



**11th Report**  
*of the*  
**Financial Reporting**  
**Advisory Board**

Report for the period  
April 2007 to March 2008

# FINANCIAL REPORTING ADVISORY BOARD

**Report for the period  
April 2007 to March 2008**

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

Presented by the Treasury to the House of Commons (the Committee of Public Accounts and the Treasury Select Committee) pursuant to Section 24(4) of the Government Resources and Accounts Act 2000

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

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

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## 2 FINANCIAL REPORTING ADVISORY BOARD

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## *Chairman's Foreword*

My foreword to last years report reflected on the extent and pace of change taking place generally in the accountancy world, and in that context I welcomed the announcement by the Government that it would change to reporting under European Commission adopted international financial reporting standards (IFRS) from financial year 2008-09. The move to IFRS is something that the Financial Reporting Advisory Board (the Board) has encouraged, and it has devoted much of its time and efforts in advising the Treasury on the complexities of applying IFRS to public sector financial reporting.

I am therefore disappointed to have to convey the message that the Board considered it necessary to advise the Treasury that the move to IFRS should be postponed by one year, until 2009-10. The Government subsequently announced this delay in Budget 2008. This more realistic timetable was necessary to ensure that a smooth and orderly transition to IFRS takes place for all government departments. To ensure the Government is prepared to meet its revised timetable the Board will continue to work closely with the Treasury in the further development of its IFRS-based Government Financial Reporting Manual that will apply from 2009-10.

Over the coming year the Board will continue to exercise its important role of providing independent advice on evolving international accounting issues and their implications for future public sector financial reporting. The Board will also strive to ensure that the Government continues to meet the highest possible standards in its financial reporting.

I am pleased to report that the Board has agreed in principle to extend its remit to include oversight of the Code of Practice on Local Authority Accounting in the United Kingdom, with effect from 2010-2011, when local authorities complete the move to IFRS-based financial reporting. I welcome this opportunity for the Board to be of service to local authorities by advising on technical accounting rules and minimum disclosure requirements. Subject to final decisions being taken to proceed with this proposal, during the course of the next year the Board will consider the changes necessary to extend the scope of its responsibilities.

I acknowledge the Treasury's continued efforts to address the ongoing concerns of the Board, in particular its work to finalise accounting guidance for the Private Finance Initiative (PFI) under IFRS. The Board is optimistic that this PFI guidance will lead to greater consistency in accounting for PFI within the public sector, and it will continue to monitor developments in this area.

A further significant concern of the Board is the resource accounting boundary that excludes Executive non-departmental public bodies. Whilst the boundary issue remains unresolved I am encouraged that it will be considered within the wider work of the Treasury's 'Alignment (Clear Line of Sight) project.'

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Finally, in what has been a very busy and challenging year for the Board, I express my thanks to the Secretariat for their efforts in ensuring the smooth operation of the Board's activities.

Elwyn Eilledge

26 June 2008

## *Executive Summary*

This is the eleventh 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. 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. The report covers the year April 2007 to March 2008. It discusses international financial reporting and convergence issues, other financial and reporting development issues, and looks ahead to future issues that will be considered by the Board over the coming year. The following paragraphs summarise some of the key points discussed in the report.

Last year's report welcomed the announcement in Budget 2007 of the intended move of government departments and other entities in the public sector to prepare their financial statements using International Financial Reporting Standards (IFRS) in advance of the likely Accounting Standards Board (ASB) timetable. The Board considered that the planned 2008-09 implementation timetable was tight, but it was not provided with an opportunity to debate this prior to the Treasury announcement (paragraph 2.3). The Board is therefore disappointed to report that when it reviewed the results of progress towards implementation of IFRS, including the development of guidance on accounting for the Private Finance Initiative (PFI), it had to advise the Treasury that although the 2008-09 timetable was achievable for many departments, it was not realistic for some major departments. The Board therefore advised that implementation be postponed to 2009-10. Subsequently, Budget 2008 announced this delay.

To ensure that momentum is maintained towards implementation, the Board further advised the Treasury that 'shadow' IFRS based resource accounts should be prepared for 2008-09 by all entities that are able to do so. The Board is pleased to report that the Treasury has followed this advice and the National Audit Office (NAO) will carry out audit procedures on the shadow accounts. As a consequence of the delay in moving to IFRS, the publication of Whole of Government Accounts has been similarly delayed (paragraphs 2.5 and 3.19 to 3.21).

To ensure that the Government is ready to meet its revised timetable, the Board continues to work with the Treasury in further developing the IFRS based Government Financial Reporting Manual (FReM). When implemented this Manual will result in changes in several areas of accounting where public sector financial reporting under IFRS is likely to be materially different to that under UK generally accepted accounting practice (GAAP), particularly in accounting for PFI (paragraphs 2.16 to 2.21).

Previously, the Board has played an important role in the successful application of UK GAAP in the public sector, ensuring that any departures are fully justified and properly explained. The Board will continue to exercise the same due diligence in ensuring that any government departures from IFRS are similarly justified and fully explained (paragraphs 2.29 to 2.35).

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The Board has considered several financial reporting developments during the year, both continuing and new, that will lead to future changes to accounting guidance (see, generally, Chapter 3). Accounting for transactions financed by PFI remains a concern of the Board. Previously, the Board has expressed its concern over achieving greater consistency in accounting for PFI, and it believes that you would normally expect symmetry in the accounting treatment by the public and private sector parties to a PFI contract. The Board's particular concern has been 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 greater consistency within sectors.

