

# 1 Introduction

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## 1.1 Objectives and scope of the Manual

- 1.1.1 The Government Financial Reporting Manual (FReM) is the technical accounting guide to the preparation of financial statements. It complements guidance on the handling of public funds published separately by the relevant authorities in England and Wales, Scotland and Northern Ireland<sup>1</sup>. The Manual is prepared following consultation with the Financial Reporting Advisory Board (FRAB) and is issued by the relevant authorities.
- 1.1.2 The FReM applies directly to:
- all entities ('reporting entities'), and to funds, flows of income and expenditure and any other accounts (referred to collectively as 'reportable activities') that are prepared on an accruals basis and consolidated within Whole of Government Accounts (with the exception of the accounts of any reportable activities that are not covered by an Accounts Direction);
- but not to:
- Local Government, those Public Corporations that are not Trading Funds, and NHS Trusts and NHS Foundation Trusts. (The NHS Manual for Accounts, the NHS Foundation Trust Annual Reporting Manual and the CIPFA Code of Practice on Local Authority Accounting in the United Kingdom are compliant with this Manual other than for specifically agreed divergences.)
- 1.1.3 In addition, the Welsh Assembly Government and the Department of Health, Social Services and Public Safety in Northern Ireland will apply the principles outlined in this Manual in the accounting guidance that they issue in respect of Local Health Boards in Wales, and Health and Social Services Trusts in Northern Ireland.
- 1.1.4 The Manual is kept under constant review. It is updated to reflect developments in international financial reporting standards (IFRS)<sup>2</sup>, and, where appropriate, comments received from users. The authoritative version of the Manual for any given financial year will be available by the start of the financial year to which it relates. In the event of the need for mid-year updates to the Manual, they will be issued by the relevant authorities after following due process<sup>3</sup>. The Manual is available on the gov.uk website.
- 1.1.5 This Manual applies EU adopted IFRS and Interpretations in effect for accounting periods commencing on or before 1 January 2013.

## 1.2 Using the Manual

- 1.2.1 The Manual provides guidance on the application of IFRS, adapted and interpreted for the public sector context. Preparers of financial statements covered by the requirements of this Manual are reminded that:

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<sup>1</sup> The relevant authorities are HM Treasury, the Welsh Assembly Government, the Scottish Government and the Executive Committee of the Northern Ireland Assembly

<sup>2</sup> The use of IFRS in general text in this Manual should be taken to include International Accounting Standards (IAS) and Interpretations of IAS and IFRS issued by the Standards Interpretations Committee (SIC) or the International Financial Reporting Interpretations Committee (IFRIC).

<sup>3</sup> Due process includes consideration of proposed policies by the relevant authorities, followed by consultation with the preparers of financial statements covered by the requirements of this Manual and then consideration by the Financial Reporting Advisory Board.

- a) in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*, accounting policies set out in IFRSs need not be applied when the effect of applying them is immaterial;
- b) in accordance with IAS 1 *Presentation of Financial Statements*, applying the concept of materiality means that a specific disclosure requirement in a Standard or in an Interpretation need not be satisfied if the information is not material (disclosures should be limited to those necessary for an understanding of the entity's circumstances); and
- c) for the avoidance of doubt, preparers are reminded that they do not need to develop accounting policies, or provide disclosures, in relation to accounting standards that do not apply to their circumstances.

1.2.2 Preparers are further reminded that the format and content of financial statements need to meet the information needs of the users of those financial statements. For example, therefore, the format and content of resource accounts prepared under section 5 of the Government Resources and Accounts Act 2000 will not be the same as accounts prepared under the Public Finance and Accountability (Scotland) Act 2000, nor the same as accounts of the reportable activities covered by the requirements of this Manual. Preparers should discuss any doubt they have about the appropriate format of their financial statements with the relevant authority.

1.2.3 Further guidance and examples on the application of the principles set out in this manual are available on this manual's dedicated website.

### **1.3 Budgetary Controls**

1.3.1 Reporting entities that comply with this Manual also prepare budgets on a resource (accruals) basis and are subject to control by the relevant authorities through various arrangements<sup>4</sup>. Accounting policies are generally common to both accounting and budgeting. In selecting relevant accounting policies (see chapter 2), entities should have regard to budgetary and control requirements, but should give paramount importance to the need for financial statements to give a true and fair view.

1.3.2 Preparers of financial statements need to consult with the relevant authority (through sponsoring bodies where appropriate) before changing significant accounting policies and estimation techniques where it appears that there could be a potential impact on budgets and on the National Accounts.

### **1.4 Non-departmental public bodies**

1.4.1 Non-departmental public bodies (NDPBs) that are incorporated as companies, or that have charitable status, should comply with, respectively, the Companies Act 2006 or regulations issued under charities legislation and, where applicable, the Statement of Recommended Practice (SORP) *Accounting by Charities* issued by the Charity Commission (and, if they are both registered companies and charities, with both the Companies Act 2006 and the Charities SORP). They should also follow the principles in this Manual and provide the additional disclosures required by the Manual (for example, on notional costs and salary and pension entitlements) where these go beyond the Companies Act 2006 or the SORP.

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<sup>4</sup> These arrangements are set out in the guidance on the handling of public funds published separately by the relevant authorities and in other guidance issued by them from time to time.

- 1.4.2 There is a strong presumption that compliance with the SORP is necessary for charities' accounts to give a true and fair view. Charities that are exempt from the requirements of the Charities Act should comply with the recommendations of the SORP wherever possible, unless they or their sponsor department feel that the resulting financial statements will not provide the information needed for monitoring purposes. Any departure from the SORP should be disclosed.
- 1.4.3 Where a sponsoring department considers that the Statement of Financial Activities (SOFA) prepared by its charitable NDPBs does not provide sufficient information to monitor and control the NDPB or to allow appropriate comparison with its non-charitable NDPBs, it may direct the charitable NDPB to supplement the SOFA with a summarised income and expenditure account.

## **1.5 Trading funds**

- 1.5.1 Trading funds are established under government trading legislation to engender a market based approach to managing activities. They might also be executive agencies or departments in their own right. In preparing their financial statements, trading funds should follow the requirements of applicable accounting standards, but should also follow the principles set out in this Manual and provide the additional disclosures required by the Manual where these go beyond the requirements of the applicable accounting standards.

## **1.6 Reportable activities**

- 1.6.1 Preparers of the financial statements of reportable activities should apply the guidance in this Manual only to the extent that it is relevant to those activities and in the light of any statutory requirements or other pronouncements that might from time to time be made by the relevant authorities.

## **1.7 First-time Adoption of International Financial Reporting Standards**

- 1.7.1 When adopting IFRS for the first time, preparers of financial statements should follow the requirements of IFRS 1 *First-time Adoption of International Financial Reporting Standards* as interpreted below for the public sector context.

### **IFRS 1 First-time Adoption of International Financial Reporting Standards**

#### ***Applicability***

- 1.7.2 IFRS 1 applies as interpreted to all reporting entities and reportable activities covered by the requirements of this Manual.

#### ***Objective of IFRS 1***

- 1.7.3 The objective of IFRS 1 is to ensure that an entity's first IFRS financial statements, and its interim financial reports for part of the period covered by those financial statements, contain high quality information that:
- is transparent for users and comparable over all periods presented;
  - provides a suitable starting point for accounting under International Financial Reporting Standards; and

- can be generated at a cost that does not exceed the benefits to users.

### ***Interpretations of IFRS 1 for the public sector context***

1.7.4 In applying IFRS 1, reporting entities should be aware of the following interpretations for the public sector context:

- a) this Manual requires assets to be carried at valuation and so the elections available in IFRS 1.16, 17 and 18 (other than for internally generated intangible assets – see 7.2.3 to 7.2.5) are not relevant;
- b) reporting entities cannot elect to use the ‘corridor’ approach in IAS 19 *Employee Benefits*.

## 2 Accounting principles

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## **2.1 Application of generally accepted accounting practice**

### **General**

2.1.1 The accounting policies contained in this Manual follow generally accepted accounting practice (GAAP) to the extent that it is meaningful and appropriate in the public sector context. Although the term 'GAAP' has no statutory or regulatory authority, for the purposes of this Manual, GAAP is taken to be:

- a) the accounting and disclosure requirements of the Companies Act 2006 (the Companies Act);
- b) pronouncements by or endorsed by the International Accounting Standards Board (IASB), including the *Framework for the Preparation and Presentation of Financial Statements*, the accounting standards – international accounting statements (IAS) and international financial reporting standards (IFRS) – and interpretations thereof issued by the Standards Interpretations Committee (SIC) or its successor, the International Financial Reporting Interpretations Committee (IFRIC);
- c) for charities registered in the United Kingdom, regulations issued under charities legislation and, where applicable, the Statement of Recommended Practice (SORP) *Accounting by Charities* issued by the Charity Commission. If they are both registered companies and charities, they must comply with the Companies Act 2006 and the Charities SORP; and
- d) the body of accumulated knowledge built up over time and promulgated in (for example) textbooks, technical journals and research papers.

2.1.2 For the purposes of accounting by the reporting entities covered by this Manual, GAAP is taken to mean primarily those items listed under (a), (b) and (c) above, interpreted as necessary in the light of the body of accumulated knowledge under (d).

2.1.3 In addition to the general principles underlying GAAP, reporting entities and reportable activities covered by the requirements of this Manual need to apply two additional principles – parliamentary accountability and regularity. These principles are explained in the context of the relevant authorities in the separate guidance on handling public funds.

### **Accounting convention**

2.1.4 Financial statements should be prepared under the historical cost convention, modified by the revaluation of non-current assets, and, where material, current asset investments and stocks to fair value as determined by the relevant accounting standard.

### **No exemptions for smaller entities**

2.1.5 The International Financial Reporting Standard for Small and Medium-sized Entities brings together those accounting standards and requirements that are applicable to

small and medium-sized entities. Adoption is not available to any entity covered by the requirements of this Manual. Subject to the provisions of the Manual, the disclosure exemptions permitted by sections 381 to 383 of the Companies Act 2006 will not apply unless specifically approved by the relevant authority.

## Practical application of guidance

- 2.1.6 The following chapters refer to practical guidance on the application of GAAP where the relevant authorities, in consultation with the preparers of financial statements, feel that such guidance will assist in preparing the financial statements. The guidance is available on the Manual's dedicated website. This is practical guidance and it is for the relevant authority to determine whether entities are required to apply it. Relevant authorities might provide additional guidance on request.

## 2.2 Preparation and Presentation of Financial Statements

### IASB's Conceptual Framework for Financial Reporting (Conceptual Framework)

- 2.2.1 The *Conceptual Framework* sets out the principles that the IASB believes should underlie the preparation and presentation of general purpose financial statements. In particular, preparers should be familiar with the objective of financial statements, which is to provide financial information about the reporting entity or reportable activity that is useful to existing and potential investors, lenders and other creditors in making decisions about providing resources to it. For reporting entities and reportable activities the objective of the financial statements is also to provide information about its financial position, financial performance, changes in financial position and cash flows that is useful to a wide range of users to permit them to assess the stewardship and accountability of management for the resources entrusted to them.
- 2.2.2 The key users of the information in the financial statements of reporting entities and for reportable activities are the relevant authority and Parliament (the Westminster Parliament, the Scottish Parliament, the National Assembly for Wales and the Northern Ireland Assembly, the latter as representatives of the public as well as the voter of resources. Other users include the entity's management board, the entity's audit committee, and the taxpayer.
- 2.2.3 In presenting information in their financial statements, preparers should also have regard to the:
- underlying assumption (financial statements shall be prepared on a going concern basis);
  - qualitative characteristics of financial statements;
  - elements of financial statements;
  - recognition of the elements of financial statements; and
  - measurement of the elements of financial statements.
- 2.2.4 The *Conceptual Framework* notes that financial statements cannot meet all the information needs of users, who may need to consider pertinent information from other sources.. However, the provision of financial statements that meet the requirements of the relevant authority and Parliament will also meet most of the needs of other users.

- 2.2.5 Most of the entities covered by the requirements of this Manual will prepare general purpose financial statements that are sufficient for the needs of the key users. However, where departments are required by the relevant legislation to demonstrate accountability to Parliament, they should prepare a statement on parliamentary accountability, which, within the meaning of the *Conceptual Framework*, can be regarded as a special purpose financial report.

### **Financial statements must give a true and fair view**

- 2.2.6 All financial statements prepared in accordance with the requirements of this Manual (excepting the National Insurance Fund cash accounts and those parts of the Consolidated Fund accounts that are prepared on a cash basis):
- a) should give a true and fair view of the state of affairs of the reporting entity or reportable activity at the end of the financial year and of the results for the year; and
  - b) where, in exceptional circumstances, an entity concludes that compliance with a requirement in the FReM would be so misleading that it would conflict with the objective of the financial statements set out in the Framework it shall depart from that requirement following the principles set out at paragraphs 20-24 of IAS 1. Any material departure from the Manual should be discussed in the first instance with the relevant authority (through sponsoring bodies where appropriate). Particulars of any departure, the reasons for it and its effects should be disclosed in the financial statements.
- 2.2.7 Section 393 of the Companies Act 2006 and paragraphs 15 to 24 of IAS 1 *Presentation of Financial Statements* apply as interpreted.

### **Objectives of section 393 of the Companies Act 2006**

- 2.2.8 The objectives of section 393 of the Companies Act 2006 are to ensure that directors of a company do not approve accounts unless they are satisfied that those accounts give a true and fair view of the assets, liabilities, financial position and profit or loss either of the company or of the group as a whole, as appropriate. Section 393 also requires the auditor of a company, in carrying out his or her functions under the Act, to have regard to the directors' duty.

### **Interpretation of section 393 of the Companies Act 2006 for the public sector context**

- 2.2.9 In applying section 393 of the Companies Act 2006, preparers of financial statements should be aware of the following interpretation for the public sector context:
- a) any references to 'directors' and 'company' should be read to mean, respectively, the 'Accounting Officer' or other person who is required to approve financial statements and the 'reporting entity or reportable activity'.

## **IAS 1: Presentation of Financial Statements (paragraphs 15 to 46)**

### **Applicability**

2.2.10 Paragraphs 15 to 46 of IAS 1 apply as interpreted to all entities covered by this Manual.

### ***Objectives of paragraphs 15 to 24 of IAS 1***

2.2.11 Paragraphs 15 to 46 of IAS 1 outline the 'general features' entities must take into account when preparing financial statements.

2.2.12 Paragraphs 15 to 24 provide guidance on 'fair presentation'. Application of IFRS is presumed to result in financial statements that achieve fair presentation. In the extremely rare circumstances where management concludes that compliance with a requirement in a Standard or an Interpretation would conflict with the objective of financial statements as set out in the *Framework*, IAS 1 requires that the entity departs from the requirement unless departure is prohibited by the relevant regulatory framework. In either case, the entity is required to make specific disclosures.

2.2.13 Paragraphs 25 to 46 provide guidance on the wider factors entities should take into account when preparing financial statements: Going Concern; Accruals Basis of Accounting; Materiality and Aggregation; and Offsetting.

### ***Interpretation of paragraphs 15 to 24 of IAS 1 for the public sector context***

2.2.14 In applying paragraphs 15 to 24 of IAS 1 preparers of financial statements should be aware of the following interpretations for the public sector context:

- a) references to 'present fairly' and to 'fair presentation' should be read to mean 'give a true and fair view' and 'truthful and fair presentation' to comply with the requirements of the Companies Act 2006; and
- b) in addition to naming the legislative authority for producing the accounts, the Notes to the Accounts shall disclose, in the note on accounting policies, the basis of preparation of the financial statements as being in accordance with this Manual as follows:

"The financial statements have been prepared in accordance with the [financial year] Government Financial Reporting Manual (FReM) issued by [the relevant authority]. The accounting policies contained in the FReM apply International Financial Reporting Standards as adapted or interpreted for the public sector context. Where the FReM permits a choice of accounting policy, the accounting policy which is judged to be most appropriate to the particular circumstances of the [reporting entity] [reportable activity] for the purpose of giving a true and fair view has been selected. The particular policies adopted [by the reporting entity] [for the reportable activity] are described below. They have been applied consistently in dealing with items that are considered material to the accounts."

### ***Interpretation of paragraphs 25 to 46 of IAS 1 for the public sector context***

2.2.15 In applying paragraphs 25 to 46 of IAS 1, preparers of financial statements should be aware of the following interpretations of *Going Concern* for the public sector context:

- a) For non-trading entities in the public sector, the anticipated continuation of the provision of a service in the future, as evidenced by inclusion of financial provision for that service in published documents, is normally sufficient evidence of going concern. However, a trading entity needs to consider whether it is appropriate to continue to prepare its financial statements on a going concern basis where it is being, or is likely to be, wound up;
- b) Sponsored entities whose statements of financial position show total net liabilities should prepare their financial statements on the going concern basis unless, after discussion with their sponsors, the going concern basis is deemed inappropriate; and
- c) Where an entity ceases to exist, it should consider whether or not its services will continue to be provided (using the same assets, by another public sector entity) in determining whether to use the concept of going concern in its final set of financial statements.

## **2.3 IAS 8: Accounting Policies, Changes in Accounting Estimates and Errors**

### ***Applicability***

- 2.3.1 IAS 8 applies in full to all reporting entities and reportable activities covered by this Manual.

### ***Objective of IAS 8***

- 2.3.2 The objective of IAS 8 is to prescribe the criteria for selecting and changing accounting policies, together with the accounting treatment and disclosure of changes in accounting policies, changes in accounting estimates and correction of errors

### ***Other Requirements***

- 2.3.3 The following requirements should be observed:
- a) Preparers should consult the relevant authorities (through sponsoring bodies where appropriate) about any novel or contentious accounting policies they are considering adopting to reflect their specific circumstances: and
  - b) Where preparers consider it necessary to adjust retrospectively for changes in accounting policies or material errors, they should first contact the relevant authority (through sponsoring bodies where appropriate) to ensure that the budgeting and Estimates implications have been properly considered.

## **Uniform accounting policies in preparing consolidated financial statements**

- 2.3.4 IAS 27 *Consolidated and Separate Financial Statements* states that uniform group accounting policies should generally be used in preparing the consolidated financial

statements. If members of the group use accounting policies other than those adopted in the consolidated financial statements, appropriate adjustments are made when preparing the consolidated financial statements. Reporting entities that fall within the remit of this Manual and that fall within a consolidation boundary will be expected to observe the broad principles and policies set out in this Manual. Observance of the Manual should therefore result in sufficient uniformity to satisfy the requirements of the standard, but it is for preparers of the consolidated financial statements to ensure an appropriate degree of consistency within their reporting group. This does not preclude variation in the specific application of policies – for example, the selection of appropriate useful economic lives for calculating depreciation – in order to reflect the particular business circumstances of individual reporting entities.

- 2.3.5 Compliance with the requirements of this Manual as set out above will provide sufficient convergence of accounting policies for the purposes of Whole of Government Accounts (see also chapter 14).

## **2.4 The budgeting system**

### **The fiscal framework**

- 2.4.1 The budgeting system is a set of HM Treasury rules for the control of public spending in support of the fiscal framework. At the June 2010 Budget the Government set a new forward looking mandate to achieve a cyclically adjusted current budget by the end of the rolling, five-year forecast period. At the same time the fiscal mandate was supplemented by a target for public sector net debt as a percentage of GDP to be falling at a fixed date of 2015-16.

a)

- 2.4.2 Performance against the fiscal framework is measured using national accounts aggregates. National accounts are prepared by the Office for National Statistics in line with internationally agreed rules, which are different from IFRS. That is one of the reasons why transactions might score differently in budgets and in accounts.

### **Resource and capital budgets, departmental expenditure limits and annually managed expenditure**

- 2.4.3 Departments have a Resource Budget and a Capital Budget. These budgets are divided into Departmental Expenditure Limits (DEL) and Annually Managed Expenditure (AME). DELs are firm, three-year plans set in spending reviews. AME is expenditure that cannot be made subject to firm, multi-year plans, and is subject to review twice a year. All expenditure is in DEL unless HM Treasury has specified otherwise.
- 2.4.4 The budgeting system applies to the public sector as a whole: central government, local government and public corporations. A department's budgets will normally include:
- the expenditure of the department, its agencies and its non-departmental public bodies on an accruals basis;

- certain income of these bodies that is within budgets, for example income from the sale of services or from capital assets;
- government grants to local authorities and supported capital expenditure (revenue); and
- support to public corporations by way of grants and loans.

## Reporting performance against budgeting rules

- 2.4.5 Departments send reports on a budgeting basis to HM Treasury on a regular basis through the Online System for Central Accounting and Reporting (OSCAR). HM Treasury publishes high level and detailed information in publications such as *Public Expenditure Statistical Analyses*. Departments publish budgetary information in Departmental Reports; they publish reconciliations to budgets in their Supply Estimates; and they are required to report in Note 3 to their annual report and accounts the outturn against Estimate and outturn against the Administration Budget (see paragraph 3.2.7).
- 2.4.6 Departments are also required to provide in the Management Commentary a reconciliation of resource expenditure between Estimates, Accounts and Budgets (see chapter 5 of this Manual).

## 3 Parliamentary Accountability

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### **3.1 Introduction**

- 3.1.1 This chapter applies only to departments financed through the Westminster or Northern Ireland Assembly Estimates process. It provides guidance on how departments should account for Supply in the *Statement of Parliamentary Supply* and for outturn against Estimates in the notes supporting the Statement. The Scottish Parliament and the National Assembly for Wales have their own financing arrangements and their own forms of parliamentary accountability. Relevant sections covering these bodies are included below.
- 3.1.2 The format of the accounts produced under the Public Finance and Accountability (Scotland) Act 2000 includes comparison of outturn against budget but does not include a separate *Statement of Parliamentary Supply* as set out in this chapter. However, the reconciliation of Parliamentary Supply (parliamentary funding) for a financial year follows the principles set out in this chapter and is disclosed in notes in the annual accounts.
- 3.1.3 Information on the general principles relating to Supply and to Parliamentary control over income and expenditure are set out in the introductory sections to the Main Supply Estimates, in *Managing Public Money* (HM Treasury) and in *Managing Public Money Northern Ireland* (the Department of Finance and Personnel Northern Ireland). Further guidance on the day-to-day management of the Consolidated Fund and the links with departments is available from HM Treasury's Exchequer Funds and Accounts Team.
- 3.1.4 General information about the Fiscal Framework, the public spending framework and the Public Expenditure Statistical Analyses is available on HM Treasury's website.
- 3.1.5 For Scottish Bodies, relevant guidance is set out in the *Scottish Public Finance Manual*.

### **3.2 The Statement of Parliamentary Supply**

#### **Introduction**

- 3.2.1 This section of the chapter explains the *Statement of Parliamentary Supply*. Supply is defined in the next section.

#### **The Statement of Parliamentary Supply**

- 3.2.2 Estimates laid before parliament are based on budgets, which are compiled on a similar basis to the National Accounts. This means that Estimates comply with the European System of Accounts (ESA), the accounting basis for all national accounts in the EU, as adapted and interpreted in the Consolidated Budgeting Guidance. Although similar to IFRS in many respects, there are some significant differences between ESA and IFRS, particularly in relation to recognition of PFI costs and certain provisions.
- 3.2.3 The Statement of Parliamentary Supply follows the budgeting principles used in the Supply Estimates in order to secure comparability.

- 3.2.4 The *Statement of Parliamentary Supply* is the parliamentary accountability statement. For the Westminster departments, it reports the following to Parliament:
- a) in the summary of outturn, a comparison of outturn against the Supply Estimate voted by Parliament in respect of each budgetary control limit. The Summary will show net resource expenditure, and net capital expenditure for both Departmental Expenditure Limit (DEL) and Departmental Annually Managed Expenditure (AME) budget classifications. It will in addition report the Estimate and outturn for non-voted expenditure (eg Consolidated Fund standing services);
  - b) the net cash requirement (calculated on the same basis as the Voted Supply Estimate), with a comparison of the outturn against the Voted Supply Estimate; and
  - c) a statement of administration costs incurred, with a comparison of the administration costs limit. Although the administration costs limit is not formally voted by parliament, it is treated as a parliamentary control, and reported on in the same way as voted limits.
- 3.2.5 The Statement of Parliamentary Supply for Northern Ireland departments is based on similar principles, excepting that the summary of resource outturn reports a comparison of outturn against the Supply Estimate voted in respect of each Request for Resources showing gross resource expenditure, accruing resources (income) and net resource expenditure. The Statement also includes a summary of income (other than accruing resources) that is payable to the Consolidated Fund.
- 3.2.6 Explanations of variances between the Estimate and outturn should be given in the Management Commentary. A brief explanation of any Excess Votes should be given on the face of the Statement of Parliamentary Supply, with a detailed explanation given in the Management Commentary.

## The Notes to the Statement of Parliamentary Supply

- 3.2.7 The *Statement of Parliamentary Supply* is supported by Notes to the Statement. For Westminster departments the following information must be given in the supporting notes.

### **Note 1: Statement of Accounting Policies**

- 3.2.8 This note sets out the Statement of Parliamentary Supply accounting policies followed in compiling the Statement of Parliamentary Supply and the associated notes. It sets out the version of ESA that has been used and explains any interpretations of the system that have been applied to the accounts.

