

# **19th Report of the Financial Reporting Advisory Board**

**Report for the period  
April 2015 to March 2016**

**HC 558**

# FINANCIAL REPORTING ADVISORY BOARD

**Report for the period  
April 2015 to March 2016**

Presented to the House of Commons pursuant to Section 24(4) of the Government  
Resources and Accounts Act 2000

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Resources and Accounts Act (Northern Ireland) 2001 by the  
Department of Finance and Personnel

The report is laid before the Scottish Parliament and presented to the Audit and  
Finance Committees of the Scottish Parliament by agreement with the  
Scottish Ministers

The report is submitted to the Public Accounts Committee of the National  
Assembly for Wales by the Welsh Government

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# ***Board Membership***

*Chair:* Kathryn Cearns

*Members:* David Aldous  
Anthony Appleton  
Andrew Baigent  
Bob Branson  
Andrew Buchanan  
Gareth Caller  
Ross Campbell (to June 2015)  
Ian Carruthers (to Nov 2015)  
Jason Dorsett  
Ruth Elliot  
Gawain Evans  
Neil Hartley

David Hobbs  
Ron Hodges  
Kate Mathers  
Joanne McBurney  
Maggie McGhee (to Mar 2016)  
Veronica Poole  
Vicky Rock (from Nov 2016)  
Alison Scott (from Mar 2016)  
Mike Usher (to Mar 2016)  
Aileen Wright  
Derek Yule

*Parliamentary*

*Observer:* Sir Edward Leigh MP (to Nov 2015)  
Craig MacKinley MP (from Mar 2016)

## *Chairman's Foreword*

This is my last report as Chairman of FRAB, as I will by June 2016 have served for six years. The Executive Summary and detail of the report describe the work of the Board this year and indicate the challenges to come. As this is my last report as Chairman, I would like to reflect on one or two fundamental issues in UK public sector reporting.

The UK public sector is in the vanguard of high quality financial reporting in Europe, if not the world, and the considerable advances made in the clarity and quality of information reported by government have been made at substantial cost. The benefits achieved have, in my view, outweighed those costs, both in terms of the better and wider range of information provided to Parliament and the public, but also in the impetus accruals accounting and budgeting has given to better financial management and control. Whether at local authority, NHS, central government or at the Whole of Government Accounts level, financial reporting offers different and wider insights into how the government spends UK taxpayers' money and makes commitments for future expenditure.

Financial reporting on the basis of private sector accounting standards, adapted for the public sector where appropriate, is of course not sufficient for government financial management and budgeting purposes. There is an inherent tension, as in the private sector, between the historical stewardship and investment decision-making focus of financial reporting and the national accounts methodologies for fiscal measures and budgeting for future affordability. While both benefit from much of the same improved accruals information, they have different purposes. Those differences provide substantial insights when considering how government actions today commit the country to courses of expenditure and obligation. It is in my view dangerous to focus on one system over the other, particularly if that risks losing the coherent view offered by financial reporting based on International Financial Reporting Standards (IFRS). Nevertheless it is important to make these systems of reporting work together as well as possible.

The financial crisis and the sovereign debt crisis that followed have been pertinent reminders of the considerable barriers to sustainable public finance caused by the lack of reliable, coherent financial information on government finances in many countries. While the fiscal focus on debt is of great importance, it does not capture wider asset and liability figures and these have much to say about government activity and future commitments: on the asset side around the physical and intangible asset base, and on the liability side around some significant and long-term provisions, such as for medical negligence litigation, nuclear decommissioning, PFI and pension commitments.

These issues mean that it is important for the overall system of government reporting and financial management to be fit for purpose, for its different parts to interact effectively and for all aspects to be scrutinised and used by those who receive the information. In the end, it is only that scrutiny that will ensure financial reporting fulfils its vital stewardship function.

I would like to end by thanking all those who have served on the Board during my tenure as Chairman, as well as the secretariat staff at the relevant authorities who have carried out work for the Board. Their efforts have been considerable and they have all worked extremely hard, in the public interest, towards better government reporting and accountability. I have enjoyed working with all of them and wish the Board all success in the future in carrying out its important independent role.

