

Sir Derek Jones KCB
Ysgrifennydd Parhaol
Permanent Secretary



Llywodraeth Cymru
Welsh Government

Darren Millar AM
Chair of the Public Accounts Committee
National Assembly for Wales
Cardiff Bay
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17/8 August 2015

Dear Darren,

Financial Reporting Advisory Board Report, March 2014-April 2015

The Financial Reporting Advisory Board (FRAB) acts as an independent source of advice on the setting of government accounting standards in the UK. The Board seeks to ensure that any adaptations of, or departures from, generally accepted accounting practice in the public sector are justified and appropriate. Its main focus is on examining proposals for amending current, or implementing new, accounting policies for Central Government (published in the Financial Reporting Manual or FReM), although it also examines proposals for accounting guidance for local authorities and health bodies.

The FRAB comprises senior civil service representation from Whitehall Departments and Devolved Administrations plus a number of independent members including accounting academics and representatives from the UK accountancy bodies. In 2014/15 the Welsh Government was represented by Gawain Evans, Deputy Director Financial Control.

In accordance with the terms of reference, the FRAB prepares an annual report of its activities which is circulated to the House of Commons, the Northern Ireland Assembly, Scottish Parliament and the PAC of the National Assembly for Wales.

Please find enclosed a copy of the Board's 18th annual report.

*Yours,
Derek*

18th Report of the Financial Reporting Advisory Board

**Report for the period
April 2014 to March 2015**

FINANCIAL REPORTING ADVISORY BOARD

**Report for the period
April 2014 to March 2015**

Presented to the House of Commons pursuant to Section 24(4) of the Government
Resources and Accounts Act 2000

Laid before the Northern Ireland Assembly under Section 20(3) of the Government
Resources and Accounts Act (Northern Ireland) 2001 by the
Department of Finance and Personnel

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 Public Accounts Committee of the National
Assembly for Wales by the Welsh Government

Ordered by The House of Commons to be printed on 16 July 2015

HC 304
SG/2015/104

REPORT FOR THE PERIOD APRIL 2014 TO MARCH 2015



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Print ISBN 9781474123037

Web ISBN 9781474123044

ID 02071508 07/15 50536 19585

Printed on paper containing 75% recycled fibre content minimum

Printed in the UK by the Williams Lea Group on behalf of the Controller of Her Majesty's Stationery Office

Chairman's Foreword

The two main themes of the FRAB report this year are planning for and implementing important new standards and considering other improvements to aid users of the financial statements produced by the public sector.

The International Accounting Standards Board (IASB) is in the process of finalising a series of major new and revised accounting standards. Some of the changes have been prompted by lessons learned from the financial crisis and have taken (and are still taking) some years to come to fruition. Several of these will have a significant impact on the public sector and the Board has been encouraged by the amount of time and effort invested by the Relevant Authorities towards planning and operationalising implementation.

The Board accepted there were complex issues to deal with in relation to the standard on applying fair value accounting (IFRS 13) and although application has been delayed by the difficulties in working out the best approach, this has now been accomplished. The lessons learned from the implementation of the standard are being taken on board and additional planning time and stages are proposed for the new standards on revenue and financial instruments, due to come into force in the next couple of years, both of which are likely to have a substantial impact. The Board looks forward to aiding the Relevant Authorities in the important work on these standards, not least the move to a more forward-looking model for anticipating losses on financial assets such as debtor balances. A proposed new leasing standard is further away, not yet having been finalised by the IASB, but that will, if completed and adopted in Europe, represent an even more significant challenge to UK public sector financial reporting.

After these standards we expect a period of calm from the IASB, which will allow more time to focus on improving and streamlining both the public sector accounting manuals and public financial statements themselves. Important initiatives to improve the usability of financial statements are already in progress, as outlined in this report, and I look forward to the Board assisting with further work to give users of the financial statements all they need to hold government to account.

As I approach my last year as Chairman, we also seem to be approaching an opportunity for a period of reflection on the current regime and whether it is fit for purpose. This reflects a wider debate in Europe and internationally on governmental accounting and, as a country in the vanguard of good accounting practice, the UK has much to contribute to that debate.

Kathryn Cearns

July 2015

Executive Summary

This is the 18th report of the Financial Reporting Advisory Board (the Board). The Board's primary objective is to promote the highest 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 Scottish Ministers and to the Public Accounts Committee of the National Assembly for Wales. The report covers the year April 2014 to March 2015.