### **Note 2: Analysis of net outturn by section**

- 3.2.9 This note follows the format of Part II of the Estimate. The first part of the note analyses net resource outturn by section and between administration costs, programme costs and Income, comparing the net total outturn for each section within each budgetary control limit with the Estimate. The second part analyses net capital outturn by section and between gross expenditure and income, comparing the net total outturn for each section within each budgetary control limit with the Estimate. The note should give a brief explanation of the reasons for variances between the Estimate and outturn, with more detail being given in the Management Commentary.

**Note 3: Reconciliation of resource outturn to net operating cost and against Administration Budget and Administration net operating costs**

3.2.10 This note is in two parts:

- a) Note 3.1 reconciles the net resource outturn (from Note 2) to the net operating cost shown in the Statement of Comprehensive Net Expenditure. Reconciling items, other than capital grants to external bodies (treated as resource expenditure in the Statement of Comprehensive Net Expenditure but as capital in budgets) [and differences related to differing treatments of PFI] will be rare, but might include prior period adjustments relating to errors or accounting policy changes at the instigation of the department itself, and occasional non-budget income or expenditure:
- b) Note 3.2 shows outturn against the Administration Budget and a reconciliation to Administration income and expenditure included in the Statement of Comprehensive Net Expenditure.

**Note 4: Reconciliation of Net Resources to Net Cash Requirement**

3.2.11 This note reconciles the net resource outturn to the net cash requirement. It should briefly state the reasons for any variances between the Estimate and outturn, with the detailed reasons being explained in the Management Commentary.

**Note 5: Analysis of income payable to the Consolidated Fund**

3.2.12 This note analyses income payable to the Consolidated Fund and will only be required if non-budget income has arisen during the year. Amounts collected by the department as agent of the Consolidated Fund should not be included, but should be accounted for in a separate Trust Statement if material (see Chapter 13).

**Northern Ireland departments**

3.2.13 The supporting notes for Northern Ireland departments are based on similar principles excepting that Note 2 is limited to resource expenditure / accruing resources (ie net resource outturn only excluding any analysis of capital expenditure), Notes 3 and 5 may include more non-Supply items and amounts payable to the Consolidated Fund relating to excess accruing resources, and a Note 6 may be required reconciling income recorded within the Statement of Comprehensive Net Expenditure to operating income payable to the Consolidated Fund.

**Other notes relating to Parliamentary accountability**

3.2.14 In addition to the requirements for notes supporting the *Statement of Parliamentary Supply*, departments covered by this chapter should also disclose in notes to the accounts (to follow the note on contingent liabilities):

- a) information about contingent liabilities not required to be disclosed under IAS 37 Provisions, *Contingent Liabilities and Contingent Assets* (see chapter 10) because the likelihood of a transfer of economic benefits is considered too remote, but included for parliamentary reporting and accountability purposes. For quantifiable remote contingent liabilities, the note should disclose the opening balance, any increase in the year, any amounts that crystallised in the year (that is, the liabilities have become reportable under IAS 37), any obligations that have expired during the year and the closing balance. The note should also state the amount that has been reported to Parliament by

departmental Minute and provide a reconciliation between that and the disclosed amount where different. Reporting entities should list unquantifiable remote contingent liabilities, explaining why they are unquantifiable;

- b) a statement of losses, special and other payments;
- c) notation of gifts made over the limit prescribed in *Managing Public Money or Managing Public Money Northern Ireland*; and
- d) details of loans made over the limit prescribed in *Managing Public Money or Managing Public Money Northern Ireland*.

### 3.3 Supply

#### Definitions

- 3.3.1 Supply is the means by which parliamentary authority is secured for most government expenditure. This authority is required for all expenditure financed from the Consolidated Fund other than for expenditure covered by standing statutory authority (known as 'standing services') such as the UK contributions to the European Union, servicing of government debt and certain salaries (for example, judges' salaries).
- 3.3.2 Supply is granted on an annual basis, voted in Estimates and in the Appropriation Acts (Budget Act in Northern Ireland). This Act authorises departments to draw down sums of money from the Consolidated Fund for the service of a specified year. The amount of cash issued from the Consolidated Fund and the amount of cash spent by a department in any year is likely to differ, giving rise to the 'Consolidated Fund Supply Balance' – which might be a balance due to or from the Consolidated Fund.
- 3.3.3 The Consolidated Fund Supply Balance is the difference between the Net Cash Requirement and the sum of Supply Drawn Down and Deemed Supply to the extent that the Net Cash Requirement outturn is within the limit set in the Supply Estimate.
- 3.3.4 'Supply Drawn Down' is the amount of Supply that a department receives from the Consolidated Fund in respect of the financial year. It does not include any Supply drawn down in respect of a prior financial year (see paragraph 3.3.6). Any Supply Drawn Down not spent is due to the Consolidated Fund at the end of the financial year. In practice, this creditor balance is usually offset against amounts issued in the following year and not surrendered in cash.
- 3.3.5 'Deemed Supply' refers to the settlement of a prior year creditor to the Consolidated Fund for Supply. The creditor is settled when it is offset against Supply in the current year. (That is, there may be a difference between the cash received from the Consolidated Fund and the amount of Supply issued in any one year.)
- 3.3.6 Supply might also be drawn down to recompense a department where in the prior year it has spent amounts within its Net Cash Requirement for that year but not drawn down Supply to do so (that is, in settlement of a Consolidated Fund Supply debtor in the prior year – see paragraph 3.3.7(d)). Such Supply drawn down does not represent Supply for the current year and will not be taken into account in the Consolidated Fund Supply balance for the current year.

#### Accounting for Supply

- 3.3.7 Departments should account for Supply as follows.

- a) Supply Drawn Down and Deemed Supply should not be accounted for as income. Supply should be credited to the General Fund as financing, with amounts in respect of different financial years shown separately;
- b) Supply should be shown in the Statement of Cash Flows as 'financing from the Consolidated Fund (Supply)' and analysed between amounts relating to the current year and the prior year;
- c) Amounts issued from the Consolidated Fund but not spent at the year end should be disclosed as year end creditors. This credit balance will be cleared in the following year when the creditor is settled by means of Deemed Supply;
- d) Cash expended in excess of the amounts issued from the Consolidated Fund but within the net cash requirements set by Parliament should be disclosed as a year end debtor. This should occur only rarely, but might arise where, for example other financing – e.g. National Insurance Fund payments – are used to meet expenditure that should have been settled by Supply funding. This debtor will be cleared in the following year when the cash is issued from the Consolidated Fund.
- e) Where the net cash requirement outturn is in excess of the cash requirement approved by the Parliamentary Estimate, a Consolidated Fund Supply Debtor should only be recognised up to the value of the net cash requirement approved by Parliament. At the year end the Department has not obtained approval to spend this additional cash and no obligation exists on the part of the Consolidated Fund to supply the deficit. As the department has no right to receive this benefit, the recognition of the Supply Debtor within the accounts must be limited to the level set within the Supply Estimate. Should parliamentary approval subsequently be given for the excess cash expenditure (as it generally will be), a Consolidated Fund Supply Debtor should be created, but this will appear in the following year's accounts.

3.3.8 Examples of the entries relating to accounting for Consolidated Fund transactions illustrate the requirements contained in the above paragraph. Those elements of the examples that are not reproduced in the accounts should be retained as part of the audit trail and should, where requested, be passed to the Exchequer Funds and Accounts team in the Treasury for the purposes of confirming the amount of Supply issued and deemed to have been issued and the surrender of receipts to the Consolidated Fund.

## 4 Accounting boundaries

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## 4.1 Introduction

- 4.1.1 This chapter sets out the accounting principles and standards that should be applied in determining the accounting boundaries of the reporting entities covered by this Manual.

## 4.2 Accounting standards

- 4.2.1 The following accounting standards deal with accounting boundaries:
- IAS 27 *Consolidated and Separate Financial Statements*;
  - IAS 28 *Investments in Associates*;
  - IAS 31 *Interests in Joint Ventures*;
  - SIC 12 *Consolidation – Special Purpose Entities*;
  - SIC 13 *Jointly Controlled Entities – Non-monetary Contributions by Venturers*; and
  - IFRS 3 *Business Combinations*.

### Applicability

- 4.2.2 Departments shall prepare annual reports and consolidated financial statements (as defined in Chapter 5 of this Manual) covering all entities within their consolidation boundary. Executive NDPBs and trading funds shall prepare consolidated financial statements in accordance with the requirements of IAS 27, IAS 28 and IAS 31 without adaptation and interpretation.
- 4.2.3 The departmental boundary is similar to the concept of a group under generally accepted accounting practice, but is based on control criteria used by the Office for National Statistics to determine the sector classification of the relevant sponsored bodies. Except where legislation requires otherwise, executive non-departmental and similar public bodies that satisfy the IAS 27, IAS 28, IAS 31 and SIC 12 criteria for consolidation as subsidiary undertakings, associated undertakings or joint ventures will be accounted for in accordance with IAS 27, IAS 28 and IAS 31 only if they are designated for consolidation by order of the relevant authority under statutory instrument, which will reflect the ONS's classification of an entity to the central government sector.
- 4.2.4 Where a department has a formal investment in another public sector entity that does not meet the criteria for consolidation, it should be reported following the requirements of IAS 39 (see FReM chapter 9).
- 4.2.5 For the purposes of applying the principles of consolidation, the department will be the parent entity in departmental consolidations. The financial statements of all entities whose results are to be consolidated will generally have the same accounting reference date. The relevant authority will consider the treatment of non-coterminous reference dates if cases arise.
- 4.2.6 SIC 13 applies to non-monetary contributions in joint ventures that fall within the accounting boundary.

**Objective of IAS 27**

- 4.2.7 The objective of IAS 27 is to require parent undertakings to provide financial information about the economic activities of their group in consolidated financial statements. These consolidated financial statements should present the financial information of the group as a single economic entity.

**Objective of IAS 28**

- 4.2.8 The objective of IAS 28 is to reflect the effect of investments in associates where the reporting entity is partly accountable for the associate's activities.

**Objective of IAS 31**

- 4.2.9 The objective of IAS 31 is to reflect the effect of a venturer's shares in joint ventures. The IAS also deals with joint arrangements relating to operations and assets that are not entities.

**Objective of SIC 12**

- 4.2.10 The objective of SIC 12 is to ensure that, regardless of the equity holding and control structure, where in substance the special purpose entity is controlled by the sponsor, it should be consolidated.

**Objective of SIC 13**

- 4.2.11 SIC 13 requires that, where venturers make non-monetary contributions in exchange for an equity share in a jointly controlled entity, the venturer recognises in profit and loss the element of any gain or loss that is attributable to the equity interests of the other venturers, except in specific circumstances.

**The departmental accounting boundary**

- 4.2.12 In addition to reportable activities, the following reporting entities are outside the departmental accounting boundary:
- a) any body classified as a public corporation by the Office for National Statistics (which includes trading funds);
  - b) any body classified to the local government sector by the Office for National Statistics;
  - c) health bodies not classified to the central government sector by the Office for National Statistics;
  - d) any body classified to the private or rest of the world sectors by the Office for National Statistics.
- 4.2.13 The departmental accounting boundary will, therefore, include the following entities:
- a) supply-financed agencies;
  - b) non-agency parts of the department accounted for through the Supply process and other bodies whose expenditure is accounted for in separate financial statements, including non-executive NDPBs such as Advisory NDPBs and Tribunal NDPBs;

- c) executive NDPBs or other public bodies that produce their own financial statements and which are classified by the Office for National Statistics to the central government sector; and
- d) health bodies classified to central government by the Office for National Statistics.

## **IFRS 3 Business Combinations**

### ***Applicability***

- 4.2.14 IFRS 3 excludes from its scope business combinations involving entities or businesses under common control. Public sector bodies are deemed to be under common control. The combination of two or more public sector bodies into one new body, or the transfer of functions from the responsibility of one part of the public sector to another, will be accounted for as either a Transfer by Merger or as a Transfer by Absorption, as detailed below.
- 4.2.15 For the purposes of this manual, a function is defined as an identifiable business operation with an integrated set of activities, staff and recognised assets and/ or liabilities that are capable of being conducted and managed to achieve the objectives of that business operation.
- 4.2.16 IFRS 3 applies to all combinations involving an entity or entities within the public sector with an entity outside the sector.

### ***Objective of IFRS 3***

- 4.2.17 The objective of IFRS 3 is to specify that all business combinations (except those excluded from its scope) should be accounted for using the purchase method (also known as the acquisition method). IFRS 3 requires that all such combinations be accounted for at fair value at the date of the combination and that goodwill arising from such transactions is accounted for as an asset. Goodwill is not amortised but subject to impairment testing as required by IAS 36 *Impairment of Assets*.

### ***Transfer by Merger or Transfer by Absorption***

- 4.2.18 The accounting treatment for transfers of function under common control should be determined by aligning the reporting with the accountability for financial performance. The underlying objective is to ensure the financial reporting supports the accountability for the transferring function, and to do so in a symmetrical way to ensure there is no transparency gap. A transfer may require both treatments at different levels.
- 4.2.19 Transfer by Merger accounting should be applied at the group level for bodies applying this Manual. That is, for transfers of function between departments within central government, but not between a Westminster Department and the Welsh Government, Northern Ireland Assembly or Scottish Government, whose income and expenditure is controlled directly by Parliamentary Supply processes (departmental group accounts).
- 4.2.20 As a Transfer by Merger, the carrying value of the assets and liabilities of the combining bodies or functions are not adjusted to fair value on consolidation.

Appropriate adjustments should be made to achieve uniformity of accounting policies in the combining bodies.

- 4.2.21 The results and cash flows of all the combining bodies (or functions) should be brought into the financial statements of the combined body from the beginning of the financial year in which the combination occurred, adjusted to achieve uniformity of accounting policies. Restatement of comparatives, including that of the results for all the combining bodies (or functions) for the previous period, should be provided in accordance with IAS 1 as interpreted by this manual. Comparatives should be adjusted as necessary to achieve uniformity of accounting policies and consistency of presentation.
- 4.2.22 All other transfers of function between public sector bodies should be accounted for as Transfers by Absorption. This includes transfers: to or from Local Government, to or from Public Corporations; between Devolved Administrations and Whitehall Departments; within a departmental boundary; and for all transfers reported by Executive NDPB's, other arm's length bodies within central government and trading funds.
- 4.2.23 The carrying value of the assets and liabilities of the combining bodies or functions are not adjusted to fair value on consolidation. There should be no recognition of goodwill and no restatement of comparatives in the primary financial statements. The recorded amounts of net assets should be brought into the financial statements of the transferee from the date of transfer. The net asset/liability carrying value should be recorded as a non-operating gain/loss from the transfer of function, through net expenditure, with the transferor recording symmetrical entries. Revaluation reserves should be transferred in full, with the remaining balance transferred to the General Fund.
- 4.2.24 For all adjustments required to achieve uniformity of accounting policies, the double entry will be to the General Fund (or equivalent).

### ***Disclosure***

- 4.2.25 A reporting entity that receives a transfer of functions should disclose in its financial statements that the transfer has taken place (including a brief description of the transferred function), giving the date of the transfer, the name of the transferring body and the effect on the financial statements. Where accounted for as a Transfer by Absorption, the reporting entity should apply judgment as to whether the additional disclosure of historical financial performance of the function should be provided, to enable users to understand the operational performance
- 4.2.26 Both the transferor and the transferee of a business combination under common control should apply a symmetrical accounting treatment for the transfer. A reporting entity that transfers functions to another reporting entity should also provide the same information about the transfer in its financial statements. Public bodies controlled by a parent entity should provide the necessary information required by the parent entity to meet the requirements set out in paragraphs 4.2.14 to 4.2.25.

***Other requirements***

- 4.2.27 Transfers of non-current assets that are not machinery of government changes<sup>1</sup> or part of a transfer of functions should be transferred at fair value following the fair value measures in IFRS 3.
- 4.2.28 4.2.28 Any departure from the accounting treatments in 4.2.14 to 4.2.25 must be agreed with the Relevant Authority, and applied symmetrically by the transferor and transferee.

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<sup>1</sup> Machinery of Government changes are those changes that transfer responsibility for a function from one part of the public sector to another.

## 5 Form and content of the annual report and accounts

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## 5.1 Introduction

5.1.1 This chapter sets out the requirements for the format and content of the annual reports and accounts of the reporting entities covered by the requirements of this Manual, with the exception of pension schemes (see chapter 12). The annual report and accounts includes:

- a) the annual report (section 5.2);
- b) a statement of Accounting Officer's responsibilities (see paragraph 5.3.2);
- c) a Governance Statement (see paragraph 5.3.3);
- d) the primary financial statements and notes (section 5.4); and
- e) the audit opinion and report (section 5.5).

Reporting entities must prepare and publish an annual report and accounts as a single document unless the relevant authorities have specifically agreed otherwise. Illustrative pro-forma financial statements are provided on the gov.uk website<sup>1</sup>.

5.1.2 Reporting entities that comply with this Manual and are not incorporated as companies will apply chapters 4,4A, 5 and 6 of Part 15 the Companies Act 2006, plus associated statutory instruments, with interpretation for the public sector context. The remaining chapters of Part 15 will not apply.

5.1.3 This chapter does not set out the requirements for the format and content of the annual reports and accounts of reportable activities, which are set out in the relevant accounts directions.

5.1.4 Departments financed through the Westminster or the Northern Ireland Assembly Estimates process should refer to chapter 3 for guidance on the *Statement of Parliamentary Supply*. These departments should also refer to the pro-forma *Department Yellow*. Departments may also need lines and/or notes in their financial statements additional to those in *Department Yellow* pro-forma in order to show a true and fair view.

5.1.5 The formats of the Statement of Comprehensive Net Expenditure and the Statement of Cash Flows for the departments referred to in paragraph 5.1.4 differ from the formats used by other reporting entities covered by the requirements of this Manual.

5.1.6 The accounts to be published by spending bodies accountable to the Scottish Parliament will follow the format agreed between Scottish Ministers and the Public Audit Committee of the Scottish Parliament. The format of those accounts will be based on the principles, but not the detail, set out in this chapter.

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<sup>1</sup> Illustrative pro-forma financial statements are provided for Department Yellow, Agency Pink, NDPB Green, Trust Statement Purple and Pension Scheme Magenta.

## Summary financial information

5.1.7 A reporting entity that wishes to publish a document additional to its annual report and accounts that contains summary financial information should comply with the requirements of section 426 of the Companies Act 2006. The summary data must not be published in advance of the full annual report and accounts being laid before Parliament<sup>2</sup> as to do so would be a breach of Parliamentary privilege.

## Interim financial information

5.1.8 IAS 34 *Interim Financial Reporting* applies in full to those reporting entities that are required or elect to publish interim financial reports.

### **Objective of IAS 34**

5.1.9 The objective of IAS 34 is to prescribe the minimum content of an interim financial report and to prescribe the principles for recognition and measurement in complete or condensed financial reports for an interim period.

## 5.2 The annual report

### Introduction

5.2.1 This section of the chapter applies to all reporting entities covered by the requirements of this Manual except charitable NDPBs, which should follow the requirements of the Charities SORP and regulations made under Charities legislation. For the avoidance of doubt, NDPBs that are charities should prepare an annual report that comprises a Trustees' Annual Report (in accordance with the requirements set out in the Charities SORP) and a Remuneration Report.

### Scope of the annual report

5.2.2 All reporting entities covered by this Manual shall prepare an annual report alongside the accounts containing the matters to be dealt with:

- In a Strategic Report as set out in Chapter 4A of Part 15 of the Companies Act 2006, as interpreted below for the public sector context;
- in a Directors' Report as set out in Chapter 5 of Part 15 of the Companies Act 2006 and Schedule 7 of SI 2008 No 410, as interpreted below for the public sector context; and
- in a Remuneration Report as set out in Chapter 6 of the Companies Act 2006 and Schedule 8 of SI 2008 No 410, as interpreted below for the public sector context (Chapter 9 of Part 15 of the Companies Act 2006 shall not apply).

5.2.3 In the case of **executive agencies** and **trading funds**, the preparation of an annual report as described above will satisfy the requirement for the preparation of a Foreword and a report as required by Cm 914 *The Financing and Accountability of*

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<sup>2</sup> Parliament is used in this context to mean the Westminster Parliament, the Scottish Parliament, the National Assembly for Wales and the Northern Ireland Assembly.

*Next Steps Agencies* (agencies), section 4(6A)(b) of the Government Trading Funds Act 1973 (trading funds) and article 8(7)(b) of the Financial Provisions (Northern Ireland) Order 1993. There is thus no need to produce a separate report in addition to the annual report described above. The document presented to Parliament should be described as “Annual Report and Accounts”.

5.2.4 In the case of **NDPBs** that already have a statutory obligation to prepare a separate report, the preparation of an annual report described herein will satisfy the requirement for the production of this separate report. This annual report will be presented to Parliament with the accounts as a combined document described as the “Annual Report and Accounts”. Where there is currently no statutory requirement for the preparation of a separate report, NDPBs will prepare an annual report as described herein for inclusion in the accounts which will be described as the “Annual Report and Accounts” and presented to Parliament.

5.2.5 Auditors will review the Annual Report for consistency with other information in the financial statements. They are required to express an opinion on the consistency of the Strategic and Directors’ Reports elements of the Annual Report as interpreted for the public sector context. These elements will include:

- details of the directors (see paragraph 5.2.13);
- the management commentary (comprising the strategic report and directors’ report) (paragraph 5.2.6-20);
- progress against agreed key performance indicators, which is within the strategic report (paragraph 5.2.7), and;
- the preparation of a sustainability report, which is within the strategic report (paragraph 5.2.16).

In order that readers of the Annual Report can identify those paragraphs that are subject to the auditors’ opinion on consistency, the contents outlined above should be clearly identified by way of headings.

Where there are cross references to information in other sections of the Annual Report, the consistency opinion will be extended to cover this other information.

### ***Strategic report: interpretation of the Companies Act requirements for the public sector context***

#### Contents of the strategic report – interpretations for the public sector context

5.2.6 The annual report shall contain a strategic report, which shall disclose the matters required to be disclosed in the strategic report under section 414C of the Companies Act 2006 as interpreted below.

- a) “Members” (s.414C(1)) shall be interpreted to be all users of the accounts;
- b) Public entities should treat themselves, for the purposes of ss 414C (7), (8), and (9), as if they were quoted companies;
- c) In relation to s.414C(2) and s.414C(3) the strategic report should be self-standing and comprehensive in its scope. However, some information might be given in other documents in the cycle of accountability to Parliament and the public. In such cases, the strategic report should provide summarised information with adequate cross-references to the other documents;
- d) In relation to departments applying s.414C(7)(a), the strategic report should disclose, where applicable, the financing implications of significant changes in the department’s objectives and activities, its investment strategy and its long-

term liabilities (including significant provisions and PFI and other leasing contracts) in the light of the department's spending review settlement; and

- e) Sections 414C(7)(b)(i) and (iii) require information on environmental matters and social, community and human rights issues respectively. Environmental issues are covered in the sustainability report within the strategic report (see paragraph 5.2.16 below). Social, community and human rights issues should be disclosed to the extent necessary for the understanding of the business.
- f) In relation to section 414C(8)-(10) senior manager is taken to be any member of staff at SCS level or equivalent.

5.2.7 Departments should disclose performance against their key performance indicators<sup>3</sup>. Other reporting entities should report performance against those key performance indicators agreed with the Minister and normally promulgated by means of a Parliamentary question. In relation to the requirements of s414C(4) in disclosing information relating to the achievement of financial key performance indicators based on a return on capital employed, reporting entities should use the definitions of "return" and "capital employed" as agreed in their Treasury Minute or other document rather than those given in the Reporting Statement (IG example 1).

5.2.8 In addition to the matters described in section 414C of the Companies Act 2006, reporting entities to which this Manual applies shall disclose the following information in the strategic report:

- a) (departments to which paragraph 5.1.4 refers) a comparison of outturn against Estimate, with detailed explanations of the causes of significant variances where applicable;
- b) (departments preparing accounts under the Government Resources and Accounts Act 2000 or the Government Resources and Accounts Act (Northern Ireland) 2001) a reconciliation of net resource expenditure between Estimates, budgets and accounts. The format, adapted from the reconciliation included in the Notes to the Main Estimate, is shown following this paragraph;
- c) (departments only) a description of the reporting entities within the departmental accounting boundary;
- d) (departments only) the names of any public sector bodies outside the boundary for which the department had lead policy responsibility in the year, together with a description of their status (for example, trading fund or public corporation);
- e) (departments only) a description of the departmental reporting cycle, including an outline of the matters covered in the Estimates, and information about how readers can obtain this document;
- f) (departments only) commentary on the department's significant remote contingent liabilities (that is, those that are disclosed under Parliamentary reporting requirements and not under IAS 37) to enable the reader to understand their nature and what steps the department is taking to minimise the risk of their crystallising;
- g) (executive agencies that are not whole departments, trading funds and NDPBs only) a note that the accounts have been prepared under a direction issued by [relevant authority] under [reference to appropriate legislation];
- h) (executive agencies that are not whole departments, trading funds and NDPBs only) a brief history of the entity and its statutory (or equivalent) background;

<sup>3</sup> As agreed by the appropriate governance authority

- i) (primarily for NDPBs) an explanation of the adoption of the going concern basis where this might be called into doubt, for example where there are significant net liabilities that will be financed from resources voted by Parliament (grant-in-aid, for example) in the future.