To address this concern it was previously reported that the Treasury had 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. This group subsequently recommended to the Board that it should advise the Treasury to withdraw its Technical Note by no later than 2008-09. In the event, the proposed move to IFRS from 2008-09 superseded the working group's recommendation, as it would have made the Treasury Technical Note irrelevant.

The postponement of the move to IFRS, now from 2009-10, although representing a more realistic timeframe, does have implications for accounting for PFI. Inconsistent PFI accounting will continue in the public sector for at least a further year. However, on a more positive note, the Board views the move to IFRS as an opportunity for the public sector to achieve greater consistency in PFI accounting (paragraphs 3.2 to 3.6).

Last year the Board expressed its disappointment that the public sector had not been able to more widely implement the UK accounting standards on financial instruments (which are based on IFRS). This year the Board is pleased to report that despite the postponement of the move to IFRS, the Treasury has confirmed that it will require central government and the NHS to implement the ASB financial instrument standards as originally planned, from 2008-09. This will permit public sector bodies to capitalise on the considerable efforts they have already expended in preparing for the move to IFRS, and should ease their later transition to IFRS from 2009-10 (paragraphs 3.7 to 3.9).

Last year the Board reported that whilst the Treasury was engaged in work that in practice proposes that Executive non-departmental public bodies be brought into the resource accounting boundary, it was disappointed that the boundary issue remained unresolved. Work on this issue has now been included within the Treasury's 'Alignment (Clear Line of Sight) project.' The project will be examining more widely ways of rationalising the spending documents the Government presents to Parliament, including merging resource accounts and departmental reports. The project aims to make any changes from financial year 2010-11 or 2011-12, subject to meeting any legislative and other requirements. The Board looks forward to receiving regular progress updates from the Treasury on this very significant work (paragraphs 3.16 to 3.18 and 3.22 to 3.23).

In this reporting year the Board has confirmed its agreement in principle to the CIPFA/LASAAC (Chartered Institute of Public Finance and Accountancy/Local Authority (Scotland) Accounts Advisory Committee) proposal that the Board extends its remit to include oversight of the Code of Practice on Local Authority Accounting in the United Kingdom with effect from 2010-2011, when local authorities complete the move to IFRS-based financial reporting. Subject to final decisions being taken to proceed with the proposal, during the next reporting year the Board will consider in detail the impact that the extension of its remit will have on the Board's Terms of Reference, its membership and its operational arrangements (paragraphs 3.26 and 5.2 to 5.3).

In the forthcoming year the Board will continue its work in advising the Treasury in its preparations for the central government and NHS implementation of IFRS. The Board also expects to consider numerous proposals for developments in IFRS and international public sector accounting standards, which may impact on future public sector accounting in the United Kingdom (Chapter 5, generally).



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# Chapter 1

## INTRODUCTION

### Background to the Financial Reporting Advisory Board

- 1.1 The Financial Reporting Advisory Board (the Board) is an independent body fulfilling the statutory role as the ‘group of persons who appear to the Treasury to be appropriate to advise on financial reporting principles and standards’ for government, as required by the Government Resources and Accounts Act 2000.<sup>1</sup> 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 and trading funds. The Board also advises the Treasury on the implementation of accounting policies specific to whole of government accounts.

### Background to the Report

- 1.4 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.
- 1.5 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 Welsh Assembly Government, the Scottish Ministers and the Department of Finance and Personnel, Northern Ireland.
- 1.6 The Treasury, the Scottish Ministers, the Department of Finance and Personnel, and Northern Ireland formally lay the Board’s report before respectively the House of Commons, the Scottish Parliament, and the Northern Ireland Assembly. The Welsh Assembly Government submits the report to the Audit Committee of the National Assembly for Wales.

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<sup>1</sup> Government Resources and Accounts Act 2000, section 24.

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1.7 This is the Board's 11<sup>th</sup> Report and the Report structure is summarised below.

### **Report structure**

#### **International Financial Reporting Standards and Convergence**

1.8 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 continued to absorb a significant amount of the Board's time and attention over this reporting year.

#### **Financial Reporting developments**

1.9 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 2007-08**

1.10 Chapter 4 of the Report considers all significant changes to the Government Financial Reporting Manual (FReM) for 2007-08, whether they result from the introduction of new accounting standards, or other sources.

#### **Future issues for the Board**

1.11 Chapter 5 looks ahead to the next reporting year, and anticipates those issues that the Board will consider.

#### **Summary of IFRS considered by the Board included in the IFRS based FReM**

1.12 Annex A provides a summary of the IFRS considered by the Board and included in the IFRS based FReM.

#### **The Terms of Reference of the FRAB**

1.13 Annex B provides the detailed Terms of Reference for the Board.

#### **Membership of the Board**

1.14 Annex C provides information on the Board membership.

#### **About the Board**

1.15 Annex D provides general information about the Board.

## Chapter 2

### INTERNATIONAL FINANCIAL REPORTING STANDARDS AND CONVERGENCE

#### Introduction

- 2.1 This chapter of the Report deals with international financial reporting standards (IFRS) and convergence.
- 2.2 In last year's report the Board set out its position on public sector convergence in relation to the stated position of the Accounting Standards Board (ASB) and noted the Government's commitment to adopt IFRS on a timescale no later than the ASB. The ASB position remains that it will adopt a 'big bang' approach in issuing IFRS-based UK accounting standards and that these will not be mandatory before a single date, estimated at the earliest to be financial years beginning on or after 1 January 2009, but likely to be later.
- 2.3 Last year the Board welcomed the announcement in Budget 2007 of the move of government departments and other entities in the public sector to prepare their financial statements using IFRS in advance of the likely ASB timetable. The general feeling of the Board at the time was that the announced timetable was tight for implementing IFRS from 2008-09, but the Board was not provided with an opportunity to debate this issue prior to the Treasury announcement. This year the Board reports significant developments on this issue that have led to the announcement of a postponement to the planned central government and NHS timetable for the implementation of IFRS.