This year the work of the Board has been more wide ranging than last year. Not only has it been providing advice to the Relevant Authorities on accounting guidance but it has also extended its efforts to finalise the planned improvements to financial reports within the public sector.

Changes to accounting guidance

Last year's report described the Board's disappointment that no conclusion was reached on the application of International Financial Reporting Standard (IFRS) 13 Fair Value Measurement in the public sector context. IFRS 13 outlines how to measure 'fair value' which seeks to present how much an asset could be sold for or a liability settled. As no agreement was reached, application of the Standard was delayed beyond 2014-15. For much of this year the Board's focus has been to continue its work in this area and provide advice on the revised proposals for implementing the Standard.

At the start of the year, the Relevant Authorities returned to a principles based approach grounded on the conceptual basis of measuring service potential. In November 2014 the Board accepted proposals that IFRS 13 applies to assets which are not held for their service potential and to surplus assets which can be disposed of and where there are no restrictions on disposal. IAS 16 (the Standard that deals with Property, Plant and Equipment) will continue to be adapted to ensure that assets in use and held for their service potential are held at 'current value'. The Board's agreement has paved the way for the adoption of IFRS 13 in the public sector from 2015-16. The financial reporting manuals have been updated and agreed on this basis.

Other developments in accounting guidance are on the horizon and the Board has turned its attention to the forthcoming introduction of two new Standards: IFRS 15 Revenue from Contracts with Customers and IFRS 9 Financial Instruments. Each are not currently due to be effective until reporting periods beginning on or after 1 January 2017 and 1 January 2018 respectively (although the IASB is currently consulting on delaying the effective date of IFRS 15 by one year), but the Board is very aware of the lead time needed to ensure that the full implications on the public sector are adequately considered. This programme will continue into next year and the Board will work closely with the Relevant Authorities to secure this objective and introduce the Standards by the effective dates.

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Improvements to financial reporting

The Board is very pleased to secure the introduction of the *Simplifying and Streamlining Accounts* project¹ (the ‘Project’) the aim of which is to better meet the needs of users of annual report and accounts (ARAs) and make information more understandable. The Project was subject to an extensive consultation exercise with Parliament and other stakeholders which then saw the Treasury working with Whitehall departments and their arms’ length bodies to ensure a smooth transition from 2015-16. The Board is supportive of this significant step change in reporting which will see a restructuring of ARAs from the traditional “front half” annual report and “back half” financial statements into a more integrated reporting framework based on three sections: a Performance report; an Accountability report; and the Financial statements.

The Financial Reporting Manual (FReM) 2015-16 was given due consideration by the Board having been revised in line with the Project and then published in December 2014 to give early sight of the new structure. The Board will closely monitor how these changes are embedded and the feedback from users of the ARAs.

2013 was the first year of mid-year reporting by the main Westminster departments. The Board reviewed the outcome of the first year and took feedback from both the Liaison Committee and Parliamentary Scrutiny Unit on their thoughts of how useful they found the reports. The Board noted that the Treasury in particular found this a helpful exercise as it informed the 2014 guidance to departments and as a result saw an improvement in the second year of reporting. However, the Board recognises there is still scope for increasing engagement between departments and Parliament, and for further improvements to be made to the quality of reporting.

The Board welcomed the publication of the Whole of Government Accounts (WGA) 2012-13 in June 2014; six weeks earlier than the previous year and a significant achievement from the twenty months after year-end publication of the very first WGA. Consideration was given to the remaining audit qualifications of the accounts but it was noted that important steps were being taken to clear them as much and as quickly as possible. The Board was pleased with the useful addition of a separate four page summary document which makes the account more accessible to users.

¹https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/330725/simplifying_annual_reports_print.pdf

The Simplifying and Streamlining Accounts project does not strictly apply to Scottish Government, and the FRAB’s role does not extend to advising Scottish Ministers on the form and content of the annual report and accounts (that being a matter for the Scottish Parliament).

The Board took great interest throughout the year in emerging proposals for European Public Sector Accounting Standards (EPSAS) and noted the rising profile accruals accounting for the public sector in Europe. Concern remains over the impact on Member States such as the UK that have already integrated internationally accepted accrual accounting standards into their wider public finance management systems. The Board is also conscious that were there to be a move towards harmonised public sector accounting standards at a European level, its own role may have to adapt if it is to continue to fulfil its statutory function.