***Reconciliation of net resource expenditure between Estimates, budgets and accounts***

	201X-1Y	£000 201W-1X
<b>Net Resource Outturn (Estimates)</b>		
<i>Adjustments to remove non-budget elements:</i>		
Grants to devolved administrations (SO, WO and NIO)		
<i>Prior period adjustments Adjustments to include:</i>		
Consolidated Fund Extra Receipts in the resource budget		
Other adjustments		
<b>Total Resource Budget Outturn</b>		
<i>of which:</i>		
Departmental Expenditure Limits (DEL)		
Annually Managed Expenditure (AME)		
 <i>Adjustments include:</i>		
Capital grants (net of related EU contributions)		
Grants to devolved administrations (SO, WO and NIO)		
Consolidated Fund Extra Receipts in the OCS		

*Adjustments to remove*

**Net Operating Cost (Accounts)**

Northern Ireland Departments may require additional items to complete this reconciliation and should include these as appropriate.

Approval and signing of the strategic report

5.2.9 Except for ALBs that are companies, section 414D(1) of the Companies Act 2006 shall not apply, and the sections 414D(2) to 414D(3) shall not apply to any reporting entity covered by the requirements of this Manual.

5.2.10 The Accounting Officer (or Chief Executive) shall sign and date the strategic report.

Duty to provide information on the matters contained in the strategic report

5.2.11 Sub-sections 414A(5) and 414A(6) of the Companies Act 2006 shall not apply.

***Directors' report: interpretation of the Companies Act requirements for the public sector context***

Duty to provide information on the matters contained in the directors' report

5.2.12 The annual report shall contain a directors' report, which shall disclose the matters required to be disclosed in the directors' report under section 416 of the Companies Act 2006 as interpreted below.

5.2.13 The term 'directors' and the information required is interpreted as:

- a) (departments) the ministerial titles and names of all ministers who had responsibility for the department during the year;
- b) (departments) the name of the person occupying the position of the permanent head of the department;
- c) (reporting entities other than departments) the names of the chairman and chief executive; and
- d) (all reporting entities) the composition of the management board (including advisory and non-executive members) having authority or responsibility for directing or controlling the major activities of the entity during the year. This means those who influence the decisions of the entity as a whole rather than the decisions of individual directorates or sections with the reporting entity.

5.2.14 Sub-sections 415(4) and 415(5) of the Companies Act 2006 shall not apply.

#### Contents of the directors' report – interpretations for the public sector context

5.2.15 In addition to the matters described in sections 416 of the Companies Act 2006 and Schedule 7 of the Large and Medium-sized companies and Groups (Accounts and Reports) Regulations 2008 (SI 2008 No 410), reporting entities to which this Manual applies shall disclose the following information:

- a) an indication of how pension liabilities are treated in the accounts and a reference to the statements of the relevant pension scheme. A cross-reference to the accounting policy note in the accounts and the remuneration report will normally be sufficient;
- b) details of company directorships and other significant interests held by Board members which may conflict with their management responsibilities. Where a Register of Interests that is open to the public is maintained, disclosure may be limited to how access to the information in that Register may be obtained;
- c) information regarding the disclosure of the remuneration paid to the auditors for any non-audit work undertaken by the auditors as required by Regulations made under Section 494 of the Companies Act 2006;
- d) published sickness absence data;
- e) (for Public Sector Information Holders only) a statement that [name of entity] has complied with the cost allocation and charging requirements set out in HM Treasury guidance; and
- f) reporting of personal data related incidents.

5.2.16 The reporting of Greenhouse Gas Emissions under Schedule 7 of SI 2008 No 410 is not required. Entities falling within the scope of reporting under the Greening Government commitments (i.e. departments, Non-Ministerial departments, agencies and NDPBs) and which are not exempted by de minimis limit or other exemption under Greening Government (or other successor policy), shall produce a sustainability report to be included within the strategic report, reporting performance against sustainability targets for greenhouse gas emissions, waste minimisation and management and the use of finite resources and their related expenditure. To facilitate reporting, guidance on the reporting methodology, and an illustrative reporting model, can be found on the gov.uk website. Inclusion of a sustainability report will be deemed to have fulfilled the reporting requirements regarding greenhouse emissions in Schedule 7 of SI 2008 No. 410.

5.2.17 Spending bodies accountable to the Northern Ireland Assembly will report on sustainability within the framework established by the Northern Ireland Executive's Programme for Government. Relevant guidance will be issued by the Northern

Ireland Executive. Spending bodies accountable to the Scottish Parliament will report on sustainability within the framework established by the Scottish Government and in accordance with guidance issued by the Scottish Government. Spending bodies accountable to the Welsh Assembly Government will prepare a sustainability report within the Management Commentary based upon targets outlined by the Welsh Assembly Government. The Welsh Assembly Government will issue relevant guidance.

#### Contents of the directors' report: statement as to disclosure to auditors

5.2.18 Sub-sections 418(5) and 418(6) of the Companies Act 2006 shall not apply.

#### Approval and signing of the director report

5.2.19 Except for ALBs that are companies, section 419(1) of the Companies Act 2006 shall not apply, and the sections 419(2) to 419(4) shall not apply to any reporting entity covered by the requirements of this Manual.

5.2.20 The Accounting Officer (or Chief Executive) shall sign and date the directors' report.

#### ***Remuneration report: interpretation of the Companies Act requirements for the public sector context***

5.2.21 Certain disclosures in the remuneration report are subject to audit and these elements must be clearly annotated within the remuneration report as being subject to audit. Although public sector bodies are treated similarly to quoted companies in terms of application of the Companies Act, they will not be required to comply with Parts 1, 2, 4 and 6 of Schedule 8 of SI 2008 No 410 except to the extent required by the guidance below.

#### Duty to prepare directors' remuneration report

5.2.22 Sub-sections 420(2) and 420(3) of the Companies Act 2006 shall not apply.

5.2.23 References in the Act to 'Directors' are interpreted in paragraph 5.2.13.

#### Contents of directors' remuneration report

5.2.24 Section 421 of the Companies Act 2006 requires the preparation of a Remuneration Report containing an annual report on remuneration in accordance with the requirements of Part 3 of Schedule 8 of Statutory Instrument 2008 No. 410. Certain information is subject to audit (see Part 5 of Schedule 8 of SI 2008 No. 410) and will be referred to in the audit opinion.

5.2.25 Reporting entities covered by the requirements of this Manual shall include information under the headings in SI 2008 No 410 to the extent that they are relevant. (For example, the line graph required in Part 3 of Schedule 8 will not be applicable to reporting entities covered by the requirements of this Manual.) Westminster departments should refer to guidance contained in the annual Employer Pension Notice issued by the Cabinet Office. Paragraphs 19-23 of Schedule 8 of SI 2008 No 410 are disapplied.

5.2.26 There is a presumption that information about named individuals will be given in all circumstances and all disclosures in the remuneration report will be consistent with identifiable information of those individuals in the financial statements. Non-disclosure is acceptable only where publication would:

- be in breach of any confidentiality agreement;
- prejudice the rights, freedom or legitimate interest of the individual; or
- cause or be likely to cause substantial damage or substantial distress to the individual or another, and that damage or distress would be unwarranted,

which for entities covered by the requirements of this Manual include grounds of national security or where an individual may be at risk if his or her name is disclosed. In other cases, it would be for the staff member to make a case for non-disclosure, which should be considered by the employer on a case-by-case basis. Where non-disclosure is agreed, the fact that certain disclosure has been omitted should be disclosed.

5.2.27 The following interpretations apply:

- a) in most cases it will be sufficient to refer to the work and recommendations of the Senior Salaries Review Body in the statement of policy on the remuneration of directors for the current and future years;
- b) salaries should be disclosed in bands of £5,000 for officials and actual amounts for ministers. Salary and allowances covers both pensionable and non-pensionable amounts and includes, but may not necessarily be confined to: gross salaries; overtime; reserved rights to London Weighting or London allowances, recruitment and retention allowances; private-office allowances or other allowances to the extent that they are subject to UK taxation and any ex-gratia payments. It does not include amounts which are a reimbursement of expenses directly incurred in the performance of an individual's duties. Performance pay or bonuses payable should be separately reported from salaries, in bands of £5,000. For ministers, only the salary payable in respect of their role as minister of the department should be shown;
- c) if a payment for compensation on early retirement or for loss of office (paid or receivable) has been made under the terms of an approved Compensation Scheme, the fact that such a payment has been made should be disclosed, including a description of the compensation payment and details of the total amounts paid;
- d) the estimated value of non-cash benefits (benefits in kind) should be disclosed to the nearest £100;
- e) The median remuneration of the reporting entity's staff and the ratio between this and the mid-point of the banded remuneration of the highest paid director (see paragraph 5.2.6) shall be disclosed, whether or not this is the Accounting Officer or Chief Executive. The calculation is based on the full-time equivalent staff of the reporting entity at the reporting period end date on an annualised basis. For departments, the calculation should exclude arm's length bodies within the consolidation boundary. Entities shall disclose information explaining the calculation, including the causes of significant variances where applicable. Further guidance is provided on the gov.uk website;
- f) the information on pension rights required in Part 3 of Schedule 8 of the Statutory Instrument 2008 No 410 should be disclosed as follows:
  - the real increase during the reporting year in the pension and (if applicable) related lump sum at age 60 (ministers age 65) in bands of £2,500;

- the value at the end of the reporting year of the accrued pension and (if applicable) related lump sum at age 60 (ministers, age 65) in bands of £5,000;
  - the value of the cash equivalent transfer value at the beginning of the reporting year to the nearest £1,000;
  - the real increase in the cash equivalent transfer value during the reporting year, to the nearest £1,000;
  - the value of the cash equivalent transfer value at the end of the reporting year to the nearest £1,000; and
  - in the case of a partnership pension account, the employer's contribution (in these circumstances, the disclosures in the first four bullets will not apply); and
- g) Part 3 of Schedule 8 of Statutory Instrument 2008 No. 410 sets out requirements regarding the single total remuneration figure disclosures; contact the relevant authority for additional guidance if necessary.

### Approval and signing of directors' remuneration report

5.2.28 The Remuneration Report shall be signed and dated by the Accounting Officer or Chief Executive. (For the purposes of publication, the Accounting Officer/Chief Executive's signature on the Annual Report will also satisfy the requirement to sign the Remuneration Report which is an integral part of the Annual Report.). Section 422 of the Companies Act 2006 shall not apply.

## **5.3 Statements by the Accounting Officer**

5.3.1 This section of the chapter applies to all reporting entities and reportable activities covered by the requirements of this Manual.

### **Statement of Accounting Officer's responsibilities**

5.3.2 The Accounting Officer or Chief Executive of each reporting entity and reportable activity covered by the requirements of this Manual should explain his or her responsibility for preparing the financial statements in a statement that should be positioned after the Annual Report and before the governance statement. A model statement of Accounting Officer's responsibilities is provided in Annex 1.

### **Governance Statement**

5.3.3 All reporting entities covered by the requirements of this Manual shall prepare a governance statement. Guidance on content is provided for specific sectors and jurisdictions governed by the Relevant Authorities<sup>4</sup>. Where a reporting entity includes in its published annual report and accounts financial statements relating to several reportable activities, the reporting entity need include only a single governance statement.

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<sup>4</sup> Managing Public Money (including Annex 3.1), Scottish Public Finance Manual, Managing Public Money Northern Ireland, The Annual Governance Statement; Rough Guide for Practitioners (CIPFA Finance Advisory Network), Annual guidance issued by the Department of Health and Monitor.

- 5.3.4 Where the financial statements in respect of a reportable activity are published separately from the accounts of the reporting entity, accounts preparers should prepare a governance statement in respect of the reportable activity.
- 5.3.5 The Accounting Officer (or Chief Executive) shall sign and date the governance statement. Section 419A of the Companies Act 2006 is disapplied.

## **5.4 The Annual Accounts**

### **Introduction**

- 5.4.1 This section of the chapter provides guidance to reporting entities on the format and content of the (Consolidated) Statement of Comprehensive Net Expenditure, the (Consolidated) Statement of Financial Position, the (Consolidated) Statement of Changes in Taxpayers' Equity and the (Consolidated) Statement of Cash Flows, together with the relevant notes. The following paragraphs make it clear how different types of reporting entity should present financial statements. The detailed requirements for the format and content of the financial statements of reportable activities are set out in the accounts directions for those activities.
- 5.4.2 In addition to the requirements of the Companies Act (see paragraph 5.4.4), this section considers the following accounting standards that provide guidance on the formats of, and disclosures in, financial statements:
- IAS 1 Presentation of Financial Statements;*
  - IAS 7 Statement of Cash Flows;*
  - IAS 10 Events after the Reporting Period;*
  - IAS 24 Related Party Disclosures; and*
  - IFRS 8 Operating Segments.*
- 5.4.3 Other accounting standards, which are dealt with in other chapters of this Manual, might include disclosure requirements. Unless indicated otherwise, those disclosure requirements apply in full.

### **Requirements of the Companies Act 2006**

- 5.4.4 Chapter 4 of Part 15 of the Companies Act 2006 deals with the form and content of company accounts, the form and content of group accounts and the disclosure of information about related undertakings. Other than NDPBs that are charities (which apply the Charities SORP), all reporting entities shall prepare individual or group accounts as appropriate using IAS 1. The following interpretations of Chapter 4 of Part 15 of the Companies Act 2006 apply:
- a) sections 394, 395, 396, 398 to 405 and 407 shall not apply. The duty to prepare accounts, together with the applicable accounting framework, is laid down in the relevant legislation and in individual accounts directions;
  - b) sections 397 and 406 shall be interpreted as a requirement to state in the notes to the accounts that the financial statements have been prepared in accordance with this Manual (see chapter 2.2.13 for the detailed wording);
  - c) the term "subsidiary undertakings" used in various sections shall be interpreted to mean those entities consolidated into the reporting entity's financial

statements and the term “related undertakings” shall be interpreted to mean those entities outside the reporting boundary;

- d) section 408 is superseded by the interpretations of IAS 1 (see below);
- e) reporting entities shall provide the information about related undertakings required under section 409 (unless reporting entities apply section 410) as set out in Statutory Instrument 2008 No. 410;
- f) the information required by section 411 shall be presented as the average full time equivalent staff under the following headings (and, in the case of departments only, by departmental activity):
  - staff with a permanent (UK) employment contract with the entity;
  - other staff engaged on the objectives of the entity (for example, short term contract staff, agency/temporary staff, locally engaged staff overseas and inward secondments where the entity is paying the whole or the majority of their costs). Where the number of staff under any one category of ‘other staff’ is significant, that category should be separately disclosed;
  - Ministers; and
  - Special advisers.

(Note that the requirements of section 411 override IAS 1.IN13(b) where the requirement to disclose the number of an entity’s employees is not required.)

- g) where the information required under sections 412 and 413 is readily ascertainable from other information given in the financial statements or in the directors’ remuneration report, that information need not be repeated in the notes to the accounts; and
- h) the signature referred to in sections 414(1) and 414(2) is that of the Accounting Officer or Chief Executive. Sections 414(3) to 414(5) shall not apply.

## **IAS 1 Presentation of Financial Statements (excluding paragraphs 15 to 46)**

- 5.4.5 This section deals with the requirements of IAS 1, excluding paragraphs 15 to 46, which are covered in chapter 2.

### ***Applicability***

- 5.4.6 IAS 1 applies as interpreted to all reporting entities covered by the requirements of this Manual.

### ***Objective of IAS 1 (excluding paragraphs 15 to 46)***

- 5.4.7 The objective of IAS 1 is to prescribe the basis for presentation of general purpose financial statements to ensure comparability with the entity’s financial statements of previous periods and with the financial statements of other entities.

### ***Statement of Comprehensive Net Expenditure***

- 5.4.8 IAS 1 requires entities to prepare a Statement of Comprehensive Income, Departments, NDPBs and Trading Funds should continue to follow the guidance in this Manual.

Departments and executive agencies under the Government Resources and Accounts Act 2000 and the Government Resources and Accounts Act (Northern Ireland) 2001

5.4.9 Departments preparing annual accounts and executive agencies preparing financial statements under the Government Resources and Accounts Act 2000 or under the Government Resources and Accounts Act (Northern Ireland) 2001 shall prepare a Statement of Comprehensive Net Expenditure in accordance with the format shown below. Where a department or agency considers that an alternative format is required to improve the understanding of the body's financial performance, they should seek the approval of the relevant authority, with agencies seeking approval through the sponsoring department. (Programme expenditure will be shown only where appropriate and any related income (if applicable) for both programme costs and administration costs should be shown separately for each of the two expenditure categories: see also chapter 11.3.3 and 11.3.4.)

## Consolidated Statement of Comprehensive Net Expenditure

for the Year to 31 March  
200Y

£000	201X-Y			201W-X		
	Core Dept	Core Dept. & Agencies	Departmental Group	Core Dept	Core Dept. & Agencies	Departmental Group
	Total	Total	Total	Total	Total	Total
Administration costs						
Staff	X	X	X	X	X	X
Other	X	X	X	X	X	X
Programme expenditure						
Staff	X	X	X	X	X	X
Other	X	X	X	X	X	X
Operating Income	(X)	(X)	(X)	(X)	(X)	(X)
Other expenditure						
Staff	X	X	X	X	X	X
Other	X	X	X	X	X	X
<b>Net Operating Costs for the year ended 31 March 200Y</b>	X	X	X	X	X	X
<b>Other Comprehensive Net Expenditure</b>						
<b>Items that will not be reclassified to net operating costs:</b>						
Net gain/(loss) on:						
- revaluation of property, plant & equipment	X	X	X	X	X	X
- revaluation of intangibles	X	X	X	X	X	X
<b>Items that may be reclassified subsequently to net operating costs:</b>						
- revaluation of available for sale financial assets	X	X	X	X	X	X
<b>Total comprehensive expenditure for the year ended 31 March 200Y</b>	X	X	X	X	X	X

Non-departmental public bodies and trading funds

5.4.10 NDPBs shall prepare a Statement of Comprehensive Net Expenditure as appropriate. Trading funds shall prepare a Statement of Comprehensive Income. Charitable NDPBs should follow the requirements of the Charities SORP. In applying IAS 1 where this Manual refers to the Statement of Comprehensive Net Expenditure or Statement of Comprehensive Income, NDPBs and Trading Funds should interpret this terminology as appropriate for their own circumstances.

General interpretation

5.4.11 In applying IAS 1, entities should be aware of the following general interpretation for the public sector context:

- a) profit on disposal of an asset can be accounted for as negative expenditure to the extent that the profit represents a final adjustment of depreciation. Where this is not the case, profits should be accounted for as income;

**Statement of Financial Position**

5.4.12 IAS 1 requires entities to prepare a Statement of Financial Position and provides guidance on the minimum presentation required on the face of the statement of financial position.

Interpretation of the statement of financial position requirements in IAS 1 for the public sector context

5.4.13 For the public sector, the flexibility provided in IAS 1 to select the order of presentation of line items on the Statement of Financial Position and to present on a liquidity basis is withdrawn. To ensure consistency and comparability, reporting entities should prepare their Statements of Financial Position in accordance with the format shown below, with additional line disclosure as necessary so as properly to reflect the entity’s financial position, capital and reserves. Additionally, the Statement of Financial Position for a departmental group shall include columns for the core department, the core department and agencies, and the consolidated group (usually core department, agencies and NDPBs). Where a reporting entity wishes to use an alternative format or to present on a liquidity basis, it should first obtain approval from the relevant authority (through the parent or sponsoring department as appropriate).

Notes	Current Year £000	Prior Year £000
Non-current assets		
Current assets		
Total assets		
Current Liabilities		
Non-current assets plus/less Net Current Assets/Liabilities		
Non-current Liabilities		
Assets Less Liabilities		
Taxpayers’ Equity		

## ***Statement of Changes in Equity***

5.4.14 IAS 1 requires entities to prepare a Statement of Changes in Equity.

### Interpretation of the Statement of Changes in Equity requirements in IAS 1 for the public sector

5.4.15 All reporting entities will present a Statement of Changes in Taxpayer's Equity following the format in IAS 1. Entities funded from Vote or grant-in-aid will need to adapt the format to accommodate this funding.

## ***Comparative information***

5.4.16 IAS 1 provides guidance on the comparative information to be disclosed in the financial statements.

### Interpretation of the comparative information requirements in IAS 1 for the public sector context

5.4.17 The IAS 1 comparative information requirements should be applied in full except that reporting entities should note that a decision on whether to include corresponding amounts in disclosures specific to government departments and agencies (for example, in relation to information on the *Statement of Parliamentary Supply*) will be taken on a case-by-case basis and will be shown in *Department Yellow*. Additionally, the Statement of Changes in Taxpayers' Equity for a departmental group shall include columns for the core department, the core department and agencies, and the consolidated group (usually core department, agencies and NDPBs).

## ***Capital***

### Interpretation of the capital disclosures requirements in IAS 1 for the public sector context

5.4.18 The financing of public sector entities is ultimately tax-based and an IAS 1-based notion of capital does not apply to many of them. Capital disclosures should be given only with the agreement of the relevant authority (through the parent or sponsoring department where appropriate).

## **IAS 7 Statement of Cash Flows**

### ***Applicability***

5.4.19 IAS 7 applies in full to all reporting entities covered by the requirements of this Manual.

### ***Objective of IAS 7***

5.4.20 The objective of IAS 7 is to require the provision of information about the historical change in cash and cash equivalents of an entity by means of a Statement of Cash Flows that classifies cash flows during the period from operating, investing and financing activities.

**Other requirements**

5.4.21 The following requirements should be observed by the departments referred to in paragraph 5.1.4 (and, where appropriate, their executive agencies):

- a) departments should follow the format of the Statement of Cash Flows in IAS 7 but should include at the foot of the statement those cash flows with the Consolidated Fund in the format shown below:

	Current year £000	Prior year £000
<b>Note</b>		
<b>Cash and cash equivalents at 31 March before adjustments for receipts due to/payments from the Consolidated Fund</b>		
Receipts due to the Consolidated Fund which are outside the scope of the Department's activities		<i>Cash received during the year in relation to CFER income that does not pass through the Statement of Comprehensive Net Expenditure.</i>
Payments of amounts due to the Consolidated Fund		<i>Cash paid over to the Consolidated Fund under any category.</i>
<b>Cash and cash equivalents at 31 March</b>		

- b) in reconciling the operating cost to operating cash flows, departments should exclude movements in debtors and creditors relating to items that do not pass through the Statement of Comprehensive Net Expenditure (balances with the Consolidated Fund; and debtors and creditors linked to loans from the National Loans Fund, capital expenditure, finance leases and PFI contracts);
- c) the notes to the Statement of Cash Flows should be placed within the notes to the accounts, and not on the face of the Statement of Cash Flows;
- d) in analysing capital expenditure and financial investment, departments should adjust for debtors and creditors relating to capital expenditure and those relating to loans issued to or repaid by other bodies; and
- g) in analysing financing, departments should adjust for debtors and creditors relating to the capital expenditure in respect of finance leases and on-balance sheet PFI contracts.

**IAS 10 Events after the Reporting Period****Applicability**

5.4.22 IAS 10 applies, as interpreted, to all reporting entities covered by the requirements of this Manual.

**Objectives of IAS 10**

5.4.23 The objectives of IAS 10 are to prescribe when an entity should adjust its financial statements for events after the reporting period and what disclosures should be given about events after the reporting period, and to require disclosure of the date when the financial statements are authorised.

***Interpretations of IAS 10 for the public sector context***

5.4.24 The following interpretations of IAS 10 for the public sector context apply:

- a) Public Dividend Capital is not a financial instrument within the meaning of IAS 32 *Financial Instruments: Presentation*. Unpaid dividends in respect of Public Dividend Capital shall continue to be recognised as liabilities at the reporting period; and
- b) the date of the Accounting Officer's authorisation for issue of the financial statements of the reporting entities covered by this Manual is normally the same as the date of the Certificate and Report of the Comptroller and Auditor General. The date of authorisation for issue must be included in the Annual Report and Accounts, but not on the title page. The statement should read

“The Accounting Officer authorised these financial statements for issue on [insert date of issue].”

**IFRS 8 Operating Segments*****Applicability***

5.4.25 IFRS 8 applies in full to all reporting entities covered by the requirements of this manual.

5.4.26 The Scottish Government will follow IFRS 8 except that, as noted in 5.1.6, its accounts will follow the format as agreed between Scottish Ministers and the Public Audit Committee of the Scottish Parliament.

***Objectives of IFRS 8***

5.4.27 The objective of IFRS 8 is to require an entity to disclose information to enable users of its financial statements to evaluate the nature and financial effects of the business activities in which it engages and the economic environment in which it operates.

