



10th Report
of the
Financial Reporting
Advisory Board

Report for the period
April 2006 to March 2007

FINANCIAL REPORTING ADVISORY BOARD

Report for the period April 2006 to March 2007

This report of the Financial Reporting Advisory Board has been prepared in accordance with Section 24(3) of the Government Resources and Accounts Act 2000 and Section 20(2) of the Government Resources and Accounts Act (Northern Ireland) 2001

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Chairman's Forward

I opened my Foreword to last year's Board report by reflecting on the enormous amount of change that has taken place in the accountancy world during the first ten years of the Board's existence. That pace of change has continued over this reporting year, with the welcome announcement by the government that it will move to reporting under European Commission adopted international financial reporting standards (IFRS) from financial year 2008-2009. This is something that the Board has previously advised on and encouraged, and it clearly demonstrates the government's commitment to maintaining high standards in public accountability that will place it at the leading edge of financial reporting internationally.

There is also the prospect of further significant changes to existing IFRS due to general developments in international accounting and as a result of the International Accounting Standard Board's work on convergence. These changes mean that the Board will continue to play an important role in not only advising on evolving international accounting issues and their implication for public sector accounting, but also ensuring that the government continues to meet the highest standards in its financial reporting. The change in the basis of financial reporting from 2008-09 also presents an opportunity for the government to ensure that its financial statements are sufficiently clear to meet the needs of the general users of government financial statements, and to better aid the understanding of the average reader.

I acknowledge the continued efforts of the Treasury to address the concerns raised by the Board over several areas. In particular, I am pleased to report that the working group established by the Treasury to address the Board's concerns over the consistency of accounting treatment of assets procured under the Private Finance Initiative (PFI) made real progress in identifying how consistency in accounting for PFI may be improved. The challenge for the Treasury is now to build on this work and develop its proposals for accounting for PFI under IFRS to achieve the consistency of accounting treatment the Board seeks. In some areas the Treasury has not yet been able to fully address the Board's concerns, e.g. the resource accounting boundary, and further work remains to be done before the issues are resolved to the Board's satisfaction.

Finally, I would like to record my, and the Board's thanks to the Secretariat for the continuing work each of them does to ensure the smooth operation of the Board's activities, in what has been a very busy programme of work. In particular, I would like to thank David Watkins for his work as the previous FRAB Secretary, and welcome Larry Pinkney in that role.

Elwyn Eilledge

25 June 2007

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Executive Summary

This is the tenth report of the Financial Reporting Advisory Board (the Board). The Board's primary objective is to promote the highest possible standards of financial reporting by government and it believes that in the past it has achieved, and is continuing to achieve, this objective. 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 the Scottish Ministers and to the National Assembly for Wales Finance Committee. The report covers the year April 2006 to March 2007. It discusses international financial reporting and convergence issues, other accounting issues considered by the Board, and looks ahead to future issues to be considered by the Board over the coming year. The following paragraphs summarise some of the key points discussed in the report.

The Board noted in last year's report that the government needed to stand ready to move to reporting under European Commission adopted international financial reporting standards (IFRS) no later than the Accounting Standards Board (ASB) timescale, and preferably earlier, i.e. from financial year 2008-09 (paragraph 2.3). The Board therefore welcomed the announcement in the 2007 Budget that government departments and other entities will prepare their financial statements using IFRS, as adapted as necessary, from financial year 2008-09. The Board views this as a demonstration of the government's continuing commitment to maintaining high standards in public accountability and places the UK at the leading edge of financial reporting internationally (paragraphs 2.4 to 2.6).

To ensure the government is ready to meet its timetable for moving to IFRS the Treasury has worked with the Board over the course of this reporting year in developing an IFRS based Government Financial Reporting Manual (FReM), to be applied from financial year 2008-09 (paragraphs 2.7 to 2.11). This important work continues into the next reporting year and represents the most fundamental change to government accounting since the introduction of resource accounting. The Board has played, and continues to play, an important role in the successful application of generally accepted accounting practice (GAAP) in government accounts, ensuring that the standards and policies used in resource and other accounts conform to GAAP with any departures fully justified and properly explained (paragraph 1.2). In the preparation of the new IFRS based FReM the Board continues to exercise due diligence to ensure that any government departures from IFRS are justified and fully explained (paragraphs 2.18 to 2.24).

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The Board has also considered other financial reporting developments during the year (see, generally, chapter 3). A particular area of interest that has been a concern of the Board for a long time is accounting for transactions financed by the Private Finance Initiative (PFI). The Board has expressed its concern over the level of inconsistency in accounting for PFI across different parts of the public sector, although there is some consistency within sectors. To address the Board's concerns the Treasury established a PFI Technical Note working group with a remit to report to the Board on how best to achieve greater consistency in accounting for PFI. During this year the Board was pleased to receive the final report of the working group and agreed its recommendation that the Board should advise the Treasury to withdraw its PFI Technical Note by no later than financial year 2008-09. However the government announcement that it will move to IFRS from financial year 2008-09 means that the Treasury PFI Technical Note will no longer be relevant. The move to adopt IFRS presents a positive opportunity for the public sector to achieve greater consistency in accounting for PFI. In the absence of an international standard on accounting for PFI the Board has made clear that it will be necessary for the Treasury to develop the IFRS based FReM applying the International Financial Reporting Interpretations Committee (IFRIC) Interpretation IFRIC 12: *Service Concession Arrangements*. The Board looks forward to receiving Treasury's proposals on this significant issue before the end of this calendar year and will be carefully monitoring progress in this important area of work (paragraphs 3.1 to 3.10).

In this report the Board notes that the Treasury has engaged in work that in practice, proposes that Executive non-departmental public bodies be brought into the resource accounting boundary. However, the Board is once again disappointed that the boundary issue remains unresolved and looks forward to the Treasury taking steps to resolve this long outstanding issue during the next reporting year. The Board has made clear to the Treasury that the continuation of the existing departmental boundary will prevent full compliance with IFRS (paragraphs 3.27 to 3.29).

The Treasury has assured the Board that the whole of government accounts (WGA) programme continues to advance, and it notes that following significant work in recent years the remaining principal challenge to convergence of accounting policies is the valuation of infrastructure assets. The Board recognises that work is progressing on this issue, looking into the practicality and desirability of converging the Local Authority and central government treatments. As announced in the Budget 2007, WGA prepared on an IFRS basis will be published for the first time for the financial year 2008-09 (rather than as previously announced, a published WGA balance sheet only for financial year 2006-07). The Board is disappointed with the delay and looks forward to discussing with the Treasury the reasons for this. (paragraphs 3.30 to 3.32).

In the forthcoming year the Board will complete its work in advising the Treasury in its preparations for its move to implementing IFRS and looks forward to approving the final version of the IFRS based FReM for application from financial year 2008-09. The Board also expects to consider those International Accounting Standards Board (IASB) publications related to its convergence projects that may impact on future public sector accounting, and to further publications related to the development of an improved conceptual framework for financial reporting (see paragraphs 2.32 to 2.39 and chapter 5 generally).

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ABOUT THE BOARD

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 2000.¹ The Terms of Reference of the Board is at Annex B, and details of the Board membership can be found at Annex C.
- 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 ensures that any adaptations of, or departures from, generally accepted accounting practice 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 departments, executive agencies, non-departmental public bodies, trading funds, and NHS bodies. The Board also advises the Treasury on the implementation of accounting policies specific to whole of government accounts.
- 1.4 The Board’s membership has continued to grow over the years. This year the Board was pleased to welcome a representative from the Welsh Assembly Government and is glad to provide the opportunity for the Welsh Assembly Government to contribute further to the development of accounting standards for government.