Priorities for 2015-16

An important priority for the Board next year will be ensuring the new accounting standards IFRS 9 Financial Instruments and IFRS 15 Revenue from Contracts with Customers are fully considered in the public sector context so that they are adopted on a timely basis and with minimised disruption. Work plans are in place to ensure this is so but notwithstanding, the Board has much work to do to oversee the readiness for their introduction.

The Board will also take great interest in any further adaptations proposed by the Relevant Authorities in respect of the use of discount rates in financial reporting. It will be keen to ensure that any proposals that are adaptations of IFRS are justified in the public sector context.

The Board will be keen to closely monitor the IASB's progress in finalising a new *Leases* Standard that will remove the existing distinction between finance and operating leases. It is expected to produce a more consistent approach to the recognition and measurement of the rights and obligations that arise from lease agreements but its impact on accounts of public sector bodies would be substantial, particularly on reported liabilities. The Board will keep a watchful eye on progress of the project and deliberate on the implications of the new Standard for public sector financial reporting. The Board will address how this evolves in the next report.

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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 2000².
- 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 seeks to ensure that any adaptations of, or departures from, generally accepted accounting practice (GAAP) 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 central government departments, executive agencies, non-departmental public bodies and trading funds, and for examining the proposals for accounting guidance for local authorities. The Board also advises the Treasury on the implementation of accounting policies specific to WGA.
- 1.4. Further information about the Board (including: membership; Terms of Reference; meeting minutes; and papers) is available on the gov.uk website³.

Background to the FRAB 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, the Treasury Select Committee of the UK Parliament, to the Welsh Government, the Scottish Ministers and the Department of Finance and Personnel (Northern Ireland).

² <http://www.legislation.gov.uk/ukpga/2000/20/section/24>

³ <https://www.gov.uk/government/policy-advisory-groups/financial-reporting-advisory-board-frab>

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- 1.7. The Treasury, the Scottish Ministers, and the Department of Finance and Personnel (Northern Ireland) formally lay the Board's report before (respectively) the House of Commons, the Scottish Parliament, and the Northern Ireland Assembly. The Welsh Government submits the report to the Public Accounts Committee of the National Assembly for Wales.
- 1.8. This is the Board's 18th report and the report structure is summarised below.

Report structure

Changes to accounting guidance

- 1.9. Chapter 2 of the report summarises changes to accounting guidance approved by the Board during 2014-15.

Board activities

- 1.10. Chapter 3 of the report details those issues in financial reporting, both new and continuing, which may lead to changes in accounting guidance in the future and provides an indication of how those issues will impact the Board's work in future years.

Chapter 2

CHANGES TO ACCOUNTING GUIDANCE IN 2014-15

Introduction

2.1. This chapter details significant changes in accounting guidance within the Board's remit for 2014-15 and 2015-16.

The 2014-15 Financial Reporting Manual (FReM)

2.2. The Board agreed the Treasury's proposed schedule of amendments to the 2014-15 FReM.

2.3. Two substantive changes were agreed relating to disclosures in the accounts on financial instruments. The Treasury gave a commitment to the Committee of Public Accounts following a hearing regarding a report by the National Audit Office, "Managing debt owed to central government" in February 2014 to strengthen guidance and promote best practice on reporting of debt in financial statements, where material. Where entities are exposed to material financial risk, the FReM now has additional emphasis for entities to consider the relevant disclosures for significant credit risk of receivables (i.e. the risk that debt may not be paid). The second amendment relates to retaining existing disclosure requirements for financial instruments (IFRS 7), which are still needed given that a new standard on 'fair value' measurement (IFRS 13) will not be implemented in the public sector until 2015-16

2.4. Other amendments accepted were to correct minor errors and reduce inconsistencies and possible ambiguity. In 2013-14, the Board had already agreed (and previously reported⁴) a number of issues relating to the 2014-15 FReM, the most significant of which are detailed in Table 1.