Kathryn Cearns

6 December 2016

# *Executive Summary*

This is the 19<sup>th</sup> 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 through the provision of independent advice. The report is addressed to the Committee of Public Accounts and the Treasury Select Committee in the Westminster Parliament, to the Northern Ireland Assembly, to Scottish Ministers and to the Public Accounts Committee of the National Assembly for Wales. The report covers the year April 2015 to March 2016.

## *Board membership*

The 2015-16 financial year saw the Board undergo a number of changes of membership. These included the departure of Ian Carruthers following his appointment as the next Chair of the International Public Sector Accounting Standards Board (IPSASB) with effect from 1 January 2016. The Board congratulates Ian and is grateful that he continues to be an observer on the FRAB. The Board's Parliamentary observer, Sir Edward Leigh MP, also stood down: the Board would like to express its thanks and gratitude to Sir Edward for his efforts in working with the Board. The Board welcomes Craig McKinley MP as Sir Edward's replacement as Parliamentary observer. The Board likewise thanks Ross Campbell, and Mike Usher and welcomes new members, Alison Scott and Vicky Rock.

Finally, after six years as Chairman of the FRAB, Kathryn Cearns will be stepping down in mid-2016 in compliance with the Board's governance arrangements. The coming year therefore promises to be one of transition under a new Chairman.

## *A major impact in the coming year: discount rates*

The Board has had the issue of discount rates on its agenda for a considerable period of time. The use of discount rates is important in financial reporting, as in actuarial and other economic measurement systems, to reflect the time value of money. In other words, there is an economic difference between two liabilities of the same nominal amount, but where one is to be settled in cash in 10 years' time and the other in 20 years' time: the present value of the former will be higher than the latter. The time value of money reflects an economic reality that cannot be ignored (unless the impact is immaterial) without making accounts misleading. The higher the discount rate, the lower the liability present value will be when it is applied.

The aim of the accounts here is to give a fair picture of present value, to reflect what would rationally be paid to settle the liability at the year end, and without discounting this would not be possible. This is not the same as assuming a fulfilment approach, where the government entity will settle the liability as it becomes due out of future cash inflows or assets set aside for the purpose now to meet the liability when it becomes due in future, where the value of those assets may rise over time. A settlement approach allows a more neutral and comparable form of measurement. This means that the discount rate to be applied must be one that reflects only the time value of money and the risk inherent in the cash flows to settle the liability, where the cash flows themselves are not risk-adjusted. Accounting standards specifically

exclude the use of discount rates that reflect the source of the funding to meet the liabilities, whether from future funding or existing assets.

Nevertheless, the application of discount rates, and the impact when they change, can be difficult for users of accounts to appreciate. It is therefore important for government bodies to disclose the impact of changes clearly and with sufficient disaggregation and explanation of the impact.

The greatest effect in 2015-16 will be on the measurement of long-term provisions such as NHS medical negligence provisions and nuclear decommissioning liabilities. The Relevant Authorities requested, and the Board agreed, that the discount rates for such long-term provisions only had to change every Spending Review rather than annually as usually required by accounting standards. 2015-16 is such a year where that change is made, but the effect on this occasion is that the drop from an old, relatively high rate to a much lower current rate, which reflects present interest rates but which reduces the value of liabilities rather less, means that there will be a very substantial increase in the recorded value of these important long-term provisions.

Government reporting entities need to ensure that this change is properly described, but it is important not to suggest that such movements in value are meaningless just because they do not reflect cash changes. These valuations reflect real economic phenomena that, were such liabilities to be transferred to a third party (whether or not that is possible) rather than holding them to when they fall due, would be taken into account in the transaction price calculation between the parties. It is this type of objective measurement methodology that accounting standards are seeking to apply.

