



HM TREASURY

Financial Reporting Advisory Board Paper

Government Financial Reporting Manual (FReM) 2015-16

Issue:	HM Treasury has started development of the 2015-16 FReM. The main changes will be to the form and content of the annual report and accounts as a result of the simplifying and streamlining project.
Impact on guidance:	The final version of the 2015-16 FReM and supporting illustrative statements will be presented at the November FRAB meeting.
IAS/IFRS adaptation?	Yes. Adaptations to IAS 16 and IAS 38 are proposed as part of the implementation of IFRS 13. These are detailed in FRAB (121) 07.
Impact on WGA?	Yes, see FRAB (121) 07.
IPSAS compliant?	Yes, see FRAB (121) 07.
Interpretation for the public sector context?	Yes, see FRAB (121) 07.
Impact on budgetary regime?	Yes, see FRAB (121) 07.
Alignment with National Accounts	Yes, see FRAB (121) 07.
Impact on Estimates?	Yes, see FRAB (121) 07.
Recommendation:	That the FRAB notes the proposed scope of amendments to the 2015-16 FReM. A complete draft of the FReM will be circulated to the Board for comment prior to a due process consultation this summer.
Timing:	2015-16

DETAIL

Background

1. The Memorandum of Understanding between the Relevant Authorities for developing financial reporting guidance for the public sector requires that the version of the FReM for financial year 2015-16 is available to users by 1 January 2015.
2. This paper requests the Board to note the proposed scope of amendments to the FReM for 2015-16. The final draft 2015-16 FReM and the illustrative statements will be presented at the November meeting.

Amendments to the FReM

3. The amendments to the FReM fall within the following categories:
 - Adoption of IFRS 13 Fair Value and corresponding changes to IAS 16 and IAS 38 adaptations – FRAB paper (121) 07 refers;
 - Changes to the form and content of the annual report and accounts as a result of the simplifying and streamlining project – FRAB paper (121) 02 refers; and
 - Minor amendments and clarifications.
4. A summary of the main changes by chapter is shown in the Annex.

Summary and recommendation

5. The Board is requested to review the scope of the proposed amendments to the FReM. A complete draft of the FReM will be circulated to the Board for comment prior to a due process consultation this summer.

HM Treasury
19 June 2014

ANNEX

Chapter	Section	Main changes
1. Introduction	1.4 Arms length bodies	<p>For periods commencing on or after 1 January 2015 there are two SORPs; one based on the new FRS102 and the other based on the Financial Reporting Standard for Smaller Entities (the FRSSE). Charities can choose to use the SORP based on the FRSSE if they meet size criteria. This may mean that departments have to consolidate charity accounts which have been prepared under different SORPs.</p> <p>The FReM will make departments aware of the two SORPs which are in use. The changes may make data collection more complicated for some FReM bodies (particularly DfE) but should not result in restatement as FReM bodies will already be making adjustments for uniform accounting policies.</p>
2. Accounting principles	2.2 Preparation and presentation of financial statements	<p>Throughout the FReM references to the Companies Act will be removed and the requirements will instead be incorporated directly into the Manual where relevant. For example, chapter 2 currently interprets section 393 of the Companies Act for the public sector context. Under the new approach, chapter 2 will instead explain the Accounting Officer signing requirements. The aim of these changes is to make the Manual easier for preparers to use and to make the changes to the annual report arising from the simplifying project easier to implement.</p>
3. Parliamentary accountability	3.2 Statement of Parliamentary Supply	<p>The Command Paper proposes that the following supporting notes to the Statement of Parliamentary Supply are removed:</p> <ul style="list-style-type: none"> - Note 4: Reconciliation of net resources to net cash requirement - Note 5: Analysis of income payable to the Consolidated Fund <p>If these notes are still required to be produced for audit then the FReM will either provide guidance on their production or a link to where guidance can be found.</p>
4. Accounting boundaries	4.1 Accounting boundaries	<p>The new consolidation standards were introduced into the 2014-15 FReM. No substantive changes are planned for the 2015-16 FReM but there will be minor changes to clarify text for the avoidance of doubt.</p>
5. Form and content of the annual report and accounts	Throughout	<p>This chapter will be significantly altered in line with the proposals in the Command Paper. The expected structure of the chapter is:</p> <ul style="list-style-type: none"> - 5.1 Introduction: This will set out the overall structure of the annual report and accounts. It will make it clear that the chapter does not apply to charities or companies. Charities will only be required to comply with the requirements of the Charities' SORP and regulations made under charities' legislation. Companies will only need to comply with the requirements of the Companies Act. Sponsoring departments may then choose to issue an accounts direction to require further disclosures. - 5.2 The Performance Report: This new section will set out the objectives of the 'overview' and 'performance analysis' which together make up the performance report. The FReM will detail the minimum reporting requirements, including incorporating Companies Act requirements relating to the

Chapter	Section	Main changes
		<p>Strategic Report where they are mandatory for entities which are not companies.</p> <ul style="list-style-type: none"> - 5.3 The Accountability Report: This new section will draw together the existing requirements in chapter 5 relating to the statement of accounting officer's responsibilities, the governance statement, the remuneration report and those elements of the Directors' Report which will continue to be mandatory for entities which are not companies. - 5.4 The Annual Accounts: The format of the Statement of Comprehensive Net Expenditure for departments will be brought in line with IAS 1 such that row headings are based on material sources of income and expenditure rather than the existing administration/programme and staff/non-staff split. Similarly, the Statement of Cash Flows will align with IAS 7 and will not require an analysis of cash movements before and after payments to the Consolidated Fund. In general, more flexibility will be allowed in determining which supporting notes should be included and how they should be presented, so long as they meet minimum IFRS requirements. - 5.5 Audit: No significant changes to existing section. - 5.6 Presentation to Parliament and Publication: No significant changes to existing section.
6. Applicability of accounting standards	6.1 EU-adopted IFRS	The list of EU-adopted IFRS applied in the Manual will be updated to include IFRS 13 Fair Value Measurement.
7. Further guidance on accounting for assets and liabilities	7.1 Property, plant and equipment	The proposed changes are set out in the IFRS 13 Exposure Draft.
8. Further guidance on accounting for income and expenditure	8.2 Consolidated Fund revenue	The existing requirement for trust statements to include any additional information which might aid the understanding of users will be reviewed to provide guidance on which IFRS-based disclosures should be included where they will be useful to a user. For example, guidance will require that trust statements include disclosures relating to credit risk in line with IFRS 7 where material.
9. Further guidance on pensions accounting	9.3 Pensions accounting by the public sector pension schemes	The content of pension scheme accounts may be altered to align with the simplifying project. This will depend on the response to the Command Paper.
10. Whole of Government Accounts	10.2 Accounting standards applied to Whole of Government Accounts	<p>Minor presentational changes are proposed for the segmental reporting note such that:</p> <ul style="list-style-type: none"> - NHS bodies do not have to be separately disclosed within the central government sector; and - There will be more flexibility in presenting consolidation adjustments between segments.
Annexes	Annex 4	A new annex will be added to provide a summary of relevant guidance, including links to where it can be found.