Background to the 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 and the Treasury Select Committee of the UK Parliament, to the National Assembly for Wales, the Scottish Ministers and the Department of Finance and Personnel, Northern Ireland.

¹ Government Resources and Accounts Act 2000, section 24.

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- 1.7 The Treasury, the Scottish Ministers, the Department of Finance and Personnel, Northern Ireland, and the Finance Division of the Welsh Assembly Government formally lay the Board's report before the House of Commons, the Scottish Parliament, the Northern Ireland Assembly, and the National Assembly for Wales.
- 1.8 The Board celebrated its 10th anniversary at its meeting on the 8 May 2006, and the introduction to its last report looked back at the Board's significant achievements over the previous ten years. The Board now provides an account of its activities and views expressed over the last year, in this its tenth report. The Report structure is summarised below.

Report structure

International Financial Reporting Standards and Convergence

- 1.9 Chapter 2 of the Report provides information about the activities and views of the Board in relation to its consideration of International Financial Reporting Standards (IFRS) for the public sector, and the convergence agenda, an area that has absorbed a significant amount of the Board's time and attention over the last year.

Financial Reporting developments

- 1.10 Chapter 3 of the Report addresses those issues in financial reporting, both new and continuing, which will lead to changes in accounting guidance in the future.

Financial Reporting for 2006-07

- 1.11 Chapter 4 of the Report considers all significant changes to the Government Financial Reporting Manual (FReM) for 2006-07, whether they result from the introduction of new accounting standards, or other sources.

Future issues for the Board

- 1.12 Chapter 5 looks ahead to the coming year, and anticipates those issues that the Board will consider.

Chapter 2

INTERNATIONAL FINANCIAL REPORTING STANDARDS AND CONVERGENCE

Introduction

2.1 This chapter of the Report deals with international financial reporting standards (IFRS), convergence issues and other developments in international financial reporting. It sets out the Board's position on public sector convergence in relation to the stated position of the Accounting Standards Board (ASB), and its view on the timing of the public sector move to implementing IFRS. The chapter outlines the process for the introduction of the IFRS based FReM, the most fundamental change to government accounting since the introduction of resource accounting. It provides information about those international standards already considered by the Board in response to the Treasury's proposals for their inclusion in the draft IFRS based FReM. Those international standards that remain to be considered by the Board are also listed. Further information is provided on those individual standards where to meet the specific requirements of the public sector, the Board has agreed to adaptations for the public sector context. The chapter also outlines several areas of future change for the public sector with the move to applying IFRS that will have significant impact. The chapter concludes with further developments in international financial reporting issues considered by the Board during the reporting year.

The ASB's position on convergence

2.2 The ASB proposes to issue new IFRS-based UK accounting standards in a 'big bang' approach, but these will not be mandatory before a single date, which is currently estimated to be financial years beginning on or after 1 January 2009. The proposed date still remains 'estimated' and will be governed by the outcome and timing of the International Accounting Standards Board (IASB)'s proposals.

The Board's position on convergence

2.3 The Board noted in last year's report that the government needed to stand ready to move to reporting under European Commission adopted IFRS no later than the ASB timescale, and preferably earlier, i.e. from financial year 2008-09. The Board therefore welcomed the announcement in the 2007 Budget that provided details of the timing of the public sector move to implementing IFRS.

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Timing of the public sector move to implementing IFRS

- 2.4 The government's commitment, previously noted by the Board, was to adopt IFRS on a timescale no later than the ASB. The Board was therefore pleased to receive confirmation that government departments and other entities in the public sector will prepare their financial statements using IFRS, as adapted as necessary, from financial year 2008-09.
- 2.5 The Board views this as a demonstration of the government's continuing commitment to maintaining high standards in public accountability and places the UK at the leading edge of financial reporting internationally.
- 2.6 To ensure that the government stands ready to meet this timescale, the Treasury has worked with the Board over the course of this reporting year in developing the draft IFRS based FReM, which is discussed below.

The draft IFRS based FReM

- 2.7 At its meeting on 8 May 2006, the Board agreed to the proposal that the Treasury and the devolved administrations should prepare a 'Government Financial Reporting Manual' (FReM) based on IFRS as adopted by the European Commission. This decision was taken in the light of the ASB's decision to suspend its phased approach to convergence of UK GAAP with IFRS and to plan for a 'big bang' convergence.
- 2.8 The IFRS based FReM will apply from financial year 2008-09. This has resulted in a very busy programme of work for the Board over this reporting year, considering and advising on numerous Treasury proposals related to the future adoption of individual IFRS.
- 2.9 Annex A to this report, provides a Table containing a quick reference guide to those IFRS considered by the Board to-date, and those that will be considered in the next few months.
- 2.10 In some cases the Board has approved adaptations to individual IFRS for the public sector context for inclusion in the draft IFRS based FReM, and these are outlined below (paragraphs 2.18 to 2.24).
- 2.11 The Board expects to consider and advise on a near complete draft IFRS based FReM by the summer, and expects to see a final version of the Manual by the end of the calendar year.

Impact of IFRS on the public sector

- 2.12 On the public sector move to adopt international accounting standards, as adapted as necessary for the public sector, there are several areas of accounting where public sector financial reporting under IFRS is likely to result in material differences compared to financial reporting under UK GAAP. These are discussed below.

Accounting for PFI

- 2.13 There are material differences between accounting for PFI under UK GAAP and the basis of accounting proposed under International Financial Reporting Interpretations Committee (IFRIC) 12 *Service Concession Arrangements*; this is discussed further in Chapter 3. The future adoption of the Interpretation is likely to require public sector entities to alter significantly their approach in accounting for PFI. This most likely will entail a change from primarily analysing the accounting treatment of PFI projects based on the distribution of risks and rewards between the public and private sector parties, to an increased emphasis on which party controls the concession infrastructure.
- 2.14 The Board looks forward to receiving the Treasury's proposals on the application of IFRS to PFI sponsoring departments later in the year.

Infrastructure assets

- 2.15 In applying IFRS, the public sector is likely to face a significant level of change in accounting for infrastructure assets. In applying UK GAAP central government accounting results in roads being measured at current replacement cost, and renewals accounting is used as a basis of estimating depreciation. In local government roads are currently valued on a historical cost basis and depreciated in the same way as other assets. Under IFRS roads could be measured on either a historical cost or current value basis, but will be required to be accounted for on a component basis, and must be depreciated over the useful life of each asset component. Decisions still need to be made on how best to converge these differing treatments.
- 2.16 Further work and consultation is required before implementation. The Chartered Institute of Public Finance and Accountancy (CIPFA) is undertaking a project in conjunction with the Treasury and the Department for Transport (DfT) to take this forward.

Non-current assets held for sale

- 2.17 Under IFRS the public sector will be required to apply revised accounting for any non-current assets held for sale, disclosing such assets as separate current assets on public sector financial statements.

Public Sector adaptations to IFRS

- 2.18 In applying IFRS in the public sector context the Board ensures that any departures from the Standards that are to be included in the IFRS based FReM are justified and fully explained. Those departures agreed by the Board are considered below.

