



HM Treasury

Post implementation review of IFRS 16

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Executive summary



Why this thematic review:

- HMT has committed to undertake regular thematic reviews of government financial reporting
- IFRS 16 *Leases* was implemented in central government from 01 April 2022, so were first reflected in the 2022-23 annual report and accounts
- IFRS 16 is a significant change from its predecessor IAS 17. The implementation has been a major reporting challenge for the whole of the public sector.
- HMT is the relevant authority for central government financial reporting and, as such, leads the implementation process for new financial standards
- HMT supports the continuous improvement of financial reporting and will learn from the implementation of these standards for the implementation of future standards

This review was undertaken over the winter and spring of 2024-25. It had three strands, consisting of:

1. A request for feedback from **preparers** of annual reports and accounts focusing on the four-year implementation process led by HMT and some questions on self- review.
2. A review into the quality of disclosures contained in the annual reports and accounts via a request for feedback from **users**.
3. A request for feedback from HMT's **Financial Reporting Advisory Board** focusing on the information HMT provided them to inform their decisions and how decisions are made and documented.

This report provides a summary of the review, with more detail on each strand. It also sets out findings, conclusions, and next steps.



Summary findings:

- Strand 1 - Preparers were content with the process undertaken by HMT and the guidance published but would have preferred to have more time to give feedback to early consultations and have identified some areas that would benefit from further guidance.
- Strand 2 - Users both value and think highly of disclosures departments made in 2022-23, but they would like to see further ambition of reporting beyond mandatory disclosures and into best practice reporting.
- Strand 3 - FRAB felt the stakeholder engagement and written documentation by HMT secretariat was good but want to do more on user outreach to improve IFRS 16 understandability. FRAB also want to review the effectiveness of the adaptations and interpretations in the future.



Overview

Key terms and concepts

The Government Financial Reporting Manual (FReM):

- Central government entities follow EU adopted International Financial Reporting Standards (IFRS) as adapted and interpreted for the public sector context set out in the Government Financial Reporting Manual (FReM)
- The FReM is a technical accounting guide for the preparation of financial statements and is owned by HMT
- It is prepared following consultation with the Financial Reporting Advisory Board (FRAB).

The government financial reporting review:

- [HMT published 'The government financial reporting review' in April 2019](#)
- In this report, HMT made a number of commitments aimed at supporting the continuous improvement in government financial reporting
- One of the commitments made in this report was to undertake regular thematic reviews of government financial reporting
- These thematic reviews are intended to support HMT's statutory role as a standard setter for central government financial reporting

The Financial Reporting Advisory Board (FRAB):

- The Government Resource and Accounts Act 2000 (GRAA) sets out that the Treasury shall consult a group of appropriate people to advise on financial reporting and standards.
- This statutory role is fulfilled by FRAB, an independent body which ensures that government financial reporting meets the best possible standards

IFRS 16

The International Accounting Standards Board (IASB) sets out the objective of IFRS 16 *Leases* as:

“The objective is to ensure that lessees and lessors provide relevant information in a manner that faithfully represents those transactions. This information gives a basis for users of financial statements to assess the effect that leases have on the financial position, financial performance and cash flows of an entity.” (IFRS 16, paragraph 1)

IFRS 16 requires a lessee to recognise assets and liabilities for leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee is required to recognise a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments. Therefore, a lessee also recognises depreciation of the right-of-use asset and interest on the lease liability and classifies cash repayments of the lease liability into a principal portion and an interest portion and presents them in the statement of cash flows.

Overview

Process of the IFRS 16 thematic review

Scope and methodology:

- This post-implementation review focused on the way IFRS 16 was implemented in central government
- The review referred to disclosures made in the audited 2022-23 annual reports and accounts
- Both preparers and users of annual reports and accounts and the Financial Reporting Advisory Board (FRAB) were invited to respond via questionnaires
- Both the User Preparer Advisory Group (UPAG) and FRAB discussed their views on the implementation of IFRS 16 in meetings



Strand 1: Feedback from preparers on:

- The timeliness of different parts of the implementation process
- Sufficiency and appropriateness of consultations and guidance
- Overall reflections and any further feedback for HMT

Strand 2: Feedback from users on:

- Which IFRS 16 disclosures they reviewed in 2022/23 and why
- Sufficiency and appropriateness of disclosures
- Overall reflections and any further feedback for HMT

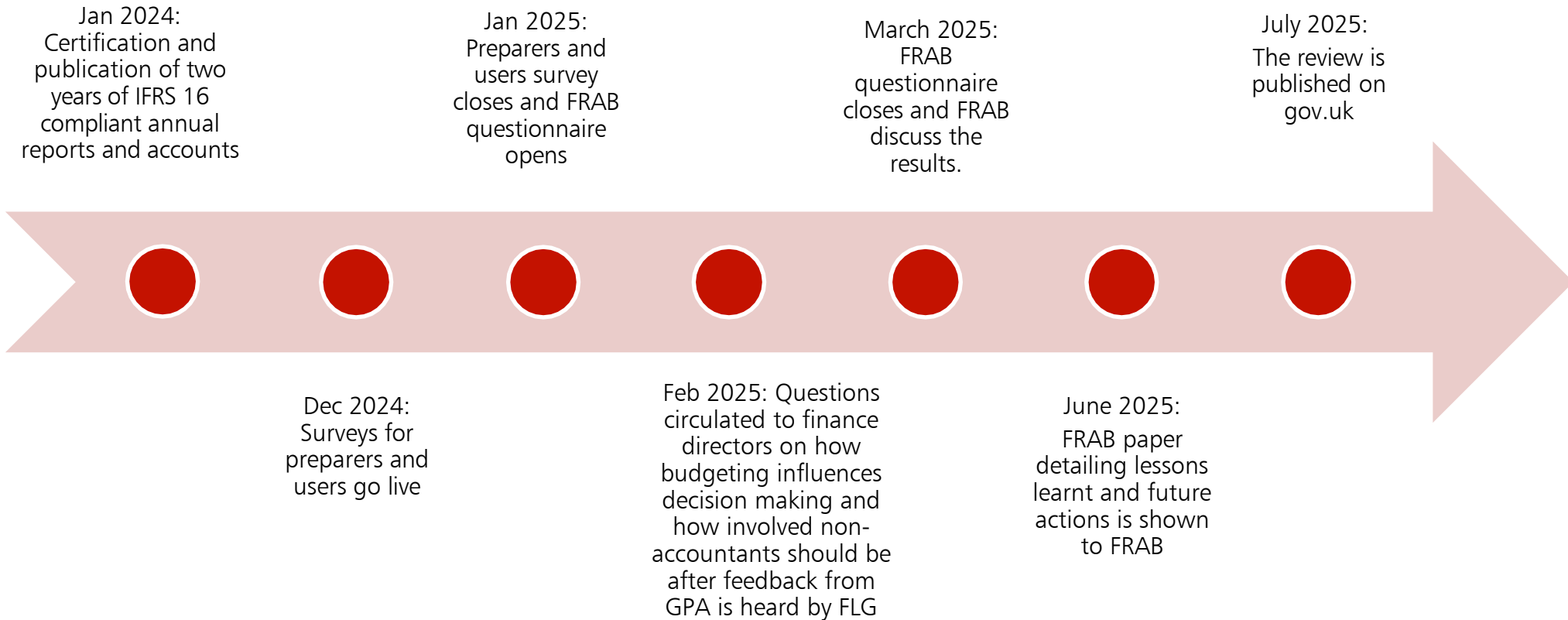
Strand 3: Feedback from FRAB

- Sufficiency of stakeholder engagement and information provided by HMT
- FRAB discussions and decision-making transparency
- Reflections on the delays as a result of COVID-19

- The lessons learnt from this review will be applied to the implementation process for forthcoming new standards including IFRS 17 *Insurance Contracts*, IFRS 18 *Presentation and Disclosure in Financial Statements* and IFRS 19 *Subsidiaries without Public Accountability*

