

FRAB

Financial Reporting Advisory Board

30 June 2003

GOVERNMENT ACCOUNTS MOVE FURTHER TOWARDS UK GAAP

The Financial Reporting Advisory Board has today sent a copy of its sixth report to Parliament. The report has also been laid before the Scottish Parliament.

Commenting on the Board's report, its Chairman, Elwyn Eilledge, CBE, said:

"Board members and I welcome the further moves by government accounts towards UK Generally Accepted Accounting Practice (GAAP). It represents an endorsement of our work to achieve the best possible standards of financial reporting by following generally accepted accounting practice as far as possible and a further step towards first class financial reporting being applied consistently across Government."

The Report describes the Board's work from April 2002 to March 2003 in advising on the development of financial reporting by central government to promote best practice. Highlights are:

- The Board endorsed two important changes to how government prepares its accounts, which will move them closer to UK GAAP:
 - the discount rates to be used for measuring pension liabilities and provisions,
 - removal of the requirement for balance sheet values to be based on mid-year valuations.

- The Board advised the Treasury to adhere to the original timetable for the full implementation of the Accounting Standards Board's

financial reporting requirements for retirement pensions, rather than allowing the extension to 2005, permitted in the private sector.

- For the future the Board looks forward to considering the outcome of the Department of Trade and Industry consultations on the possible extension of the European regulation on international accounting standards and any subsequent Government decisions on the application to the public sector (See Notes for Editors – 8).
- The Board also retains an interest in the implications for the public sector of the package of reforms announced in January by the Trade and Industry Secretary following the corporate failures in the United States (See Notes for Editors – 9).

NOTES FOR EDITORS

1. The FRAB is an independent body. It was set up in 1996 to oversee the Treasury's Resource Accounting Manual, which sets out how Government departments will prepare their resource accounts. Its remit was subsequently extended, and now includes advice on financial and reporting standards and principles in respect of:
 - a. executive non-departmental public bodies and trading funds;
 - b. accounts for which the Scottish Ministers and the Department of Finance and Personnel, Northern Ireland are responsible for issuing reporting requirements,
 - c. accounts of the National Health Service Trusts in England and advice on accounting policies underlying whole of government accounts.
2. The Board's aim is to help ensure that, as far as possible, the accounting guidance within its remit follows generally accepted accounting practice (GAAP) in the UK and that any departure from or modifications to GAAP are fully explained and justified.
3. The Government Resources and Accounts Act 2000 and the Government Resources and Accounts Act (Northern Ireland) 2001 have put the Board's role on a statutory basis. The Acts require resource accounts and whole of government accounts to be prepared with a view to presenting a true and fair view, and to conform with GAAP subject to such adaptations as are necessary in the context of these accounts. The Acts require respectively the Treasury and the Department of Finance and Personnel (Northern Ireland) to consult an appropriate advisory group on financial reporting principles and standards. The Treasury, in consultation with the Comptroller and Auditor General in accordance with the 2000 Act, has determined that the Board should be the advisory group.
4. Resource Accounting and Budgeting places the planning and control of Government expenditure on an accruals accounting basis. This measures resource consumption rather than just cash flow,

comparable to the way that the private sector manages its finances and prepares its accounts.

5. Government departments have prepared published resource accounts in respect of the financial year 1999-2000 onwards. The first stage of resource budgeting was introduced in respect of the financial year 2001-02 onwards, the second in 2003-04.
6. The Board's sixth report covers the period from April 2002 to March 2003, during which it considered amendments to the Resource Accounting Manual, the Trading Funds Accounts Guidance and the Executive NDPB Annual Report and Accounts Guidance to make them applicable to the accounts for 2002-03. The Board also considered (in March 2003) some amendments for the 2003-04 version of these documents. The Board continued its consideration of issues relating to the department of Whole of Government Accounts.
7. The Board comprises:

Chairman:

Elwyn Eilledge, CBE, Director of BG Group plc and former Chairman of BTR plc, Senior Partner of Ernst and Young and Member of the Accounting Standards Board.

Members:

Colin Balmer, CB, Finance Director, Ministry of Defence

Mike Barnes, Head of Technical Development, Audit Commission

Dr Peter Collings, Principal Finance Officer, Scottish Executive

Russell Frith, Director of Audit Strategy, Audit Scotland

Heather Jackson, Director of Finance, HM Land Registry

Graham Jenkinson, Director, National Expenditure and Income Division, Office for National Statistics

Professor David Mayston, Professor of Public Sector Economics, Finance and Accountancy, University of York

Liz Passman, Head of Resource Budgeting, HM Treasury

Nigel Reader, Director of Finance, Environment Agency

Martin Sinclair, Assistant Auditor General, National Audit Office

David Thomson, Treasury Officer of Accounts, Northern Ireland
(Department of Finance and Personnel)

Jeff Tomlinson, Head of Accounting, Department of Health, England

Ken Wild, Partner, Deloitte & Touche, Member of the Accounting Standards Board and (until December 2001) Chairman of its Public Sector and Not for Profit Committee

8. Press notice 2002/546 issued by the Department of Trade and Industry announced the publication of a consultation document on whether the EU regulation that EU publicly traded companies should prepare their consolidated accounts on the basis of international accounting standards from 2005, should be applied more widely in the UK.
9. Press notice 2003/52 issued by the Department of Trade and Industry reported the package of reforms following Enron and other corporate failures in the US.
10. Copies of the FRAB's sixth report can be purchased from the Stationery Office (ISBN Number 0 10 292170 9, £7.50). The report is also available on the Internet at www.hm-treasury.gov.uk where it can be accessed via the Documents section / public spending and services / audit, accounting and accountability / Financial Reporting Advisory Board.
11. Media enquiries about Resource Accounting and Budgeting should be addressed to the Treasury press office on 020 7270 5238.