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International Accounting Standard (IAS) 2 Inventories

- 2.19 One of the main features of IAS 2 requires that inventories be measured at the lower of cost and net realisable value. In the public sector financial statements are prepared under the modified historical cost convention. Under this convention stocks are measured at current cost. The Board approved an adaptation to the Standard for the public sector context, to permit stocks (inventories) to continue to be valued at current cost.

IAS 7 Cash Flow Statements

- 2.20 IAS 7 requires the provision of information about the historical change in cash and cash equivalents of an entity by means of a cash flow statement that classifies cash flows during the period from operating, investing and financing activities. The Board agreed an adaptation to the IAS 7 format of the cash flow statement for the public sector context, in that:

- Public sector departments should include at the foot of the cash flow statement those cash flows with the Consolidated Fund in a prescribed format; and
- In reconciling the operating costs to operating cash flows, departments should exclude balances with the Consolidated Fund and the National Loans Fund.

IAS 16 Property, Plant and Equipment

- 2.21 IAS 16 prescribes the accounting treatment so that users of financial statements can determine an entity's investment in its Property, Plant and Equipment, and the changes in such investment. In the public sector such investment may take the form of assets financed by grants and grants-in-aid, and donated assets. For capital charging purposes the public sector maintains separate reserves to reflect the changes in each form of investment. The Board approved an adaptation to permit gains on revaluation of fixed assets to be credited to the relevant reserve as follows:

- Assets financed by grants-in-aid to the Revaluation Reserve;
- Assets financed by grants to the Government Grant Reserve; and
- Donated assets to the Donated Asset Reserve.

- 2.22 The Board also approved an adaptation to require entities to make an annual transfer from the Donated Asset Reserve to the entity's Operating Cost Statement equal to the depreciation charge on the asset plus any impairment to offset the relevant charge to the Operating Cost Statement. It is proposed that the relevant charge should be offset in this way to avoid the danger that donors may otherwise be deterred if they thought that donating an asset would result in an additional charge to current expenditure.

IAS 19 Employee Benefits

- 2.23 IAS 19 prescribes the accounting and disclosure for employee benefits, including termination benefits and pension benefits. The Board agreed adaptations to the Standard for the public sector in two areas. The first adaptation is that the Standard will apply to the accounts of the government pension schemes, in addition to reporting entities and reportable activities. The second adaptation relates to the financial statements of the pension schemes where contributions from the employer and employees are to be shown as income. Consequently, the pension provision will not reflect contributions.

IAS 26 Accounting and Reporting by Retirement Benefit Plans

- 2.24 IAS 26 applies to the unfunded pension schemes in central government and provides guidance on the form and content of the pension schemes' financial statements. The Board agreed an adaptation to the Standard for the public sector context, in that although IAS 26 does not apply to forms of employment benefit other than retirement benefits, where pension schemes currently report separate transactions related to termination benefits, then they are permitted to continue to do so.

Other international developments

- 2.25 Besides IFRS and Interpretations, the Board considers publications of the International Public Sector Accounting Standards Board (IPSASB). Two such publications were issued in the reporting period: a new standard IPSAS 23 *Revenue from Non-Exchange Transactions (Taxes and Transfers)* and an Exposure Draft on accounting for Employee Benefits.

Non exchange revenue

- 2.26 In its last report, the Board outlined its response to the IPSASB Exposure Draft on accounting for revenue from non-exchange transactions, published in January 2006.
- 2.27 In December 2006, the IPSASB published its new accounting standard, IPSAS 23 *Revenue from Non-Exchange Transactions (Taxes and Transfers)*. The Standard becomes effective for annual financial statements covering periods beginning on or after 30 June 2008, although earlier application is encouraged.
- 2.28 The Board noted that IPSAS 23 requires that taxation revenue be determined gross of tax expenses, i.e. the gross treatment. The Board is sympathetic to and supports this approach as it provides increased transparency in accounts, but it is also aware that in the United Kingdom a net approach is used. UK tax credits are presented as negative taxation in the HM Revenue and Customs Trust Statement to the extent that the tax credits are less than or equal to a recipient's tax liability, and as payments of entitlement where tax credits exceed the recipient's tax liability.
- 2.29 The Board is yet to complete its ongoing discussions with the Treasury regarding its treatment of tax expenses in the recognition of taxation revenues.

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Accounting for the social policies of government

- 2.30 In October 2006, IPSASB published an Exposure Draft on accounting for Employee Benefits. It is expected that the proposed standard, when finalised, will become effective five years after issuance, although earlier adoption is likely to be encouraged.
- 2.31 In further stages to its project work on pensions, IPSASB is expected to issue Exposure Drafts on non-age related benefits, and on old age pensions. The Board looks forward to considering the Exposure Drafts in due course and to discussing with the Treasury the possible implications for accounting by the central government sector.

Preliminary views on an improved Conceptual Framework for Financial Reporting

- 2.32 In July 2006, The IASB issued a Discussion Paper (DP), jointly developed with the US Financial Accounting Standards Board (FASB), entitled *'Preliminary Views on an improved Conceptual Framework for Financial Reporting: The Objective of Financial Reporting and Qualitative Characteristics of Decision-useful Financial Reporting Information'*.
- 2.33 The DP is the first in a series of publications being developed jointly by the IASB and the US FASB, as part of a joint project to develop a common Conceptual Framework for Financial Reporting, that both Boards can use in developing new and revised accounting standards.
- 2.34 The Board welcomes the development of an improved conceptual framework that will underpin the future financial reporting framework. However, it has concerns over several aspects proposed in the DP. The Board believes it is essential that the ongoing project encompasses and reflects the various sectors and requirements of both profit and not for profit entities within one overall framework and was concerned that the DP proposes that not for profit entities would be dealt with in a much later phase of the project. In the context of not for profit entities in the public sector, the Board noted that the IPSASB has commenced its own project related to the conceptual framework.
- 2.35 The Board views the DP as being fundamentally important because if some of the issues raised are not adequately addressed, it could potentially create a barrier to achieving sector neutral accounting. If this were to occur it would undo much of its work in this area and potentially could result in public sector accounting drifting away from GAAP, which it would regard as a retrograde step.
- 2.36 The Board was particularly concerned with the proposed Framework's treatment of stewardship and accountability. It believes that, as well as informing decisions for both profit and not for profit entities, a further objective of financial statements is to provide information that enables users of the statements to assess the stewardship and accountability of management. Stewardship, that is the accountability of management for the

resources entrusted to it, is important in both the public sector and the private sector because of its usefulness in the decision making process.

- 2.37 The Board further commented on the implications of the proposed narrow definition of the 'class of users' for financial reports in the not for profit public sector context. It further disagreed with the absolute focus on cash flows, as other considerations are generally more significant for the not for profit sector, such as how well the organisation is meeting its objectives, and the effectiveness and efficiency of goods or service delivery.
- 2.38 In principle the Board supports the decision to extend the scope of the Conceptual Framework to cover some or all financial reports that are not financial statements. However, it expressed concerns over the current process for achieving this. It also has concerns over the proposal to replace the qualitative characteristic of reliability, with 'faithful representation'. The Board disagrees with the DP's assertion that this proposed change is not one of substance, because 'faithful representation' is a less well-understood notion that would be differently interpreted in practice, and consequently would be unlikely to lead to consistency in financial reporting. This suggests to the Board that further work needs to be carried out on this proposal.
- 2.39 The Board looks forward to considering and commenting on the further papers to be issued in the project to develop a common Conceptual Framework for Financial Reporting.