Overview

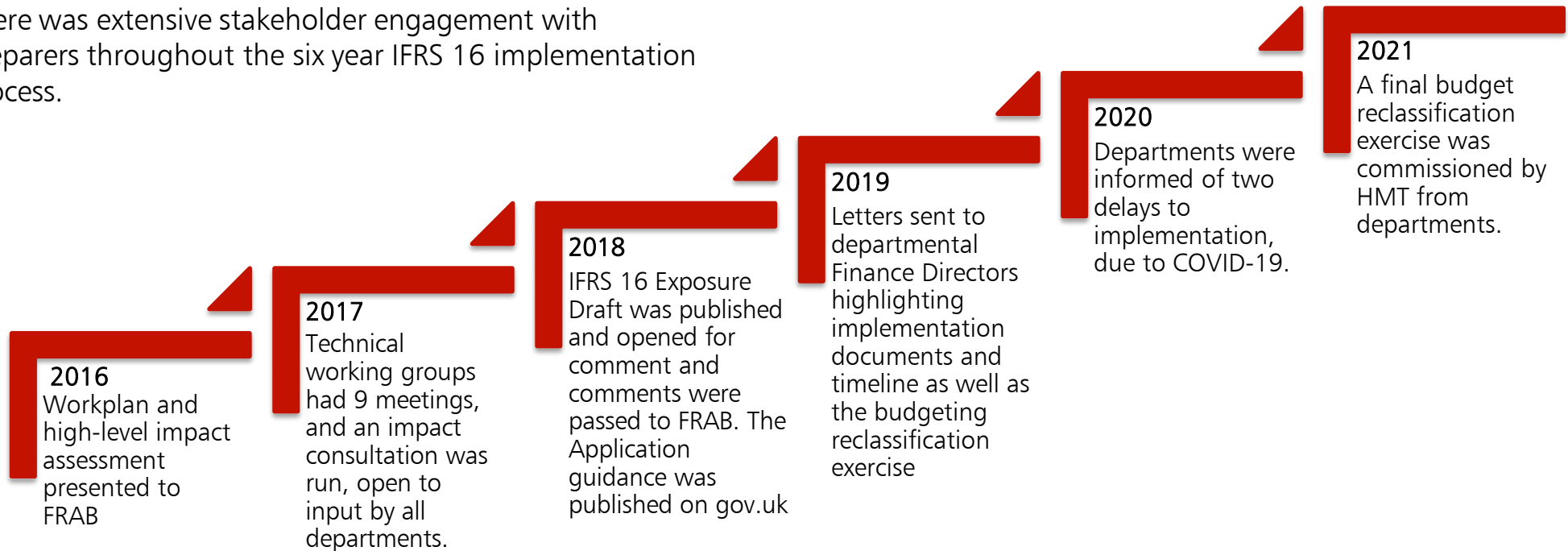
Timeline of the IFRS 16 thematic review



Strand 1

Stakeholder engagement timeline

There was extensive stakeholder engagement with preparers throughout the six year IFRS 16 implementation process.



The preparers' questionnaire

- In 2024, HMT issued a questionnaire to annual reports and accounts preparers
- A total of 41 valid responses were received
- Annex A to this report gives a list of the questions asked

Areas covered by the questionnaire

- The timeliness of different parts of the implementation process
- Sufficiency and appropriateness of consultations and guidance
- Overall reflections and any further feedback for HMT

Strand 1 - Preparers' questionnaire feedback: timeliness and sufficiency

Accounting and budgeting implementation and guidance – feedback summary:

60-70% of preparers agreed or strongly agreed that

- the IFRS 16 Exposure Draft was clear, comprehensive and asked appropriate questions.
- the process undertaken by HMT and publication of guidance on the application of IFRS 16 in the public sector ensured entities were well-prepared for implementation.

50-60% of preparers agreed or strongly agreed that

- the public sector interpretations and adaptations of IFRS 16 are sufficiently explained in the HMT application guidance and the FReM.
- IFRS 16 Supplementary Budgeting Guidance provided sufficient clarity on the budgeting treatment.

40-50% of preparers agreed or strongly agreed that

- 7 weeks was enough time to respond to an impact assessment consultation
- an Exposure Draft issued approximately 1 year ahead of an intended implementation gave preparers sufficient time to prepare for public sector adaptations

1. **Issuing Exposure Drafts more than 1 year in advance of a standard's implementation**

- ✓ HMT have proactively improved upon the lead time given with Exposure Drafts since IFRS 16 for the newer standard IFRS 17 – Insurance Contracts, which was issued over 2 years before implementation.