#### Postponement of the timetable for the implementation of IFRS

- 2.4 Over the last eighteen months the Board, in a very busy programme of work, has worked with the Treasury in developing the IFRS based Government Financial Reporting Manual (FReM), discussed further below, in preparation for the planned central government and NHS move to implement IFRS from financial year 2008-09.
- 2.5 The Board is therefore disappointed to report that it was necessary to advise the Treasury, for reasons discussed below, that the central government and NHS implementation of IFRS should be postponed to financial year 2009-10. To ensure that momentum is maintained towards implementation of IFRS, the Board further advised the Treasury that 'shadow' IFRS based resource accounts should be prepared for 2008-09, in addition to normal UK GAAP based resource accounts, for those entities that could do so. The Board subsequently received confirmation in a Budget 2008 announcement that the Treasury had followed its advice for postponement. As a

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consequence of the delay in moving to IFRS, the publication of Whole of Government Accounts (WGA) has similarly been delayed, and this is discussed further in Chapter 3.

- 2.6 It is disappointing to reach this position, but when the Board reviewed the results of central government and NHS progress towards implementation of IFRS, including the development of guidance on accounting for PFI, it had to advise the Treasury that although the 2008-09 timetable was achievable for many departments, it was not realistic for some major departments. The Board therefore advised that implementation should be postponed to 2009-2010. All of this was reported to the Treasury Select Committee at its hearing on the 4 March.

### Background to the postponement of the implementation of IFRS

- 2.7 At the Board's February meeting, and before consulting departments further on its detailed proposals, the Treasury outlined its proposed draft IFRS based accounting guidance for service concessions, including PFI, for inclusion in the IFRS based FReM. It also reported that most departments were able to proceed as planned with IFRS implementation from 2008-09. However, the Treasury sought the Board's advice on problems related to two major departments that had advised that the 2008-09 timetable was unachievable for them. A significant factor contributing to the departments' inability to meet the timetable was that IFRS based public sector accounting guidance for service concessions, including PFI, was not yet finalised. This posed a particular problem for the Department of Health and the Ministry of Defence. Under the Department of Health's Payments by Results system, individual health trusts operate in a quasi market, the prices for which are set in December of one year for application from the following financial year. To implement the service concessions accounting guidance from 2008-09, when it was not possible to reflect such fundamental change into the Payments by Results tariff for 2008-09 which was set in December 2007, or for individual trusts to factor the additional costs that would have arisen as a result into their financial plans, would have severely disrupted the NHS financial regime. Both the Department of Health and the Ministry of Defence made representation to the Board of their need for significant lead times to carry out the necessary and complex preparatory work associated with the application of the service concession accounting guidance. The Ministry of Defence has a large number of complex contractual arrangements that need to be reviewed, and, as a result, it is likely that tens of thousands of assets will require valuation. These assets are diverse in nature and many are geographically spread.
- 2.8 The Board recommended to the Treasury that they should proceed as planned with the finalisation of their PFI accounting guidance based on International Financial Reporting Interpretations Committee (IFRIC) Interpretation 12 *Service Concession Arrangements* for inclusion in the IFRS based FReM. It made clear to the Treasury that if it decided to delay the implementation of IFRS by one year then a key element of the postponement should be that the Treasury should require those departments that are able to do so, to produce IFRS based shadow resource accounts for financial year 2008-09, in addition to their UK GAAP based resource

accounts. The Board considered that this would help maintain departmental momentum towards the switch to IFRS and would capitalise on the considerable work already carried out by departments in preparation for the move to IFRS.

- 2.9 The Chairman and representatives of the Board reported these developments to the Treasury Select Committee hearing that took place on the 4 March when giving evidence on financial reporting, and expressed their disappointment that the implementation IFRS could not proceed as planned. They further reported that the Board had not been consulted by the Treasury prior to its announcement of the original timetable for the move to IFRS. The Board considered this timetable as tight, but it had not had the opportunity to debate the issue.
- 2.10 Budget 2008 announced that following consultation with departments and the Board on the technical work needed to implement the change to IFRS, the Government now intends to move to IFRS from 2009-10 in order to minimise burdens and to ensure a smooth transition. Whilst the announced delay is disappointing, the Board concurs that it is important for central government and the NHS to move to IFRS on a realistic timeframe that will ensure a smooth and orderly transition to IFRS for all bodies. It is now very important that all bodies successfully complete the necessary preparatory work needed to meet the revised timetable, which should not be permitted to slip further.
- 2.11 The Board is pleased to report that the Treasury has followed the Board's advice to require the production of IFRS based shadow resource accounts for financial year 2008-09, that should assist bodies in their transition to IFRS based resource accounts from financial year 2009-10. The NAO will carry out audit procedures on the shadow resource accounts.
- 2.12 The Board is further pleased that the Treasury has confirmed that it will require central government and the NHS to implement the ASB Financial Instrument Standards (the IFRS equivalents) from financial year 2008-09. This issue is considered further in Chapter 3.

### **The IFRS based FReM**

- 2.13 The IFRS based FReM, commenced in 2006, has now been published for application from financial year 2009-2010 by reporting entities covered by the Manual. The Manual will also form the guidance for the production of IFRS based shadow resource accounts for financial year 2008-09.
- 2.14 Annex A to this report provides a Table containing a quick reference guide to those IFRS that have been considered by the Board and reflected in the Manual. It indicates where, in the public sector context, the Standards have been interpreted, and details those few areas where the Board have approved adaptations to IFRS. These adaptations are fully explained below (paragraphs 2.29 to 2.35).