Chapter 3

FINANCIAL REPORTING DEVELOPMENTS

Introduction

3.1 This chapter addresses the developments in financial reporting, both new and continuing, which will lead to changes in accounting guidance in the future. An update on each of the developments considered by the Board is provided below.

Private Finance Initiative

3.2 The Board's concern with achieving greater consistency in accounting for PFI is well documented, and a recurring theme in its annual reports. The Board believes that one would normally expect symmetry in the accounting treatment by the public and private sector parties to a PFI contract. That is, the asset should appear on one party's balance sheet, not on both, nor on neither. The Board has also expressed concerns over the level of inconsistency in accounting for PFI across different parts of the public sector such as health, education and central government, although there is some consistency within sectors.

3.3 In the Board's last report it noted that to address its concerns the Treasury had established a PFI Technical Note working group, comprising members from the National Audit Office, the Audit Commission, and the accountancy firms, to discuss the matters causing the Board's concern and report to the Board how best to achieve greater consistency in accounting for PFI.

3.4 In this reporting year the Board was pleased to receive the final report of the PFI Technical Note working group. The working group recommended that the Board should advise the Treasury to withdraw its Technical Note No 1 (Revised) *How to account for PFI Transactions* by 2008-09, and that subsequently Application Note F to FRS 5: *Private Finance Initiative and Similar Contracts*, without further interpretation, should form the only guidance for accounting for PFI in the public sector. The Board, whilst agreeing the working group's recommendations, briefly deferred its decision on recommending the withdrawal of the Treasury Technical Note until it received the Treasury's proposals in response to the working group's report. In the event, the Treasury's response came in the form of an announcement in the Budget 2007.

3.5 The government announced that the public sector will prepare financial statements using IFRS from 2008-09 (this is discussed further in Chapter 2). On the move to IFRS Application Note F to FRS 5 and the Treasury Technical Note will no longer be relevant.

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- 3.6 Accordingly the public sector move to adopt IFRS has implications for the future accounting for PFI. Whilst the IASB through IFRIC, its interpretation group, has issued guidance on service concession arrangements (including PFI), the formal scope of this guidance is limited to operators of PFI arrangements and excludes grantors. This is considered further below.

IFRIC 12 on Service Concession Arrangements

- 3.7 IFRIC issued its Interpretation IFRIC 12: *Service Concession Arrangements* on 30 November 2006. The Interpretation addresses how service concession operators should apply existing IFRS in accounting for the rights they receive and the obligations they undertake in service concession arrangements.
- 3.8 IFRIC 12 does not formally address the government (grantor) side of public to private service concession arrangements, but in the Board's view it nevertheless gives a strong indication of what the public sector accounting should be in public to private service concessions arrangements, when in line with the Interpretation, the property is not judged to be on the private sector operator's balance sheet.
- 3.9 The Board expressed the view that it will be necessary for the Treasury to develop the IFRS based FReM (see Chapter 2) to apply the Interpretation following its European Commission adoption, and noted that the International Public Sector Accounting Standards Board has commenced its own project on service concessions. The Board looks forward to receiving the Treasury's proposals on this very significant issue well before the end of the calendar year, and in time for inclusion in the final version of the new manual.
- 3.10 The Board views the move to IFRS as a positive opportunity for the public sector to achieve greater consistency in accounting for PFI, and on an international basis, and it will be carefully monitoring the Treasury's progress in this important area of work.

Financial Instruments

- 3.11 In its last report, the Board drew attention to the issue by the ASB of a new Financial Instrument Standard, FRS 29 (IFRS 7) *Financial Instruments: Disclosures*, which from 2007 replaces the disclosure requirements of FRS 25 (IAS 32) *Financial Instruments: Disclosure and Presentation*. FRS 25 and 29 apply alongside FRS 26 (IAS 39) *Financial Instruments: Recognition and Measurement*.

- 3.12 The objective of both FRS 25 and FRS 29 is to provide users of the financial statements with a better understanding of the significance of financial instruments to an entity's financial position, performance and cash flows. FRS 25's presentation requirements apply to all entities for accounting periods beginning on or after 1 January 2005 and cover the classification of debt and equity financial instruments and the implications of that classification for dividends and interest expense. Its disclosure requirements apply to entities that apply FRS 26 and require a range of mainly risk-based qualitative and quantitative disclosures to be given about financial instruments held or issued.
- 3.13 FRS 26's objective is to establish principles for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial assets and liabilities. It requires the use of specific measurement bases for financial instruments and for the use of hedge accounting. It applies to listed entities following UK standards for accounting periods beginning on or after 1 January 2005, and to entities preparing accounts in accordance with the fair value accounting rules set out in the Companies Act 1985 for accounting periods beginning on or after 1 January 2006, although such entities may voluntarily apply it for accounting periods beginning on or after 1 January 2005.
- 3.14 Unless and until an entity applies FRS 26 it is not permitted to adopt FRS 23 (IAS 21) *The effects of changes in foreign exchange rates*, and if an entity applies FRS 26 it must apply FRS 23. (The objective of FRS 23 is to prescribe how to include foreign currency transactions and foreign operations in the financial statements of an entity and how to translate financial statements into a presentation currency.)
- 3.15 In last year's report it was noted that the Treasury had informed the Board that the central funds and departments that trade in financial instruments (principally the Export Credit Guarantee Department) would implement FRS 25, FRS 26 and FRS 29 from 2006-07, with the exception of the Exchange Equalisation Account, which would adopt the financial instruments standards from 2005-06. The wider implementation of the Financial Instrument Standards by entities covered by the FReM was delayed pending research by the Treasury to determine, first, the extent to which guarantees, letters of comfort and other indemnities given by the government are financial instruments within the meaning of FRS 26, and secondly, the extent to which departments or other entities within the Board's remit engage in hedging activities or have derivatives embedded in contracts or other agreements.

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- 3.16 This year the Board is disappointed to note that despite the Treasury's best efforts to achieve wider implementation of the financial instrument standards from 2007-08, to include departments, this has not proved possible. This is due to the Treasury requiring additional time to conduct a further consultation round with public sector bodies on the impact of adopting these standards. This further consultation round is aimed to gain robust financial data and information on the financial impact of the standards, which has generally not been forthcoming from departments to-date.
- 3.17 The Board received assurance from the Treasury that it was on track to implement the financial instruments standards across the wider public sector from 2008-09, in line with its timetable for the implementation of IFRS.

Asset Valuations

- 3.18 Following concerns raised by the Board and some departments, the Treasury have been working with the Asset Valuation and Capital Charging Working Group (AVCCG), in looking at how the existing accounting and valuation requirements for fixed assets impact on the behaviour of entities covered by the FReM. The AVCCG was set up by the Treasury and comprised both accountants and valuers from a wide range of departments and with the devolved administrations. This work culminated in a Treasury report to the Board outlining its conclusions and recommendations and proposing amendments to the FReM in relation to Financial Reporting Standard (FRS) 15 *Tangible Fixed Assets* and FRS 11 *Impairment of Fixed Assets and Goodwill*. It was further proposed that separate guidance on valuations be agreed for the benefit of departments, which would be supplementary to the FReM.
- 3.19 The proposal in respect to FRS 15 related to removing adaptations in the FReM. These had stated that interim valuations for land and buildings and tangible fixed assets are not required. The removal of the adaptations gives entities covered by the FReM greater flexibility in determining the most appropriate valuation methodology in measuring the current value of their tangible fixed assets. The Board welcomed the removal of the public sector adaptations to FRS 15, and the greater flexibility this offers to departments in valuing their tangible fixed assets, and agreed that the change should be effective from 2007-08.
- 3.20 The Board is yet to complete its discussions with the Treasury regarding the proposed amendments to the FReM in respect of FRS 11 and the supplementary guidance on valuations.