⁴ 17th Report of the Financial Reporting Advisory Board, Report for the period April 2013 to March 2014

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Table 1

| Standard | Summary | FReM impact |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <p>IFRS 10, <i>Consolidated Financial Statements</i></p> <p>IFRS 11, <i>Joint Arrangements</i></p> <p>IFRS 12, <i>Disclosure of Interests in Other Entities</i></p> <p>IAS 27, <i>Separate Financial Statements</i> (amended)</p> <p>IAS 28, <i>Investments in Associates and Joint Ventures</i> (amended)</p> | <p>These Standards were EU-adopted for annual periods beginning on or after 1 January 2014 and affect the consolidation and reporting of subsidiaries, joint ventures, and investment entities:</p> <ul style="list-style-type: none"> • IFRS 10 introduces a new definition of control which requires more judgment which may result in new consolidations. • IFRS 11 provides a principles-based definition of joint arrangements (joint operations or joint ventures) based on rights and obligations and requires a more consistent accounting treatment (removing the option of using an accounting method called proportional consolidation) • IFRS 12 requires more disclosure of the financial effects of, and risks to, an entity with investments in subsidiaries, joint arrangements and/or associates. | <p>Accounting boundaries are adapted in the 2014-15 FReM so that the Westminster departmental accounting boundary continues to be based on control criteria used by the Office for National Statistics for National Accounts.</p> <p>With the continuation of current adaptations, the impact on departments and agencies mainly relates to the disclosure requirements under IFRS 12.</p> <p>Arms' length bodies will apply these consolidation standards in full and their consolidation boundary may change as a result of the new standards.</p> |
| <p>IFRS 13, <i>Fair Value Measurement</i></p> | <p>IFRS 13 has been EU-adopted for annual periods beginning on or after 1 January 2013. It has been prepared to provide consistent guidance on 'fair value' measurement. The Standard defines 'fair value', provides guidance on fair value measurement techniques, and sets out the disclosure requirements.</p> | <p>IFRS 13 has been specifically scoped out of the 2014-15 FReM and will be adopted in 2015-16. Further details on the implementation of IFRS 13 are included in Chapter 3.</p> |

2.5. The revised FReM was issued by the Treasury in December 2014. A log of all 2014-15 amendments is available on the gov.uk website.⁵

Proposed 2015-16 Financial Reporting Manual (FReM)

2.6 The Board also reviewed the form and content of the proposed 2015-16 FReM presented by the Treasury. The changes fall into three main categories:

- Changes resulting from the implementation of IFRS 13 Fair Value Measurement in the public sector.
- Changes in the form and content of the annual report and accounts, implementing proposals agreed through the *Simplifying and Streamlining Accounts* project. This includes a revised format introducing three sections: the Performance Report, the Accountability Report and the Financial statements; and
- Minor accounting updates including the introduction of two charity *Statements of Recommended Practice* for relevant arms' length bodies.

2.7 The Board agreed these changes following a review of the consultation exercise with users and the 2015-16 FReM was published to timetable, in December 2014⁶.

⁵ <https://www.gov.uk/government/publications/government-financial-reporting-manual-2014-to-2015>

⁶ <https://www.gov.uk/government/publications/government-financial-reporting-manual-2015-16>

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The NHS Manual for Accounts 2014-15 and Foundation Trust Annual Reporting Manual 2014-15

- 2.8. The Board agreed the 2014-15 Foundation Trust Annual Reporting Manual and 2014-15 NHS Manuals for Accounts with no new divergences from the FReM. The 2014-15 Foundation Trust Annual Reporting Manual was issued by Monitor in December 2014 (subsequently updated in March 2015) and the 2014-15 NHS Manual for Accounts was issued by the Department of Health in January 2015.
- 2.9. The Board reviewed the draft NHS Manual for 2015-16 at its March 2015 meeting with the aim of publication shortly thereafter.
- 2.10. The Board looks forward to approving future versions of the Manual continuing on a progressively improved timetable.

The 2015-16 Code of Practice on Local Authority Accounting

- 2.11. The Board agreed the 2015-16 Code of Practice on Local Authority Accounting. The Code was issued by the Chartered Institute of Public Finance and Accountancy (CIPFA) and the Local Authority (Scotland) Accounts Advisory Committee (LASAAC) in March 2015.
- 2.12. The changes to the 2015-16 Code related to:
- Introducing IFRS 13 Fair Value Measurement;
 - Small changes to existing IFRSs which were the product of the International Accounting Standards Boards annual improvements.
 - New guidance on accounting for levies (IFRIC 21 levies);
 - Clarification of the reporting requirement for Local Authorities in respect of schools; and
 - Frequency of valuations for property, plant and equipment interpretation.