***Fees and charges information to be provided by departments, executive agencies, non-departmental public bodies and trading funds for fees and charges raised under legislation enacted by the UK Parliament or as determined by the relevant authorities***

5.4.28 Departments, executive agencies that are not whole departments, NDPBs and trading funds should provide in their financial statements an analysis of the services for which a fee is charged, with a statement that the information is provided for fees and charges purposes, not for IFRS 8 purposes. Where they do not produce separate accounts (for example, advisory or tribunal NDPBs), entities should arrange for the analysis to be published in the accounts of the responsible department, with a note stating the name of the entity to which the analysis applies. The analysis should include the following information for each service where the full cost is over £1 million or more or is otherwise material in the context of the financial statements:

- a) the financial objective;
- b) full cost;
- c) income;

- d) surplus or deficit; and
- e) performance against the financial objective.

5.4.29 Public Sector Information Holders should also include a statement that [name of entity] has complied with the cost allocation and charging requirements set out in HM Treasury and Office of Public Sector Information guidance.

***Fees and charges information to be provided by departments, executive agencies, non-departmental public bodies and trading funds for fees and charges raised under legislation enacted by the Welsh Assembly Government, the Northern Ireland Assembly or the Scottish Parliament***

5.4.30 The Welsh Assembly Government and the Northern Ireland Executive follow the fees and charges requirements of *Managing Public Money* and should disclose the same information as required in paragraphs 5.4.28 and 5.4.29).

5.4.31 Reporting entities in Scotland should provide suitable disclosure following guidance on fees and charges issued by Scottish Government Finance.

**Notes to the accounts**

5.4.32 IAS 1 requires that entities present a summary of accounting policies which will disclose the measurement basis used in preparing financial statements and all other accounting policies that are significant to the understanding of the financial statements. Entities should disclose key sources of estimation uncertainty and judgements made in applying accounting policies.

5.4.33 Further notes shall be provided as required by other IFRSs or as necessary to provide additional information that is not presented on the face of the Statement of Financial Position, Statement of Comprehensive Net Expenditure or Statement of Cash Flows but is relevant to provide an understanding of such statements.

5.4.34 The following paragraphs provide guidance on note disclosure requirements for the public sector context (but see also paragraph 5.4.3).

***Other administration costs and programme costs***

5.4.35 Entities shall analyse the total of other administration costs and programme costs, as recorded in the Statement of Comprehensive Net Expenditure, in separate notes to the financial statements. Entities shall also disclose expenditure in respect of the service charges under PFI contracts, the individual components of non-cash items, and an analysis of other significant expenditure items.

***Income***

5.4.36 In addition to the information required under paragraph 5.4.28, all reporting entities should provide an analysis of operating income, together with commentary where appropriate, that enables users of the financial statements to understand the nature of the entity's operating income.

## ***Property, Plant and Equipment***

5.4.37 As a minimum, entities should analyse their property, plant and equipment under the following headings, distinguishing between owned and leased assets.

***information technology*** – hardware used for processing data and communications;

***land*** – any land holdings and land underlying buildings (see below – land underlying or associated with dwellings to be separately disclosed);

***buildings excluding dwellings*** – offices, warehouses, hospitals, barracks, hangars, runways, farms and multi-storey car parks, etc. Any underlying and associated land to be disclosed separately as noted above;

***dwellings*** – buildings used entirely or primarily as residences, including any associated structures such as garages and parking areas. Any underlying and associated land, such as gardens and yards, to be separately disclosed;

***networked assets*** – see 6.2.10. Underlying and associated land should be included;

***transport equipment*** – equipment for moving people and/or objects, for example cars, lorries, trains, ambulances and aircraft;

***single-use military equipment (for MoD use only)*** – military equipment for which there is no equivalent civilian role (for example tanks and fighter aircraft);

***plant and machinery*** – plant and machinery not covered by other categories, including scientific aids and surveillance equipment;

***furniture and fittings*** – office fittings, furniture, showcases, shelving etc.;

***antiques and works of art*** – assets acquired for future generations, for example paintings, sculptures, recognised works of art, and antiques;

***payments on account and assets under construction*** – assets currently being built and not yet in use; and

***cultivated assets*** – livestock for breeding, orchards and other plantations of trees yielding repeat products.

5.4.38 Operational heritage assets, and non-operational heritage assets that are capitalised, should be included under the appropriate heading.

## ***Intangible assets***

5.4.39 Entities should analyse their intangible assets under the following headings:

***information technology*** – software developed in-house or by third parties (but not software licences);

***software licences*** – the right to use software developed by third parties;

***websites***;

***development expenditure***;

***licences, trademarks and artistic originals*** – original films, sound recordings, etc. on which performances are recorded or embodied;

***patents*** – inventions that are afforded patent protection; and

***goodwill***.

***Other current assets***

5.4.40 Entities shall analyse other current assets by type (as appropriate) as set out below:

- a) deposits and advances;
- b) other debtors;
- c) prepayments and accrued income;
- d) current part of PFI prepayment;
- e) current part of NLF loan; and
- f) amounts due from the Consolidated Fund in respect of Supply.

5.4.41 Entities shall also give an analysis of receivables and other current assets balances between:

- a) other central government bodies;
- b) local authorities;
- c) NHS bodies;
- d) public corporations and trading funds; and
- e) bodies external to government.

***Cash and cash equivalents***

5.4.42 Entities shall disclose the opening position, the net change in balances and the closing position separately for cash and cash equivalents. Where applicable, the closing position should be further analysed between balances held with the Government Banking Service (GBS)<sup>5</sup> and balances held in commercial banks, again distinguishing between cash and cash equivalents.

***Other creditors***

5.4.43 Reporting entities shall analyse other creditors by type (as appropriate) as set out below. For amounts falling due within one year:

- a) overdraft;
- b) VAT;
- c) other taxation and social security;
- d) accruals and deferred income;
- e) current part of finance leases;
- f) current part of imputed finance lease element of on-balance sheet PFI contracts;
- g) current part of NLF and voted loans;
- h) amounts issued from the Consolidated Fund for Supply, but not spent at the year end;

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<sup>5</sup> Where GBS is using Citi and Royal Bank of Scotland Group to provide the banking services, funds held in these accounts should not be classed as commercial bank balances.

- i) Consolidated Fund extra receipts due to be paid to the Consolidated Fund – received;
  - j) Consolidated Fund extra receipts due to be paid to the Consolidated Fund – receivable;
  - k) other headings as appropriate; and,
- for amounts disclosed as non-current liabilities:
- l) finance leases;
  - m) imputed finance lease element of on-balance sheet PFI contracts;
  - n) NLF loans; and
  - o) other headings as appropriate.

5.4.44 Entities shall also give an analysis of current liabilities balances between:

- a) other central government bodies;
- b) local authorities;
- c) NHS bodies;
- d) public corporations and trading funds;
- e) bodies external to government.

### ***Provisions for liabilities and charges***

5.4.45 In providing particulars of each provision, entities shall state:

- a) the nature of the provision;
- b) how the provision is calculated;
- c) the period over which expenditure is likely to be incurred; and
- d) the discount rate where the time value of money is significant. (Note that voluntary early retirement provisions under scheme terms are discounted at the pensions rate (see chapter 12) rather than the general provisions rate.)

### ***General Fund***

5.4.46 This paragraph applies to departments and executive agencies. The General Fund represents the total assets less liabilities of the department or agency, to the extent that the total is not represented by other reserves and financing items. Supply financing is credited to the General Fund, as is financing from the National Insurance Fund (relating to benefits expenditure) and from the Contingencies Fund. An amount equal to any expenditure on standing services (see paragraph 3.3.1) is credited to the General Fund.

### ***Transactions financed directly by the Consolidated Fund***

5.4.47 Where expenditure is funded directly by the Consolidated Fund, departments should account appropriately for the transaction where it satisfies both of the following criteria:

- a) the entity has the ability to deploy the economic resources involved; and

- b) the entity has the ability to benefit (or to suffer) from the deployment of those resources.

5.4.48 In applying the two criteria in 5.4.48, departments should have regard to the following terminology used:

- a) 'deploy': the entity has the ability to determine the level of resources consumed or the nature of the associated economic benefits within the constraint that all expenditure is subject to the overriding requirements, permissions and constraints of statute or other parliamentary approval;
- b) 'economic resources': these are the resources which include expenditure and the costs of holding assets; and
- c) 'benefit or suffer': the consumption of the economic resources is intended to support the achievement of the entity's services or functions; the entity also bears the risks of inefficiencies or performance shortfalls. Two examples can be given. First, in relation to the Statement of Comprehensive Net Expenditure, judges' salaries are paid out of the Consolidated Fund as standing services. The Ministry of Justice is responsible for allocating judges to courts, and for otherwise regulating their behaviour. The work of the judges facilitates the achievement of the department's services and functions. Second, in relation to the Statement of Financial Position, where the payments from the Consolidated Fund result in the recognition of assets, the entity should have regard to the guidance on accounting for investments – for example, in relation to public dividend capital issued from the Consolidated Fund to a trading fund within a wider departmental group.

## Reserves

5.4.49 This section applies to all reporting entities covered by this Manual, except where indicated.

### Income and expenditure reserve

5.4.50 NDPBs (with the exception of those that are charities) and trading funds should account for accumulated surpluses in an appropriately named reserve. Suitable descriptions include Income and Expenditure account, Accumulated Surpluses or General Reserve. NDPBs that are charities should follow the requirements of the Charities SORP. The note should give a detailed analysis of movements in the reserve.

### Revaluation reserve

5.4.51 The revaluation reserve should reflect the unrealised balance of the cumulative indexation and revaluation adjustments to assets.

### Other reserves

5.4.52 Entities should provide a detailed analysis of the movements in any other reserves.

## Commitments under PFI contracts

5.4.53 For 'off-balance sheet' service concessions entities should disclose the total payments to which they are committed for each of the following periods;

Not later than one year;

Later than one year and not later than five years; and

Later than five years.

For 'on-balance sheet' service concession arrangements entities should disclose the total commitments with their present value. Entities should also disclose the total commitment, with present values, by payment period analysed as follows;

Not later than one year;

Later than one year and not later than five years; and

Later than five years.

## **IAS 24 Related party disclosures**

### ***Applicability***

5.4.54 IAS 24 applies, as interpreted, to all reporting entities covered by this Manual.

### ***Objective of IAS 24***

5.4.55 The objective of IAS 24 is to ensure that an entity's financial statements contain the disclosures necessary to draw attention to the possibility that its financial position and profit or loss may have been affected by the existence of related parties and by transactions and outstanding balances with such parties.

### ***Interpretation of IAS 24 for the public sector context***

5.4.56 In applying IAS 24, entities (other than entities that are companies) should be aware of the following interpretations for the public sector context:

- a) for the purposes of IAS 24.9(a), the related party will be one of those defined in paragraph 5.2.6;
- b) charitable NDPBs may apply the general principle of exemption from related party disclosure in respect of trustees acting as agents of the charity, in accordance with the parameters contained within the Charities SORP;
- c) reporting entities should give the name of the parent department (if any), a note on the main entities within government with which the entity has had dealings (no information needs to be given about these transactions), and details of material transactions between the entity and individuals who are regarded as related parties. A suggested wording is in Annex 2;
- d) the requirement to disclose the compensation paid to management, expense allowances and similar items paid in the ordinary course of an entity's operations will be satisfied by the disclosures made in the notes to the accounts and in the Remuneration Report; and
- e) in considering materiality, regard should be had to the definition in IAS 1, which requires materiality to be judged "in the surrounding circumstances". Materiality should thus be judged from the viewpoint of both the entity and the related party.

## Third party assets

- 5.4.57 Third party assets are assets for which an entity acts as custodian or trustee but in which neither the entity nor government more generally has a direct beneficial interest. Third party assets are not public assets, and should not be recorded in the primary financial statements. Nor should third-party monies be held in public bank accounts.
- 5.4.58 In the interests of general disclosure and transparency, any third party assets should be reported by way of note. Where significant the note should differentiate between:
- a) third party monies and listed securities: the minimum level of numerical disclosure required is a statement of closing balances at financial year-end. For listed securities, this will be the total market value. Optionally, when considered significant by the entity and at its discretion, further disclosures may be made, including gross inflows and outflows in the year and the number and types of securities held;
  - b) third party physical assets and unlisted securities: disclosure may be by way of narrative note. For physical assets, the note should provide information on the asset categories involved. Such disclosure should be sufficient to give users of the financial statements an understanding of the extent to which third-party physical assets and unlisted securities are held by the entity; and
  - c) in the event that third party monies are found to have been in a public bank account at the end of an accounting year, commentary should be included in the note on cash at bank and in hand and in the disclosures above on the amount of third party monies held in the bank account.

## Entities within the departmental boundary

- 5.4.59 Departments to which paragraph 5.1.4 applies should disclose in a note to the accounts a list of entities within the accounting boundary, analysed between Supply financed executive agencies, NDPBs (executive and non-executive being listed under separate headings) and other entities.

### Disclosure of exit packages

- 5.4.60 Entities shall provide summary data on their use of exit packages agreed in year, and in the format proposed by the Cabinet Office.

## ***5.5 Audit and publication***

- 5.5.1 This section of the chapter deals with audit and publication of entities' annual accounts.

### **Audit**

#### ***The auditor***

- 5.5.2 All entities are required to have their financial statements audited by the auditor named in the relevant legislation or other legislation or governing statute. The general presumption is that the auditor will be the Comptroller and Auditor General, the Auditor General for Wales, the Auditor General for Scotland or the Comptroller and Auditor General for Northern Ireland.

- 5.5.3 Entities should refer to the guidance on the handling of public funds and to the individual websites of the audit offices for information about the role of the auditor.

### ***The audit opinion***

- 5.5.4 The audit opinion will be in the form required by International Standard on Auditing (UK and Ireland) 700 and Practice Note 10 *Audit of central government financial statements in the United Kingdom*. The precise form of the audit opinion will depend on the results of the audit and is the responsibility of the auditor.

### ***The audit report***

- 5.5.5 Where the relevant legislation requires the auditor to report on the examination of the financial statements, the auditor will provide such a report. The form and content of the report is the responsibility of the auditor. Where the auditor has no substantive comment to make, the report will generally be in the form of a single sentence appended to the audit opinion in the form: 'I have no observations to make on these financial statements'. Where there is a substantive report, it will be referred to in the audit opinion, but will be quite separate from it.

### ***Exemptions for subsidiary companies***

- 5.5.6 The Companies Act 2006 s.479A was amended with effect from 1 October 2012 to include conditions for exemption from audit for subsidiary companies within a group.<sup>6</sup> Subsidiary companies limited by guarantee would normally be subject to audit by the Comptroller and Auditor General, Auditor General for Wales, the Auditor General for Scotland or the Comptroller and Auditor General for Northern Ireland and therefore not eligible for exemption. If an entity wishes to use the exemption for a subsidiary company limited by shares, this must be approved by the relevant authority (through sponsoring bodies where appropriate) who will assess whether the exemption is appropriate for the particular circumstance.

## **Presentation to Parliament and publication**

### ***Departments and agencies under the Government Resources and Accounts Act 2000***

- 5.5.7 HM Treasury will lay before the House of Commons the resource accounts of departments (including agencies that are whole departments) under section 6(4) of the Government Resources and Accounts Act 2000. They will then be published.
- 5.5.8 Agencies that are not whole departments will lay their annual reports and accounts before the House of Commons under section 7(3)(c) of the Government Resources and Accounts Act 2000. They will then be published.

### ***Departments and agencies in Wales***

- 5.5.9 The Auditor General for Wales will lay before the National Assembly for Wales the resource accounts of the Welsh Ministers (Welsh Assembly Government) under section 131(6) of the Government of Wales Act 2006. The Auditor General for Wales will lay the resource accounts of Estyn (Her Majesty's Chief Inspector of Schools in

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<sup>6</sup> Statutory instrument 2012/2301 *The Companies and Limited Liability Partnerships (Accounts and Audit Exemptions and Change of Accounting framework) Regulations 2012* available on the [legislation.gov.uk](http://legislation.gov.uk) website

Wales) under Schedule 6 section 6(2)(b) of the Government of Wales Act 1998. They will then be published.

### ***Departments and agencies under the Government Resources and Accounts Act (Northern Ireland) 2001***

5.5.10 The Department of Finance and Personnel will lay before the Northern Ireland Assembly the resource accounts of departments (including agencies which are whole departments) under section 10(4) of the Government Resources and Accounts Act (Northern Ireland) 2001.

5.5.11 In the case of agencies which are not whole departments, the parent department will lay before the Northern Ireland Assembly the annual report and accounts of those agencies under section 11(3)(c) of the Government Resources and Accounts Act (Northern Ireland) 2001.

5.5.12 They will then be published in each case.

### ***Accounts prepared under the Public Finance and Accountability (Scotland) Act 2000***

5.5.13 Scottish Ministers will lay before Parliament accounts prepared under the Public Finance and Accountability (Scotland) Act 2000 under section 22(5) of that Act. They will then be published.

### ***Non-departmental public bodies (Assembly Government Sponsored Bodies in Wales)***

5.5.14 The procedure for publishing and laying the accounts varies according to the provisions of the governing statute. Where the legislation requires the accounts to be laid before Parliament or where accounts are placed in the library of the House of Commons (and perhaps also the House of Lords), the accounts should be published thereafter.

### ***Non-departmental public bodies in Northern Ireland***

5.5.15 The procedure for publishing and laying the accounts varies according to the provisions of the incorporating statute. If responsibility does not lie with the Comptroller and Auditor General, the NDPB is normally required to submit the audited accounts to its sponsor department, who will arrange to lay them before the Northern Ireland Assembly. A copy should be placed in the library of the Northern Ireland Assembly.

### ***Trading funds***

5.5.16 The Comptroller and Auditor General will lay before Parliament the annual reports and accounts of trading funds under section 4(6)(b) of the Government Trading Funds Act 1973. Trading funds may then publish them.

### ***Trading Funds in Northern Ireland***

5.5.17 The Comptroller and Auditor General will lay before the Northern Ireland Assembly the annual reports and accounts of trading funds under article 8(6)(b) of the Financial

Provisions (Northern Ireland) Order 1993. The annual reports and accounts will then be published.

## 6 Tangible non-current assets

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## 6.1 Introduction

- 6.1.1 This chapter identifies the accounting standards, their adaptations, interpretations and other requirements and guidance relating to tangible non-current assets, that reporting entities and reportable activities should apply when preparing their Statements of Financial Position. The chapter looks at each of the relevant accounting standards. Chapter 5 provides more detail on the disclosure requirements.

## 6.2 Accounting standards

- 6.2.1 The following IFRS deal with accounting for tangible non-current assets:
- IAS 16 *Property, Plant and Equipment*;
  - IAS 17 *Leases*;
  - SIC 15 *Operating Leases – Incentives*;
  - SIC 27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*;
  - IFRIC 4 *Determining whether an arrangement contains a lease*;
  - IFRIC 12 *Service Concession Arrangements*;
  - IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance*;
  - SIC 10 *Government Assistance – No Specific Relation to Operating Activities*;
  - IAS 23 *Borrowing Costs*;
  - IAS 40 *Investment Properties*;
  - IAS 41 *Agriculture*; and
  - IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*.

### IAS 16 Property, Plant and Equipment

#### ***Applicability***

- 6.2.2 IAS 16 applies, as adapted in paragraph 6.2.5, to all reporting entities covered by this Manual. Owing to their importance to the entities covered by the requirements of this Manual, separate guidance is included on:
- networked assets (paragraphs 6.2.9 to 6.2.17);
  - donated assets (paragraphs 6.2.18 to 6.2.22);
  - asset transfers (paragraph 6.2.23); and
  - heritage assets (paragraphs 6.2.24 to 6.2.43).

## **Objectives of IAS 16**

- 6.2.3 The objective of IAS 16 is to prescribe the accounting treatment for property, plant and equipment so that users of the financial statements can discern information about an entity's investment in its property, plant and equipment and the changes in such investment. The principal issues in accounting for property, plant and equipment are the recognition of assets, the determination of their carrying amounts and the depreciation charges and impairment losses to be recognised in relation to them.

## **Adaptation of IAS 16 for the public sector context**

- 6.2.4 For 'in use' non-specialised property assets fair value should be interpreted as market value for existing use. In the RICS Red Book, this is defined as 'market value on the assumption that property is sold as part of the continuing enterprise in occupation'.

## **Interpretations of IAS 16 for the public sector context**

- 6.2.5 In applying IAS 16, reporting entities should be aware of the following interpretations for the public sector context.

### *Recognition and measurement*

- a) All tangible non-current assets shall be carried at valuation at the reporting period – that is, the option given in IAS 16 to measure at cost has been withdrawn, as has the option to value only certain classes of assets;
- b) It is not necessary to disclose the historical cost carrying amounts (where available) as required by IAS 16; and
- c) The 'value in use' of a non-cash-generating asset is the present value of the asset's remaining service potential, which can be assumed to be at least equal to the cost of replacing that service potential.

## **Valuations**

- 6.2.6 In considering how best to apply the valuation requirements of IAS 16 so as to ensure that the Statement of Financial Position gives a true and fair view of the value of the assets at the reporting period, entities should consider the following guidance on property and non-property assets.

## **Property**

### *Recognition and measurement*

- a) Entities should value their property using the most appropriate valuation methodology. Such methods might include:
  - a quinquennial valuation supplemented by annual indexation and no interim professional valuation;
  - annual valuations; or
  - a rolling programme of valuations of properties (whether specialised or non-specialised);

- b) It is for valuers, using the Royal Institution of Chartered Surveyors; (RICS) 'Red Book' (RICS Appraisal and Valuation Standards), and following discussions with the entity, to determine the most appropriate methodology for obtaining a fair value. Where a valuer, following discussion with the entity, determined that depreciated replacement cost (DRC) is the most appropriate, entities and their valuers should have regard to the RICS Valuation Information Paper No. 10 *The depreciated replacement cost (DRC) method of valuation for Financial Statements*<sup>1</sup> as supplemented by the more detailed guidance available on this Manual's dedicated website;
- c) Where DRC is used as the valuation methodology, entities should normally value a modern equivalent asset in line with the Red Book. Any plans to value a reproduction of the existing asset instead should be discussed with the relevant authority (through sponsoring bodies where appropriate) to determine whether such an approach is appropriate to the entity's circumstances;
- d) Where DRC is used as the valuation methodology, entities should use the 'instant build' approach;
- e) Where DRC is used as the valuation methodology, the choice of an alternative site will normally hinge on the policy in respect of the locational requirements of the service that is being provided;
- f) The cost of enhancements to existing assets (such as building of a new wing within an existing prison or adding a lane to a motorway) should be capitalised during the construction phase as an asset under construction. At the first valuation after the asset is brought into use, any write down of cost should be treated as an impairment and charged to the Statement of Comprehensive Net Expenditure.

### Disclosure

- g) Entities should:
- disclose in the accounting policies note the fact that assets are carried at fair value. Entities should also provide information about the approach to valuing their estates, including a statement (where applicable) that alternative sites have been used in DRC valuations;
  - disclose in the notes on tangible non-current assets: the date of the last valuations of those property assets that are subject to revaluation, and the names and qualifications of the valuer; and
  - discuss in the Management Commentary, where they hold extensive estates: their estate management strategy; the indicative alternative use values provided by the valuer as part of the routine valuation work, and what those alternative use values mean in terms of their estate management policy.
  - As part of the Property, Plant and Equipment note entities are required, in the year the asset is acquired, to separately disclose the fair value of those assets funded by government grant, donation or lottery funding. Where the funder provides cash, rather than the physical assets, any

<sup>1</sup> Contact the Royal Institution of Chartered Surveyors, 12 Great George Street, Parliament Square, London SW1P 3AD to obtain a copy of the latest guidance.

difference between the cash provided and the fair value of the assets acquired should also be disclosed;

### ***Non-property (excluding networked assets, donated assets and heritage assets)***

#### *Recognition and measurement*

- h) Entities may elect to adopt a depreciated historical cost basis as a proxy for fair value for assets that have short useful lives or low values (or both). For depreciated historical cost to be considered as a proxy for fair value, the useful life must be a realistic reflection of the life of the asset and the depreciation method used must provide a realistic reflection of the consumption of that asset class.
- i) Assets that are not covered by the above paragraph should be carried at fair value. Entities should value such assets using the most appropriate valuation methodology available (for example, appropriate indices); and

#### *Disclosure*

- j) Entities should disclose the following in the notes to their accounts in relation to the valuation of non-property assets:
  - in the accounting policies note: the fact that assets are carried at fair value; that depreciated historical cost is used as a proxy for fair value for named classes of assets (where appropriate) and the reasons why; information about any significant estimation techniques (where applicable); and
  - in the notes on tangible non-current assets: the dates of the last valuations of any non-property assets that are subject to revaluation and the names and qualifications of the valuer.

### ***Other requirements***

- 6.2.7 The following requirements should be observed by entities covered by this Manual.
- a) Following the annual review of the useful lives of assets or asset categories required by IAS 16, entities should discuss any significant proposals to change these lives with the relevant authorities (through sponsoring bodies where appropriate) to ensure that the budgeting implications have been properly considered.
  - b) Entities might from time to time review their capitalisation thresholds or asset measurement methods. Any proposals for significant change to either must be discussed with the relevant authorities (through sponsoring bodies where appropriate) to ensure that the budgeting implications have been properly considered.
  - c) Entities should analyse their holdings of property, plant and equipment in accordance with 5.4.38.