Cost of Capital Charging

- 3.21 Last year the Board concluded following discussions with the Treasury that resource and other accounts should continue to include a charge for the cost of capital. The Board had yet to complete its discussions with the Treasury regarding the base on which the charge should be calculated, and the way in which it should be presented in financial statements.

- 3.22 During this reporting year, the Treasury has advised the Board that it is undertaking a fundamental and extensive review of the cost of capital charge, to commence this autumn. The Board looks forward to assisting the Treasury in the Review process, and subsequently to receiving a report from the Treasury on the outcome of the Review and its proposals.

Heritage Assets

- 3.23 In its last report the Board welcomed the proposals in the ASB's Discussion Paper *Heritage Assets: can accounting do better?* The Board viewed the proposals in the Discussion Paper (DP) as preserving the principle of capitalisation of non-operational heritage assets where this is practicable.
- 3.24 The Board agreed the proposal that heritage assets be reported in the balance sheet at current value, rather than historical cost, as this provides more useful and relevant information to users of accounts. The Board further agreed the proposed disclosure requirements for heritage assets and considered that they would also help enhance accountability and transparency in financial reporting.
- 3.25 In this reporting year, based on the responses to its DP, the ASB has issued Financial Reporting Exposure Draft (FRED) 40 *Accounting for Heritage Assets*.
- 3.26 The Board supports many of the ASB's conclusions and proposals in FRED 40, but disagrees with the main proposal that practicability should be assessed at an individual collection level for those entities holding heritage assets. The Board supports the proposal in the original DP, where practicability would be assessed at the level of the entity's entire holdings in heritage assets.

The Boundary

- 3.27 In its report last year, the Board expressed its disappointment that little real progress had been made on the question of the extension of the departmental boundary to include non-departmental public bodies. The Board also reported its view that some of the concerns raised by the Treasury over the extension of the boundary might be over-stated, and that it expected the Treasury to resolve this long outstanding issue as a matter of urgency.
- 3.28 This year the Board notes that the Treasury has been exploring the scope for further alignment of the basis underlying the preparation of budgets, Estimates and accounts, which in practice would bring Executive non-departmental public bodies into the resource accounting boundary. The Board also notes that the Treasury has asked departments to consider what steps they now need to take in order to be ready to consolidate non-departmental public bodies from 2008-09. Whilst acknowledging that this represents progress, the Board reiterates its disappointment that this issue remains unresolved and looks forward to the Treasury taking steps to resolve this long outstanding issue during the next reporting year.

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- 3.29 In the context of the boundary issue, the Board received the Treasury's proposals for the implementation of IAS 27 *Consolidated and Separate Financial Statements*, IAS 28 *Investment in Associates*, IAS 31 *Interests in Joint Ventures* and related Interpretations in the IFRS based FReM. The Treasury proposed an adaptation to the above standards so that the existing accounting boundary can be maintained for 2008-09, pending further Treasury work. The Board deferred its decision on the Treasury proposals pending its further work on this issue and reflected that maintaining the existing accounting boundary would prevent full compliance with IFRS.

Whole of Government Accounts

- 3.30 The Board was pleased to receive a presentation from the Treasury about progress made in developing whole of government accounts (WGA) over the previous reporting year. The Treasury provided a summary of the 2004-05 process, the first year that local authorities, NHS Trusts and Foundation Trusts were included in the WGA process. The Board noted that following significant work in recent years; the principal remaining challenge to convergence of accounting policies is the valuation of infrastructure assets.
- 3.31 Local authorities prepare their accounts in accordance with the Code of Practice on Local Authority Accounting, which is a Statement of Recommended Practice (SORP) prepared by a joint committee of the Chartered Institute of Public Finance and Accountancy and the Local Authority (Scotland) Accounts Advisory Committee (CIPFA/LASAAC). Considerable changes over recent years have brought the SORP into line with GAAP and many of the differences between local government and the rest of the public sector have been eliminated as a result. One significant difference between central and local government remains, however – the local authority road network is accounted for at historical cost, while the motorway and trunk road network is accounted for at current cost in central government accounts. Both approaches accord with FRS 15. The Board noted that work is progressing on this issue, looking into the practicality and desirability of converging the Local Authority and central government treatments.
- 3.32 As announced in the Budget 2007, WGA prepared on an IFRS basis will be published for the first time for the financial year 2008-09 (rather than as previously announced, a published WGA balance sheet only for financial year 2006-07). The Board is disappointed with the delay and looks forward to discussing with the Treasury the reasons for this.

Chapter 4

FINANCIAL REPORTING FOR 2006-07

Introduction

4.1 The completion of the draft International Financial Reporting Standard (IFRS) based Government Financial Reporting Manual (FReM) is currently work in progress, due to be finalised by the end of the calendar year. This new FReM will apply from financial year 2008-09 (see Chapter 2). In the meantime, the FReM continues to be based on UK Generally Accepted Accounting Practice (UK GAAP). Over the reporting period there were a small number of changes to the FReM, in line with changes to UK GAAP, and to reflect other issues that have arisen during the last year.

The FReM

4.2 Over the reporting period the Board approved significant amendments to the FReM in the following areas:

- Grants and Grants in Aid,
- Remuneration disclosures;
- Pension Liabilities and the Discount Rate; and
- FRS 21: *Events after the Balance Sheet Date*.

These are outlined below.

Grants and Grants in Aid

4.3 In its ninth report, the Board concluded that grants-in-aid for revenue purposes should be treated as financing unless it could be argued that the grant-in-aid is in exchange for the supply of goods and services. The Board further concluded that grants-in-aid for capital purposes should also be accounted for as financing, and that the revised policy should be implemented from 2006-07.

4.4 In this reporting period the Board welcomed changes to the FReM to reflect that the default treatment of revenue grant-in-aid and revenue grant is likely to be financing and not income, as for capital grant-in-aid, and that when a capital grant is received to finance specific rather than general assets, it can be credited to a Government Grant Reserve.

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Remuneration Disclosures

- 4.5 Failure to provide in full certain salary and pension disclosures has been a continuing theme in the previous reports issued by the Board, although we have seen slow but steady progress in this area. Since 1996, the Board has pressed for full details of the remuneration packages of senior public servants to be disclosed to bring the public sector into line with practice in the private sector. Now all contracts of employment for senior civil and public servants are expected to include a clause that requires such disclosure.
- 4.6 A related issue considered by the Board concerned the requirement to obtain the prior consent of individuals before disclosing their salary and pension information. Previously the FReM (and the Resource Accounting Manual before it) noted that the individuals affected would need to give their consent to the information being disclosed. This was based on legal opinion obtained by the Cabinet Office at the time of the initial introduction of the requirement to disclose salary and pension information for named individuals. However, the Information Commissioner has recently ruled that entities are entitled to publish details of salary and pension entitlements of named individuals without seeking their prior consent. Non-disclosure would be acceptable only under a defined set of circumstances. This ruling followed a case against a Health Trust in Northern Ireland under the Freedom of Information Act, and is also relevant in England and Wales, although not Scotland.
- 4.7 The Board agreed an amendment to the FReM to reflect the Information Commissioner's ruling, and views this as an important change towards achieving full compliance with remuneration disclosures.
- 4.8 The Board noted that in relation to Non-Departmental Public Bodies (NDPBs) with charitable status, there has been a lack of clarity in the FReM about the required pension disclosure requirements, resulting in many charitable NDPBs following the requirements of the Charity Commission *Statement of Recommended Practice: Accounting and Reporting by Charities*, and not the FReM requirements. The Board welcomed an amendment to the FReM confirming that its disclosure requirements should take precedence, and sees this as a further step towards improving public sector disclosure on salary and pensions.