#### *Changes to accounting guidance*

Last year's report gave initial consideration to the forthcoming introduction of two new Standards: IFRS 15 Revenue from Contracts with Customers and IFRS 9 Financial Instruments. While neither are currently due to be effective until 1 January 2018, the lead time required to ensure that the full implications on the public sector are adequately considered has meant that the Board has worked closely with Relevant Authorities in 2015-16 to secure this objective. For much of the year the Board's focus has been identifying those issues or decisions that need to be considered early on in the process, for example on transition arrangements.

Following the Board's extensive work with Relevant Authorities over recent years on IFRS 13 Fair Value Measurement, the Standard was adopted into manuals for the first time in the 2015-16 financial year.

The Board also gave initial consideration to the forthcoming introduction of IFRS 16 Leases. This was issued by the IASB in January 2016 with an effective date for UK public sector reporting purposes of the 2019-20 financial year; this is discussed further below.

#### *Improvements to financial reporting*

2015-16 saw the introduction of restructured annual report and accounts (ARAs) in



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line with the findings of the *Simplifying and Streamlining Accounts* project<sup>1</sup> (the 'Project'). The Board discussed the next stage of the Project with a particular focus on the appropriate reporting requirements for smaller bodies that are consolidated into a departmental group. The Board also advised the Department for Business, Innovation and Skills (BIS) on a proposed pilot project for the rationalisation of financial reporting among Research Council bodies.

The Board considered the changes to treatment of research and development costs in the national accounts framework, setting out the effects of the new European System of Accounts 2010 (ESA 2010) which came into effect for Member states in September 2014. The Board supported the Treasury's proposal not to change financial reporting requirements under the FReM in response to the change in statistical reporting.

A major change in reporting guidance came in the Group Manual for Accounts merger with the Foundation Trust Annual Reporting. The merged manual will provide one detailed direction over accounts for all Department of Health bodies including NHS foundation trusts, and will be produced for the 2016-17 financial year.

The Financial Reporting Manual (FReM) 2016-17 was given due consideration by the Board having been published in December 2015. No further changes to the FReM 2016-17 were proposed from the 2015-16 version, which provides some stability for reporting entities.

The CIPFA/LASAAC Code of Practice on Local Authority Accounting has undergone significant changes for 2016-17. The major issue, successfully implemented after much debate and challenge, is a change in accounting treatment for network road assets, bringing their current value on balance sheet, in line with other public sector assets, and in the process addressing one of the major audit qualifications for the Whole of Government Accounts (WGA). Improvements in the presentation of financial statements with new formats and reporting requirements have also been made.

The Board welcomed the publication of the Whole of Government Accounts (WGA) 2013-14 in March 2015; this was ten weeks earlier than the previous year and a significant improvement compared to the twenty months after year-end publication of the very first WGA. Consideration was given to the remaining audit qualifications but it was noted that important steps were being taken to clear them as much and as quickly as possible.

The Board took great interest throughout the year in emerging proposals for European Public Sector Accounting Standards (EPSAS) following Eurostat's first working group meeting in September 2015. Their key priorities included a programme of financial support to encourage member states to adopt accruals accounting over the next 4-5 years including the option to move to International Public Sector Accounting Standards (IPSAS) as a potential proxy for EPSAS. The UK remains one of the most advanced EU countries in terms of adoption of accruals

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<sup>1</sup>[https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/330725/simplifying\\_annual\\_reports\\_print.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/330725/simplifying_annual_reports_print.pdf)

accounting and stringent private sector standards. The Board also took a keen interest in the International Public Sector Standards Board's (IPSASB) work, including that on the Conceptual Framework project.

*Priorities for 2016-17*

A key priority for the Board will be to ensure that the recently published IFRS 16 Leases is fully considered. The new standard will remove the existing distinction between finance and operating leases. It is expected to produce a more consistent approach to the recognition and measurement of the rights and obligations that arise from lease agreements, and its potential impact on accounts of public sector bodies will be substantial, particularly on reported liabilities. The Board will deliberate on the implications of the new Standard for the public sector throughout 2016-17.