## Networked assets

6.2.8 Networked assets comprise assets that form part of an integrated network servicing a significant geographical area. These assets usually display some or all of the following characteristics:

- they are part of a system or network;
- they are specialised in nature and do not have alternative uses;
- they are immovable; and
- they may be subject to constraints on disposal.

Examples of networked assets include road networks, sewer systems, water and power supply systems and communications networks.

### ***Additional guidance in respect of the road network***

#### Land, Structures and Communications

6.2.9 Land, Structures and Communications will be accounted for following the guidance in IAS 16.

#### Road Surface

6.2.10 The road surface asset managed by each of the highways authorities in England, Scotland, Wales and Northern Ireland will be recognised as a single asset by each such authority following the additional guidance in this manual.

6.2.11 The road surface asset will be held at depreciated replacement cost based on service potential.

6.2.12 Subsequent expenditure on the road surface will be capitalised where it enhances or replaces the service potential. Spending that does not replace or enhance service potential will be expensed.

6.2.13 The annual depreciation charge for the road surface will be the value of the service potential replaced through the maintenance programme plus, or minus, any adjustment resulting from the annual condition survey. The value of maintenance work undertaken will be used as an indication of the value of the replaced part. Where the condition survey shows that deterioration in the road surface exceeds the service potential replaced by the maintenance programme the additional deterioration will be taken to the Statement of Comprehensive Net Expenditure as part of the depreciation charge. Where the condition survey shows that deterioration in the road surface is less than the service potential replaced by the maintenance programme the depreciation charge will be reduced by the excess maintenance.

6.2.14 The road surface will be subject to annual valuations as measured by suitable indices. Upward movements in value will be taken to the revaluation reserve and included in comprehensive net expenditure. Downward movements in value will be set against any credit balance held in the revaluation reserve until this credit is exhausted and thereafter to net operating cost.

- 6.2.15 The road surface will be subject to an annual impairment review. Impairments will be recognised as required by IAS 36 Impairment of Assets as applied by the manual (see 8.2.4).

### Other Infrastructure

- 6.2.16 Where Bodies hold other networked assets the road surface accounting methodology detailed above may be used where it is appropriate to do so. However approval to use the road surface methodology should first be obtained from the relevant authority.

### **Donated assets**

- 6.2.17 Assets donated by third parties (see also paragraph 6.2.22), either by gift of the asset or by way of funds to acquire assets (including national lottery-funded assets), and which meet the criterion in paragraph 6.2.18, should be capitalised at fair value on receipt. Where the value of the services provided by an asset will be less than the fair value of the asset because it is over-specified for its intended use, the lower value should be used. The funding element should be recognised as income as required by IAS 20 as interpreted in this Manual as paragraph 6.2.70. (b) refers.

- 6.2.18 To qualify for treatment as a donated asset there should be no consideration given in return.

- 6.2.19 Donated assets do not include:

- (a) assets financed by grant-in-aid;
- (b) the subsequent capitalised expenditure on a donated asset which is capitalised;
- (c) assets constructed or contributed to by a developer to benefit the developer's business;
- (d) assets accepted in lieu of tax.

These types of asset should be accounted for in accordance with IAS 16 in the same way as other assets of that general type.

- 6.2.20 Donated assets should be revalued, depreciated and subject to impairment review in the same way as other non-current assets.

- 6.2.21 Details of any restrictions or conditions imposed by the donor on the use of the donated asset should be disclosed in a note to the financial statements.

### **Asset transfers**

- 6.2.22 Entities (other than trading funds) may give or receive assets to/from another public sector body (including public sector bodies not covered by the requirements of this Manual) for no consideration. Assets acquired in this way will normally be recognized in accordance with IAS 20 as interpreted in this Manual at paragraph 6.2.70. Entities

should consult the relevant authority (through sponsoring bodies where appropriate) before entering into such a transaction.

## Heritage assets

- 6.2.23 A heritage asset is a tangible asset with historical, artistic, scientific, technological, geophysical or environmental qualities that is held and maintained principally for its contribution to knowledge and culture. Heritage assets are those assets that are intended to be preserved in trust for future generations because of their cultural, environmental or historical associations. They are held by the reporting entity in pursuit of its overall objectives in relation to the maintenance of the heritage. Non-operational assets are those that are held primarily for this purpose. Operational heritage assets are those that, in addition to being held for their characteristics as part of the nation's heritage, are also used by the reporting entity for other activities or to provide other services (the most common example being buildings).
- 6.2.24 All heritage assets should be accounted for in accordance with the requirements of this manual, which follows the principles of Financial Reporting Standard 30 - *Heritage Assets*.
- 6.2.25 The reporting entity holding the asset should attest annually to the ongoing heritage credentials of its heritage assets. Heritage assets include historical buildings, archaeological sites, military and scientific equipment of historical importance, museum and gallery collections and works of art.

### ***Interpretation of IAS 16 in respect of accounting for heritage assets***

- 6.2.26 In principle, heritage assets should be accounted for in the same way as any other asset under IAS 16. There are, however, certain characteristics associated with heritage assets that give rise to the need for interpretation of IAS 16.

#### *Definition*

- a) Their value to government and the public in cultural, environmental, educational and historical terms is unlikely to be fully reflected in a financial value derived from a market mechanism or price.
- b) Established custom and, in many cases, primary statute and trustee obligations impose prohibitions or severe restrictions on disposal by sale.
- c) They are often irreplaceable and their value may increase over time even if their physical condition deteriorates.
- d) They may require significant maintenance expenditure so that they can continue to be enjoyed by future generations.
- e) Their life might be measured in hundreds of years.
- f) Antiques and other works of arts held by reporting entities outside the main collections should be classified as heritage assets only when they fulfil the above requirements. Otherwise, antiques and other works of art should be accounted for in the same way as other assets.

### *Recognition and measurement*

6.2.27 Operational heritage assets should be valued in the same way as other assets of that general type (buildings, for example).

Non-operational heritage assets should be valued subject to the requirements set out in paragraphs 6.2.29 to 6.2.35 below.

6.2.28 Where information is available on the cost or value of heritage assets:

- (i) they should be presented in the Statement of Financial Position separately from other tangible assets;
- (ii) the Statement of Financial Position or the notes to the accounts should identify separately those classes of heritage assets being reported at cost and those at valuation; and
- (iii) changes in the valuation should be recognised in the Other Comprehensive Expenditure section of the Statement of Comprehensive Net Expenditure, except impairment losses that should be recognised in accordance with chapter 8 of this Manual.

The accounting convention in this manual is to recognise non-current assets at fair value but, where exceptionally, it is not practicable to obtain a fair value, the heritage assets may be reported at historical cost.

6.2.29 Where assets have previously been capitalised or are recently purchased, information on their cost or value will be available. Where this information is not available, and cannot be obtained at a cost commensurate with the benefits to users of the financial statements, the assets will not be recognised in the Statement of Financial Position and the disclosure required by this manual should be made.

6.2.30 Valuations may be made by any method that is appropriate and relevant.

6.2.31 There is no requirement for valuations to be carried out or verified by external valuers, nor is there any prescribed minimum period between valuations. However, where heritage assets are reported at valuation, the carrying amount should be reviewed with sufficient frequency to ensure the valuations remain current.

### *Depreciation and Impairment*

6.2.32 Depreciation is not required on heritage assets which have indefinite lives.

6.2.33 The carrying amount of an asset should be reviewed where there is evidence of impairment, for example, where it has suffered physical deterioration or breakage or new doubts arise as to its authenticity. Any impairment recognised should be dealt with in accordance with the recognition and measurement requirements of IAS 36 - 'Impairment of Assets' in chapter 8.

### *Donations*

6.2.34 The receipt of donations of heritage assets should be recognised as income and taken through the Statement of Comprehensive Net Expenditure or recognised as deferred income in the Statement of Financial Position as required by paragraph 6.2.70. Where exceptionally, it is not practicable to obtain a valuation for a donated heritage asset, the disclosures required by paragraph 6.2.40 apply

### *Disclosures*

6.2.35 The disclosures required for heritage assets are set out below and apply to all heritage assets:

- a) An entity's financial statements should contain an indication of the nature and scale of heritage assets held by the entity;
- b) The financial statements should set out the entity's policy for the acquisition, preservation, management and disposal of heritage assets. This should include a description of the records maintained by the entity of its collection of heritage assets and information on the extent to which access to the assets is permitted. The information required by this paragraph may alternatively be provided in a document that is cross-referenced from the financial statements;
- c) The accounting policies adopted for an entity's holding of heritage assets should be stated, including details of the measurement bases used;
- d) For heritage assets that are not reported in the Statement of Financial Position, the reasons why should be explained and the notes to the financial statements should explain the significance and nature of those assets that are not reported in the Statement of Financial Position; and
- e) The disclosures relating to assets that are not reported in the Statement of Financial Position should aim to ensure that, when read in the context of information about capitalised assets, the financial statements provide useful and relevant information about the entity's overall holding of heritage assets.

6.2.36 Where heritage assets are reported in the Statement of Financial Position, the following should be disclosed:

- (i) the carrying amount of heritage assets at the beginning of the financial period and at the Statement of Financial Position date, including an analysis between those classes or groups of heritage assets that are reported at cost and those that are reported at valuation; and
- (ii) where assets are reported at valuation, sufficient information to assist in an understanding of the valuations being reported and their significance.

This should include:

- (a) the date of the valuation;
- (b) the methods used to produce the valuation;

- (c) whether the valuation was carried out by external valuers and, where this is the case, the valuer's name and professional qualification, if any; and
  - (d) any significant limitations on the valuation.
- 6.2.37 An example of a limitation to be disclosed under paragraph 6.2.36 (ii) (d) would be where an asset has a particular provenance, the effect of which is not fully captured by valuation.
- 6.2.38 Information that is available to the entity and is helpful in assessing the value of those heritage assets that are not reported in the entity's Statement of Financial Position should be disclosed.
- 6.2.39 The financial statements should contain a summary of transactions relating to heritage assets disclosing, for the accounting period and each of the previous four accounting periods:
- (a) the cost of acquisitions of heritage assets;
  - (b) the value of heritage assets acquired by donation;
  - (c) the carrying amount of heritage assets disposed of in the period and the proceeds received; and
  - (d) any impairment recognised in the period.
- This summary should show separately transactions in assets that are reported in the Statement of Financial Position and those that are not.
- 6.2.40 Where, exceptionally, it is not practicable to obtain a valuation of heritage assets acquired by donation, the reasons why should be stated. Disclosures should also be provided on the nature and extent of significant donations of heritage assets.
- 6.2.41 The information required by paragraph 6.2.40 may be supplemented by disclosure of other information, for example the sources of funding for acquisition of heritage assets, or expenditure on major restoration costs, but this is not required by this Manual.
- 6.2.42 The disclosures required by paragraphs 6.2.35 to 6.2.41 may be presented in aggregate for groups or classes of heritage assets provided this aggregation does not obscure significant information. Separate disclosures should be provided for those assets reported at cost and those reported at valuation. Amounts in respect of assets that are not reported in the Statement of Financial Position should not be aggregated with amounts for assets that are recognised at cost or valuation.

## **IAS 17 Leases, SIC 15 Operating Leases – Incentives, SIC 27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease, IFRIC 4 Determining whether an Arrangement contains a Lease, IFRIC 12 Service Concession Arrangements and SIC 29 Service Concession Arrangements: Disclosures**

### ***Applicability***

6.2.43 IAS 17 and its interpretations apply in full to the reporting entities covered by this Manual.

### ***Objectives of IAS 17***

6.2.44 The main objective of IAS 17 is to ensure that entities account for the substance of any leasing agreement or hire purchase contract. IAS 17 requires all leases to be classified as either a finance lease or an operating lease depending on the substance. A finance lease is a lease that transfers substantially all the risks and rewards incidental to ownership of an asset. An operating lease is a lease other than a finance lease.

### ***SIC 15 consensus***

6.2.45 The consensus in SIC 15 is that all incentives for the agreement of a new or renewed operating lease shall be recognised as an integral part of the net consideration agreed for the use of the leased asset, irrespective of the nature of the incentive or the timing of payments.

### ***SIC 27 consensus***

6.2.46 The consensus in SIC 27 is that a series of transactions that involve the legal form of a lease is linked. The series of transactions should be accounted for as one transaction when the overall economic effect cannot be understood without reference to the series of transactions as a whole, reflecting the substance of the transaction.

### ***IFRIC 4 consensus***

6.2.47 The consensus in IFRIC 4 is that the determination of whether an arrangement is, or contains, a lease should be based on the substance of the arrangement and requires an assessment of whether fulfilment of the arrangement is dependent on the use of a specific asset or assets and whether the arrangement conveys the right to use the asset.

## **Accounting for PPP arrangements, including PFI contracts, under IFRS**

### ***Scope***

6.2.48 This section of the Manual deals with the accounting treatment of PPP arrangements, including PFI contracts, that meet the definition of service concession arrangements in IFRIC 12 Service Concession Arrangements. To be within the scope of IFRIC 12,

the service concession arrangement must contractually oblige the private sector operator to provide the services related to the infrastructure to the public on behalf of the grantor (the public sector) (IFRIC 12.3). Contracts that do not involve the transfer or creation of an infrastructure asset for the purpose of the contract fall outside the scope of IFRIC 12, as do arrangements that do not involve the delivery of services to the public. Examples of infrastructure for public services are: roads, bridges, tunnels, prisons, hospitals, airports, water distribution facilities, telecommunication networks, permanent installations for military etc. operations, and non-current assets used for administrative purposes in delivering services to the public.

6.2.49 The private sector operator will apply IFRIC 12 to those arrangements where:

- a) the grantor controls or regulates what services the operator must provide with the infrastructure, to whom it must provide them and at what price; and
- b) the grantor controls – through beneficial entitlement or otherwise – any significant residual interest in the infrastructure at the end of the term of the arrangement.

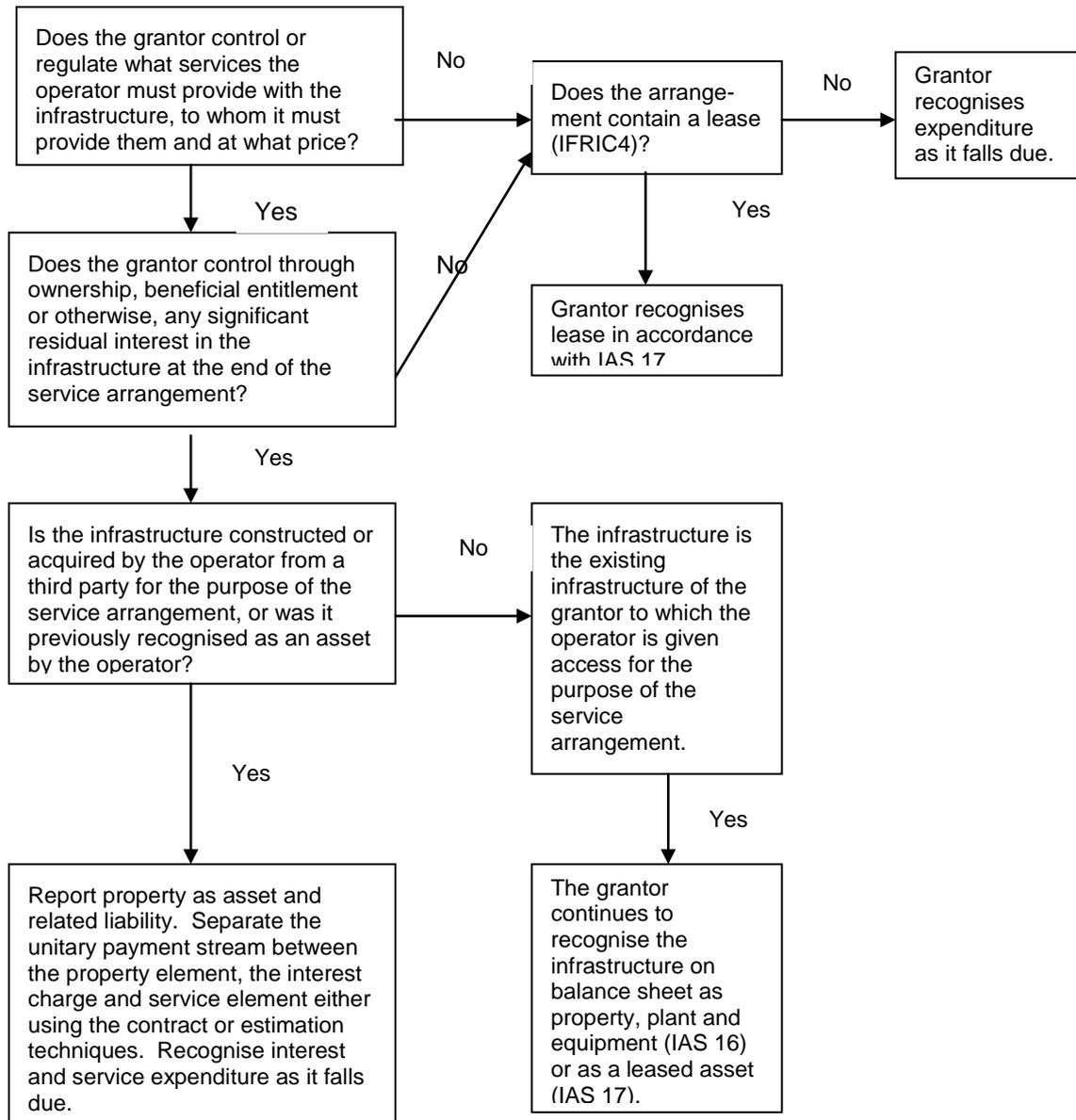
Where the infrastructure asset is used for its entire useful life, and there is little or no residual interest, the arrangement would fall within the scope of IFRIC 12 where the grantor controls or regulates the services as described in the first condition (see also IFRIC 12.6). Significant residual interest will exist where the grantor is contractually required to purchase the infrastructure asset at the end of the term of the arrangement.

6.2.50 IFRIC 12 (Application Guidance paragraph 3) notes that, in determining the applicability of the first condition, non-substantive features (such as price capping that would apply only in remote circumstances) should be ignored and the substance of the arrangement considered.

6.2.51 IFRIC 12, including the Appendices, Information Notes, Illustrative Examples and Basis for Conclusions, provides guidance on how to apply IFRS to service concession arrangements. IFRIC 12 does not create exceptions from other IFRS for transactions that are within service concession arrangements, other than as specifically stated in IFRIC 12. Issues not addressed explicitly in this section of the Manual should be resolved by reference to other IFRS. IFRIC 12 applies to:

- arrangements where the infrastructure is used for its entire useful life;
- infrastructure that the operator constructs or acquires from a third party; and
- infrastructure that the grantor provides to the operator for the purpose of the concession.

IFRIC 12 does not specify the accounting for infrastructure that was held and recognised as an asset by the operator prior to entering the arrangement (IFRIC 12.6-8). This is because the operator would de-recognise the asset under IAS 16. Paragraph 6.2.52 interprets IFRIC 12 for the public sector by including an asset previously owned by the operator within the criteria for recognising the arrangement as a service concession. The flowchart overleaf will assist in determining the appropriate accounting treatment of PPP arrangements, including PFI contracts by public sector grantors.



### ***Initial recognition and measurement of assets and liabilities in new arrangements and contracts***

6.2.52 Where there is infrastructure, whether previously owned by the contractor or the grantor, or constructed or acquired from a third party for the purpose of the service arrangement, and the grantor controls:

- a) or regulates what services the operator must provide with the infrastructure, to whom it must provide them and at what price; and
- b) through beneficial entitlement or otherwise, any significant residual interest in the infrastructure at the end of the term of the arrangement (or there is no residual interest),

then the PPP arrangement or PFI contract is a service concession within the meaning of IFRIC 12 from the grantor's viewpoint.

6.2.53 The grantor should recognise the infrastructure as a non-current asset and value it in the same way as other non-current assets of that generic type. The asset will be recognised when:

- a) it is probable that future economic benefits associated with the asset will flow to the organisation; and
- b) the cost of the asset can be measured reliably.

The grantor should consider the asset recognition criteria, together with the specific terms and conditions of the binding arrangement, when determining whether to recognise the service concession asset during the period in which the asset is constructed or developed. If the asset recognition criteria have been met a work-in-progress service concession asset and associated liability should be recognised. If not and the grantor makes contributions to the operator in advance of the asset coming into use, the grantor should account for those payments as prepayments.

6.2.54 The asset will be measured in one of two ways:

- a) where the contract is separable between the service element, the interest charge and the infrastructure asset (see also paragraph 6.2.55), the asset will be initially measured following the guidance in IAS 17, with the service element and the interest charge recognised as incurred over the term of the concession arrangement (the subsequent measurement should be subject to the guidance of IAS 16); or
- b) where there is a unitary payment stream that includes infrastructure and service elements that cannot be separated, the various elements will be separated using estimation techniques as set out in paragraph 6.2.56.

6.2.55 The grantor should separate out the service, interest and infrastructure elements. A contract may be separable in a variety of circumstances, including but not limited to the following:

- a) the contract identifies an element of a payment stream that varies according to the availability of the property itself and another element that varies according to usage or performance of certain services;
- b) different parts of the contract run for different periods or can be terminated separately. For example, an individual service element can be terminated without affecting the continuation of the rest of the contract; or
- c) different parts of the contract can be renegotiated separately. For example, a service element is market tested and some or all of the cost increases or reductions are passed on to the grantor in such a way that the part of the payment by the grantor that relates specifically to that service can be identified.

6.2.56 In situations where it is not possible to separate the contract due to commercial reality, the service element of the payments must be estimated, which could be achieved by obtaining information from the operator or by using the fair value approach. The fair value of the asset determines the amount to be recorded as an

asset with an offsetting liability. The total unitary payment is then divided into three: the service charge element, repayment of the capital element of the contract obligation and the interest expense on it (using the interest rate implicit in the contract).

- 6.2.57 For both existing and new contracts, where it is not practicable to determine the interest rate implicit in the contract, the grantor shall use its cost of capital rate (including inflation). It is expected that this situation would be rare. The rate should not be changed unless the infrastructure element or the whole of the contract is renegotiated.
- 6.2.58 Entities covered by the requirements of this manual should use the Treasury discount rate for investment appraisal purposes (currently 3.5%) as their cost of capital rate. This rate is stated in real terms and must be adjusted for the inflation rate to arrive at the nominal rate. The nominal rate can be calculated using inflation rates given in the table 16 of the Treasury's Pocket Data Bank. The Pocket Data Bank can be found at: [http://www.hm-treasury.gov.uk/data\\_indic\\_index.htm](http://www.hm-treasury.gov.uk/data_indic_index.htm).
- 6.2.59 Under either approach, the grantor will recognise a liability for the capital value of the contract. That liability does not include the interest charge and service elements, which are expensed annually to the Statement of Comprehensive Net Expenditure.

### ***Initial recognition of existing arrangements which were off-balance sheet under UK GAAP***

- 6.2.60 On initial recognition of existing PPP arrangements or PFI contracts under this approach (that is, those arrangements or contracts that had previously been off-balance sheet), reporting entities should measure the non-current asset at the opening balance sheet date in the same way as other non-current assets of that generic type. The liability should be measured at its fair value at the balance sheet date, which will normally be the outstanding liability in respect of the property (that is, excluding the interest and service elements), discounted by the interest rate implicit in the contract.

### ***Subsequent measurement***

- 6.2.61 Reporting entities should adopt an appropriate asset revaluation approach as set out earlier in this chapter. Liabilities will be measured using the appropriate discount rate, taking account of the reduction arising from the capital payments included in the unitary payment stream.

### ***Income generated by the grantor from the service concession arrangements***

- 6.2.62 Revenue received under any revenue sharing provision in the service concession arrangement should be recognised when all the conditions as laid down in IAS 18 have been satisfied.

***Consideration given by the grantor to the operator (guarantees made by the grantor as part of the arrangement)***

6.2.63 The grantor should recognise any guarantees to the operator that it will meet any shortfalls in revenue or repay the debt if the operator defaults in line with the requirements of IAS 32 and IAS 39.

***Items provided to the operator by the grantor***

6.2.64 The grantor should derecognise a non-current asset provided to the operator (and not used in the arrangement) and recognise any consideration received at fair value. If the consideration received is in the form of a reduction in future payments, this should be recognised as an asset representing a reduction in the future liability (normally as a prepayment).

***Disclosure***

6.2.65 The disclosure requirements in respect of PPP arrangements, including PFI contracts, are set out in chapter 5 of this manual.

**SIC 29 Service Concession Arrangements: Disclosures**

6.2.66 The disclosure requirements of SIC 29 apply in full to the PPP arrangements as described in paragraph 6.2.48.

**IAS 20 Accounting for Government Grants and Disclosure of Government Assistance and SIC 10 Government Assistance – No Specific Relation to Operating Activities*****Applicability***

6.2.67 IAS 20 and SIC 10 apply, as interpreted, to all reporting entities covered by this Manual.

***Objective of IAS 20***

6.2.68 The objective of IAS 20 is to prescribe the accounting treatment for government grants and the disclosures about other government assistance.