Pension Liabilities and the Discount Rate

- 4.9 In its seventh report in 2004, the Board noted that the Treasury had accepted its proposal that the discount rate for pension liabilities for public service pension schemes should be set in line with the requirements of FRS 17 *Retirement Benefits*, using a discount rate based on the AA corporate bond rate. This was implemented from 2005-06 with an initial discount rate set at 2.8% real. The Board further agreed that in order to achieve budgetary certainty the rate would be reviewed for each Spending Review period.

- 4.10 In the current reporting period the Treasury advised the Board that the Spending Review planned for 2006, which would have set the framework for 2007-08 and 2008-09, had been overtaken by the Comprehensive Spending Review. This will take place in 2007, and apply for 2008-09 and 2009-10. Therefore under the existing arrangements the discount rate for 2007-08 needed to be determined. The Board agreed that the current real rate of 2.8% should be reviewed by the Treasury for 2007-08, and possibly for 2006-07. The Treasury proposed that the discount rate could be reviewed annually as at 31 January of each year to comply with the timetable for the completion of Estimates, and this was agreed by the Board
- 4.11 The Treasury subsequently proposed and received the Board's approval to the continued use of the AA Corporate Bond rate for setting the annual pension discount rate, and confirmed that following a review by the Government Actuary's Department for 2006-07 the rate to be applied is 1.8% real, a reduction of 1%. The implication of the reduction in the pension discount rate is an increase in the level of reported pension liabilities. The Board agreed changes to the FReM to reflect the continued use of the AA Corporate Bond rate for discounting pension liabilities, and to reflect that the rate would be reviewed annually in the future.

FRS 21: Events after the Balance Sheet Date

- 4.12 FRS 21: *Events after the Balance Sheet date*, which was issued in May 2004, replaced SSAP 17 *Accounting for post balance sheet events* and changed the accounting for dividends. In its eighth report in 2005, the Board noted that the Treasury, together with the Department of Health and Monitor, needed to clarify the classification of Public Dividend Capital before implementing the Financial Instruments Standards (FRS 25 (IAS 32) *Financial Instruments: Disclosure and Presentation* and FRS 26 (IAS 39) *Financial Instruments: Recognition and Measurement*). These standards called into question the analogy between Public Dividend Capital and preference shares. This resulted in a delay to the implementation of FRS 21.
- 4.13 In this reporting period the Treasury, following consultation on Public Dividend Capital, proposed that FRS 21 be interpreted in the public sector context so that Public Dividend Capital is not treated as a financial instrument within the meaning of FRS 25, and unpaid dividends continue to be recognised as liabilities at the balance sheet date. The Board accepted that Public Dividend Capital is not a financial instrument. It also agreed to the Treasury's proposals that the standard be interpreted with respect to the date on which accounts were authorised for issue and approved the change to the FReM for 2006-07.

Chapter 5

FUTURE ISSUES FOR THE BOARD

Introduction

5.1 The final chapter of this report looks ahead to the coming year. Some of the topics that the Board expects to consider have been on the Board's agenda during this year, and are discussed in earlier chapters; other topics have been discussed in earlier reports, and are only now coming to fruition.

Adoption of IFRS

5.2 In this coming year, the Board looks forward to completing its work in advising on the completion of the draft IFRS based FReM, and its subsequent approval of the final version of the Manual, for its future application to public sector bodies from financial year 2008-09.

Developments in International Public Sector Accounting Standards

5.3 The International Accounting Standards Board and the International Public Sector Accounting Standards Board have busy work programmes over the coming year in relation to various projects, and the Board expects to see and comment, as appropriate, on several publications that may impact on public sector accounting. Some of these are described below.

Amendments to IFRS

5.4 During the course of 2007 and into early 2008 the Board anticipates that the IASB will release amendments to IFRS 1 *First-time adoption of International Financial Reporting Standards*, IFRS 3 *Business combinations*, IAS 24 *Related Party Disclosures* and IAS 32 *Financial Instruments: puttable instruments*. The Board looks forward to discussing with the Treasury the impact of these changes on future public sector accounting.

Exposure Drafts

5.5 The Board anticipates that Exposure Drafts will be issued by the IASB on Joint Ventures and Income Tax, areas of interest to the Board.

Discussion Papers

5.6 Over the coming year the Board expects to see and comment on a further discussion paper issued by the IASB, and developed in conjunction with the US FASB, as part of the series of publications to develop a common conceptual framework for financial reporting. This paper is expected to relate to Phase D of the conceptual framework project related to the *Reporting Entity*.

Annex A

INTERNATIONAL FINANCIAL REPORTING STANDARDS CONSIDERED BY THE BOARD FOR INCLUSION IN THE IFRS BASED FReM

The Table below provides a quick reference summary of those international accounting standards considered by the Board to-date, and those yet to be considered over the next few months, for inclusion in the draft IFRS based FReM. The Table indicates where the Board has agreed that the individual standards are to be applied in full, including as interpreted for the public sector, and those that are to be adapted. Chapter 2 provides the information on individual adaptations agreed by the Board, and the rationale for its agreement.

International Standard/ Interpretation	Applied in Full	Interpreted for public sector	Adapted for public sector	Other requirements	Comments
IAS 1 Presentation of financial statements	●	●			
IAS 2 Inventories		●	●		
IAS 7 Cash Flow Statements			●		
IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors	●				
IAS 10 Events after the balance sheet date	●	●			
IAS 11 Construction contracts	●				
IAS 12 Income Taxes	●				
IAS 16 Property, plant and equipment (excluding Infrastructure assets)		●	●		
IAS 17 Leases	●				
IAS 18 Revenue	●				
IAS 19 Employee Benefits		●	●		
IAS 20 Accounting for government grants and disclosure of government	●	●			

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International Standard/ Interpretation	Applied in Full	Interpreted for public sector	Adapted for public sector	Other requirements	Comments
assistance					
IAS 21 The effects of changes in foreign exchange rates	●	●			
IAS 23 Borrowing Costs	●	●			
IAS 24 Related party disclosures	●				
IAS 26 Accounting and Reporting by Retirement Benefit Plans		●	●		
IAS 27 Consolidated and Separate Financial Statements					Board unable to consider due to existing accounting boundary
IAS 28 Investments in associates					Board unable to consider due to existing accounting boundary
IAS 29 Financial reporting in hyper- inflationary economies	●	●			
IAS 31 Interests in joint ventures					Board unable to consider due to existing accounting boundary
IAS 32 Financial Instruments: Presentation	●	●			
IAS 33 Earnings per share	●				Unlikely to apply
IAS 34 Interim Financial Reporting	●				
IAS 36 Impairment of Assets	●	●			
IAS 37 Provisions, Contingent Liabilities and contingent Assets	●	●			
IAS 38 Intangible Assets	●	●			
IAS 39 Financial Instruments: Recognition and Measurement	●	●			
IAS 40 Investment Property	●	●			
IAS 41 Agriculture	●				