The Board will continue to ensure that the new accounting standards IFRS 9 Financial Instruments and IFRS 15 Revenue from Contracts with Customers are fully considered in the public sector context, so that they are adopted on a timely basis. As noted above, and at the Board's encouragement, work plans are in place to ensure this is so, and the Board has much work to do to oversee the readiness for their introduction.

Email: michael.sunderland@hmtreasury.gsi.gov.uk

Telephone: 0207 270 5929

Address: Michael Sunderland, FRAB Secretariat, 1 Horse Guards Road,  
London, SW1A 2HQ

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# 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<sup>2</sup>.
- 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 (GAAP) 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 WGA.
- 1.4. Further information about the Board (including: membership; Terms of Reference; meeting minutes; and papers) is available on the gov.uk website<sup>3</sup>.

### Background to the FRAB Report

- 1.5. In accordance with its Terms of Reference, the Board has a responsibility to prepare an annual report of its activities, including its views on the changes made during the report period to accounting guidance that is within the Board’s remit.
- 1.6. The Board is required to send a copy of its report direct to the Committee of Public Accounts, the Treasury Select Committee of the UK Parliament, to the Welsh Government, the Scottish Ministers and the Department of Finance and Personnel (Northern Ireland).
- 1.7. The Treasury, the Scottish Ministers, and the Department of Finance and Personnel (Northern Ireland) formally lay the Board’s report before (respectively) the House of Commons, the Scottish Parliament, and the Northern Ireland Assembly. The Welsh Government submits the report to the Public Accounts Committee of the National Assembly for Wales.
- 1.8. This is the Board’s 19<sup>th</sup> report and the report structure is summarised below.

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## Report structure

### Changes to accounting guidance

- 1.9. Chapter 2 of the report summarises changes to accounting guidance approved by the Board during 2015-16.

### Board activities

- 1.10. Chapter 3 of the report details those issues in financial reporting, both new and continuing, which may lead to changes in accounting guidance in the future and provides an indication of how those issues will impact the Board's work in future years.

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<sup>2</sup> <http://www.legislation.gov.uk/ukpga/2000/20/section/24>

<sup>3</sup> <https://www.gov.uk/government/policy-advisory-groups/financial-reporting-advisory-board-frab>

# Chapter 2

## CHANGES TO ACCOUNTING GUIDANCE IN 2015-16

### Introduction

2.1. This chapter details significant changes in accounting guidance within the Board's remit for 2015-16 and 2016-17.

### The 2015-16 Financial Reporting Manual (FReM)

2.2. The Board agreed the Treasury's proposed schedule of amendments to the 2015-16 FReM. These amendments were to correct minor errors and reduce inconsistencies and possible ambiguity. In 2014-15, the Board had already agreed (and previously reported<sup>4</sup>) a number of issues relating to the 2015-16 FReM, the most significant of which are detailed in Table 1.

**Table 1**

<b>Accounting standard or reporting issue</b>	<b>Summary</b>	<b>FReM impact</b>
IFRS 13, <i>Fair Value Measurement</i>	IFRS 13 has been EU-adopted for annual periods beginning on or after 1 January 2013. It has been prepared to provide consistent guidance on 'fair value' measurement. The Standard defines 'fair value', provides guidance on fair value measurement techniques, and sets out the disclosure requirements.	IFRS 13 was specifically scoped out of the 2014-15 FReM and was adopted in the 2015-16 FReM. Further details on the implementation of IFRS 13 are included in Chapter 3.
<i>Simplifying and Streamlining Accounts</i> project	Changes in the form and content of the annual report and accounts, implementing proposals agreed through the project.	Introduction of a revised format in the 2015-16 FReM with three sections: the Performance Report, the Accountability Report and the Financial statements.