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### Impact of IFRS

2.15 Following the central government and NHS implementation of international accounting standards, as adapted as necessary for the public sector context, there are several areas of accounting where financial reporting under IFRS is likely to be materially different to that under UK GAAP. It is not possible to be definite on the exact impact of these differences but the following paragraphs set out the Board's expectations.

### Accounting for PFI

2.16 IFRIC issued its Interpretation IFRIC 12: *Service Concession Arrangements* in 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.

2.17 IFRIC 12 does not directly 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 sector concession arrangements, when in line with the Interpretation, the property is not judged to be on the private sector operator's balance sheet, i.e. it should be on the public sector's balance sheet.

2.18 There are material differences between existing accounting for PFI applying Application Note F to FRS 5: *Private Finance Initiative and Similar Contracts* (when interpreted by the Treasury Technical Note No 1 (Revised) *How to account for PFI Transactions*), and the proposed basis of accounting for PFI that will be based on IFRIC 12. The latter is likely to lead to more PFI assets coming on to the balance sheets of public sector entities.

2.19 In last year's report the Board expressed the view that it would be necessary for the Treasury to develop the IFRS based FReM to apply IFRIC 12 for public sector use, and noted that the International Public Sector Accounting Standards Board (IPSASB) had commenced its own project on service concession arrangements.

2.20 In this reporting year the Treasury has proposed accounting guidance for service concessions, including PFI, based on IFRIC 12, to be included in the IFRS based FReM for application from financial year 2009-10. The IPSASB's proposed accounting guidance for service concessions, set out in its recently published consultation paper, is generally consistent with the Treasury proposals, though the scope of the former is wider than the Treasury guidance. A principal area of difference between the two sets of guidance is that the proposed IPSASB guidance assumes no transfer of construction risk to the operator leading to the recognition of assets by the grantor during the course of construction. However, the more specific Treasury guidance reflects the fact that in the UK PFI market contracts generally involve the transfer of construction risk to the operator, leading to the recognition of assets by the grantor when they come into use.

- 2.21 The Board welcomes the development of the revised Treasury accounting guidance on service concessions, including PFI, to be included in the IFRS based FReM, and is confident that in the future this will lead to greater consistency in accounting for PFI in the public sector.

### Infrastructure assets

- 2.22 Last year's report indicated that in applying IFRS the public sector would be 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 can 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 component.
- 2.23 For central government, under IFRS the road surface asset will be recognised as a single asset by each authority, measured at replacement cost based on service potential. Maintenance expenditure that replaces or enhances the service potential of the road surface will be capitalised, with the carrying amount of the replaced part derecognised and written off as depreciation, using the value of maintenance undertaken as an indication of the value of the replaced part. All other expenditure will be expensed and the road network assets will be subject to annual impairment reviews in line with IFRS.
- 2.24 Decisions will need to be made in the coming year on how best to address the differing central and local government treatments to provide appropriate information for Whole of Government Accounts.

### Non-current assets held for sale

- 2.25 Under IFRS central government and the NHS will be required to apply revised accounting for any non-current assets held for sale. Such assets are required to be disclosed as a separate current asset category in public sector financial statements. This is likely to result in more assets shown as current on the balance sheet with potential earlier recognition of any losses on sale of assets.

### Intangible assets

- 2.26 The IFRS recognition criteria for intangible assets are more prescriptive than under existing UK GAAP adapted standards. Nevertheless the IFRS requirements will be applied in full as interpreted, which means that some public sector entities previously not capitalising internally generated intangible assets, may now be required to do so if the relevant recognition criteria are met. This is likely to lead to a limited increase in intangible assets being recognised in the balance sheets of public sector entities. For example, for internally generated software (including databases and websites) to be recognised as assets, it must either generate economic benefits or contribute directly to the delivery of services to the public.

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### Financial instruments

- 2.27 The IFRS financial instrument standards (and their UK accounting standard equivalents) are likely to have a significant impact on central government and NHS entities when implemented. While the value of many reported financial assets and liabilities may not change, such as for cash and short-term debtors and creditors, changes may need to be made to the carrying values of some long-term debtors and creditors, particularly those that may be required to be discounted for the first time.
- 2.28 Financial instruments, such as financial guarantees may need to be recognised in central government and NHS balance sheets for the first time, and some provisions may be measured differently. Significantly, central government and NHS balance sheets may need to recognise derivatives, including hedging instruments and possibly embedded derivatives. This is likely to result in a more realistic recognition of their current financial position.

### Public Sector adaptations to IFRS

- 2.29 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 outlined below.

### International Accounting Standard (IAS) 2 Inventories

- 2.30 One of the main features of IAS 2 requires that inventories be measured at the lower of cost and net realisable value. In central government and the NHS 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 where material.

### IAS 7 Cash Flow Statements

- 2.31 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

2.32 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 central government and the NHS such investment may take the form of assets financed by grants and grants-in-aid, and donated assets. For capital charging purposes central government and the NHS 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.

2.33 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

2.34 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 context 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

2.35 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.



# 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 In previous reports the Board has repeatedly expressed its concern over achieving greater consistency in accounting for PFI, and it believes that symmetry would normally be expected in the accounting treatment by the public and private sector parties to a PFI contract. The Board has also previously expressed its 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 greater consistency within sectors.
- 3.3 It was reported in last year's report that to address the Board's 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 giving rise to the Board's concerns, and with a remit to report to the Board on how best to achieve greater consistency in accounting for PFI. Last 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 advising 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 the Budget 2007 announcement that the public sector would implement IFRS from 2008-09.
- 3.4 The recent Government announcement that central government and the NHS will delay preparing its financial statements using IFRS until financial year 2009-10 (discussed in Chapter 2) has implications for accounting for PFI. This delay is regrettable but the Board considers that the revised IFRS timetable is a more realistic one.