***SIC 10 consensus***

6.2.69 The consensus in SIC 10 is that government assistance to entities meets the definition of government grants even if there are no conditions specifically relating to the operating activities of the entity other than the requirement to operate in certain regions or industry sectors. Such grants should not be credited directly to equity.

***Interpretation of IAS 20 and SIC 10 for the public sector context***

6.2.70 In applying IAS 20 and SIC 10, entities should be aware of the following interpretations for the public sector context.

***Recognition and measurement***

- a) The option provided in IAS 20 to offset a grant for acquisitions of an asset against the cost of the asset has been withdrawn.
- b) The option provided in IAS 20 to defer grant income relating to an asset is restricted to income where the funder imposes a condition. Where assets are financed by government grant (not a grant from a sponsoring department to an NDPB) or donation (including lottery funding), the funding element is recognised as income and taken through the Statement of Comprehensive Net Expenditure. To defer this income, a condition imposed by the funder must be: a requirement that the future economic benefits embodied in the grant/donation are consumed as specified by the grantor/donor or must be returned to them, e.g. a grant that is conditional on the construction of an asset.
- c) A grant, contribution or donated asset may be received subject to a condition that it be returned to the transferor if a specified future event does or does not occur (for example, a grant may need to be returned if the authority ceases to use the asset purchased with that grant for a purpose specified by the transferor). In these cases, a return obligation does not arise until such time as it is expected that the condition will be breached and a liability is not recognised until that time. Such conditions do not prevent the grant, contribution or donated asset being recognised as income in the Statement of Comprehensive Net Expenditure.

Donated assets are within the scope of IAS 20

***Other requirements***

6.2.71 The following requirements should be observed by entities covered by this Manual.

- a) The notes to the financial statements should distinguish between grants from UK government entities and grants from the European Union.
- b) As it is important for monitoring and control purposes, entities that receive grant-in-aid that is intended to finance both revenue and capital expenditure should analyse the grant-in-aid between its constituent parts, notwithstanding that it will be credited in total to the income and expenditure reserve.

***Summary of accounting treatment of Parliamentary Supply and for grants from sponsoring Department to their NDPBs***

6.2.72 Parliamentary Supply (the parliamentary grant in Wales) does not fall within the meaning of government grants.

6.2.73 Grants and grants-in-aid shall be accounted for as follows:

- a) grants-in-aid, whether for revenue or capital purposes, are to be treated as contributions from controlling parties giving rise to a financial interest in the residual interest of the reporting entity, and are to be credited to general reserves and not, to income or deferred income;
- b) where grants are subject to conditions such that non-compliance would result in the grant being repaid, the potential liability to repay, and the conditions to be met, should be disclosed in a note to the accounts;
- c) the profit or loss on disposal of an asset financed by grant or grant-in-aid is taken to the Statement of Comprehensive Net Expenditure; and

- d) grant-in-aid is provided to match the recipient's cash needs and is to be accounted for on a cash basis. Any exceptions to this treatment must be agreed by the sponsoring department and the relevant authority.

## **IAS 23 Borrowing Costs**

### ***Applicability***

- 6.2.74 IAS 23 applies as interpreted to all reporting entities covered by this Manual. However, IAS 23 does not apply where a qualifying asset is carried at fair value (IAS 23.4).

### ***Objective of IAS 23***

- 6.2.75 The objective of IAS 23 is to prescribe the accounting treatment of borrowing costs. The Standard requires the capitalisation of borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset. All other borrowing costs should be recognised as an expense.

### ***Interpretation of IAS 23 for the public sector context***

- 6.2.76 In applying IAS 23, reporting entities should be aware of the following interpretation for the public sector context.

#### ***Recognition***

Borrowing costs in respect of qualifying assets held at fair value shall be expensed.

## **IAS 40 Investment Properties**

### ***Applicability***

- 6.2.77 IAS 40 applies in full to all reporting entities covered by this Manual that hold (or are constructing or developing) properties only for the purpose of earning rentals or for capital appreciation or both. If earning rentals were an outcome of a regeneration policy, for example, the properties concerned would be accounted for under IAS 16 and not IAS 40.

### ***Objectives of IAS 40***

- 6.2.78 The objective of IAS 40 is to prescribe the accounting treatment for investment property and related disclosure requirements.

### ***Interpretation of IAS 40 for the public sector context***

- 6.2.79 In applying IAS 40, reporting entities should be aware of the following interpretation for the public sector context.

*Measurement after recognition*

- a) All investment property should be accounted for under the fair value model – that is, the option given in IAS 40 to adopt the cost model has been withdrawn.

**IAS 41 Agriculture*****Applicability***

6.2.80 IAS 41 applies in full to agricultural activities undertaken for commercial gain by any reporting entity covered by this Manual.

***Objectives of IAS 41***

6.2.81 The objective of IAS 41 is to prescribe the accounting treatment, financial statement presentation and disclosures related to agricultural activity. Agricultural activity is the management by an entity of the biological transformation of biological assets for sale, into agricultural produce, or into additional biological assets.

**IFRS 5 Non-current Assets Held for Sale and Discontinued Operations*****Applicability***

6.2.82 IFRS 5 applies in full, as interpreted, to all entities covered by the requirements of this Manual.

***Objectives of IFRS 5***

- 6.2.83 The objectives of IFRS 5 are to specify that:
- a) assets held for sale should be measured at the lower of carrying amount and fair value less costs to sell, and depreciation on those assets should cease; and
  - b) assets held for sale should be presented separately, either on the face of the Statement of Financial Position or in the notes, and the results of discontinued operations should be presented separately in the Statement of Comprehensive Net Expenditure.

***Interpretation of IFRS 5 for the public sector context***

- 6.2.84 The following interpretations of IFRS 5 defined terms apply:
- a) in order to qualify as 'discontinued operations', the activities must cease completely: that is, responsibilities transferred from one part of the public sector to another (such as machinery of government changes) are not discontinued operations; and
  - b) the 'value in use' of a non-cash-generating asset is the present value of the asset's remaining service potential, which can be assumed to be at least equal to the cost of replacing that service potential.

## 7 Intangible assets

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## **7.1 Introduction**

7.1.1 This chapter deals with accounting for intangible assets.

## **7.2 Accounting standards**

7.2.1 The following accounting standards and Interpretations deal with accounting for intangible assets:

IAS 38 *Intangible Assets*

SIC 32 *Intangible Assets – Web Site Costs*

IFRS 6 *Exploration for and Evaluation of Mineral Resources* is not likely to be relevant and is not discussed further in this Manual. However, if it is applicable, it should be applied in full.

## **IAS 38 Intangible Assets and SIC 32 Intangible Assets – Web Site Costs**

### ***Applicability***

7.2.2 IAS 38 and SIC 32 apply in full, as interpreted, to all reporting entities covered by this Manual.

### ***Objectives of IAS 38***

7.2.3 The objective of IAS 38 is to prescribe the accounting treatment for intangible assets that are not dealt with specifically in another standard. This standard requires an entity to recognise an intangible asset if, and only if, specific criteria are met. The standard also specifies how to measure the carrying amount of intangible assets and requires specified disclosures about intangible assets. When capitalising internally generated intangible assets, such as software, only directly attributable costs, including staff costs and staff-related costs, should be capitalised.

### ***Interpretations of IAS 38 for the public sector context***

7.2.4 On first time adoption of IAS 38, entities should refer to IFRS 1.18 and IFRS 1.IG 50. IFRS 1.18 allows an entity, on first time adoption, to elect to use deemed cost for initial recognition of the intangible asset where that asset meets the recognition criteria in IAS 38 and the revaluation criteria. That deemed cost might be fair value or cost or DRC. However, IFRS 1.IG 50 makes it clear that an entity can only elect to use one of these routes if the intangible asset meets both recognition criteria in IAS 38, including reliable measurement of original cost. Thus, an entity adopting the requirements of this Manual for the first time can only use retrospective capitalisation where it holds reliable original cost information in relation to the internally generated asset.

7.2.5 Following the initial recognition of an intangible asset, for subsequent measurement IAS 38 permits the use of either the cost or revaluation model for each class of intangible asset. Where an active (homogeneous) market exists, intangible assets should be carried at fair value at the reporting period date – that is, the cost option given in IAS 38 has been withdrawn. Where no active market exists, entities should revalue the asset, using indices or some suitable model, to the lower of depreciated

replacement cost and value in use where the asset is income generating. Where there is no value in use, the asset should be valued using depreciated replacement cost. These measures are a proxy for fair value.

### ***Other requirements***

7.2.6 Entities should analyse their intangible assets in accordance with 5.4.40.

### ***SIC 32 consensus***

7.2.7 The consensus in SIC 32 is that an entity's own web site that arises from development and is for internal or external access is an internally generated intangible asset that is subject to the requirements of IAS 38.

### ***Carbon Reduction Commitment (CRC) Energy Efficiency Scheme (and similar schemes)***

#### ***Allowances and Emissions***

7.2.8 Participation by reporting entities in the CRC Scheme gives rise to a liability related to emissions made. The liability is recognised for the obligation to deliver allowances to the CRC Registry equal to the emissions made. Purchased allowances give rise to an asset.

7.2.9 CRC Scheme assets are classified as either current or non-current intangible assets, or if held for the purpose of trading, as a current asset. The asset, whether classified as a current or as an intangible (current or non-current) asset shall be measured initially at cost.

7.2.10 Scheme assets in respect of allowances shall be revalued at fair value where there is evidence of an active market. Until there is evidence of an active market, scheme assets in respect of allowances shall be measured at cost, as a proxy for fair value.

## 8 Impairments

### Chapter 8 Contents

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## **8.1 Introduction**

8.1.1 This chapter deals with accounting for impairments.

## **8.2 Accounting standards**

8.2.1 The following accounting standard deals with accounting for impairments:

*IAS 36 Impairment of Assets.*

### **IAS 36 Impairment of Assets**

#### **Applicability**

8.2.2 IAS 36 applies in full, as adapted and as interpreted, to all reporting entities covered by this Manual.

#### **Objective of IAS 36**

8.2.3 The objective of IAS 36 Impairment of Assets is to ensure that assets are carried at no more than their recoverable amount. An asset is carried at more than its recoverable amount if its carrying amount exceeds the amount to be recovered through use or sale of the asset. If this is the case, the asset is described as impaired and the Standard requires the recognition of an impairment loss. In other words, an impairment reflects a permanent diminution in the value of an asset as a result of a clear consumption of economic benefits or service potential. Downward revaluations resulting from changes in market value do not necessarily result in an impairment.

#### **Adaptation of IAS 36 for the public sector context**

8.2.4 The following adaptation of IAS 36 for the public sector context applies.

##### *Recognition*

a) References in IAS 36 to the recognition of an impairment loss of a revalued asset being treated as a revaluation decrease to the extent that that impairment does not exceed the amount in the revaluation surplus for the same asset, are adapted such that only those impairment losses that do not result from a loss of economic value or service potential should be taken to the revaluation reserve. Impairment losses that arise from a clear consumption of economic benefit should be taken to the Statement of Comprehensive Net Expenditure. However, to ensure that the outcome as reflected in the reserves figure on the Statement of Financial Position is consistent with the requirements of IAS 36 had this adaptation not been applied, the balance on any revaluation reserve (up to the level of the impairment) to which the impairment would have been charged under IAS 36 should be transferred to the general fund.

### ***Interpretation of IAS 36 for the public sector context***

8.2.5 The following interpretations of IAS 36 for the public sector context apply.

#### *Scope*

- a) Heritage Assets is within the scope of IAS 36 to the extent specified in chapter 6, paragraph 6.2.24 to 6.2.26.

#### *Recognition and measurement*

- b) Where an asset is not held for the purpose of generating cash flows, value in use is assumed to equal the cost of replacing the service potential provided by the asset, unless there has been a reduction in service potential.

### ***Other relevant factors***

8.2.6 In budgetary terms, certain impairments will score as DEL and others as AME, and departments will enter the type of impairment onto OSCAR using the relevant account code. The Consolidated Budgeting Guidance (CBG) contains more detail. The budgeting treatment does not influence the accounting treatment, but entities might wish to consider whether information about the type and cause of impairment could usefully be included in the relevant notes to the accounts. Impairment categories are defined below.

8.2.7 Capitalised development expenditure that is directly linked to a tangible non-current asset should be impaired only where the tangible non-current asset becomes impaired. Where the intangible asset relates to a group of tangible non-current assets, any impairment will be charged only where the entire group is impaired and will be proportionate to the impairment of the group of tangible assets. For example, development expenditure related to a fleet of aircraft will be impaired only where the entire fleet is impaired and not if less than the whole fleet is impaired.

#### *Definitions: impairments that score as DEL*

8.2.8 The following types of impairment will score as DEL.

#### *Loss or Damage resulting from normal business operations*

8.2.9 All losses of, and damage to, tangible non-current assets that reduce the recoverable amount to below the book value other than those caused by a catastrophe (see below). Normal business operations covers all loss and damage to assets that result from management and staff action (or inaction), and the actions of third parties. This category includes theft.

#### *Abandonment of assets in the course of construction*

8.2.10 The impairment of assets in the course of construction as a result of a management decision to abandon the construction process, i.e. management decides that it no longer requires the facility under construction and the construction costs to date are completely written off or substantially written off to reflect reduced utility. This category includes the abandonment of software assets in the course of construction.

### *Over Specification of Assets (Gold Plating)*

- 8.2.11 Gold plating is the unnecessary over-specification of assets at the point at which the asset is first constructed or purchased. This category should be used where the gold plating of assets leads to an impairment either because the asset is valued at its utility value to the business, or because the gold plating cannot be reflected in the recoverable amount.
- 8.2.12 Care should be taken not to impair assets as being gold plated where they are of a high specification by necessity. For example, the high specification of embassies is in part a result of security and other factors relating to location and the needs of a representational building. The higher specification due to justified security and operational considerations should not lead to an impairment down to the value of ordinary office accommodation. The key is that the higher specification must be justifiable: if it is not an impairment should be taken.

### *Definitions: impairments that score as AME*

- 8.2.13 The following types of impairment will score as AME (with the agreement of the relevant authority (through sponsoring bodies where appropriate)).

### **Loss as the result of a catastrophe**

- 8.2.14 Damage to tangible non-current assets as a result of a catastrophe. The System of National Accounts (SNA93) which forms the basis of recording transactions in the National Accounts defines a catastrophe as: 'such events as will be generally easy to identify. They include major earthquakes, volcanic eruptions, tidal waves, exceptionally severe hurricanes, droughts and other natural disasters; acts of war, riots and other political events; and technological accidents such as major toxic spills or release of radioactive particles into the air'.
- 8.2.15 Such events are very rare in global terms and exceptionally rare in the UK. Where a department believes an impairment should be scored as a Catastrophic Loss rather than 'Loss or Damage resulting from normal business operations' it should first contact the relevant authority.
- 8.2.16 For the avoidance of doubt, the following are not catastrophes within the meaning of this definition: prison or street riots; loss or damage due, for example, to an ingress of water that could have been avoided by better maintenance or that resulted from relocation to a site where flooding was likely. These are all examples of losses resulting from management action or inaction.

### **Unforeseen Obsolescence**

- 8.2.17 All assets are subject to obsolescence. However, the rate of obsolescence tends to be category specific: e.g. IT assets suffer a faster rate of obsolescence than do buildings. Departments will take account of foreseeable obsolescence when establishing asset lives. Unforeseen obsolescence will generally only occur either as the result of the introduction of a completely new technology or a change in legislation rendering use of the asset illegal. As such events are exceptionally rare, the relevant authority should be contacted prior to the use of this category.

## Other Impairments

8.2.18 This category includes impairments that cannot be scored to another impairment category.

- Write Down to Depreciated Replacement Cost – This occurs where specialised building assets or enhancements (e.g. the construction of a new wing) to such assets are written down to depreciated replacement cost (DRC) following the first professional valuation.
- Write Downs of Development Land – This occurs where land is purchased for some form of social development. The cost of the land and any clean up cost can be greater than the disposal value resulting in an impairment.
- Changes in Use – This usually occurs where specialised assets no longer required for their original purpose are put to a non specialised use (e.g. a hardened aircraft hangar used as a store) or where an asset becomes permanently underused. However, impairment can result from the change of use of any asset including non-specialised assets.
- Disposals – Impairments can occur where assets are moved from ‘in use’ to ‘available for sale’.
- Uncompensated Seizures – The seizure of assets by governments or institutional units, other than for the settlement of fines or taxes, for which full compensation is not provided.
- Other impairments not detailed – Please contact the relevant authority for advice.

## Revaluations

8.2.19 Downward revaluations result in an impairment only where an asset is revalued below its historical cost carrying amount. In these cases, the accounting treatment is as for any other impairment. All other downward movements (for example, as a result of market fluctuations) should be accounted for through the revaluation reserve to the extent that there is a credit in that reserve that relates to the revalued asset or portfolio of assets.

## 9 Financial Instruments

### Chapter 9 Contents

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## **9.1 Introduction**

9.1.1 This chapter deals with accounting for financial instruments.

## **9.2 Accounting standards**

9.2.1 The following IFRS deal with accounting for financial instruments:

IAS 32 *Financial Instruments: Presentation*;

IAS 39 *Financial Instruments: Recognition and Measurement*;

IFRS 7 *Financial Instruments: Disclosures*;

IFRIC 2 *Members' Shares in Co-operative Entities and Similar Instruments*;

IFRIC 9 *Reassessment of Embedded Derivatives*;

IFRS 4 *Insurance contracts*; and

IFRIC 19: *Extinguishing Financial Liabilities with Equity Instruments*;

IAS 33 *Earnings per Share*, IFRS 2 *Share-based payment* and IFRIC 8 *Scope of IFRS 2* are unlikely to apply, but if they do apply, they apply in full.

## **IAS 32 Financial Instruments: Presentation**

### ***Applicability***

9.2.2 IAS 32 applies, as interpreted, to all reporting entities and reportable activities covered by the Manual.

### ***Objective of IAS 32***

9.2.3 The objective of IAS 32 is to establish principles for presenting financial instruments as liabilities or equity and for offsetting financial assets and financial liabilities.

### ***Interpretation of IAS 32 for the public sector context***

9.2.4 Public Dividend Capital (PDC) is not an equity instrument as defined in the IAS. It should be presented as a form of financing in the Statement of Financial Position of the relevant entity. Dividends on PDC should be presented as a form of financing in the Statement of Comprehensive Net Expenditure and accounted for where appropriate in the Statement of Financial Position.

## **IAS 39 Financial Instruments: Recognition and Measurement**

### ***Applicability***

9.2.5 IAS 39 applies, as interpreted, to all reporting entities and reportable activities covered by the Manual.

### ***Objective of IAS 39***

- 9.2.6 The objective of IAS 39 is to establish principles for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items.

### ***Interpretations of IAS 39 for the public sector context***

- 9.2.7 The following interpretations of IAS 39 for the public sector context apply:

#### ***Recognition***

- a) Any financial instrument that is not held in furtherance of the entity's objectives but is held on behalf of government more generally should be accounted for in a separate Trust Statement. Entities should discuss such cases with the relevant authorities; and
- b) Special or 'golden' shares, being those shares retained in businesses that have been privatised but in which the department wishes to retain a regulatory interest or reserve power, should not be recognised in the Statement of Financial Position.

#### ***Measurement***

- c) PDC should be reported at historical cost, less any impairment:
- d) Where future cash flows are discounted to measure fair value, entities should use the higher of the rate intrinsic to the financial instrument and the real discount rate set by HM Treasury as applied to the flows expressed in current prices: and
- e) Liabilities under financial guarantee contracts that are not accounted for as insurance contracts should be measured initially at their fair value and, as appropriate, amortised subsequently to the Statement of Comprehensive Net Expenditure or its equivalent. Subsequent changes in probabilities should not be reflected in the carrying value except where the result is that IAS 37 would require recognition of a liability because it is more probable than not that a transfer of resources will occur.

### ***Other requirements***

- 9.2.8 The following requirement should be observed by entities covered by this Manual. IAS 39 includes a number of alternative accounting treatments. Entities should discuss any significant choices to be made with the relevant authorities (through sponsoring bodies where appropriate) to ensure that the budgeting implications have been properly considered. Examples are:
- a) the designation of financial assets and liabilities as at fair value through profit and loss, and of non-derivative financial assets as available for sale;

- b) the reclassification of financial assets and liabilities;
- c) the election to apply IAS 39 or continue to use accounting applicable to insurance contracts to financial guarantee contracts; and
- d) the use of hedge accounting.

## **IFRS 7: Financial Instruments: Disclosures**

### ***Applicability***

9.2.9 IFRS 7 applies in full to all reporting entities and reportable activities covered by the Manual.

### ***Objective of IFRS 7***

9.2.10 The objective of IFRS 7 is to require entities to provide disclosures in their financial statements that enable users to evaluate:

- (a) The significance of financial instruments for the entity's financial position and performance; and
- (b) The nature and extent of risks arising from financial instruments to which the entity is exposed during the period and at the reporting date, and how the entities manage those risks.

## **IFRIC 2: Members' Shares in Co-operative Entities and Similar Instruments**

### ***Applicability***

9.2.11 IFRIC 2 applies in full to all reporting entities covered by the Manual.

### ***Consensus***

9.2.12 The consensus in the Interpretation is that, for the purposes of classifying as debt or equity, financial instruments that have characteristics of equity, including voting rights and rights to participate in dividend distributions, but also give the holder limited rights to request redemption for cash or another financial asset, the entity must consider all of the terms and conditions of the financial instrument. These include relevant local laws, regulations and the entity's governing charter in effect at the date of classification, but not expected future amendments to those laws, regulations or charter.

## **IFRIC 9: Re-assessment of Embedded Derivatives**

### ***Applicability***

9.2.13 IFRIC 9 applies in full to all reporting entities and reportable activities covered by the Manual.

### ***Consensus***

9.2.14 The consensus in the Interpretation is that an entity shall assess whether an embedded derivative is required under IAS 39 to be separated from the host contract and accounted for as a derivative when the entity first becomes a party to the contract. Subsequent reassessment is prohibited unless there is a change in the terms of the contract that significantly modifies the cash flows that otherwise would be required under the contract, in which case reassessment is required.

## **IFRS 4: Insurance Contracts**

### ***Applicability***

9.2.15 IFRS 4 applies in full to all reporting entities covered by the Manual.

### ***Objectives of IFRS 4***

9.2.16 The objective of IFRS 4 is to specify the financial reporting for insurance contracts by any entity that issues such contracts until the Board completes the second phase of its project on insurance contracts. In particular, IFRS 4 requires:

- a) limited improvements to accounting by insurers for insurance contracts; and
- b) disclosure that identifies and explains the amounts in an insurer's financial statements arising from insurance contracts and helps users of those financial statements understand the amount, timing and uncertainty of future cash flows from insurance contracts.

## **IFRIC 19: Extinguishing Financial Liabilities with Equity Instruments**

### ***Applicability***

9.2.17 IFRIC 19 applies in full to all reporting entities covered by the Manual, subject to the requirements of paragraphs 4.2.4, 9.2.4 and 9.2.7 c).

## 10 Other assets and liabilities

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## 10.1 Introduction

10.1.1 This chapter identifies the accounting standards, their interpretation and other requirements relating to other assets and liabilities, that reporting entities and reportable activities should apply when preparing their statements of financial position. Chapter 5 provides more detail on the disclosure requirements.

## 10.2 Accounting standards

10.2.1 The following IFRS deal with accounting for other assets and liabilities, including provisions and contingencies:

IAS 2 *Inventories*;

IAS 19 *Employee Benefits*. Short-term benefits are covered in this chapter. Pensions accounting is covered in chapter 12;

IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*;

IFRIC 1 *Changes in Existing Decommissioning, Restoration and Similar Liabilities*; and

IFRIC 5 *Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds*.

IFRIC 6 *Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment* deals with the recognition of certain liabilities by certain producers of electrical goods and so will not be relevant.

## IAS 2 Inventories

### **Applicability**

10.2.2 IAS 2 applies, as interpreted, to all reporting entities covered by this Manual.

### **Objective of IAS 2**

10.2.3 The objective of IAS 2 is to ensure that inventories are valued at the lower of cost and net realisable value and that their sub-classification in the Statement of Financial Position or in the notes to the financial statements indicates the amounts held in each of the main categories in the standard Statement of Financial Position formats.

### **Interpretations of IAS 2 for the public sector context**

10.2.4 In applying IAS 2, reporting entities should be aware of the following interpretations for the public sector context.

- a) In addition to the types of inventories identified in IAS 2, central government has categories of inventories for which IAS 2 may not adequately cover the accounting treatment.
  - I. stockpile goods and military reserve inventories;
  - II. confiscated, seized and forfeited property; and
  - III. goods held under price support programmes.