2.3 The revised FReM was issued by the Treasury in December 2015. A log of all 2015-16 amendments is available on the gov.uk website.<sup>5</sup>

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<sup>4</sup> 18<sup>th</sup> Report of the Financial Reporting Advisory Board, Report for the period April 2015 to March 2016

<sup>5</sup> <https://www.gov.uk/government/publications/government-financial-reporting-manual-2015-to-2016>

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### Proposed 2016-17 Financial Reporting Manual (FReM)

- 2.4 The Board also reviewed the form and content of the proposed 2016-17 FReM presented by the Treasury. No further changes to the FReM 2016-17 were proposed from the 2015-16 version. However, the Treasury noted that the FReM 2016-17 will need to be updated once CIPFA/LASAAC have finalised proposals for local authorities on highways network assets and the budgetary treatment of research and development expenditure.
- 2.5 The Board also considered a paper outlining the narrow scope amendments issues by the IASB as part of their annual improvement process for 2012-2014. Each amendment was considered by the Treasury and a view formed on whether there were any public sector specific financial reporting impacts that may require further work to be performed and the effective dates of the amendments. It was noted that no immediate further action was required as a result of the amendments considered and no amendments to the FReM are proposed, and the Board agreed with this view.
- 2.6 The Board agreed with the form and content and the 2016-17 FReM was published to timetable, in December 2015<sup>6</sup>.

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<sup>6</sup><https://www.gov.uk/government/publications/government-financial-reporting-manual-2016-to-2017>

## **The NHS Manual for Accounts 2015-16 and Foundation Trust Annual Reporting Manual 2015-16**

- 2.8 The Board agreed the 2015-16 Foundation Trust Annual Reporting Manual and 2015-16 NHS Manuals for Accounts with no new divergences from the FReM. The 2015-16 Foundation Trust Annual Reporting Manual was issued by Monitor in July 2015 (subsequently updated in November 2015) and the 2015-16 NHS Manual for Accounts was issued by the Department of Health in August 2015.
- 2.9 The Board were updated on progress in respect of the 2016-17 Group Manual for Accounts merger with the Foundation Trust Annual Reporting Manual. The Board received the draft merged manual at its March 2016 meeting.
- 2.10 The Board looks forward to approving future versions of a merged manual continuing on a progressively improved timetable.

## **The 2016-17 Code of Practice on Local Authority Accounting**

- 2.11. The Board agreed the 2016-17 Code of Practice on Local Authority Accounting. The Code will be issued by the Chartered Institute of Public Finance and Accountancy (CIPFA) and the Local Authority (Scotland) Accounts Advisory Committee (LASAAC) in 2016.
- 2.12. The changes to the 2016-17 Code related to:
- Introducing a new section specifying the revised measurement requirements at Depreciated Replacement Cost for the Highways Network Asset based on the methodologies in the CIPFA *Code of Practice on Transport Infrastructure Assets*;
  - Improvements in the presentation of financial statements with new formats and reporting requirements including a new Expenditure and Funding Analysis;
  - Small changes to existing IFRSs which were the product of the International Accounting Standards Board's annual improvements;
  - Amendments to the Accounting and Reporting by Pension Funds section of the Code;
  - Updating the Narrative Report section to reflect legislative amendments.



# *Chapter 3*

## **BOARD ACTIVITIES IN 2015-16**

### **Introduction**

- 3.1. This chapter comprises the developments in financial reporting in the public sector, both new and continuing, which were addressed during 2015-16. An update on each of the developments considered by the Board is provided in Table 2 below. Table 3 provides details of when each topic was discussed and papers and minutes from those meetings are available on the gov.uk website<sup>7</sup>.
- 3.2. In addition to continuing work on known developments in financial reporting, the Board monitors international developments in accounting standards which may have implications for public sector financial reporting and in which the Board has a particular interest. These include consultation documents issued by the IASB, the IFRS Interpretations Committee and the International Public Sector Accounting Standards Board (IPSASB).
- 3.3. The Board's future work on accounting standards will include considering the public sector implications of new standards on leases, revenue recognition and financial instruments.

