

1 Introduction

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1.1 Objectives and scope of the Manual

1.1.1 The Government Financial Reporting Manual (FReM) is the technical accounting guide to the preparation of financial statements. It complements guidance on the handling of public funds published separately by the relevant authorities in England and Wales, Scotland and Northern Ireland¹. The Manual is prepared following consultation with the Financial Reporting Advisory Board (FRAB) and is issued by the relevant authorities.

1.1.2 The Government FReM applies directly to:

- all entities ('reporting entities'), and to funds, flows of income and expenditure and any other accounts (referred to collectively as 'reportable activities') that are prepared on an accruals basis and consolidated within Whole of Government Accounts (with the exception of the accounts of any reportable activities that are not covered by an Accounts Direction);

but not to

- Local Government, those Public Corporations that are not Trading Funds, and NHS Trusts and NHS Foundation Trusts. (The NHS Manuals, the NHSFT FReM and the IFRS based Code of Practice on Local Authority Accounting are compliant with this Manual other than for specifically agreed divergences.)

1.1.3 In addition, the Welsh Assembly Government and the Department of Health, Social Services and Public Safety in Northern Ireland will apply the principles outlined in this Manual in the accounting guidance that they issue in respect of Local Health Boards in Wales, and Health and Social Services Trusts in Northern Ireland.

1.1.4 The Manual is kept under constant review. It is updated to reflect developments in international financial reporting standards (IFRS)², and, where appropriate, comments received from users. The authoritative version of the Manual for any given financial year will be available by the start of the financial year to which it relates. In the event that late changes are required (for example, because of a new IFRS or Interpretation), amendments to the Manual will be issued by the relevant authorities after following due process³. The Manual is available on a dedicated website: www.financial-reporting.gov.uk.

1.1.5 This Manual applies EU adopted IFRS and Interpretations in place as at 1 January 2010, that have an effective date of application of 1 April 2010, or earlier.

1.2 Using the Manual

1.2.1 The Manual provides guidance on the application of IFRS, adapted and interpreted for the public sector context. Preparers of financial statements covered by the requirements of this Manual are reminded that:

¹ The relevant authorities are HM Treasury, the Welsh Assembly Government, Scottish Government Finance and the Department of Finance and Personnel, Northern Ireland

² The use of IFRS in general text in this Manual should be taken to include International Accounting Standards (IAS) and Interpretations of IAS and IFRS issued by the Standards Interpretations Committee (SIC) or the International Financial Reporting Interpretations Committee (IFRIC).

³ Due process includes consideration of proposed policies by the relevant authorities, followed by consultation with the preparers of financial statements covered by the requirements of this Manual and then consideration by the Financial Reporting Advisory Board.

- a) in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*, accounting policies set out in IFRSs need not be applied when the effect of applying them is immaterial;
 - b) in accordance with IAS 1 *Presentation of Financial Statements*, applying the concept of materiality means that a specific disclosure requirement in a Standard or in an Interpretation need not be satisfied if the information is not material (disclosures should be limited to those necessary for an understanding of the entity's circumstances); and
 - c) for the avoidance of doubt, preparers are reminded that they do not need to develop accounting policies, or provide disclosures, in relation to accounting standards that do not apply to their circumstances.
- 1.2.2 Preparers are further reminded that the format and content of financial statements need to meet the information needs of the users of those financial statements. For example, therefore, the format and content of resource accounts prepared under section 5 of the Government Resources and Accounts Act 2000 will not be the same as accounts prepared under the Public Finance and Accountability (Scotland) Act 2000, nor the same as accounts of the reportable activities covered by the requirements of this Manual. Preparers should discuss any doubt they have about the appropriate format of their financial statements with the relevant authority.

1.3 Budgetary Controls

- 1.3.1 Reporting entities that comply with this Manual also prepare budgets on a resource (accruals) basis and are subject to control by the relevant authorities through various arrangements⁴. Accounting policies are generally common to both accounting and budgeting. In selecting relevant accounting policies (see chapter 2), entities should have regard to budgetary and control requirements, but should give paramount importance to the need for financial statements to give a true and fair view.
- 1.3.2 Preparers of financial statements need to consult with the relevant authority (through sponsoring bodies where appropriate) before changing significant accounting policies and estimation techniques where it appears that there could be a potential impact on budgets and on the National Accounts.

1.4 Non-departmental public bodies

- 1.4.1 Non-departmental public bodies (NDPBs) that are incorporated as companies, or that have charitable status, should comply with, respectively, the Companies Act 2006 or regulations issued under charities legislation and, where applicable, the Statement of Recommended Practice (SORP) *Accounting by Charities* issued by the Charity Commission (and, if they are both registered companies and charities, with both the Companies Act 2006 and the Charities SORP). They should also follow the principles in this Manual and provide the additional disclosures required by the Manual (for example, on notional costs and salary and pension entitlements) where these go beyond the Companies Act 2006 or the SORP.
- 1.4.2 There is a strong presumption that compliance with the SORP is necessary for charities' accounts to give a true and fair view. Charities that are exempt from the requirements of the Charities Act should comply with the recommendations of the SORP wherever possible, unless they or their sponsor department feel that the

⁴ These arrangements are set out in the guidance on the handling of public funds published separately by the relevant authorities and in other guidance issued by them from time to time.

resulting financial statements will not provide the information needed for monitoring purposes. Any departure from the SORP should be disclosed.

- 1.4.3 Where a sponsoring department considers that the Statement of Financial Activities (SOFA) prepared by its charitable NDPBs does not provide sufficient information to monitor and control the NDPB or to allow appropriate comparison with its non-charitable NDPBs, it may direct the charitable NDPB to supplement the SOFA with a summarised income and expenditure account.

1.5 Trading funds

- 1.5.1 Trading funds are established under government trading legislation. They might also be executive agencies or departments in their own right. In preparing their financial statements, trading funds should follow the requirements of IFRS, but should also follow the principles set out in this Manual and provide the additional disclosures required by the Manual where these go beyond the requirements of the Companies Act 2006.

1.6 Reportable activities

- 1.6.1 Preparers of the financial statements of reportable activities should apply the guidance in this Manual only to the extent that it is relevant to those activities and in the light of any statutory requirements or other pronouncements that might from time to time be made by the relevant authorities.

1.7 First-time Adoption of International Financial Reporting Standards

- 1.7.1 When adopting IFRS for the first time, preparers of financial statements should follow the requirements of IFRS 1 *First-time Adoption of International Financial Reporting Standards* as interpreted below for the public sector context.

IFRS 1 First-time Adoption of International Financial Reporting Standards

Applicability

- 1.7.2 IFRS 1 applies in full to all reporting entities and reportable activities covered by the requirements of this Manual.

Objective of IFRS 1

- 1.7.3 The objective of IFRS 1 is to ensure that an entity's first IFRS financial statements, and its interim financial reports for part of the period covered by those financial statements, contain high quality information that:
- is transparent for users and comparable over all periods presented;
 - provides a suitable starting point for accounting under International Financial Reporting Standards; and
 - can be generated at a cost that does not exceed the benefits to users.

Interpretations of IFRS 1 for the public sector context

- 1.7.4 In applying IFRS 1, reporting entities should be aware of the following interpretations for the public sector context:
- a) this Manual requires assets to be carried at valuation and so the elections available in IFRS 1.16, 17 and 18 (other than for internally generated intangible assets – see 7.2.5) are not relevant;
 - b) reporting entities cannot elect to use the ‘corridor’ approach in IAS 19 *Employee Benefits* (IFRS 1.20);