2. **Avoiding issuing consultations over the summer recess period, as finance teams are sometimes not fully staffed due to annual leave.**

- ✓ HMT have proactively changed the time of year that impact assessments were issued for IFRS 17, issuing it in September rather than July, to work with annual leave patterns of finance teams across government.

3. **Giving clearer explanations of the adaptations and interpretations in FReM.**

- ✓ **ACTION 1:** HMT will produce a separate document to FReM listing all FReM interpretations and adaptations and the reasons for them.

4. **Producing a wider set of worked examples including budgeting treatment. *[More detail on next page]***

- ✓ **ACTION 2:** HMT will consider how much guidance is appropriate to be issued centrally, and what is best shared through knowledge networks once finance teams have worked through real life scenarios.
- ✓ **ACTION 3:** HMT will address new judgemental areas raised by respondents in a one-off FAQ document.

Strand 1, Action 4

Producing a wider set of worked examples including budgeting treatment.

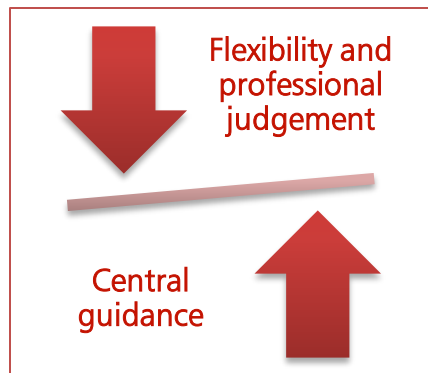
HMT will reflect on how much guidance is appropriate to be issued centrally, and what is best shared through knowledge networks once finance teams have worked through real life scenarios.

HMT acknowledge there is a balance to find between how much guidance should be produced centrally and what should be left to interpretation by departments for their specific lease contracts. Whilst centrally issued guidance provides more structure for departments and NAO, it reduces flexibility of the departments to interpret the standard for their unique circumstances and present it in the most true and fair way to Parliament and other users.

Preparers highlighted useful information within the preparer

community in their responses, and HMT are keen to further broadcast such helpful knowledge sharing in the preparer community.

Alongside discussions, training and webinars available on [OneFinance](#) hosted by knowledge networks, [NHS England's website](#) contains a suite of tools and examples in the context of NHS use when applying DHSC's Group Accounting Manual to IFRS 16.



HMT will address new judgemental areas raised by respondents in a one-off FAQ document.

HMT published a [supplementary budgeting guidance](#) with worked examples for the first time with the implementation of IFRS 16.

The feedback from the preparer community was that detailed guidance was particularly useful and the same example format was used for [PPP IFRS 16 related accounting guidance](#) for that reason.

Several respondents gave further scenarios they wanted guidance for, alongside a request for justification for the current budgeting treatment.

Concerns were flagged in the questionnaire responses about how much challenge departments sought in their initial judgements made before the NAO scrutinised them. HMT will use the guidance to also explore sourcing challenge on estimates and judgements made by departmental finance teams pre-audit.

What are knowledge networks?

Knowledge networks are platforms for sharing finance expertise across government and developing more standardised finance processes, built around best practice and the sharing of lessons learned.

Examples include TACoE (Technical Accounting Centre of Excellence) and RASIG (Resource Accounts Special Interest Group)

Strand 2

Users' questionnaire

The users' questionnaire

- In 2024, HMT issued a questionnaire to annual reports and accounts users
- 3 valid responses were received
- Annex A to this report gives a list of the questions asked

Areas covered by the questionnaire

- Which IFRS 16 disclosures they reviewed in 2022/23 and why
- Sufficiency and appropriateness of disclosures
- Overall reflections and any further feedback for HMT

- The user community that HMT receives engagement from has historically been smaller than the preparer community.
- 3 responses is not deemed representative of the user community as a whole.
- The responses did include views from Parliament, which HMT considers as the primary user of departmental accounts, per the [Government Financial Reporting Review](#).

To canvas more user views, an agenda item was dedicated to IFRS 16 at UPAG 11 in March 2025 where a random selection of disclosures in departmental accounts was shown to the group, alongside the questions asked in the questionnaire. The group were then invited to share their thoughts.

[The papers and minutes of the meeting can be found here.](#)



What is UPAG?

The [User and Preparer Advisory Group](#) promotes the continuous improvement agenda in government financial reporting.