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<sup>7</sup> <https://www.gov.uk/government/collections/hmt-financial-reporting-advisory-board-minutes>

Table 2

Accounting standard or reporting issue	Activities during 2015-16	Future work
<i>IFRS</i>		
<i>IFRS 9, Financial instruments</i>	<p>The Board considered a paper from the Treasury summarising the options and requirements for transition arrangements for the introduction of the Standard. The considerations when assessing the transition and relevant tranches of work were highlighted to the Board particularly around the three phased approach of classification and measurement of financial instruments, impairment methodology and hedge accounting. The Board reached an initial consensus on a consistent approach along the lines suggested but advised that more work was needed before a view was finalised, taking in the contribution of the technical working group.</p> <p>The Board considered a further paper updating them on progress of the technical working group and work of the Relevant Authorities. The Board agreed that volatility in value is not in itself a reason to adapt the Standard but there is potential concern over the interpretation of business models in the public sector context.</p>	<p>The Board will continue to review the implications of the introduction of IFRS 9 and provide advice on the implementation plans and activities undertaken by the Relevant Authorities.</p>

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<b>Accounting standard or reporting issue</b>	<b>Activities during 2015-16</b>	<b>Future work</b>
	<p>The Treasury provided three separate papers to the final meeting of the year. The first paper discussed the business model assessment in IFRS 9 and its applicability in the public sector, given that entities often hold financial instruments for policy reasons. The Board agreed that care needed to be taken in transferring the business model approach to the policy approach and further guidance may be required, but that at this time there was no case for adaptation of the standard.</p> <p>The second paper provided a progress update including feedback from the technical working group. The Board discussed this and the issue of impairment allowances on intra-government balances.</p> <p>The final paper examined the links between IFRS 9 and IFRS 4 Insurance Contracts, given the IASB's proposed amendments to the existing standard. The Board agreed that the Exposure Draft for IFRS 9 should uncover issues on insurance contracts relevant to IFRS 4. They commented that changes in IFRS 4 were brought in as a result of mismatched effective dates with IFRS 9, and costs could be incurred under IFRS 9 and then again when the new insurance contracts standard is issued. The Board agreed that this point needed further exploration and suggested that the Relevant Authorities liaise with the bodies affected.</p>	

<b>Accounting standard or reporting issue</b>	<b>Activities during 2015-16</b>	<b>Future work</b>
<i>IFRS 15, Revenue recognition</i>	<p>The Board were updated on the implementation work for IFRS 15, including details of the confirmed delay of application by the IASB by one year to 1 January 2018. It was agreed by the Board that the delay in introducing the Standard would offer essential time to isolate issues and identify how public sector entities will be affected.</p> <p>The Board acknowledged some issues for entities, including the difficulties of linking front and back office staff, and agreed that technical working groups should continue to consider these issues and offer guidance and support to entities.</p> <p>The Treasury provided an update on progress including IASB clarifications, the technical working group's work and WGA implications. The Board stressed the importance of issuing guidance and information to entities as soon as possible.</p>	<p>The Board will continue to review the implications of the introduction of IFRS 15 and provide advice on the implementation plans and activities undertaken by the Relevant Authorities.</p>
<i>IFRS 16, Leases</i>	<p>The Board were presented with a paper from the Treasury which provided a high level overview of the new Standard. The Board established that all lease arrangements would have to be examined prior to the Standard's adoption, and subsequently that there would be significant cost and practical implications for the majority of public sector entities. They also discussed the complexities of both the materiality threshold and the disentangling of lease and service elements in contracts, and agreed that there would need to be further discussion and work undertaken before any decisions could be taken.</p>	<p>The Board will continue to review the implications of the introduction of IFRS 16 and provide advice on the implementation plans and activities undertaken by the Relevant Authorities.</p>