Chapter 3

BOARD ACTIVITIES IN 2014-15

Introduction

- 3.1. This chapter comprises the developments in financial reporting in the public sector, both new and continuing, which were addressed during 2014-15. An update on each of the developments considered by the Board is provided in Table 2 below. Table 3 provides details of when each topic was discussed and papers and minutes from those meetings are available on the gov.uk website⁷.
- 3.2. In addition to continuing work on known developments in financial reporting, the Board monitors international developments in accounting standards which may have implications for public sector financial reporting and in which the Board has a particular interest. These include consultation documents issued by the IASB, the IFRS Interpretations Committee and the International Public Sector Accounting Standards Board (IPSASB).
- 3.3. The Board's future work on accounting standards will include considering the public sector implications of new standards on leases, revenue recognition and financial instruments.

⁷ <https://www.gov.uk/government/collections/hmt-financial-reporting-advisory-board-minutes>

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Table 2

| Accounting standard or reporting issue | Activities during 2014-15 | Future work |
|-----------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <i>IFRS</i> | | |
| <i>IFRS 9, Financial instruments</i> | <p>The Board gave initial consideration to a new accounting standard for financial instruments (IFRS 9) which is effective for annual periods beginning on or after 1 January 2018, but has yet to be adopted by the EU. The Board encouraged the Relevant Authorities to set out a clear work plan for the implementation of this complex standard, focussing initially on the transitional arrangements.</p> | <p>The Board will continue to review the implications of the introduction of IFRS 9 and provide advice on the implementation plans and activities undertaken by the Relevant Authorities.</p> |
| <i>IFRS 13, Fair Value</i> | <p>The Board continued its work throughout the year with the Relevant Authorities to address the practical difficulties in applying this Standard in the public sector following its decision to delay implementation until 2015-16. The Standard sets out how to value assets and liabilities at 'fair value', which is broadly how much an asset could be sold for, or a liability settled, at the reporting date.</p> <p>Extensive further work was undertaken by the Treasury and CIPFA on the valuation bases to be applied to assets. It had previously been agreed that IFRS 13 would only apply to assets which do not provide services directly to the public, however further clarification was required on the scope of this application. The Treasury introduced an additional category of assets to clarify that surplus assets will be measured in the accounts at 'fair value'.</p> <p>The Board considered the findings of the Relevant Authorities consultation with stakeholders on this proposal and agreed the introduction of IFRS</p> | <p>The Board has agreed implementation of IFRS 13 to the public sector from 2015-16 and will keep under review the impact of the adoption.</p> |

| Accounting standard or reporting issue | Activities during 2014-15 | Future work |
|--------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| | 13 into the manuals in 2015-16. | |
| <i>IFRS 15, Revenue recognition</i> | <p>The Board gave initial consideration to a new accounting standard on the recognition of revenue (IFRS 15) which was issued by the IASB in May 2014, with initial effective date of 1 January 2017 (the IASB is currently consulting on delaying the effective date by a year). The Board provided advice on the potential implementation, including drawing on experiences in the private sector. The Board also highlighted the importance of the Relevant Authorities deciding on the transition arrangements to be applied when implementing the Standard for the first time. Similarly, to IFRS 9, the Board stressed the importance of early planning and reviewed the Relevant Authorities high level work plan.</p> | <p>The Board will continue to review the implications of the introduction of IFRS 15 and provide advice on the implementation plans and activities undertaken by the Relevant Authorities.</p> |
| <i>Other issues</i> | | |
| <i>Simplifying and streamlining statutory accounts</i> | <p>In 2013-14 the Board had been supportive of proposals by the Treasury set out in the <i>Simplifying and Streamlining Accounts</i> project. This project has the objective of improving the quality and usefulness of financial reporting and to improve scrutiny and accountability of Westminster reporting entities to Parliament and stakeholders.</p> <p>The Board considered the more detailed overview of plans and subsequent responses to the consultation exercise following the publication of the project Command Paper. This set out the proposed three part revised format to the annual report and accounts, that being: a Performance Report, an Accountability Report and finally, the Financial Statements. Responses</p> | <p>The Board will be kept informed of the results of implementation of the new annual report and accounts reporting framework, particularly from both preparers of accounts and key stakeholders.</p> <p>Plans are also on the horizon to consider the concept of a Financial Reporting Manual for some entities, a so called, “FReM light” and the Board asked the Treasury to consider recent changes to UK GAAP and how or if this could be applied in the public sector.</p> |