The Group provide independent recommendations and advice to HMT with the aim of improving the quality of financial reporting in the public sector, to better meet the needs of the user and broaden the accessibility of financial reports.

Strand 2

Users' feedback

Both respondents to the questionnaire and UPAG members agreed that IFRS 16 aids better accountability and that entities used the 2022-23 annual reports and accounts appropriately to explain to users:

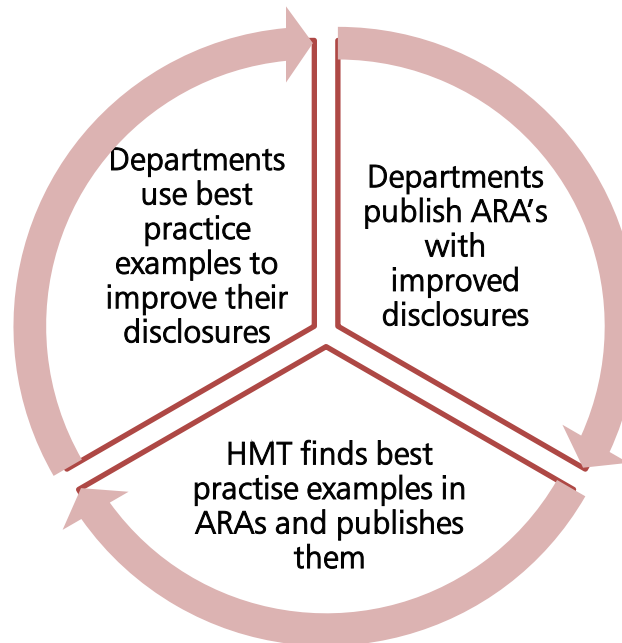
- That IFRS 16 had been implemented
- The effective date of implementation
- What financial standards were being replaced
- A summary of the new standard including newly introduced concepts and the impact of the new standards.

Users felt improvements departments could have gone beyond the mandatory disclosures and explored best practise, which would have added value to the user's reading experience.

- Clear explanation that expenditure and cashflow is not implemented by the standard's implementation
- Drawing links from the IFRS 16 note in the financial statements and named projects and programmes that departments have ongoing.

Members of UPAG felt that the creation of best practice examples would be beneficial to help departments go above and beyond the mandatory disclosures.

ACTION 4: HMT will produce a one-off, IFRS 16 focused, best reporting practise publication, alongside its annual best practise example publication.



What is 'best practice' reporting?
HMT made a commitment in the [Government Financial Reporting Review](#) in 2019 to establish a bank of best practice examples to encourage continuous improvement in central government financial reporting.

HMT has [published best practice examples every year](#) since then, including a one-off, detailed library of [performance report best practice examples](#) and a [best practice guide to sustainability reporting](#).

Strand 3

HMT's Financial Reporting Advisory Board questionnaire

FRAB's questionnaire

- In 2025, HMT issued a questionnaire to all current members of FRAB
- 8 valid responses were received
- Annex A to this report gives a list of the questions asked

Areas covered by the questionnaire

- Discussions and decision making on adaptations and interpretations
- Discussions and decision making around delays to implementation
- Information provided to FRAB by HMT

IFRS 16 has been discussed by FRAB a total of 15 times between 2016 and 2025.

Adaptations and Interpretations

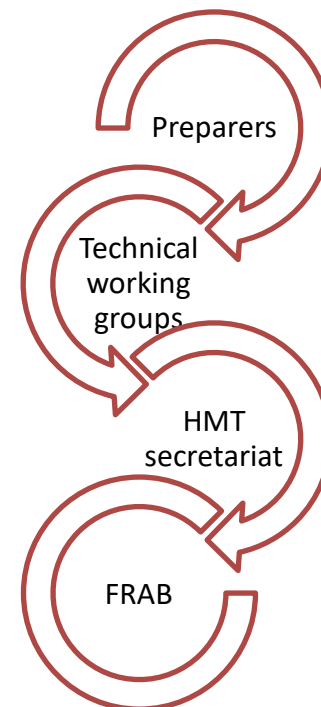
Being informed by extensive stakeholder engagement by HMT via departmental consultations and technical working group discussions, FRAB made adaptations to IFRS 16 on

- Early adoption of the standard
- The definition of a contract
- The definition of a peppercorn lease as well as how to recognise and measure one.