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- 3.5 On the move to IFRS, now from 2009-10, the extant PFI accounting guidance, Application Note F to FRS 5: *Private Finance Initiative and Similar Contracts* and the Treasury Technical Note No 1 (Revised) *How to account for PFI Transactions* will no longer be relevant. However, the postponement in introducing IFRS means that this current PFI accounting guidance will continue to be applied by the public sector for financial year 2008-09. This will result in the continuation of inconsistent PFI accounting in the public sector for a further year.
- 3.6 On a more positive note, the Board continues to view the move to IFRS as an opportunity for the public sector to achieve greater consistency in accounting for PFI. It continues to monitor the Treasury's progress in determining IFRS based PFI accounting guidance for application from financial year 2009-10 onwards, that will be based on IFRIC 12: *Service Concession Arrangements* (discussed in Chapter 2).

### Financial instruments

- 3.7 Last year's report drew attention once again to the issue by the ASB of Financial Instrument Standard, FRS 29 (IFRS 7) *Financial Instruments: Disclosures*, that from 2007 replaced 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: Measurement, Recognition and Derecognition*.
- 3.8 The Board expressed its disappointment in last year's report that despite the Treasury's best efforts to achieve wider implementation of the financial instrument standards from financial year 2007-08 to include departments, this had not proved possible due to the Treasury requiring additional time to consult departments more extensively on implementation issues. The Board, did however, receive assurance from the Treasury that it was on track to implement the financial instrument standards across central government and the NHS from financial year 2008-09, in line with its planned timetable for the implementation of IFRS.
- 3.9 The Board is pleased to report that, despite the postponement of the move to IFRS until financial year 2009-10, the Treasury has confirmed that it will require implementation of the ASB financial instrument standards FRS 25, 26 and 29 (the IFRS equivalents of IAS 32, IAS 39 and IFRS 7) effectively as planned from financial year 2008-09. This will permit central government and the NHS to capitalise on the considerable efforts they have already expended in preparing to implement these complex standards, and this will help ease their later transition to full IFRS based financial reporting from financial year 2009-10.

### Asset Valuations

- 3.10 Last year's report welcomed the Treasury's proposal for financial year 2007-08 to remove the adaptations in the FReM related to FRS 15 *Tangible Fixed Assets*, that subsequently gave 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 also

reported that it was yet to complete its discussions with the Treasury regarding its proposed amendments to the FReM in respect of FRS 11 *Impairment of Fixed Assets and Goodwill*.

- 3.11 In this reporting year the Board received proposals from the Treasury to revise the FRS 11 text in the FReM and successfully concluded its discussions with the Treasury on asset valuations, resulting in amendments to the FReM for financial year 2007-08 (see Chapter 4 for further details).

### **Cost of Capital Charging**

- 3.12 Last year it was reported that following its discussions with the Treasury, the Board had concluded that resource and other accounts should continue to include a charge for the cost of capital. It was further reported that the Board was 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. The Treasury advised the Board that it was planning to undertake a fundamental and extensive review of the cost of capital charge and would consult with and report to the Board on this issue in due course.
- 3.13 In this reporting year the Board has been advised by the Treasury that its planned work on the cost of capital charge is to be included as part of its work agenda in the Alignment (Clear Line of Sight) project, discussed below (paragraphs 3.22 to 3.23).

### **Heritage Assets**

- 3.14 The Board's last report commented on its response to the ASB's proposals in its Financial Reporting Exposure Draft (FRED) 40 *Accounting for Heritage Assets*. The Board supported many of the ASB's conclusions and proposals in FRED 40, but disagreed with the main proposal that practicality should be assessed at an individual collection level for those entities holding heritage assets. The Board supported the proposal in the original ASB Discussion Paper *Heritage Assets: can accounting do better?* that preceded FRED 40, and where practicality would be assessed at the level of the entity's entire holdings in heritage assets.
- 3.15 In this reporting year the Board received an update from the Treasury on accounting for heritage assets that confirmed that the ASB has decided not to proceed with the changes to the accounting treatment of heritage assets as proposed in FRED 40. Instead, heritage assets will continue to be reported under FRS 15 *Tangible Fixed Assets*, but with enhanced disclosures, as set out in both the ASB Discussion Paper and in FRED 40. The Treasury sought the Board's view on continuing with the existing accounting treatment for heritage assets (with enhanced disclosures) pending the result of project work being undertaken by the IPSASB. The Board reluctantly accepted that at present this represented the only practical course.

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### The Boundary

- 3.16 In recent reports the Board has expressed its disappointment that little real progress has been made on the question of the extension of the departmental boundary to include Executive non-departmental public bodies.
- 3.17 In last year's report the Treasury advised that it had been exploring the scope for further alignment of the basis underlying the preparation of budgets, Estimates and accounts, that in practice would bring Executive non-departmental public bodies into the resource accounting boundary. The Board also reported that the Treasury had asked departments to consider what steps they needed to take in order to consolidate Executive non-departmental public bodies from financial year 2008-09. The Board acknowledged that this represented progress but remained disappointed that this issue remained unresolved. This view was confirmed when the Treasury proposed adaptations to IAS 27 *Consolidated and Separate Financial Statements*, IAS 28 *Investment in Associates*, IAS 31 *Interests in Joint Ventures* and related Interpretations for inclusion in the IFRS based FReM. The proposed adaptations by the Treasury would maintain the existing accounting boundary for financial year 2008-09, pending further Treasury work.
- 3.18 The Board deferred its decision on the Treasury proposals pending its further work, now encapsulated in the Alignment (Clear Line of Sight) project discussed below (paragraphs 3.22 to 3.23), and expressed its concern that maintaining the existing accounting boundary will prevent full compliance with IFRS.