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| Accounting standard or reporting issue | Activities during 2014-15 | Future work |
|-----------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| | <p>to the consultation were broadly supportive of the Project and the Board agreed to the proposals outlined and then considered the amended 2015-16 FReM, prepared under the new framework, which was also agreed. The new framework will take effect from 2015-16.</p> <p>The Board were also asked to offer views on sustainability reporting within the new framework where more integrated reporting is encouraged. Support was also given to this approach.</p> | |
| <i>Mid-year reporting</i> | <p>The Board reviewed the outcome of the first year of mid-year reporting by the main Westminster departments and considered feedback from both the Liaison Committee and Parliamentary Scrutiny Unit. A good practice example, such as that from HMRC, was noted and that the exercise could potentially improve financial management and assist in streamlining the year-end account production process.</p> <p>Areas of improvements for 2014 were highlighted including the need for greater openness and balance in reporting, and secondly to enhance disclosures around major projects information. The Treasury used this feedback to make improvements to guidance issued to Westminster departments for the 2014 mid-year reporting exercise.</p> <p>The Board also recognised that mid-year reporting had been received well by Parliament, but greater engagement was still needed and that a “fair, balanced and understandable” reporting requirement would improve the quality and usefulness of reports.</p> | <p>The Board will appraise further outcomes of mid-year reporting and monitor both improvements to the quality of reports and the engagement and usefulness of reporting.</p> |

| Accounting standard or reporting issue | Activities during 2014-15 | Future work |
|-----------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <i>Whole of Government Accounts (WGA)</i> | <p>The Board was presented with an overview of the 2012-13 WGA, published in June 2014, six weeks earlier than the prior year and the twenty months after year-end publication of the very first WGA. The Board recognised that this was a significant step forward in the timeliness of the account.</p> <p>Although the account was qualified on the same basis as the prior year, the Board recognised the significant progress made along with the useful addition of a separate four page summary document.</p> <p>The Board considered a number of substantive issues within WGA including those likely to cause the retention of the qualification in future years but were supportive of the continued efforts by the Treasury to remove the qualifications where possible.</p> | <p>The Board will continue to review the ongoing intention of the Treasury to remove qualifications on WGA and the continued progress to achieve earlier publication.</p> <p>The Board will also be updated on the notable matters arising from the preparation of WGA and those being discussed at the WGA Advisory Board.</p> |
| <i>Accounting for schools</i> | <p>The Board considered the final amendments to the 2014-15 Code of Practice on Local Authority Accounting in the UK in relation to accounting for local authority maintained schools.</p> <p>The amendments focused on an adaptation to the definition of the single entity financial statements which was subject to a consultation process concluding in April 2014. The outcomes from a joint working group between the Treasury and CIPFA/LASAAC concluded that the balance of control lies with the local authority and thus local authority maintained schools should be included in the local authority group accounting boundary.</p> <p>The Board also considered the</p> | <p>The Board will continue to work with CIPFA/LASAAC to provide any additional guidance as deemed necessary.</p> |

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| Accounting standard or reporting issue | Activities during 2014-15 | Future work |
|-----------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| | <p>recommendation within the consultation relating to IFRS 12 (see above) which applies to schools to be aggregated in local authorities' financial statements and treat other maintained schools in the same way. These steps will improve consistency with the FReM reporting requirements and may contribute to the removal of one of the qualifications in the whole of government accounts.</p> | |
| <i>Discount rates</i> | <p>The Board responded to the Treasury's review of discount rates used in the financial statements. The Treasury's review was prompted by feedback from users that suggested the use of different rates and frequent updating of those rates (to reflect changes in market conditions) is confusing.</p> <p>The Treasury submitted a paper to the Board as part of this analysis with initial conclusions that the financial reporting policy on discount rates could be improved to better reflect the public sector context.</p> <p>The Board advised there was no compelling reason to diverge from the Standards and that confusion may be addressed by better disclosure of the effects of discounting to improve the understanding of users.</p> | <p>The Board will continue to review any further adaptations proposed to the methodology employed by the Treasury and will be keen to ensure that any deviations from the Standards are justified by the public sector context.</p> |
| <i>Tax and spend schemes</i> | <p>The Board considered a paper presented by the Treasury providing an update on accounting for imputed tax and spend schemes in departmental accounts. The Board supported the Treasury's decision not to attempt to adapt IFRS further in order to incorporate these schemes. The Board supports the Treasury's plan to remove the schemes from Estimates with an alternative</p> | <p>The Board will keep under review any work planned by the IPSASB on such hypothecated tax schemes.</p> |