International Standard/ Interpretation	Applied in Full	Interpreted for public sector	Adapted for public sector	Other requirements	Comments
IFRS 1 First time adoption of IFRS	●				
IFRS 2 Share based payments	●				Unlikely to apply
IFRS 3 Business combinations	●			Scope limitation	To be reviewed
IFRS 4 Insurance contracts	●				
IFRS 5 Non-current Assets Held for Resale and discontinued operations	●	●			
IFRS 6 Exploration for and evaluation of mineral resources	●				
IFRS 7 Financial Instruments: Disclosures	●	●			
IFRS 8 Operating Segments (was IAS 14 Segmental reporting)					To be considered in October 07
SIC 7 Introduction of the Euro	●				
SIC 10 Government assistance	●	●			
SIC-12 Consolidation – special purposes vehicles					Board unable to consider due to existing accounting boundary
SIC-13 Jointly controlled entities – non-monetary contributions by venturers					Board unable to consider due to existing accounting boundary
SIC 15 Operating Leases - Incentives	●				
SIC 21 Income Taxes – Recovery of non-depreciable assets	●				
SIC 25 Income Taxes – Changes in the Tax status of an Entity or its Shareholders	●				
SIC 27 Evaluating the Substance of Transactions Involving the Legal form of a Lease	●				
SIC 31 Revenue – Barter Transactions Involving Advertising Services	●				

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International Standard/ Interpretation	Applied in Full	Interpreted for public sector	Adapted for public sector	Other requirements	Comments
SIC 32 Intangible Assets – Web site costs	●	●			
IFRIC 1 Changes in decommissioning, restoration and similar liabilities	●				
IFRIC 2 Members' shares in co-operative entities and similar instruments	●				
IFRIC 4 Determining whether an arrangement contains a Lease	●				
IFRIC 5 Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds			●		
IFRIC 6 Liabilities Arising from Participating in a Specific Market-Waste Electrical and Electronic Equipment	●				No relevant application
IFRIC 7 Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies	●				
IFRIC 8 Scope of IFRS 2	●				Unlikely to apply
IFRIC 9 Re-assessment of embedded derivatives	●				
IFRIC 12 Service Concession Arrangements					To be considered in December 07.
Infrastructure assets (IAS 16)					To be considered in December 07
Heritage Assets					To be considered

Annex B

THE TERMS OF REFERENCE OF THE FINANCIAL REPORTING ADVISORY BOARD

1 Context

1.1 The primary aims of financial reporting by central government bodies are to demonstrate to the public and their representatives in the UK and Scottish Parliaments, the Northern Ireland Assembly and the National Assembly for Wales:

- the financial performance of the bodies;
- their stewardship of public funds and assets; and
- that, where appropriate, public monies and other resources have been used for the purposes intended by the Parliaments or the Assemblies;

and to provide the Parliaments and the Assemblies with information which is reliable and sufficient as a basis for:

- their consideration and approval of the levels of resources and cash voted to services; and
- their examination of performance in carrying out policies, functions, programmes and projects.

1.2 Financial reporting is also intended to underpin the UK Government's planning, monitoring and management of public expenditure.

1.3 The authority to develop financial reporting requirements rests with the Treasury, the Welsh Assembly Government, the Scottish Ministers and the Department of Finance and Personnel, Northern Ireland in respect of accounts meeting the criteria set out in paragraph 2.1.b. below.

1.4 Financial reporting by central government bodies should be based on generally accepted accounting practice (GAAP) adapted where appropriate to take account of the public sector context. For Resource Accounts prepared by government departments for which an Estimate is laid before the House of Commons and for Whole of Government Accounts (UK) this requirement is set out in sections 5 and 9 of the Government Resources and Accounts Act 2000. A similar requirement is included in sections 9 and 14 of the Government Resources and Accounts Act (Northern Ireland) 2001.

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1.5 Under section 24 of the Government Resources and Accounts Act 2000 the Treasury is required to consult an advisory group on financial reporting principles and standards for resource accounts and Whole of Government Accounts. Under section 20 of the Government Resources and Accounts Act (Northern Ireland) 2001, the Department of Finance and Personnel, Northern Ireland is also required to consult with and take account of the recommendations made by this advisory group before issuing directions on resource accounts or determining the form and content of Whole of Government Accounts (Northern Ireland). The Scottish Ministers, with the agreement of the Audit Committee of the Scottish Parliament, have determined that they should be similarly advised on such matters. The Financial Reporting Advisory Board will be the advisory group, and thus will provide an independent element into the process of setting financial reporting standards for the UK Government, the Scottish Ministers and the Department of Finance and Personnel, Northern Ireland.

2. Terms of reference

2.1 Responsibilities of the Board:

- (a) The Board will provide independent advice to the Treasury, the Scottish Ministers and the Department of Finance and Personnel, Northern Ireland.
- (b) The Board will advise the Treasury, the Scottish Ministers and the Department of Finance and Personnel, Northern Ireland on the application of financial reporting standards and principles:
 - (i) where the Treasury, the Welsh Assembly Government and the Department of Finance and Personnel, Northern Ireland are responsible for issuing reporting requirements, in respect of:
 - Departmental resource accounts
 - Supply financed executive agencies
 - Non-departmental public bodies
 - Trading funds
 - Whole of Government Accounts
 - NHS trusts in England and Wales, and HSS trusts in Northern Ireland
 - NHS Foundation Trusts in England
 - (ii) Where the Scottish Ministers are responsible for issuing reporting requirements, in respect of:
 - accounts falling under sections 19 and 20 of the Public Finance and Accountability (Scotland) Act 2000¹.
 - accounts of executive non departmental public bodies where the Scottish Ministers have the power of direction

¹ Public Finance and Accountability (Scotland) Act 2000 is available from the Stationery Office or can be located on the web at: www.legislation.hmsso.gov.uk

- (c) The Board will decide how it reaches its conclusions.
- (d) The Board’s advice to the Scottish Ministers will be restricted to the technical rules of accounting and to minimum disclosure requirements. It will not extend to the format of accounts or to disclosures beyond the minimum requirements.
- (e) The Board’s advice to the Department of Finance and Personnel, Northern Ireland will incorporate accounting, formatting and minimum disclosure requirements.
- (f) The Board will examine all amendments to the guidance in respect of the bodies listed in b above, with the aim of ensuring that they comply with GAAP, and that departures or modifications from GAAP, due to public sector and spending control contexts, are fully explained and justified. The Board will also examine, with the same aim, amendments to accounts directions referred to the Board, issued by the Treasury, the Welsh Assembly Government, the Scottish Ministers and the Department of Finance and Personnel, Northern Ireland.
- (g) The Board will prepare an annual report of its activities, including its views on the changes made during the period to the accounting guidance, or, as appropriate, accounts directions, issued by the Treasury, the Welsh Assembly Government, the Scottish Ministers and the Department of Finance and Personnel, Northern Ireland in respect of bodies listed in 2.1 b. above, and will send a copy of its report direct to the Committee of Public Accounts and the Treasury Select Committee of the UK Parliament, the National Assembly for Wales, the Scottish Ministers and the Department of Finance and Personnel, Northern Ireland.