### Whole of Government Accounts (WGA)

- 3.19 The Board was pleased to receive updates 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 2006-07 dry run process, the first time that a hundred per cent return was received from local authorities and with advanced returns of data received in respect of NHS Trusts.
- 3.20 The Board noted that within the WGA dry run process there remained significant challenges concerning the quality of data received from entities to be consolidated, but that improvements had been made in the consolidation control process. Whilst more work needs to be done to achieve further progress, the Treasury had set the groundwork to achieve this. The Board will continue to monitor the Treasury's progress in this important area.
- 3.21 As announced in Budget 2008, the postponement of the public sector move to IFRS inevitably means that the publication of WGA will also be postponed. The first published WGA accounts will now be for financial year 2009-10. This delay is disappointing but the Board considers that the 2009-10 timetable provides a more realistic timeframe for the public sector implementation of IFRS, and the corresponding publication of IFRS based WGA.

**Alignment (Clear Line of Sight) project**

- 3.22 During this reporting year the Treasury provided the Board with an update on its project to align budgets, Estimates and accounts. This initiative was announced by the Prime Minister in Summer 2007 and includes a major commitment to bring planning, Parliamentary approval and reporting of public spending on to a more consistent basis.
- 3.23 The project will also be examining more widely ways of rationalising the spending documents the Government presents to Parliament, including merging resource accounts and departmental reports, which has already been successfully trialled by some departments, including HM Treasury. The Treasury is taking forward the project in an inclusive way and will be discussing the issues with stakeholders, including the Board, which is represented on the Treasury's Clear Line of Sight Steering Committee and Project Board. The project aims to make any changes from financial year 2010-11 or 2011-12, subject to meeting any legislative and other requirements. The Board looks forward to receiving further updates from the Treasury on progress with this significant project.

**Sustainability**

- 3.24 The Board received reports from the Treasury on progress with its work on accounting for sustainability. Based on work undertaken by the Prince of Wales's Group looking at accounting for sustainability, and applying its developing reporting tool, the Treasury had carried out a sample review of departmental compliance with the sustainability reporting requirements set by the Sustainability Development Commission. This exercise established that whilst sustainability development plans were in place in the departments, progress against plans is effectively only being reported internally within Government, rather than externally to stakeholders via the Annual Report and Accounts.
- 3.25 To improve sustainability reporting in the public sector the Treasury informed the Board that a Sustainability Reporting Working Group had been established. The role of the working group is to develop and test a methodology for measuring performance against sustainable development targets and to develop a model for reporting sustainability in the public sector. This work will be carried out in a phased approach and the Board will receive regular reports on the working group's progress against its planned timetable (detailed further in Chapter 5). The Board welcomed the update from the Treasury and looks forward to receiving further reports on progress made in accounting for sustainability.

**Potential Extension of the Board's Remit – Code of Practice on Local Authority Accounting**

- 3.26 In this reporting year the Board confirmed its agreement in principle to the potential extension of its remit to include oversight of the Code of Practice on Local Authority Accounting in the United Kingdom with effect from 2010-2011, when local authorities complete the move to IFRS-based financial reporting. Subject to final decisions being taken to proceed with this proposal, during the next reporting year the Board will consider in

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detail the impact that the proposed extension of its remit will have on the Board's Terms of Reference, its membership and its operational arrangements. This matter is considered further at Chapter 5.

# Chapter 4

## FINANCIAL REPORTING FOR 2007-08

### Introduction

- 4.1 The International Financial Reporting Standards (IFRS) based Government Financial Reporting Manual (FReM) will apply from financial year 2009-10 (see Chapter 2). In the meantime the FReM continues to be based on UK Generally Accepted Accounting Practice (UK GAAP) as adapted for the public sector, and will remain in issue, amended as necessary, until the IFRS based FReM applies.
- 4.2 Over this reporting period the Board approved only two significant amendments to the existing UK GAAP-based FReM in the following areas:
- Asset Valuations;
  - Pension Disclosures

### Asset Valuations

- 4.3 In this reporting period the Board concluded its discussions with the Treasury on outstanding issues concerning proposed text for inclusion in the FReM for financial year 2007-08 in respect of asset valuations. The Board approved revised FReM text for FRS 11 *Impairment of Fixed Assets and Goodwill* to reiterate the definitions of impairments that are included in the published Treasury Consolidated Budgeting Guidance. The FReM text was also amended to reflect concerns that had been raised by the Board over inconsistencies in the accounting treatment of impairments. Amendments to the FReM text on FRS 15 *Tangible Fixed Assets* were also approved by the Board in connection with the use of alternative sites in depreciated replacement cost valuations to ensure that sites in a similar location are used in accordance with Royal Institute of Chartered Surveyors requirements set out in their relevant guidance.

### Pension Disclosures

- 4.4 The Board approved amendments to the FReM in respect of FRS 17 *Retirement Benefits* to bring the disclosure requirements into line with those of IAS 19 *Employee Benefits*. This resulted in a requirement for a new disclosure note to be included in the resource accounts of pension schemes for financial year 2007-08.