### *Stockpile goods*

- 10.2.5 Stockpile goods may be defined as strategic materials held for use in national defence and national emergencies. They can be further categorised as:
- a) non-current assets, which should be accounted for in the same way as other assets of the same type; or
  - b) other non-deteriorable and deteriorable inventories (the latter possibly being turned over from time to time to avoid obsolescence). Minimum capability levels of inventories should be accounted for as non-current assets. Other inventories should be accounted for under IAS 2.

### *Confiscated, seized and forfeited property*

- 10.2.6 The proceeds of realisations of confiscated, seized and forfeited property go to the Consolidated Fund and are usually not for the benefit of the collecting entity concerned. Because of this, it would be inappropriate to recognise confiscated, seized and forfeited property in financial statements (other than Trust Statements), unless exceptionally agreed with the Relevant Authority. Entities should state by way of memorandum note the proceeds derived from these realisations.
- 10.2.7 The proceeds of items sold to satisfy outstanding tax liabilities, net of sale expenses, should be treated in the same way as other taxation receipts.

### *Goods held under price support and stabilisation programmes (intervention stocks)*

- 10.2.8 Intervention buying is a method of supporting market prices for certain agricultural commodities. The Rural Payments Agency is required to buy, at prices determined by the European Commission, produce of defined quality offered to it in accordance with detailed regulations. Purchased stocks are valued at cost, adjusted by any depreciation or revaluation prescribed by the Commission to bring them into line with market values. Costs of depreciation and any losses on sales are borne by, and any profits on sales or revaluations are surrendered to, the Commission. The method of valuation for intervention stocks is based on the requirements of the Commission and neither IAS 2 nor IAS 41 *Agriculture* apply.

## **IAS 19 Employee Benefits**

### ***Applicability***

- 10.2.9 The sections of IAS 19 dealing with short-term employee benefits apply to all reporting entities and reportable activities covered by the requirements of this Manual.

### ***Objective of IAS 19***

- 10.2.10 The objective of IAS 19 is to prescribe the accounting and disclosure for employee benefits i.e., short-term benefits such as salaries and wages; post-employment benefits that result from employment; other long-term benefits such as long service awards, termination benefits (for example, early departure costs) and pension benefits. It requires an entity to recognise the cost of providing employee benefits in

the period in which the benefit is earned by the employee, rather than when it is paid or payable:

## **IAS 37 Provisions, Contingent Liabilities and Contingent Assets**

### ***Applicability***

10.2.11 IAS 37 applies in full, as interpreted, to all reporting entities covered by this Manual.

### ***Objectives of IAS 37***

10.2.12 The objective of IAS 37 is to ensure that provisions, contingent liabilities and contingent assets are appropriately recognised and measured and that sufficient information is disclosed in the notes to the financial statements to enable users to understand their nature, timing and amount.

### ***Interpretation of IAS 37 for the public sector context***

10.2.13 Where the cash flows to be discounted are expressed in current prices, entities should use the real discount rates set by HM Treasury as promulgated in PES papers.

10.2.14 Separate disclosure of information about a particular contingency need not be made if that information has a protective marking. Guidance on protective markings is issued from time to time by the Cabinet Office or the relevant authority. If the potential effect of the contingency is required to be disclosed under IAS 37, the relevant amount should still be included in the aggregate figure for such contingencies.

### ***Other Requirements***

10.2.15 In making major changes to the method of calculation of a provision, entities should confer with the relevant authorities (through sponsoring bodies where appropriate) to establish whether there is a significant impact on expenditure control.

### ***Provision of information to Parliament***

10.2.16 Where the guidance on the handling of public funds requires certain financial but remote obligations that fall outside the scope of IAS 37 to be reported to Parliament, entities should include in their financial statements a note detailing those obligations (see paragraph 3.2.11).

## **IFRIC 1 Changes in Existing Decommissioning, Restoration and Similar Liabilities**

### ***Applicability***

10.2.17 IFRIC 1 applies in full to all entities covered by this manual.

**Consensus**

10.2.18 IFRIC 1 gives guidance on accounting for changes in decommissioning, restoration and similar liabilities that have previously been recognised both as part of the cost of an item of property, plant and equipment under IAS 16 and as a provision (liability) under IAS 37.

**IFRIC 5 Rights to Interests arising from Decommissioning, Restoration and Environmental Funds*****Applicability***

10.2.19 IFRIC 5 applies as adapted to reporting entities covered by this Manual.

**Consensus**

10.2.20 The consensus of the IFRIC includes that the contributor to a fund shall recognise its obligation to pay decommissioning costs as a liability and recognise its interest in a decommissioning fund separately unless the contributor is not liable to pay decommissioning costs even if the fund fails to pay. It also includes that the contributor shall determine whether it has control, joint control or significant influence over the fund by reference to IAS 27, IAS 28, IAS 31 and SIC 12. If it does, the contributor shall account for its interest in the fund in accordance with those Standards.

***Adaptation of IFRIC 5 for the public sector context***

10.2.21 In applying IFRIC 5, entities covered by this Manual shall comply with the adaptations that are made by this Manual to IAS 27, IAS 28, IAS 31 and SIC 12 in respect of the departmental boundary.

# 11 Income and expenditure

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## **11.1 Introduction**

11.1.1 This chapter sets out the accounting principles and standards that should be applied in preparing the entity's Statement of Comprehensive Net Expenditure. Chapter 5 provides more detail on the disclosure requirements.

## **11.2 Income**

### **Introduction**

11.2.1 The following IFRS deal with accounting for revenue:

IAS 18 *Revenue*; and

SIC 31 *Revenue – Barter Transactions Involving Advertising Services*.

### **IAS 18 Revenue and SIC 31 Revenue – Barter Transactions Involving Advertising Services**

#### ***Applicability***

11.2.2 IAS 18 and SIC 31 apply in full to all reporting entities covered by this Manual.

#### ***Objectives of IAS 18***

11.2.3 The objective of IAS 18 is to identify the circumstances when revenue recognition criteria will be met. It also provides practical guidance on the application of those criteria.

#### ***SIC 31 consensus***

11.2.4 The consensus in SIC 31 is that revenue from an exchange involving advertising services cannot be reliably measured by reference to the fair value of the services received. This is because reliable information is not available to the seller to support such measurement. However, a seller can reliably measure revenue at fair value of the advertising service it provides in a barter transaction by reference to its non-barter transactions that meet certain criteria specified in SIC 31.

#### ***Definitions***

11.2.5 The following paragraphs provide definitions of the various types of income that departments might expect to receive. Funding from the following sources should not, however, be accounted for as income but as financing through the General Fund:

- Supply;
- grants and grants-in-aid to non-departmental public bodies (see paragraph 11.2.19);
- grants from the Wales Office to the Welsh Assembly Government, from the Scottish Office to the Scottish Government and from the Northern Ireland Office to the Northern Ireland Assembly;

- amounts from the National Insurance Fund;
- the Consolidated Fund in respect of standing services;
- advances from the Contingencies Fund;
- amounts appropriated from tax revenue in the HMRC Trust Statement for the purpose of paying tax credits: and
- amounts appropriated from National Insurance contributions in the HMRC Trust Statement for the purpose of financing the NHS.

11.2.6 The parliamentary process and accounting arrangements determine how income is presented. The following sections look at the arrangements for government departments whose activities cover the whole of the United Kingdom, or that are responsible for activities in England or Northern Ireland and the arrangements in Scotland. There are separate arrangements in Wales, details of which can be obtained from the Welsh Assembly Government.

11.2.7 NDPBs and trading funds should refer to the following definitions as appropriate to their circumstances. There may be situations where, in consultation with their sponsoring bodies, non-departmental public bodies or trading funds cannot retain some of their earned income, but the norm is likely to be that all income earned by these entities will be retained as operating income. NDPBs and trading funds should refer to paragraph 11.2.19 for guidance on accounting for grants and grants-in-aid.

### **Whole of United Kingdom, England and Northern Ireland operating income**

11.2.8 Operating income is any income generated by an entity in pursuit of its activities (generally referred to as fees and charges) or as part of managing its affairs (examples include rents, interest and dividends receivable).

### **Non-operating income**

11.2.9 Proceeds arising from the sale of investments and non-current assets are accounted for as non-operating income. Northern Ireland departments should seek the approval of the relevant authority to appropriate in aid such income. Surpluses on the disposal of assets will be netted off expenditure in the Statement of Comprehensive Net Expenditure only where they are no more than adjustments to depreciation (or amortisation) or impairment previously charged. The presumption is that this accounting treatment for profits will be more appropriate in respect of depreciable tangible non-current assets which are re-valued, and in respect of other surplus assets originally acquired for an entity's own use, and which have been written down to net realisable value. Other profits on disposal of assets will be treated as income in the Statement of Comprehensive Net Expenditure. Profits on disposals are netted off the relevant expenditure section in the *Statement of Parliamentary Supply*.

### **Other non-retainable income**

11.2.10 Other non-retainable income includes any income or recovery of expenditure that cannot be classified as either accruing resources or excess accruing resources (Northern Ireland departments) or that is non-budget (Westminster departments). It should be recorded in the Statement of Comprehensive Net Expenditure. In England

and Northern Ireland this income is treated as Consolidated Fund Extra Receipts. (See also 10.2.6 on confiscated, seized and forfeited property.)

## EU income

11.2.11 EU income from whatever source, other than receipts to be transferred to other member states or mandated bodies in other member states in respect of EU twinning projects, should be treated as income and shown separately on a gross basis in the Statement of Comprehensive Net Expenditure. A distinction should be made on the face of the Statement of Comprehensive Net Expenditure between receipts where:

- a) the entity is acting as an agent for the European Union in making payments to third parties in the United Kingdom; and
- b) the receipts are treated as negative public expenditure and reduce the burden on the United Kingdom exchequer.

In the case of EU twinning project receipts, amounts to be transferred to other member states to mandated bodies as EU funding for their part in the project are not income in the United Kingdom and so should be treated as third-party assets as the amounts held represent assets for which the department acts as custodian but in which the government has no beneficial interest.

11.2.12 EU income which is received by an entity in the capacity as an agent passing on the income to a third party may be netted off the relevant expenditure section in the *Statement of Parliamentary Supply*, rather than appropriated in aid. EU income received by an entity to fund its own expenditure should be appropriated in aid.

11.2.13 Where there is a delay in the receipt of EU funds, either direct from the European Union or via the Rural Payments Agency, the amount due should be treated as accrued income and shown in the Statement of Financial Position. The notes to the financial statements should disclose separately accrued income relating to EU funding.

## Items authorised to be netted off gross expenditure

11.2.14 Items of income that departments are authorised to net off gross expenditure in the *Statement of Parliamentary Supply* for purposes of parliamentary control, which relate to any recovery of expenditure recorded in the Statement of Comprehensive Net Expenditure or to returns on investments, should appear in the Statement of Comprehensive Net Expenditure. Other entities will not normally be authorised to net off income against expenditure. With the exception of EU income (see above), no income is recorded in the Statement of Comprehensive Net Expenditure where an entity is acting as an agent for a principal or on behalf of a third party.

## Accruing resources (Northern Ireland departments)

11.2.15 Northern Ireland departments must seek the approval of the relevant authority and obtain parliamentary approval to retain income which would otherwise be surrendered to the Consolidated Fund (that is, seek approval to appropriate income in aid of voted expenditure – as ‘accruing resources’). In most cases, income will be retained in support of expenditure on the same Request for Resources (RfR), but, subject to its taking out a Supplementary Estimate, a department may retain income against one RfR against related expenditure on another RfR if there is a direct link between the

two. Transactions between a department's RfRs in the *Statement of Parliamentary Supply* will be eliminated in the Statement of Comprehensive Net Expenditure.

11.2.16 Income (either operating or non-operating) in excess of the level authorised by Parliament to be appropriated-in-aid as accruing resources in respect of each RfR is not included in the calculation of net resource outturn. This income is treated as Consolidated Fund Extra Receipts for the purposes of parliamentary control within the Statement of Parliamentary Supply, and is paid into the Consolidated Fund. As excess income is calculated in respect of each RfR, it is possible for there to be excess income even though, in aggregate, income is within the voted limits. It is only possible to transfer excess income between RfRs by taking out a Supplementary Estimate.

## Scotland

11.2.17 Operating income is income that relates directly to the operating activities of the Scottish Executive, its Executive Agencies, the Crown Office and Procurator Fiscal Service and NHS bodies. It includes fees and charges for services provided, on a full cost basis, to external customers and public repayment work and from investments. Departmental Outturn Statements include both income applied without limit and income applied with limit as outlined by the Scottish Budget documents. For income categorised as being applied with limit, any excess income over that approved is surrendered to the Scottish Consolidated Fund. Operating income is stated net of VAT.

11.2.18 A separate note to the Scottish Executive Consolidated Accounts provides an analysis between income applied and income not applied. Income not applied includes amounts for surrender to the Scottish Consolidated Fund in accordance with the Scotland Act 1998 (Designation of Receipts) Order 2000 and excess receipts not covered by the Budget Act authority, which must by default be surrendered to the Scottish Consolidated Fund. All interest receivable is external to the departmental boundary and is not from other government departments and is included within operating income in respect of Voted Loans and Housing Association Loans.

## Grants and grants-in-aid

11.2.19 Other than charitable NDPBs, who should follow the requirements of the Charities SORP, NDPBs should regard grants and grants-in-aid as contributions from controlling parties giving rise to a financial interest in the residual interest of the body, and hence should account for them as financing, i.e. by crediting them to the income and expenditure reserve. The treatment of grants and grants-in-aid is explained in chapter 6 (paragraph 6.2.74). Any proposal for alternative accounting treatment should be approved by the department responsible for the NDPB and the relevant authority.

## 11.3 Expenditure

### Introduction

11.3.1 The following IFRS deal with aspects of accounting for expenditure:

IAS 11 *Construction Contracts*;

IAS 21 *The Effects of Changes in Foreign Exchange Rates* and SIC 7 *Introduction of the Euro*; and

IAS 29 *Financial Reporting in Hyperinflationary Economies* and IFRIC 7 *Applying the Restatement Approach under IAS 29*.

- 11.3.2 Specific guidance is given on the treatment of administration and programme expenditure in the Statement of Comprehensive Net Expenditure in paragraphs 11.3.3 and 11.3.4.

### **Administration and Programme Expenditure**

- 11.3.3 In Spending Reviews, administration budgets are set for most central government departments (including their agencies and other Arms Length Bodies) unless specific exemptions have been agreed with the relevant authority for example the BBC. Public Corporations are excluded from the regime along with other self-funded, net-funded and fully levy funded bodies and bodies that do not receive any Consolidated Fund funding, and independent parliamentary bodies. The devolved administrations are also not set administration budgets in Spending Reviews, but these bodies operate their own arrangements for constraining the costs of running central government. Details of administration budget regimes can be obtained from the relevant authorities. Expenditure that does not fall within administration budgets is known as programme expenditure. Expenditure classified as Annually Management Expenditure (AME) for budgeting is assumed to be programme. Departments should normally show expenditure and income separately in the Statement of Comprehensive Net Expenditure, or equivalent, under two headings – administration costs and programme costs. In Scotland, administration costs are those voted to, incurred by, and reported against the Administration Department.

- 11.3.4 The classification of expenditure and income as administration or as programme in the department's annual accounts should follow the definition of administration costs provided by the relevant authority. Agencies and other ALBs that are excluded from the administration budget regime should make it clear either in the Statement of Comprehensive Net Expenditure or in the notes to the accounts that their expenditure is programme.

### **EU Expenditure**

- 11.3.5 Expenditure in respect of grants or subsidy claims, whether European Agriculture Guidance and Guarantee Fund, European Regional Development Fund, Financial Instrument for Fisheries Guidance, etc., should be recognised in financial statements as closely as possible to the time of the underlying event or activity that gives rise to a liability. In practice, entities may find that claims received or authorised may form a suitable approximation for the liability, if applied consistently.
- 11.3.6 Where material, all expenditure in respect of grants or subsidy claims, whether incurred on the entity's own behalf or whether the entity is acting as an agent for the European Union (with the exception of expenditure on twinning projects), should be accounted for gross and separately analysed within the notes on programme expenditure.

11.3.7 Where an entity provides services to a candidate country under a twinning project, relevant income and expenditure should be accounted for as EU income (see paragraphs 11.2.13 to 11.2.15) and related expenditure (paragraphs 11.3.5 and 11.3.6).

## **IAS 11 Construction Contracts**

### ***Applicability***

11.3.8 IAS 11 applies in full to all reporting entities covered by the requirements of this Manual.

### ***Objectives of IAS 11***

11.3.9 The objectives of IAS 11 are:

- a) to prescribe the accounting treatment by contractors of income and expenses relating to construction contracts;
- b) to provide guidance on the application of the criteria for recognising contract revenue and contract costs in the accounting periods in which construction work is performed; and
- c) to require expected losses on long-term contracts to be immediately recognised as an expense.

## **IAS 21 The Effects of Changes in Foreign Exchange Rates and SIC 7 Introduction of the Euro**

### ***Applicability***

11.3.10 IAS 21 and SIC 7 apply in full to all entities covered by this Manual.

### ***Objective of IAS 21***

11.3.11 The objective of IAS 21 is to prescribe how to include foreign currency transactions and foreign operations in the financial statements of an entity and how to translate financial statements into a presentation currency.

11.3.12 An entity may carry on foreign activities in two ways. It may have transactions in foreign currencies or it may have foreign operations. The principal issues are which exchange rate(s) to use and how to report the effects of changes in exchange rates in financial statements.

### ***Interpretation of IAS 21 for the public sector context***

11.3.13 The presentational currency will be the same as the functional currency (i.e. pounds sterling).

### ***SIC 7 consensus***

11.3.14 The requirements of IAS 21 regarding the translation of foreign currency transactions and financial statements of foreign operations should be strictly applied to the changeover to the Euro.

## **IAS 29 Financial Reporting in Hyperinflationary Economies and IFRIC 7 Applying the Restatement Approach under IAS 29**

### ***Applicability***

11.3.15 IAS 29 and IFRIC 7 apply in full to all reporting entities covered by the requirements of this Manual.

### ***Objective of IAS 29***

11.3.16 The standard applies to all financial statements of a reporting entity whose functional currency is the currency of a hyperinflationary economy.

### ***Interpretation of IAS 29 for the public sector context***

11.3.17 As all entities covered by this Manual have a functional currency of pounds sterling, HM Treasury will notify classification of the economy as hyperinflationary if appropriate.

### ***IFRIC 7 consensus***

11.3.18 The consensus in IFRIC 7 is that in the reporting period in which the entity first adopts IAS 29, the entity shall apply the requirements of IAS 29 as if the economy had always been hyperinflationary. Opening statements of financial position, deferred tax and corresponding figures in the subsequent reporting period should be restated as prescribed by IFRIC 7.

## **11.4 Tax**

### **Introduction**

11.4.1 The following IFRS deal with accounting for tax:

*IAS 12 Income Taxes, SIC 21 Income Taxes – Recovery of Non-depreciable Assets and SIC 25 Income Taxes – Changes in the Tax Status of an Entity or its Shareholders.*

## **IAS 12 Income Taxes, SIC 21 Income Taxes – Recovery of Non-depreciable Assets and SIC 25 Income Taxes – Changes in the Tax Status of an Entity or its Shareholders**

### ***Applicability***

11.4.2 IAS 12, SIC 21 and SIC 25 apply in full to those entities that are subject to the tax regime and to the extent that they have taxable activities.

### ***Objectives of IAS 12***

11.4.3 The objectives of IAS 12 are to specify the accounting treatment for:

- a) current tax, that is the amount of income taxes payable (recoverable) in respect of taxable profit (tax loss) for the period. Income taxes payable for current and prior periods are recognised as a liability. Income tax recoverable or overpaid is recognised as an asset; and
- b) deferred tax. This recognises future tax consequences of temporary differences between amounts included in financial statements (for income and expenditure and assets and liabilities) and those included in the tax assessment.

### ***SIC 21 consensus***

11.4.4 The consensus in SIC 21 is that the deferred tax liability or asset arising from the revaluation of a non-depreciable asset should be measured on the basis of the tax consequences that would follow from recovery of the carrying amount of that asset through sale, regardless of the basis of measuring the carrying amount of the asset.

### ***SIC 25 consensus***

11.4.5 The consensus in SIC 25 is that a change in tax status does not give rise to increases or decreases in amounts recognised directly in equity. The current and deferred tax consequences of a change in tax status should be recognised in profit or loss for the period, unless the consequences relate to transactions and events that result in a direct charge or credit to equity. Where that is the case, the tax consequences should be charged or credited direct to equity.

## ***11.5 Notional expenditure***

### **Introduction**

11.5.1 To disclose the full cost of their activities, entities will sometimes include in their accounts notional costs as well as those actually incurred. For charitable NDPBs, notional costs may be included in the Statement of Financial Activities after 'Total resources expended' followed by a suggested new total of 'Total resources expended including notional costs'. Any notional costs will, however, also need to be reversed out within the Statement of Financial Activities. A suitable place for an additional heading dealing with the reversal is after the total 'Gains and losses on revaluation and disposals of investment assets' and before the total 'Net movement in funds'. Other NDPBs might reverse the entry below the result for the year or in the General Reserve.

- 11.5.2 Notional costs should not be recorded for cost of capital, though actual costs will be charged in circumstances where the Treasury directs that it is appropriate. Where entities use cost of capital in management accounting or for setting fees and charges in accordance with the fees and charges guidance, these costs must be excluded from the accounts of the entity.

### **Notional premiums**

- 11.5.3 Notional insurance premiums will not be charged in the Statement of Comprehensive Net Expenditure. Instead, expenditure in connection with uninsured risks (for example, accident repairs or asset write-downs) will be charged as incurred. Entities expected to recover full costs in accordance with fees and charges policy may show in a note to the accounts the effect of charging notional premiums.

## **11.6 Tax expenses**

- 11.6.1 In the UK the main form of tax expense is tax credits. Tax credits are recognised in the Statement of Comprehensive Net Expenditure of the department responsible for their payment. To provide full information, those tax credits paid to recipients who have tax liabilities and those paid to recipients who are not taxpayers are to be disclosed separately in the notes to the accounts.

## 12 Pensions Accounting

### Chapter 12 Contents

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## **12.1 Introduction**

12.1.1 This first section of this chapter deals with pensions accounting by employers, whether they are reporting entities or preparing the financial statements of reportable activities covered by this Manual. The second section deals with pensions accounting by the following public sector pension schemes:

Principal Civil Service Pension Scheme (PCSPS)  
Armed Forces Pension Scheme (AFPS)  
NHS Superannuation Scheme  
Teachers' Superannuation Scheme  
United Kingdom Atomic Energy Authority Superannuation Schemes  
Judicial Pension Scheme  
Department for International Development – Overseas Superannuation Scheme  
Research Councils' Pension Scheme  
DFP Northern Ireland Superannuation and Other Allowances  
HPSS Northern Ireland Superannuation Scheme  
Police Service Northern Ireland Pension Scheme  
Northern Ireland Teachers' Superannuation Scheme  
Scottish NHS Superannuation Scheme  
Scottish Teachers' Superannuation Scheme

12.1.2 This chapter also considers the accounting treatment of termination benefits (also known as early departure costs or compensation payments) by the above public sector pension schemes for which there is no applicable financial reporting standard.

12.1.3 Short-term employee benefits are covered in chapter 10.

## **12.2 Pensions accounting by reporting entities**

12.2.1 The following IFRS deals with accounting for employee benefits:

IAS 19 *Employee benefits*.

### **IAS 19 Employee Benefits**

#### ***Applicability***

12.2.2 IAS 19 applies, as adapted in paragraph 12.2.4 below, to all reporting entities and reportable activities covered by the requirements of this Manual.

#### ***Objective of IAS 19***

12.2.3 The objective of IAS 19 is to prescribe the accounting and disclosure for employee benefits i.e. short-term benefits such as salaries and wages; post-employment

benefits that result from employment; other long-term benefits such as long service awards, and termination benefits. It requires an entity to recognise the cost of providing employee benefits in the period in which the benefit is earned by the employee, rather than when it is paid or payable:

- (a) a liability when an employee has provided service in exchange for employee benefits to be paid in the future; and
- (b) an expense when the entity consumes the economic benefit arising from service provided by an employee in exchange for employee benefits.

The 2011 revision of IAS 19 has led to increased clarity in the definition of termination benefits and changes in recognition criteria. Termination benefits are a direct result of termination of employment and are unrelated to future employee service. They should be recognised at the earlier of:

- (c) When the offer cannot be withdrawn;
- (d) When the related restructuring costs are recognised under IAS 37 Provisions, Contingent Liabilities and Contingent Assets.”

### ***Adaptations of IAS 19 for the public sector context***

12.2.4 The following adaptations of IAS 19 apply in respect of post-employment benefits:

#### *Recognition and measurement*

- a) the requirements of IAS 19 are to apply to the accounts of the pension schemes themselves as well as to reporting entities and reportable activities covered by the requirements of this Manual. This includes relevant disclosure requirements; and
- b) in the financial statements of the pensions schemes only (see section 12.3), contributions from employer and employees are to be shown as income in the statement of comprehensive net expenditure rather than as, respectively, a credit to the pension liability or a deduction from the current service cost. As a consequence, the pension liability will not reflect contributions.