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<b>Accounting standard or reporting issue</b>	<b>Activities during 2015-16</b>	<b>Future work</b>
<i>Other issues</i>		
<i>Research and development under ESA 10</i>	<p>The Board was presented with an overview of the changes to the treatment of research and development costs under ESA 10 which came into effect for Member States in September 2014. This confirmed the Treasury’s intention not to change the financial reporting requirements under the FReM. The Board agreed and discussed the conceptual principles behind classification of R&amp;D costs and the economic benefits which may arise at social, national and entity levels for related costs.</p> <p>The Board gave initial consideration to the Treasury’s intention to apply an approach analogous to the existing misalignment between Estimates and financial reporting for capital grants, and noted the expected scale of the impact on the public sector and the complexity of the adjustment. They were also informed of the ARC support for the approach.</p>	<p>The Board will be kept informed of the outcome of the Treasury’s proposed letter to Parliament seeking its support for the intended budgetary changes, in line with the principles of the protocol agreed under Clear Line of Sight.</p>

<b>Accounting standard or reporting issue</b>	<b>Activities during 2015-16</b>	<b>Future work</b>
<p><i>Simplifying and streamlining statutory accounts</i></p>	<p>The first phase of the Simplification and Streamlining Accounts Project was implemented in 2015-16. The Treasury is considering options for the next phase with a particular focus on the appropriate reporting requirements for smaller bodies that are themselves consolidated into a departmental group i.e. potentially a so called ‘FReM lite’.</p> <p>Following this theme, The Department of Business, Innovation and Skills presented the Board with a proposition of a pilot project for the rationalisation of financial reporting among Research Council bodies.</p> <p>BIS proposed a two stage approach with the first phase involving the preparation of seven individual sets of mandated standardised financial statements for the year ended 31<sup>st</sup> March 2016. The second phase would be to prepare a single set of consolidated accounts for the Research Council Group for the year ended 31<sup>st</sup> March 2017.</p> <p>The Board supported stage one of the proposal but reiterated that it was the view of the Board that BIS should take legal advice and possibly delay stage two until the legal framework advocated a combined or consolidated set of financial statements for the group of Research Councils. The Board did not support a precedent of this type being set and strongly supported the principle of accounting and accountability following governance arrangements.</p>	<p>The Board will be kept informed of the results of implementation of the new annual report and accounts reporting framework, particularly from both preparers of accounts and key stakeholders.</p> <p>Plans are also on the horizon to consider the concept of a Financial Reporting Manual for some entities, a so called, “FReM lite”.</p>

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<b>Accounting standard or reporting issue</b>	<b>Activities during 2015-16</b>	<b>Future work</b>
	<p>The Treasury updated the Board on 'FReM lite' following feedback received from the Government Finance and Audit Event. There had not been much appetite for the proposal as participants felt that there was sufficient freedom within the existing reporting regime. The Board discussed the challenge of identifying which entities the 'FReM lite' would apply to was challenging due to issues around Parliamentary accountability. However, they were keen that further exploratory work was carried out to assess issues arising from accountability, legal form and consolidation.</p>	
<p><i>Whole of Government Accounts (WGA)</i></p>	<p>The Board was presented with an overview of the 2013-14 WGA, published in March 2015, ten weeks earlier than the prior year and the first time that that WGA has been published within 12 months of the financial year end. The Board recognised that this was a significant step forward in the timeliness of the publication.</p> <p>Although the audit report on the accounts was qualified on the same basis as the prior year, the Board recognised the significant progress made on resolving the qualifications, and discussed the issue of encouraging the use of WGA by a wider cohort of stakeholders which would also raise the profile of the accounts.</p>	<p>The Board will continue to review the ongoing intention of the Treasury to remove qualifications on WGA and the continued progress to achieve earlier publication.</p> <p>The Board will also be updated on the notable matters arising from the preparation of WGA and those being discussed at the WGA Advisory Board.</p>

