 Consolidated Financial Statements.....</i>	<i>4</i>
<i>IAS 27 Consolidated and separate financial statements</i>	<i>4</i>
<i>IAS 29 Financial reporting in hyperinflationary economies.....</i>	<i>5</i>
<i>IAS 32 Financial Instruments.....</i>	<i>5</i>
<i>IAS 36 Impairment of assets.....</i>	<i>5</i>
<i>IAS 37 Provisions, contingent liabilities and contingent assets.....</i>	<i>5</i>
<i>IAS 38 Intangible assets</i>	<i>5</i>
<i>IAS 39 Financial instruments – recognition and measurement</i>	<i>5</i>
<i>IAS 40 Investment property</i>	<i>5</i>
<i>IFRS 5 Non-current assets held for sale and discontinued operations</i>	<i>6</i>
<i>IFRS 8 Operating segments</i>	<i>6</i>
Other accounting policies	6
<i>Revenue from taxes and duties</i>	<i>7</i>
<i>Monetary gold and IMF Special Drawing Rights</i>	<i>7</i>
14.3 Reporting requirements for Whole of Government Accounts.....	7
Commentary accompanying Whole of Government Accounts.....	7
The Statement of Accounting Officer's responsibilities	8
The Governance Statement	8
14.4 Audit and Publication.....	8

14.1 Introduction

14.1.1 The Treasury prepares Whole of Government Accounts (WGA) for the whole of the UK public sector (central government, local government and public corporations) under section 9 of the Government Resources and Accounts Act 2000. WGA is prepared under generally accepted accounting practice as defined in chapter 2 of this Manual.

14.1.2 The Government's aims in making the commitment to WGA were to provide improved data for fiscal planning, to increase transparency and to improve accountability to Parliament. WGA is requiring bodies within the public sector to prepare data on a consistent basis. It is thereby improving the comparability of financial data. WGA increases the completeness of public sector financial data through the inclusion of provisions, contingent liabilities etc. and is independently audited and certified by the Comptroller & Auditor General.

14.1.3 WGA has the ability to provide additional and complementary data to that in national accounts, (which is currently used for fiscal management), for use by government, Parliament and the taxpayer where the scope of the accounts is consistent with that of the national accounts.

14.1.4 This chapter considers the specific accounting and disclosure requirements adopted in the consolidated WGA as compared with the requirements for the financial statements of the reporting entities and reportable activities covered by this Manual.

14.2 Accounting standards applied to Whole of Government Accounts

14.2.1 This section summarises the applicability of accounting standards to WGA. Adaptations and interpretations of standards that apply to WGA are explained in the paragraphs below.

Accounting Standard	Adapted in other chapters	Interpreted in other chapters	Adapted for WGA	Interpreted in WGA
...				
IAS 27 Consolidated and Separate Financial Statements	Yes	No	Yes	Yes
IAS 28 Investments in Associates	No	No	No	No
IAS 31 Interest in Joint ventures	Yes	No	No	No
IAS 10 Events after the Reporting Period	No	Yes	No	No Yes
IFRS 10, Consolidated Financial Statements	Yes	No	Yes	No
IFRS 11, Joint Arrangements	Yes	No	No	No
IFRS 12, Disclosure of Interests in Other Entities	No	No	No	No
IAS 27, Separate Financial Statements	No	No	No	No
IAS 28, Investments in Associates and Joint Ventures	Yes	No	No	No

IAS 10, Events after the Reporting Period

14.2.4 The interpretation of IAS 10 required for annual accounts is not required for WGA, except that, the requirement that the financial statements be adjusted for **events that provide evidence of conditions that existed at the reporting period will not apply. These events will be disclosed in line with non-adjusting events. ~~significant transactions or events that occur between the date of the consolidated body's reporting date and the WGA reporting date will not apply.~~**

...