# Chapter 5

## FUTURE ISSUES FOR THE BOARD

### Introduction

5.1 The final chapter of this report looks ahead to the topics that the Board can expect to consider over the coming year. The adoption of IFRS by the public sector remains a continuing area of work for the Board, but it is also likely to consider further issues in the development of IFRS and in International Public Sector Accounting Accounting Standards (IPSAS), as discussed below.

### Potential Extension of the Board's Remit – Code of Practice on Local Authority Accounting

5.2 The next reporting year will see the Board considering the changes necessary if the decision is taken to extend its remit to include the oversight of the Code of Practice on Local Authority Accounting in the United Kingdom with effect from 2010-2011, when local authorities complete their move to IFRS-based financial reporting. CIPFA/LASAAC would continue to develop the Code and subsequent changes to it; bringing its annual consultation and planned Code changes to the Board following CIPFA/LASAAC's own due process. The proposal is that the Board's advisory role with CIPFA/LASAAC would, as for the provision of advice to Scotland, be restricted to technical accounting rules and to minimum disclosure requirements. It would not extend to the format of the accounts.

5.3 In preparation for the potential extension of its remit the Board will be considering the detailed changes that would be required to implement a FRAB-linked governance framework for the Code. This would entail changes to the Board's Terms of Reference, changes to the Board membership and its operational arrangements.

### Accounting for Sustainability

5.4 Over the next reporting year the Board looks forward to receiving reports from the Treasury on progress made in the work of the Sustainability Reporting Working Group. The working group has the task of developing and testing a methodology for measuring performance against sustainable development targets and developing a model for reporting sustainability in the public sector. The working group comprises representatives from the Department of Health; the Environment Agency; the Department for Environment, Food and Rural Affairs; the Sustainable Development Commission; the Highways Agency; the Cabinet Office; HM Treasury; the Ministry of Defence; the Department for Work and Pensions; a local authority and the devolved administrations.

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5.5 The working group will carry out its work in 3 phases. The Phase 1 report to the Board from the working group will relate to its progress on producing and publishing individual sustainability reports for financial year 2007-08. The Board also anticipates receiving later reports on the working group's Phase 2 work (the development of a methodology for measuring performance against sustainable development targets and a reporting model for the public sector) and its Phase 3 work (refining the reporting methodology and model as a result of evaluating feedback from the Phase 2 work). The working group aims to bring to the Board an eventual proposal for a refined methodology and sustainability-reporting model for application across the public sector from financial year 2009-10.

### **Adoption of IFRS**

5.6 Early in the next financial year the Board expects to approve the few remaining elements to be included into the IFRS based FReM, that will apply to entities covered by the Manual from financial year 2009-10, and that will also be applied by departments producing 'shadow' IFRS based resource accounts for financial year 2008-09

### **Developments in international accounting standards**

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

### **Exposure Drafts**

5.8 The Board anticipates that it is likely to comment on International Public Sector Accounting Standard (IPSAS) Exposure Draft 34 on Social Benefits: Disclosure of Cash Transfers to individuals or households.

### **Discussion Papers**

5.9 The Board is also likely to consider a number of consultation or discussion papers issued by the IASB and the IPSASB, including:

- The IPSASB consultation paper: Accounting and Financial Reporting for Service Concession Arrangements;
- The IPSASB consultation paper: Social Benefits: Issues in Recognition and Measurement;
- The IPSASB project brief: Long-Term Fiscal Sustainability Reporting;
- The IASB discussion paper: Preliminary views on amendments to IAS 19: Employee Benefits; and
- The IASB discussion paper: Reducing complexity in reporting Financial Instruments.

# Annex A

## SUMMARY OF IFRS CONSIDERED BY THE BOARD INCLUDED IN THE IFRS BASED FReM

The Table below provides a quick reference summary of those international accounting standards considered by the Board and included in the 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	Adapted for public sector	Interpreted 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 assistance	●		●		
IAS 21 The effects of changes in foreign exchange rates	●		●		

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International Standard/ Interpretation	Applied in Full	Adapted for public sector	Interpreted for public sector	Other requirements	Comments
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: Measurement, Recognition and Derecognition	●		●		
IAS 40 Investment Property	●		●		
IAS 41 Agriculture	●				
IFRS 1 First time adoption of IFRS	●				
IFRS 2 Share based payments	●				Unlikely to apply

International Standard/ Interpretation	Applied in Full	Adapted for public sector	Interpreted for public sector	Other requirements	Comments
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)	●		●		
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	●				
SIC 32 Intangible Assets – Web site costs	●		●		
IFRIC 1 Changes in decommissioning, restoration and similar liabilities	●				

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International Standard/ Interpretation	Applied in Full	Adapted for public sector	Interpreted for public sector	Other requirements	Comments
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		●			Board unable to consider due to existing accounting boundary
IFRIC 6 Liabilities Arising from Participating in a Specific Market-Waste Electrical and Electronic Equipment					Not relevant
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	●		●		
Infrastructure assets (IAS 16)	●				
Heritage Assets					FRS 15 treatment continues

# 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, the Department of Finance and Personnel, Northern Ireland and the Welsh Assembly Government 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 2000<sup>1</sup>.

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<sup>1</sup> Public Finance and Accountability (Scotland) Act 2000 is available from the Stationery Office or can be located on the web at: [www.legislation.hmso.gov.uk](http://www.legislation.hmso.gov.uk)

- accounts of executive non departmental public bodies where the Scottish Ministers have the power of direction
- (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 Welsh Assembly Government, 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, and the Department of Finance and Personnel, Northern Ireland will formally lay the Board's report before the House of Commons, the Scottish Parliament and the Northern Ireland Assembly respectively. The Welsh Assembly Government submits the report to the Audit Committee of the National Assembly for Wales.