And interpretations around

- Short term leases being exempted from recognition and measurement

- Appropriate discount rates to measure net present value of future cash outflows
- Subsequent measurement basis
- Practical expedients to help reduce the burden of transition on preparers;
 - Grandfathering from IAS 17
 - Cumulative catch up approach
 - Asset value measurement
 - Exemption for low value leases
 - Exemption for leases the end within the first year of implementation
 - Ability to use hindsight when calculating a lease's term



Delays

FRAB also met to discuss and approve the delay to IFRS 16's implementation 3 times, twice due to the impact of COVID-19 and once due to complications arising from creating a budgeting framework that was on harmony with Clear Line of Sight.

As so much ground was covered by FRAB and sometimes covered in extraordinary times with quick decisions required, HMT felt it was appropriate to reflect on the process in the questionnaires, to see if any improvements could be identified for both FRAB and HMT as the FRAB secretariat.

Strand 3

HMT's Financial Reporting Advisory Board feedback

8 responses were received from FRAB members, representing a range of membership types – users, preparers, relevant authorities, auditor and independent. For more information on FRAB's composition, see their [Terms of Reference](#).

FRAB members most strongly agreed, in the IFRS 16 context, that ;

- ✓ papers presented by HMT clearly explained the rationale behind proposed interpretations and adaptations.
- ✓ published IFRS 16 guidance and content accurately reflected the feedback provided by FRAB as recorded in relevant minutes.
- ✓ there was appropriate engagement with relevant stakeholders and FRAB had adequate exposure to their views.

FRAB had more mixed views on;

- members having sufficient opportunity to express views during discussions.
- discussions being comprehensive and their decision-making process being transparent.
- which aspects of adapting IFRS16 that FRAB had most diversity of thought about.
- challenges created by diversity of thought were easily overcome in discussion.
- having sufficient time to make informed decisions about the delays to implementation but did not disagree that these were the right decisions in retrospect.

At [FRAB 155 in March 2025](#), FRAB had a discussion on the questionnaire results and the minutes presented at FRAB 156 summarises both the discussion and the actions as a result.

- FRAB raised concern that IFRS 16 is not understood by non-accountants including Estates teams. This is due to the complexity of the standard. FRAB asked HMT to consider what more accountants do to help non-accountants understand IFRS 16.
- FRAB noted private sector evidence of IFRS 16 implementation resulting in better contract management and so expect this should be the case in central government too.
- FRAB reflected that the complexities of applying IFRS 16 in central government only became apparent during implementation, with lower quality than expected information on leases being a factor.
- When broadening the scope of a standard, FRAB felt they needed to understand what the implications of that would be upfront. FRAB suggested doing more field testing – this could be a benefit of having pilots or early adopters, to work through complexities.

What next?

HMT will consider doing more 'field work' when broadening the scope of a standard to fully understand implications in future.

HMT and FRAB should consider the merits of early adoption of standards in a pilot with a few depts, as part of future work plans when more 'field work' is required.

ACTION 5: Include on FRAB's forward workplan a review of the IFRS16 adaptations and interpretations and if they are working as FRAB intended after 5 years of implementation (after 2027-28 financial year is completed).

ACTION 6: Invite CIPFA to discuss the first year of implementation of IFRS 16 (2025-26) in Local Government at either November 2026 or March 2027 FRAB meeting.

ACTION 7: HMT will produce an explainer or do some outreach to non-accountants, giving a non-technical explainer of IFRS16, the impact on management decision making and what information you can gain from IFRS 16 disclosures in ARAs.

Annex A

Questionnaires

Preparer questionnaire

Impact assessment consultation

- 7 weeks is enough time to respond to an impact assessment consultation.
- Do you have any further comments on the initial impact assessment consultation shared with FDs, e.g. on timing, content or the questions that were asked?

Exposure draft

- An Exposure Draft issued approximately 1 year ahead of an intended implementation give preparers sufficient time to prepare for public sector adaptations
- The content and questions included in the Exposure Draft are clear and comprehensive.
- The Exposure Draft asked appropriate questions considering its proposed adaptations to the standard
- The public sector interpretations and adaptations of IFRS 16 are sufficiently explained in the HMT application guidance and the FReM.
- Do you have any other comments on the IFRS 16 Exposure Draft?

