

## FINANCIAL REPORTING ADVISORY BOARD

Press Notice

25 June 2007

### BOARD ADVISES ON MAJOR CHANGE IN GOVERNMENT FINANCIAL REPORTING

The Financial Reporting Advisory Board (FRAB), an independent body that advises the Government on financial reporting principles and standards, today published its 10<sup>th</sup> annual report.

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

"The first ten years of the Board has seen many changes, one of the most significant being the recent welcome announcement that Government financial statements will be prepared using the European Commission adopted International Financial Reporting Standards (IFRS). The move to IFRS from the 2008-09 financial year shows the Government's commitment to maintain high standards in public accountability and will place it at the leading edge of financial reporting internationally.

"Preparations for the change has resulted in a busy and challenging programme of work for the Board, advising on the complexities of applying IFRS in the public sector context. The commitment of Board members has ensured that the Government continues to receive independent professional advice on IFRS compliance, allowing it to continue to meet the highest standards in financial reporting, now on an international basis. The introduction of IFRS remains a continuing challenge for the Board as we move closer to the date of introduction."

The move to IFRS also provides an opportunity for the Government to review general-purpose financial statements to ensure they are of sufficient transparency to meet the needs of general users.

The Report identifies three main areas of continuing concern considered by the Board in the last year. These were:

#### **Accounting for transactions financed by Private Finance Initiative (PFI)**

There has been significant progress this year with a Treasury-established PFI Technical Note Working Group reporting to the Board on how best to achieve greater consistency in accounting for PFI. The Working Group's final report recommended that the Treasury should be advised to withdraw its PFI Technical Note, effective by the 2008-09 financial year. However the Government-announced move to IFRS means that the PFI Technical Note will no longer be relevant.

The Board notes that the move to adopt IFRS presents a positive opportunity for the public sector to improve consistency in accounting for PFI. In the absence of an international accounting standard on PFI the Board's view is that it is necessary for the Treasury to develop its PFI accounting guidance applying the International Financial Reporting Interpretations Committee (IFRIC) Interpretation – IFRIC 12 *Service Concession Arrangements*.

The Board looks forward to receiving the Treasury's proposals on this before the end of the calendar year.

#### **Extending the departmental resource accounting boundary to include non-departmental public bodies (NDPBs)**

The Board noted that the Treasury has made progress and is engaged in work that in practice proposes that NDPBs be consolidated into the resource accounting boundary but is disappointed that the boundary issue remains unresolved. It looks forward to the Treasury taking steps to resolve this long-outstanding issue during the reporting year.

### **Whole of Government Accounts (WGA)**

The Board noted that WGA (prepared on an IFRS basis) will be published for the first time for 2008-09, rather than as previously announced a published balance sheet only for 2006-07. This is a disappointing delay.

Looking ahead, the Report notes that the Board expects to consider the International Accounting Standard Board (IASB) publications related to its convergence projects that may impact on future public sector accounting, and to further IASB publications related to the development of an improved conceptual framework for financial reporting.

### NOTES FOR EDITORS

1. The Financial Reporting Advisory Board's 10<sup>th</sup> annual report is available from [http://www.hm-treasury.gov.uk/documents/public\\_spending\\_reporting/frab/psr\\_reporting\\_statistics\\_frabreports.cfm](http://www.hm-treasury.gov.uk/documents/public_spending_reporting/frab/psr_reporting_statistics_frabreports.cfm)
2. The Government will move to using International Financial Reporting Standards (IFRS) from the financial year 2008-09.
3. FRAB is an independent body set up in 1996 initially to oversee the Treasury Resource Accounting Manual, which sets out how Government departments should prepare their resource accounts.

The Board's remit has been extended since its inception and now includes advice on financial and reporting standards and principles to:

- Executive non-departmental public bodies and trading funds,
- Accounts the Scottish Ministers and the Northern Ireland Department of Finance and Personnel are responsible for issuing reporting requirements for,
- Accounts of the National Health Service Trusts in England, Northern Ireland and Wales,
- NHS Foundation Trusts.

Resource Accounting and Budgeting (RAB) places the planning and control of Government expenditure on an accruals accounting basis – comparable to the way that the private sector manages its finances and prepares its accounts.

4. The Government Resources and Accounts Act 2000 put the Board's role on a statutory basis. The Act requires resource accounts and Whole-of-Government accounts to be prepared to present a true and fair view, and to conform to generally accepted accounting practice subject to necessary adaptations in the context of these accounts.
5. The Act requires the Treasury to consult an appropriate advisory group on financial reporting principles and standards. The Treasury, in consultation with the Comptroller and Auditor General as in accordance with the 2000 Act, has determined that the Board should be the advisory group.
6. The Board is chaired by Elwyn Eilledge CBE. He is a former Director of BG Group plc, Chairman of BTR plc, Senior Partner of Ernst & Young and Accounting Standards Board and Financial Reporting Council member.

Board members are:

Kirstin Baker - Team Leader General Expenditure Policy, HM Treasury  
Miranda Carter - Assessment Director, Monitor  
Dr Christine Daws - Finance Director Welsh Assembly  
Martin Evans - Managing Director Audit, Audit Commission  
Russell Frith - Director of Audit Strategy, Audit Scotland

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

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

Ian Mackintosh - Chairman, Accounting Standards Board

Alastair Matthews - Finance Director, Ordnance Survey

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, Member of the International Financial Reporting Interpretations Committee and former Member of the Accounting Standards Board

Trevor Woolley CBE - Finance Director, Ministry of Defence

Parliamentary observer - Robert Ffello MP

Chartered Institute of Public Finance and Accountancy / Local Authority

(Scotland) Accounts Advisory Committee Joint Committee Observer - Ian Carruthers

7. Media enquiries should be addressed to FRAB Secretary Larry Pinkney  
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