<b>Accounting standard or reporting issue</b>	<b>Activities during 2015-16</b>	<b>Future work</b>
	<p>The Board considered a number of substantive issues within WGA including those likely to cause the retention of the qualification in future years and potential additional qualifications in relation to the rising number of academy trusts and the reclassification of housing associations. However, the Board were supportive of the continued efforts by the Treasury to remove the qualifications where possible.</p>	
<i>Discount rates</i>	<p>The Treasury submitted a paper to the Board confirming that it had decided to maintain its existing policies on discount rates, including the policy agreed by the Board in 2011 for provisions. The Board supported the Treasury's decision to update the long term rate for provisions in 2015-16 using the methodology previously agreed.</p>	<p>The Board will continue to review any further adaptations proposed to the methodology employed by the Treasury and will be keen to ensure that any deviations from the Standards are justified by the public sector context.</p>
<i>European Public Sector Accounting Standards (EPSAS)</i>	<p>The Board received an update from the Treasury on to the progress of Eurostat's project on developing European Public Sector Accounting Standards, following attendance at Eurostats's first working group meeting in September 2015.</p>	<p>The Board will continue to be updated on this important project as further developments take place.</p>



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<b>Accounting standard or reporting issue</b>	<b>Activities during 2015-16</b>	<b>Future work</b>
	<p>The Board were advised that Eurostat has identified an alternative approach to EPSAS which is being considered alongside its original proposition, The two potential approaches were outlined as well as the key priorities for 2015-16, which include a programme of financial support to encourage member states to adopt accruals accounting over the next 4-5 years including the option to move to IPSAS as a potential proxy for EPSAS. The emerging working model incorporates formal working groups with representation from all Member States, and CIPFA and the Treasury are engaged with this work.</p>	
<p><i>Conceptual Frameworks and future IPSASB developments</i></p>	<p>The Board received an update from the Treasury on the IASB's work on the Conceptual Framework following the issue of the Exposure Draft in May 2015. The Exposure Draft proposes a number of enhancements that were either not covered, or not covered in sufficient detail in the original Consultation Paper.</p> <p>The Board considered the high level components of these amendments as well as a summary of early feedback from the ICAEW and FRC's Accounting Council. The Board agreed with feedback to the Exposure Draft that the Conceptual Framework should be a living document, updated as needed and used when devising new standards.</p> <p>The Board also congratulated FRAB member Ian Carruthers on his appointment as Chair of IPSASB and received an update on the progress made by IPSASB on implementing its strategic objectives for 2015 and beyond. This included a future work programme running until 2019 which includes a multi-phase project considering public sector measurement, work to address differences between IPSASs and the</p>	<p>The Board will continue to scrutinise the results of a consultation exercise by the IASB and potential changes to the IASB's Conceptual Framework.</p> <p>The Board plan to undertake a further review of the IPSASB Conceptual Framework project as it progresses and will compare terms used with those of the IASB to identify substantive differences.</p> <p>The Board will continue to be updated on IPSASB projects as further developments take place.</p>

<b>Accounting standard or reporting issue</b>	<b>Activities during 2015-16</b>	<b>Future work</b>
	<p>Conceptual Framework and accounting requirements for infrastructure assets.</p> <p>Feedback was provided from the inaugural International Public Sector Standard Setters Forum. Issues that the IPSASB had been considering included social benefits, heritage assets and the overall approach in differentiating between exchange and non-exchange expenses.</p>	

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Table 3

<b>Accounting standard or reporting issue</b>	<b>Board meeting where the accounting standard or issue was discussed</b>		
	<b>18 June 2015</b>	<b>19 November 2015</b>	<b>17 March 2016</b>
<b><i>IFRS</i></b>			
<i>IFRS 9, Financial instruments</i>	✓	✓	✓
<i>IFRS 15, Revenue from Contracts with Customers</i>	✓	✓	✓
<i>IFRS 16, Leases</i>			✓
<b><i>Other issues</i></b>			
<i>Research and development under ESA 10</i>	✓	✓	
<i>Simplifying and streamlining statutory accounts</i>		✓	✓
<i>Whole of Government Accounts (WGA)</i>	✓	✓	
<i>Discount rates</i>	✓		
<i>European Public Sector Accounting Standards (EPSAS)</i>		✓	✓
<i>Conceptual Frameworks and future IPSASB developments</i>		✓	✓

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