| Accounting standard or reporting issue | Activities during 2014-15 | Future work |
|-------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------|
| | <p>accountability arrangement agreed between the Treasury and Parliament.</p> <p>The Treasury confirmed that it did not intend to introduce further adaptations to IFRS to account for Contracts for Difference.</p> | |
| <p><i>European Public Sector Accounting Standards (EPSAS)</i></p> | <p>The Board received updates throughout the year from the Treasury on further developments related to Eurostat's project on European Public Sector Accounting Standards including: a meeting of the Relevant Authorities; a Eurostat/PWC fact finding visit; events in Brussels; and Eurostat Taskforce meetings.</p> <p>The primary purpose of the project is to improve government finance statistics by ensuring common consistent audited base data established on harmonised standards for Member States.</p> <p>Two major developments were noted. The first was a discussion by the Economic and Financial Committee of the European Council to focus on the need to ensure appropriate timing of the project and the scrutiny of the balance of costs and benefits. The second development reported was PWC's impact assessment findings which highlighted the significant costs involved in adoption of the project.</p> <p>The Board examined other significant areas of concern of some Member States highlighted in the EPSAS update including the complexity and volume of consolidation of entities at a local level in individual Member States and the anticipated move away from</p> | <p>The Board will continue to be updated on this important project as further developments take place.</p> |

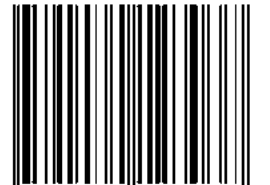
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| Accounting standard or reporting issue | Activities during 2014-15 | Future work |
|-------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| | <p>historic cost asset valuations under a new reporting regime. The Board reflected on how this project might impact on the UK's existing reporting framework.</p> | |
| <p><i>Conceptual Frameworks and future developments</i></p> | <p>The IASB are revising their Conceptual Framework. IPSASB has completed its Conceptual Framework. Details of developments in both frameworks were presented to the Board. The Treasury gave an overview of a discussion paper released in 2013 by the IASB and the areas of focus. This was compared with the IPSASB Conceptual Framework including in respect of definitions of assets and liabilities, recognition and derecognition of assets and liabilities, measurement, presentation and disclosures. However, it was noted that these proposals were not incompatible with continued use of IFRS in the UK public sector.</p> | <p>The Board will continue to scrutinise the results of a consultation exercise by the IASB and potential changes to the Conceptual Framework.</p> <p>The Board plan to undertake a further review of the IPSASB Conceptual Framework project as it progresses and will compare terms used with those of the IASB to identify substantive differences.</p> <p>The Board will continue to be updated on IPSASB projects as further developments take place.</p> |

Table 3

| Accounting standard or reporting issue | Board meeting where the accounting standard or issue was discussed | | | |
|------------------------------------------------------------|--------------------------------------------------------------------|--------------|------------------|---------------|
| | 3 April 2014 | 19 June 2014 | 27 November 2014 | 26 March 2015 |
| IFRS | | | | |
| IFRS 9, <i>Financial instruments</i> | | | ✓ | ✓ |
| IFRS 13, <i>Fair Value Measurement</i> | ✓ | ✓ | ✓ | |
| IFRS 15, <i>Revenue from Contracts with Customers</i> | | | ✓ | ✓ |
| Other issues | | | | |
| <i>Simplifying and streamlining statutory accounts</i> | ✓ | ✓ | ✓ | |
| <i>Mid-year reporting</i> | ✓ | ✓ | | ✓ |
| <i>Whole of Government Accounts (WGA)</i> | | ✓ | | |
| <i>Accounting for schools</i> | ✓ | | | |
| <i>Discount rates</i> | ✓ | | | ✓ |
| <i>Tax and spend schemes</i> | ✓ | | | |
| <i>European Public Sector Accounting Standards (EPSAS)</i> | ✓ | ✓ | ✓ | |
| <i>Conceptual Frameworks</i> | | ✓ | | |

ISBN 978-1-4741-2303-7



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