IFRS 10, Consolidated Financial Statements IAS-27 Consolidated and separate financial statements

14.2.10 IFRS 10 IAS-27 is adapted for WGA in the following ways:

a) These accounts are drawn up for the purposes of Government and Parliament as a whole and not as a requirement of any individual entity. No one body appears to have the ability to control all of the bodies within the consolidation, and as a consequence, for the purposes of WGA, no parent company will be disclosed in the statements and notes, only the position of the consolidated bodies.

b) the requirement to include all investees (subsidiaries) of the investor (parent) is adapted in order that WGA shall conform to the statutory requirement in the Government Resources and Accounts Act 2000 that WGA comprise a consolidation of those bodies that appear to HM Treasury to exercise functions of a public nature or are entirely or substantially funded from public money. This will be based on the national accounts classification of bodies to the public sector, as independently determined by the Office of National Statistics at the reporting date. This does not affect the right of the Comptroller and Auditor General to form a different opinion about the classification of any body, and therefore their inclusion within WGA.

c) The requirement to eliminate in full income tax, National Insurance Contributions and Value Added Tax balances and transactions between consolidated entities and Her Majesty's Revenue and Customs, and non-domestic rates payable by consolidated entities to local authorities, is adapted to exclude the elimination of input Value Added Tax on goods and services acquired by consolidating entities for either revenue or capital purposes.

~~d) the requirement that the financial statements be adjusted for significant transactions or events that occur between the date of the subsidiary's reporting date and the parent's reporting date shall not apply, and the subsidiary shall not be required to prepare additional financial statements as of the same reporting date.~~

Effective date of amendment

The effective date for the proposed amendment is 1 April 2014.



Summary of Consultation responses

Annex B

Respondee	Q1 – Maintain existing department accounting boundary adaptation?	Q2 – Apply IAS 28 principles to departments and agencies with arrangements outside the public sector?	Q3 – Apply new standards in full to NDPBs and trading funds?	Q4 – to apply the IFRS 12 definition of Structured Entities without adaptation or interpretation?	Q5 - to apply the IFRS 12 disclosure requirements for unconsolidated Structured Entities without adaptation or interpretation?	Q6 - Effective date of 1 April 2014
Northern Ireland	Agree	Agree	Agree	Agree	Agree	Agree, but concerned with implementation date if consolidation of all maintained schools is required.
BIS	Agree	Agree – Confirmation required on whether a change from Investment/Proportional consolidation to equity accounting is an accounting policy change or change in Estimate. Practical guidance may be helpful.	Agree	Agree - HMT may want to reconsider this if the number and breadth of complexity of entities increases. Supplementary guidance may also be helpful.	Agree - Supplementary guidance may also be helpful.	Agree, with transitional arrangements agreement if the changes are burdensome.
MoD	Agree	Agree	Agree	Agree	Agree	Agree
Deloitte LLP	Agree	Agree.	Agree, noting that: <ul style="list-style-type: none"> detailed guidance on the identification of 	Agree	Agree. The volume of potential unconsolidated structured entities is	Agree

			<p>substantive and protective rights is recommended.</p> <ul style="list-style-type: none"> the identification of joint control within the public sector is not expected to be significant, because each party will normally have different relevant activities that they are able to direct. 		<p>considerable. Further guidance to preparers is recommended, including further highlighting the importance of materiality within these disclosures.</p>	
DEFRA	Agree	Agree	Agree, however, consideration is needed of how Departments deal with the difference of accounting when an NDPB consolidates a subsidiary under IFRS outside of the Departmental boundary?	Agree	Agree	Agree
DECC	No Issue	No Issue	No Issue	No Issue	No Issue	No Issue
Wales Audit Office	Agree	Agree	Agree.	Agree	Agree	Agree
FCO	Agree, with continual monitoring of the consolidation requirements of departmental groups and the process by which departmental ALB's are	Agree	Consideration is needed of how Departments deal with the difference of accounting when an NDPB consolidates a subsidiary under IFRS outside of the	Agree	Agree, with clarification of how materiality might be applied.	Agree, with sufficient time provided to identify individual budget and Estimates alignment issues.

	consolidated in WGA.		Departmental boundary?			
NAO	<ul style="list-style-type: none"> Agreement that the current adaptations should remain as it is a key element of alignment with budgets. It would be helpful if the FReM, or associated guidance, could set out the approach required where entities are either introduced to the departmental group or removed from it. 	Do not disagree with this proposal however question whether the introduction of this misalignment between financial reporting and budgets is desirable.	<ul style="list-style-type: none"> Agree However, note that the proposals are silent as to the applicability to agencies. 	Agree	We are concerned about the extent of the disclosures which may be included unless there is clear guidance that disclosure should be restricted to material matters and that, where applicable, aggregation should be considered.	Agree