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:

Kirstin Baker. Team Leader General Expenditure Policy, HM Treasury.

Miranda Carter. Assessment Director, Monitor.

Dr Christine Daws. Director of Finance, 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, University of Aberdeen Business School.

Clive Heaphy. Finance Director, FCO Services (from February 2008).

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

Ian Mackintosh. Chairman, Accounting Standards Board.

Alastair Matthews. Finance Director, Ordnance Survey (until August 2007).

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

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.

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.

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### Parliamentary observer:

Robert Flello, MP.

### CIPFA/LASAAC Joint Committee Observer:

Ian Carruthers, Policy and Technical Director, CIPFA.

### Alternates:

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

Tony Arber for Trevor Woolley.

Simon Fiander for Robert Flello.

Tim Halford for Miranda Carter.

David Hobbs for Robin Lynch.

Owen Mason for Nigel Reader.

Peter Ryland for Christine Daws.

Anne Rylatt for Jeff Tomlinson.

Kerry Twyman for Alyson Stafford.

Brigitte Worth for David Thomson.

### Secretariat:

#### *Secretary:*

Larry Pinkney.

Chris Lusty (Acting secretary for the December meeting).

David Watkins (Acting secretary for the October meeting).

#### *Secretariat support:*

Christine Ruston.

Sarah Solomon.

### Guests

- 1.2 Ken Beeton, Director, Government Reporting, HM Treasury, attended the Board's October 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 2000<sup>1</sup>.

### 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.

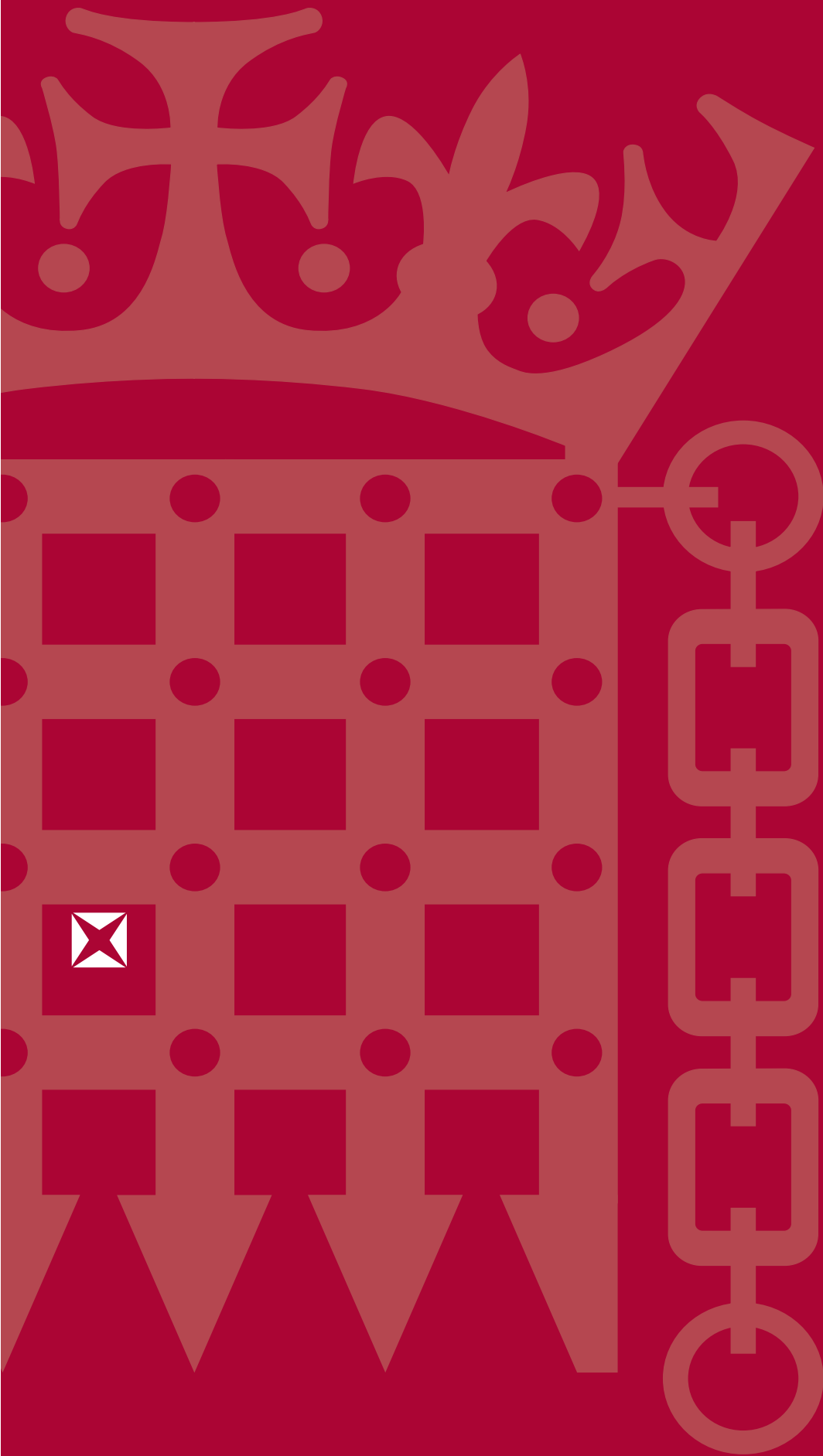
### 3 Evolution of the Board's coverage

- 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

<sup>1</sup> 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](http://www.opsi.gov.uk/legislation).





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