2.2 The Treasury (in conjunction with the Department of Health in respect of NHS trusts in England and the Independent Regulator of NHS Foundation Trusts in respect of NHS Foundation Trusts in England), the Welsh Assembly Government, the Scottish Ministers and the Department of Finance and Personnel, Northern Ireland:

- (a) Will ensure that all relevant matters, including proposed changes to the guidance, or, as appropriate, accounts directions, in respect of accounts meeting the criteria in 2.1.b above, are brought to the Board’s attention within a reasonable time. In particular, changes to Financial Reporting Standards and other elements of GAAP that affect such guidance or accounts directions will, as far as possible, be brought to attention in sufficient time to enable their implementation, as appropriate, within the same timescale as changes are to be made generally.
- (b) Will examine all issues raised by the Board within its terms of reference.
- (c) Will consider all advice received from the Board.

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2.3 The Treasury, the Scottish Ministers, the Department of Finance and Personnel, Northern Ireland, and the Finance Division of the Welsh Assembly Government will formally lay the Board's report before the House of Commons, the Scottish Parliament, the Northern Ireland Assembly, and the National Assembly for Wales respectively.

2.4 The Treasury will provide the secretariat to the Board.

3 Membership

3.1 The Board will comprise:

An independent Chairman, nominated by the Chief Accountancy Adviser to the Treasury, and in respect of future appointments, in agreement with the Scottish Ministers and the Department of Finance and Personnel, Northern Ireland.

1 member nominated by the Treasury (a Treasury Official)

1 member nominated by the Scottish Ministers

1 member nominated by the Department of Finance and Personnel, Northern Ireland

1 member nominated by the Welsh Assembly Government

1 member nominated by the Comptroller and Auditor General

1 member nominated by the Auditor General for Scotland

1 member nominated by the Audit Commission

3 members nominated by the Finance Directors of UK government departments to represent respectively departments, trading funds, and non-departmental public bodies.

1 member nominated by the Department of Health

1 member nominated by the Executive Chair of Monitor, the Independent Regulator of NHS Foundation Trusts

1 member nominated by the National Statistician

1 member nominated by the Accounting Standards Board

1 member, an independent economist, nominated by the Head of the Government Economic Service.

1 independent member nominated by the Chief Accountancy Adviser to the Treasury and approved by the Chairman.

3.2 Members will normally be appointed for five year, renewable, terms.

3.3 The Board will meet as required in each year to discuss matters relating to financial reporting as they arise.

Annex C

MEMBERSHIP OF THE BOARD

1.1 The membership of the Board reflects the relevant spread of interests, as well as ensuring its independence and accounting expertise. The Board members during this reporting period were:

Chairman:

Elwyn Eilledge, CBE. Former positions include Director of BG Group plc, Chairman of BTR plc, Senior Partner of Ernst and Young and Member of the Accounting Standards Board and Financial Reporting Council.

Members:

Mike Ashley. Partner, KPMG, Member of the Accounting Standards Board and Member of the European Financial Reporting Advisory Group Technical Expert Group (until September 2006).

Kirstin Baker. Team Leader General Expenditure Policy, the Treasury (from September 2006).

Miranda Carter. Assessment Director, Monitor.

Dr Christine Daws. Finance Director, Welsh Assembly Government.

Martin Evans. Managing Director, Audit, Audit Commission.

Russell Frith. Director of Audit Strategy, Audit Scotland.

Professor David Heald. Professor of Financial Management, The University of Sheffield Management School.

Robin Lynch. Director of National Accounts Group, Office for National Statistics.

Ian Mackintosh. Chairman, Accounting Standards Board (from December 2006).

Alastair Matthews. Finance Director, Ordnance Survey.

Nigel Reader, CBE. Director of Finance, Environment Agency.

Michael Romberg. Senior Specialist, Budgeting and Statistics, the Treasury (until June 2006).

Martin Sinclair. Assistant Auditor General, National Audit Office.

Alyson Stafford. Finance Director, Scottish Executive.

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

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

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Ken Wild. Partner, Deloitte & Touche LLP, and Member of the International Financial Reporting Interpretations Committee and former Member of the Accounting Standards Board.

Trevor Woolley, CB. Finance Director, Ministry of Defence.

Parliamentary observer:

Robert Flello, MP (from May 2006).

CIPFA/LASAAC Joint Committee Observer:

Maureen Wellen (until May 2006).

Ian Carruthers (from June 2006).

Alternates:

During the reporting period, the following have served as alternates to Members:

Andrew Baigent for Martin Sinclair

Russell Coleman for Kirstin Baker.

James Drury for Miranda Carter.

Simon Fiander for Robert Flello.

David Hobbs for Robin Lynch.

David Jones for Alastair Matthews.

Andrew Lennard for Ian Mackintosh

Scott McKay for Alyson Stafford.

Owen Mason for Nigel Reader.

Peter Ryland for Christine Daws.

Anne Rylatt for Jeff Tomlinson.

John Thornton for Trevor Woolley.

Kerry Twyman for Alyson Stafford.

Steve Warren for Martin Evans.

Maureen Wellen for Ian Carruthers.

John Williams for Alyson Stafford.

Secretariat:

Secretary:

David Watkins (until June 2006).

Larry Pinkney (from September 2006).

Secretariat support:

Christine Ruston.

Billie Sidhu.

Sarah Solomon.

- 1.2 Adrian Chesson, Head of PFI Accounts, Office for National Statistics, attended the Board's October 2006 meeting.
- 1.3 Ian Mackintosh, Chairman of the Accounting Standards Board, attended the Board's October 2006 meeting.
- 1.4 Russell Coleman, Head of Classification, the Treasury, attended the Board's March 2007 meeting.

Annex D

ABOUT THE BOARD

1 Independence of the Board

- 1.1 The Board was established by the Treasury to provide independent advice on financial reporting principles and standards. The Treasury hosts the Board's meetings, provides a small Secretariat and bears the minimal costs of the Board. Such arrangements do not compromise the Board's independence and, indeed, are common to nearly all such groups and to advisory non-departmental public bodies across Government.
- 1.2 As an independent body (recognised as such by the Office for National Statistics), the Board has been added to the list of bodies in Schedule 1 of the Freedom of Information Act 2000¹.

2 Publication Scheme

- 2.1 Under its Publication Scheme, which has been agreed by the Information Commissioner under the terms of the Act, the Board publishes its reports and makes them available on a website together with its terms of reference, membership details, publication scheme and its press notices.
- 2.2 More recently, the Board has extended its Publication Scheme to include Board minutes and associated papers. These are posted on the website once the Board has approved the minutes of the meeting.

3 Evolution of the Board's coverage

- 3.1 The table below shows how the Board's remit has extended in the years following its establishment.

AREA	YEAR REMIT EXTENDED
Established	1996
NDPBs and Trading Funds	1999-2000
Scottish Executive	2001-02
Northern Ireland Executive	2001-02
NHS Trusts in England	2001-02
NHS Trusts in Wales	2003-04
NHS Trusts in Northern Ireland	2003-04
NHS Foundation Trusts	2004-05

¹ The Freedom of Information Act 2000 is available from the Stationery Office or can be located on the web at www.opsi.gov.uk/legislation.



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