Application and Supplementary Budgeting Guidance

- The public sector interpretations and adaptations of IFRS 16 are sufficiently explained in the HMT application guidance and the FReM.
- If you answered 'disagree' or 'strongly disagree', where do you think there is insufficient explanation?
- Do you have any further comments on the application guidance provided for IFRS 16, e.g. timing of publication, content, level of detail, areas not covered?
- IFRS 16 Supplementary Budgeting Guidance provided provides sufficient clarity on budgeting treatment.
- Do you have any further comments on the Supplementary Budgeting Guidance e.g. timing of publication, content, areas not covered?

Overall reflections

- Overall, the consultation process undertaken by HMT and subsequent publication of guidance on the application of IFRS 16 in the public sector ensured entities were well-prepared for implementation.
- When considering the adaptation and implementation of future standards, is there any part of the process that you feel could be improved e.g. consultation, communication, guidance?

Key

Options for response to a question this colour were:

- Strongly disagree
- Disagree
- Neither Agree nor disagree
- Agree
- Strongly Agree

Responses to a question this colour were open to a free text response.

Annex A

Questionnaires

User questionnaire

- Did you engage with the consultation process for the adaptation of IFRS 16 for the public sector, for example respond to the Exposure Draft in 2018? If yes, can you remember any particular points you raised during the consultation process, and were these acted on?
- As a user, you were aware that IFRS 16 was implemented in central government annual reports and accounts in 2022/23.
- Did you specifically review any disclosures relating to IFRS 16 when using 2022/23 or 2023/24 annual reports and accounts? If yes, why were you reviewing these disclosures?
- Central government annual reports and accounts provided sufficient explanation of the impact of the transition to the new IFRS 16 requirements in 2022/23.
- Central government annual reports and accounts included sufficient explanation of concepts, judgements and conclusions where these impacted the information in the accounts
- Are there any areas where you feel IFRS 16 disclosures could be improved?

FRAB questionnaire

- There is appropriate engagement with relevant stakeholders and FRAB has adequate exposure to their views when FRAB is adapting and interpreting new standards. If you answered 'strongly disagree' or 'disagree', how do you think engagement could be improved?
- FRAB members had sufficient opportunity to express views during IFRS 16 discussions.
- FRAB's discussions were comprehensive and their decision-making process was transparent. If you answered 'strongly disagree' or 'disagree', how do you think FRAB discussions and decision making could be improved?
- Which aspects of adapting IFRS 16 for central government do you think FRAB had the most diversity of thought about?
- Challenges created by diversity of thought within FRAB were easily overcome in discussion.
- Published IFRS 16 content accurately reflected the feedback provided by FRAB as recorded in the minutes of the relevant meetings. If you answered 'strongly disagree' or 'disagree', how do you think IFRS 16 content could have better incorporated FRAB's feedback?
- FRAB had sufficient time and information to make an informed decision about delaying implementation of IFRS 16 for the first time as a result of budgetary complications.
- FRAB had sufficient time and information to make an informed decision about delaying implementation of IFRS 16 for the second and third time as a result of the COVID-19 pandemic.

Annex B

Actions

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- Action 1: HMT will produce a separate document to FReM listing all FReM interpretations and adaptations and the reasons for them.
- Action 2: HMT will internally reflect on how much guidance is appropriate to be issued centrally, and what is best shared through knowledge networks once finance teams have worked through real life scenarios.
- Action 3: HMT will address new judgemental areas raised by respondents in a one-off FAQ document.

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- Action 4: HMT will produce a one-off, IFRS 16 focused, best reporting practise publication, alongside its annual best practise example publication.

Page 11

- Action 5: Include on FRAB's forward workplan a review of the IFRS16 adaptations and interpretations and if they are working as FRAB intended after 5 years of implementation (after 27-28 financial year is completed).
- Action 6: Invite CIPFA to discuss the first year of implementation of IFRS 16 (2025-26) in Local Government at either November 2026 or March 2027 FRAB meeting.
- Action 7: HMT will produce an explainer or do some outreach to non-accountants, giving a non-technical explainer of IFRS16, the impact on management decision making and what information you can gain from IFRS 16 disclosures in ARAs.