### ***Interpretations of IAS 19 for the public sector context***

12.2.5 The following interpretations of IAS 19 for the public sector context apply:

#### *Recognition and measurement*

- a) employers whose employees are members of the pension schemes listed in paragraph 12.1.1 shall account for the scheme as a defined contribution plan;
- b) IAS 19 requires the present value of defined benefit obligations (and, if applicable) the fair value of the plan's assets to be determined with sufficient regularity that the amounts recognised in the financial statements do not differ materially from those determined at the reporting period date. This shall be interpreted to mean that the period between formal actuarial valuations shall be four years, with approximate assessments in intervening years. Acceptable approximations shall include adjusting full valuation results using the latest available membership data;
- c) the application of a discount rate advised annually by HM Treasury will not apply to funded schemes within central government. Reporting entities with funded schemes should use a discount rate in accordance with IAS 19 as advised by the scheme's actuary;

- d) where a central government entity has a share of a local government (or other) pension scheme liability on its statement of financial position, then that entity will use a discount rate determined by the appropriate authority (for example, CIPFA or a qualified independent actuary) in valuing its share and not the rate advised annually by HM Treasury; and
- e) voluntary early retirements under scheme rules will be discounted at the pensions rate and not at the provisions rate.

### **12.3 Pensions accounting by the public sector pension schemes**

12.3.1 The following accounting standard deals with accounting by pension schemes:

*IAS 26 Accounting and Reporting by Retirement Benefit Plans.*

### **IAS 26 Accounting and Reporting by Retirement Benefit Plans**

#### ***Applicability***

12.3.2 IAS 26 applies, as adapted and interpreted, to the financial statements prepared by the unfunded pension schemes listed in paragraph 12.1.1.

#### ***Objectives of IAS 26***

12.3.3 The objective of IAS 26 is to provide guidance on the form and content of the financial statements prepared by retirement benefit plans. It complements IAS 19, which deals with the determination of the cost of retirement benefits in the financial statements of employers.

#### ***Adaptation of IAS 26 for the public sector context***

12.3.4 The following adaptation applies to the pension schemes noted in paragraph 12.1.1:

- a) IAS 26 does not apply to forms of employment benefit other than retirement benefits. However, where schemes currently report separately transactions relating to termination benefits (also known as early departure costs or compensation payments) they should continue to do so. The treatment of such costs will depend on whether the scheme acts as a principal or an agent, and whether or not the early departure costs (however described) are regarded as retirement benefits and included within the pension provision. Guidance on the accounting arrangements for termination benefits is given below.

#### ***Interpretations of IAS 26 for the public sector context***

12.3.5 In applying IAS 26, entities should be aware of the following interpretations for the public sector context:

##### *Disclosures*

- a) paragraph 18 of IAS 26 allows the present value of the expected payments by a retirement benefit plan to be calculated and reported using either current salary levels or projected salary levels. The pension schemes listed in paragraph 12.1.1 are to calculate and report the present value of the expected

payments using projected salary levels; that is, the option of using current salary levels is not available.

- b) paragraph 17 of IAS 26 allows information concerning the actuarially determined present value of promised retirement benefits to be disclosed (a) as part of the statement of net assets, (b) by way of note, or (c) in a separate actuarial report which is attached to the accounts. The pension schemes listed in paragraph 12.1.1 are to disclose the actuarially determined present value of promised retirement benefits within the statement of financial position; that is, options (b) and (c) are not available.

## Other requirements

### *Content of the financial statements*

12.3.6 Although not addressed specifically in IAS 26, the financial statements prepared by pension schemes shall include (and see also the proforma *Magenta*):

- a Report of the Scheme's Managers;
  - a Report of the Scheme's Actuary;
  - a Statement of the Accounting Officer's responsibilities;
  - a Governance Statement;
  - a Report of the Auditor;
  - a Statement of Parliamentary Supply;
  - a [Combined<sup>1</sup>]Statement of Comprehensive Net Expenditure;
  - a [Combined] Statement of Financial Position;
  - a [Combined] Statement of Changes in Taxpayers' Equity;
  - a [Combined] Statement of Cash Flows;
- supporting notes.

### *Additional voluntary contributions (AVCs)*

12.3.7 AVCs are amounts deducted from employees' salaries and paid over directly by employers to approved AVC providers. They do not include employees' normal contributions in respect of the purchase of added years.

12.3.8 AVC transactions should be included in the financial statements of the pension schemes by way of note showing:

- the value of the AVC investments at the beginning of the year;
- amounts paid to the AVC providers during the year;
- the investments purchased by the AVC providers;
- the value of sales of investments to provide pension benefits;
- the changes in the market value of investments;
- the value of the AVC investments at the end of the year;
- the existence (if any) of any guarantee given by the scheme.

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<sup>1</sup> These statements are described as "Combined" if the statement reflects transactions relating to both pensions and early departure costs.

12.3.9 If the AVC arrangements include life assurance cover, the note should also show the contributions received to provide life cover, and the benefits paid on death.

## **Termination benefits (also known as early departure costs or compensation payments)**

### ***Introduction***

12.3.10 The accounting treatment of termination benefits by **employers** is dealt with in IAS 19 (see section 12.2). For convenience, termination benefits are paid to the individuals concerned using the arrangements for paying pensions, with the amounts being recharged to employers. Ideally, separate statements for these transactions should be prepared, but, for historical reasons, it is appropriate to prepare statements showing both pension transactions and those relating to termination benefits. The following paragraphs describe the treatment of termination benefits in the accounts of the pension schemes, notwithstanding that IAS 26 does not address this issue. As the arrangements for paying termination benefits and their recovery from employers may differ from scheme to scheme, the following guidance is of a general nature and may need to be interpreted to reflect individual circumstances.

### ***Agent or principal?***

12.3.11 In some cases, the scheme acts purely as an agent, with individuals having recourse to their former employers in the case of default; in others, the scheme acts as principal. It is important for schemes to establish their status by reference to their governing statutes and regulations. This should be consistent with the accounting treatment of termination benefits by employers in accordance with IAS 19 as interpreted by this Manual.

### ***Schemes acting as an agent***

12.3.12 The Statement of Financial Position should recognise and measure only a current asset or liability being timing differences between amounts due to former employees and their recovery from employers. It will not recognise either the total liability to former employees or the total amount recoverable from employers.

12.3.13 The Statement of Comprehensive Net Expenditure will show only any costs falling to the scheme such as differences between any amounts pre-funded and the offsetting liability.

### ***Schemes acting as a principal***

12.3.14 The Statement of Financial Position should recognise and measure:

- a) a provision representing the total future liability to former employees. Depending on the terms of the regulations relating to compensation payments, this provision may be incorporated into that for pensions but where it is not, the provision should be discounted at the general provision discount rate (not the pension discount rate); and
- b) a sum representing the total amounts due from employers where those amounts are recharged to employers on a regular basis.

***Pre-funding the liability***

12.3.15 Some schemes permit employers to pre-fund their liabilities either by means of a lump sum, or paying instalments over a short number of years.

*Schemes which act as an agent*

12.3.16 The instalments or lump sums should be shown separately in the statement of financial position as a long-term liability which is reduced as the amounts are paid to the employees. Where the instalments or lump sums received offset a greater value of liabilities, there will be a cost to the scheme that should be recognised in the Statement of Comprehensive Net Expenditure. Ideally, the cost should be allocated to individual years on an actuarially determined basis, but, in most cases, it will be sufficient to take the actual loss in the year – that is, the difference between the amounts pre-funded in respect of a given year and the payments made in respect of the respective individuals during the year.

12.3.17 Conversely, schemes will benefit if payments to individuals are lower than amounts pre-funded by employers, and will record this as a gain (on an actual basis) if the amounts are not refundable to employers or capable of being offset against other individuals.

*Schemes which act as a principal*

12.3.18 Amounts receivable from employers by way of a capitalised payment to discharge their liability are to be regarded as special pension scheme contributions in the Statement of Comprehensive Net Expenditure.

12.3.19 Amounts receivable from employers on an on-going basis are to be regarded as “other income” in the Statement of Comprehensive Net Expenditure.

# 13 Accounting for consolidated fund revenue

## Chapter 13 Contents

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## **13.1 Introduction**

- 13.1.1 This chapter deals with revenue (and some associated expenditure) collected by entities on behalf of the Consolidated Fund. Although the Consolidated Fund is the source of most government funding and is the destination for unspent funds, this chapter does not cover the generality of those funding flows. It is more specifically about the collection of revenues which by statute or convention are due to the Consolidated Fund and where the entity undertaking the collection is consequently acting as agent rather than principal. This chapter does not cover accounting by the Consolidated Fund for the revenues received.
- 13.1.2 The majority of the revenue sources covered by this chapter are either taxation or fines and penalties. There are, however, some smaller revenue streams that fall within its scope, such as the proceeds of confiscation orders and amounts incidentally collected for third parties.

## **13.2 Definitions**

- 13.2.1 Taxes and duties: taxes and duties are economic benefits compulsorily paid or payable to public sector entities, in accordance with laws and regulations established to provide revenue to the government, excluding fines or other penalties imposed for breaches of laws or regulations.
- 13.2.2 Fines and penalties: fines and penalties are economic benefits paid or payable to government for breaches of laws or regulations where there is a statutory obligation to pay.

## **13.3 Recognition and Measurement**

- 13.3.1 In applying the accounting policies set out in this chapter reporting entities shall have regard to the concepts set out in the *Conceptual Framework for Financial Reporting*.
- 13.3.2 In preparing their financial statements, entities will not recognise or measure the “tax gap”. The “tax gap” is defined as the difference between the hypothetical amount of revenues due, based on data on economic activity, and revenues receivable. Revenues receivable include both the tax yield from compliant taxpayers and estimates of amounts due from non-compliant, but known, taxpayers. A statement should be included in the accounting policies note that the “tax gap” is not recognised in the financial statements.

### **Taxes and duties**

- 13.3.3 Where taxes and duties are recognised on an accrual basis, they will be measured at the fair value of the consideration received or receivable, net of repayments. Revenue is recognised when a taxable event has occurred, the revenue can be measured reliably and it is probable that the economic benefits from the taxable event will flow to the collecting entity. All these elements are required to be satisfied.
- 13.3.4 Tax revenues are deemed to accrue equally over the period for which they are due. No revenue is recognised if there are significant uncertainties regarding recovery of the taxes due. The term “probable” means that the flow of revenue should be more likely than not to occur. Revenue should be accrued net of amounts not expected to

be collected, which might be determined by reference to past trends in write-offs and remissions, the emerging position in-year, historic debt collection performance, a combination of the foregoing or by other appropriate means.

- 13.3.5 Where, exceptionally and with the consent of HM Treasury, taxes and duties are recognised on a cash basis, they will be recognised in the accounting period in which the tax is received by the entity and are measured at the cash amount received.

## **Fines and penalties**

- 13.3.6 Fines and penalties are recognised at the time that the fine or penalty is imposed and becomes receivable by the entity. Where, on appeal, or for other legal reasons, the penalty is cancelled, the amount receivable is derecognised at the date of the successful appeal. Where a financial penalty is imposed, but with an alternative of a non-financial penalty, the financial penalty is recognised initially, but is derecognised when (and if) the option of the non-financial penalty is taken up.
- 13.3.7 Where fines and penalties are uncollectible or, for policy reasons, (other than the imposition of an alternative penalty), the entity decides that it is inappropriate to pursue collection, the amounts not collected are recorded as an expense. The amounts not collectible are estimated from the most appropriate data available to the entity.

## **Tax expenses**

- 13.3.8 In the UK the main form of tax expense is personal tax credits. Tax credits are recognised in the Statement of Comprehensive Net Expenditure of the department which has responsibility for their payment. Where the financing required to fund tax credits may be deducted by statute from tax revenues collected before those revenues are remitted to the Consolidated Fund, the deduction and payment of these amounts is recorded in the trust statement as an appropriation of the revenue received.

## **13.4 Reporting**

- 13.4.1 HMRC and certain other receivers of money which is by law payable into the Consolidated Fund are required to prepare accounts in a form to be directed by the Treasury and which are to be examined and reported on by the Comptroller and Auditor General.
- 13.4.2 The intention of the underlying legislation<sup>1</sup> is to require those entities collecting revenue on behalf of the Consolidated Fund to prepare separate statements ("Trust Statements"), from those for the entity and to include in Trust Statements details of the collection and allocation of that revenue.
- 13.4.3 The Treasury (or, where appropriate, sponsor department) will issue an accounts direction to each entity producing a Trust Statement; the format will be defined in the accounts direction. It will usually follow the principles set out in Chapter 5 "Form and Content of the Annual Report and Accounts" and must be published as part of the Annual Report and Accounts except where the Treasury or sponsor department directs otherwise. The requirement will be based on the underlying legislation for

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<sup>1</sup> As required by The Exchequer and Audit Departments Act 1921

those entities within the scope of 13.4.1 above, and based on s7 of the Government Resources and Accounts Act for other entities.

## Trust Statements

13.4.4 Trust Statements shall include the following revenue:

- a) all income classified as taxation by the Office for National Statistics except where by statute the entity is permitted to keep that income;
- b) all amounts which, by statute, are to be surrendered or paid into the Consolidated Fund (either by the entity directly or by passing the collected funds to a third party who then pays over the amounts collected) or to another third party within Government;
- c) all fines and penalties levied except where the entity is permitted by statute or with Treasury consent, to retain the penalties imposed;
- d) any other income which the Treasury may direct to be included as per 13.1.2.

13.4.5 Trust Statements shall also include the following expenditure:

- a) the costs of collection and administration where there is express statutory provision for those costs to be deducted from the revenue collected;
- a) the costs of compensating (limited to repayments and interest) those from whom taxes or penalties have been incorrectly collected. Other elements of compensation and related costs shall be accounted for in departmental accounts; and
- b) any provision for uncollectible amounts measured in accordance with IAS 39.

13.4.6 Where legislation requires or permits part of the revenue collected to be surrendered and part to be retained by the entity, the full amount shall be included in the Trust Statement, and the amount to be retained shall be recorded as an appropriation of net revenue in the Trust Statement (and, equally, as revenue in the Statement of Comprehensive Net Expenditure).

## Presentation

13.4.7 Where revenue from taxes, duties fines and penalties is material to the entity, it shall prepare a trust statement containing details of the material income, expenditure, assets, liabilities and cash flows detailed in a statement of Revenue, Other Income and Expenditure, a Statement of Financial Position and a Statement of Cash Flows, together with supporting notes to those primary statements, to give a true and fair view of the statement of affairs relating to the collection and allocation of taxes, duties fines and penalties and any other revenues and related expenditure.

13.4.8 Where revenue from taxes, duties, fines and penalties is not material to the entity, it need not prepare the trust statement set out in the preceding paragraph, but may do so if it provides a clearer interpretation of the state of affairs. Where the entity does not produce the statements in the preceding paragraph, it shall set out in a note to the Statement of Financial Position details of the amounts collected and surrendered or otherwise expended (but shall not include them in its statement of income and expenditure) and of the amounts receivable and payable at the end of the reporting period.

## Disclosures

13.4.9 An entity shall disclose:

- in the notes to the trust statement, the main accounting policies, estimates and judgements used to assess tax income, expenditure, assets and liabilities, including any provision created in respect of tax, fines or penalties deemed uncollectible;
- in the notes to the trust statement, a statement of those taxes reported on an accruals basis and those on a cash basis; and
- any additional supporting information which might aid the understanding of users of the accounts. This may include, but will not be limited to, details of fraud, evasion and error and accounting estimates of accrued tax revenue.

## 14 Whole of Government Accounts

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## 14.1 Introduction

- 14.1.1 The Treasury prepares Whole of Government Accounts (WGA) for the whole of the UK public sector (central government, local government and public corporations) under section 9 of the Government Resources and Accounts Act 2000. WGA is prepared under generally accepted accounting practice as defined in chapter 2 of this Manual.
- 14.1.2 The Government's aims in making the commitment to WGA were to provide improved data for fiscal planning, to increase transparency and to improve accountability to Parliament. WGA is requiring bodies within the public sector to prepare data on a consistent basis. It is thereby improving the comparability of financial data. WGA increases the completeness of public sector financial data through the inclusion of provisions, contingent liabilities etc. and is independently audited and certified by the Comptroller & Auditor General.
- 14.1.3 WGA has the ability to provide additional and complementary data to that in national accounts, (which is currently used for fiscal management), for use by government, Parliament and the taxpayer where the scope of the accounts is consistent with that of the national accounts.
- 14.1.4 This chapter considers the specific accounting and disclosure requirements adopted in the consolidated WGA as compared with the requirements for the financial statements of the reporting entities and reportable activities covered by this Manual.

## 14.2 Accounting standards applied to Whole of Government Accounts

- 14.2.1 This section summarises the applicability of accounting standards to WGA. Adaptations and interpretations of standards that apply to WGA are explained in the paragraphs below.

Accounting Standard	Adapted in other chapters	Interpreted in other chapters	Adapted for WGA	Interpreted in WGA
IAS 1 Presentation of Financial Statements	No	Yes	No	Yes
IAS 2 Inventories	Yes	Yes	Yes	Yes
IAS 7 Statement of Cash Flows	No	No	No	No
IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors	No	No	No	No
IAS 10 Events after the Reporting Period	No	Yes	No	No
IAS 11 Construction contracts	No	No	No	No
IAS 12 Income Taxes	No	No	No	No

IAS 16 Property, Plant and Equipment	Yes	Yes	Yes	Yes
IAS 17 Leases	No	No	No	No
IAS 18 Revenue	No	No	No	No
IAS 19 Employee benefits	Yes	Yes	No	Yes
IAS 20 Accounting for Government Grants and Disclosure of Government Assistance	No	Yes	No	Yes
IAS 21 The Effects of Changes in Foreign Exchange Rates	No	Yes	No	Yes
IAS 23 Borrowing costs	No	Yes	No	No
IAS 24 Related party disclosures	No	Yes	Yes	No
IAS 26 Accounting and Reporting by Retirement Benefit Plans	Yes	Yes	N/A	N/A
IAS 27 Consolidated and Separate Financial Statements	Yes	No	Yes	Yes
IAS 28 Investments in Associates	No	No	No	No
IAS 29 Financial Reporting in Hyperinflationary economies	No	Yes	No	Yes
IAS 31 Interest in Joint ventures	Yes	No	No	No
IAS 32 Financial Instruments: presentation	No	Yes	No	No
IAS 33 Earnings per share	No	No	No	No
IAS 34 Interim Financial Reporting	No	No	No	No
IAS 36 Impairment of Assets	Yes	Yes	Yes	Yes
IAS 37 Provisions, Contingent Liabilities and Contingent Assets	No	Yes	No	Yes
IAS 38 Intangible assets	No	Yes	No	Yes
IAS 39 Financial Instruments; Recognition and Measurement	No	Yes	No	Yes
IAS 40 Investment property	No	Yes	No	Yes
IAS 41 Agriculture	No	No	No	No
IFRS 1 First time adoption of IFRS	No	Yes	N/A	N/A

IFRS 2 Share based payments	No	No	No	No
IFRS 3 Business combinations	No	No	No	No
IFRS 4 Insurance contracts	No	No	No	No
IFRS 5 Non-current assets held for sale and discontinued operations	No	Yes	No	Yes
IFRS 6 Exploration for and Evaluation of mineral resource	No	No	No	No
IFRS 7 Financial instruments: disclosure	No	No	No	No
IFRS 8 Operating segments	No	No	No	Yes

### ***IAS 1 Presentation of financial statements***

14.2.2 Paragraphs 15 to 24 of IAS 1 is interpreted for WGA in the same way that it is interpreted for the financial statements of reporting entities covered by this Manual. In other respects, IAS 1 is adopted in full.

### ***IAS 2 Inventories***

14.2.3 IAS 2 is adapted and interpreted for WGA in the same way that it is adapted for the financial statements of reporting entities covered by this Manual.

### ***IAS 10 Events after the Reporting Period***

14.2.4 The interpretation of IAS 10 required for annual accounts is not required for WGA, except that, the requirement that the financial statements be adjusted for significant transactions or events that occur between the date of the consolidated body's reporting date and the WGA reporting date will not apply.

### ***IAS 16 Property, plant and equipment***

14.2.5 IAS 16 is adapted and interpreted for WGA in the same way that it is adapted for the financial statements of reporting entities covered by this Manual, other than in regards to highways infrastructure assets held by local authorities which are recognised at historic cost and the detailed disclosure requirements in IAS 16 paragraphs 74(a) and 77 and FReM paragraphs 74(a) and 77 and FReM paragraph 6.2.7(g) which shall not apply to WGA.

### ***IAS 19 Employee benefits***

14.2.6 In accounting for public service pension liabilities, WGA follows the requirements of IAS 19. IAS 19 is interpreted for WGA in the following ways:

- a) WGA shall recognise the liabilities of funded and unfunded pension schemes for which the public sector is responsible, whether originally recognised in employer or pension scheme accounts.
- b) contributions from employees are to be shown in the financial statements as a deduction from the current service cost;
- c) the requirements of IAS 19 shall be interpreted to mean that the period between formal valuations shall be that required by the governance arrangements for the relevant schemes; and
- d) schemes and employers recognising pensions liabilities shall apply the actuarial assumptions, including discount rates most suited to the scheme or, where specific requirements apply, the required assumptions. The financial statements shall disclose the range of assumptions included in WGA but the requirement to include a sensitivity analysis for each significant actuarial assumption as of the end of the reporting period is not required.

### ***IAS 20 Accounting for government grants and disclosure of government assistance***

14.2.7 The IAS 20 interpretation for resource accounts applies to WGA.

### ***IAS 21 The effects of changes in foreign exchange rates***

14.2.8 IAS 21 is interpreted for WGA in the same way that it is interpreted for the financial statements of reporting entities covered by this Manual.

### ***IAS 24 Related party disclosures***

14.2.9 IAS 24 is adapted for WGA in the following ways:

- a) related parties are deemed to comprise any public sector entity (see paragraph 14.2.10) that is not consolidated into WGA; and
- b) WGA shall provide a note of transactions with those related parties.

### ***IAS 27 Consolidated and separate financial statements***

14.2.10 IAS 27 is adapted for WGA in the following ways:

- a) These accounts are drawn up for the purposes of Government and Parliament as a whole and not as a requirement of any individual entity. No one body appears to have the ability to control all of the bodies within the consolidation, and as a consequence, for the purposes of WGA, no parent company will be disclosed in the statements and notes, only the position of the consolidated bodies.
- b) the requirement to include all subsidiaries of the parent is adapted in order that WGA shall conform to the statutory requirement in the Government Resources and Accounts Act 2000 that WGA comprise a consolidation of those bodies that appear to HM Treasury to exercise functions of a public nature or are entirely or substantially funded from public money. This will be based on the national accounts classification of bodies to the public sector, as independently determined by the Office of National Statistics at the reporting date. This does not affect the right of the Comptroller and Auditor General to form a different

opinion about the classification of any body, and therefore their inclusion within WGA.

- c) The requirement to eliminate in full income tax, National Insurance Contributions and Value Added Tax balances and transactions between consolidated entities and Her Majesty's Revenue and Customs, and non-domestic rates payable by consolidated entities to local authorities, is adapted to exclude the elimination of input Value Added Tax on goods and services acquired by consolidating entities for either revenue or capital purposes.
- d) the requirement that the financial statements be adjusted for significant transactions or events that occur between the date of the subsidiary's reporting date and the parent's reporting date shall not apply, and the subsidiary shall not be required to prepare additional financial statements as of the same reporting date.

### ***IAS 29 Financial reporting in hyperinflationary economies***

14.2.11 IAS 29 is interpreted for WGA in the same way that it is interpreted for the financial statements of reporting entities covered by this Manual.

### ***IAS 32 Financial Instruments***

14.2.12 The interpretation of IAS 32 required for resource accounts is not required for WGA.

### ***IAS 36 Impairment of assets***

14.2.13 IAS 36 is adapted and interpreted for WGA in the same way that it is adapted and interpreted for the financial statements of reporting entities covered by this manual.

### ***IAS 37 Provisions, contingent liabilities and contingent assets***

14.2.14 IAS 37 is interpreted for WGA in the same way that it is interpreted for the financial statements of reporting entities covered by this Manual.

### ***IAS 38 Intangible assets***

14.2.15 IAS 38 is interpreted for WGA in the same way that it is interpreted for the financial statements of reporting entities covered by this Manual.

### ***IAS 39 Financial instruments – recognition and measurement***

14.2.16 IAS 39 is interpreted for WGA in the same way that is interpreted for the financial statements of reporting entities covered by this Manual, with the exception that all public sector financial instruments shall be consolidated into WGA and shall not be included in a separate Trust Statement.

### ***IAS 40 Investment property***

14.2.17 IAS 40 is interpreted for WGA in the same way that it is interpreted for the financial statements of reporting entities covered by this Manual.

### ***IFRS 5 Non-current assets held for sale and discontinued operations***

14.2.18 IFRS 5 is interpreted for WGA in the same way that it is interpreted for the financial statements of reporting entities covered by this Manual.

### ***IFRS 8 Operating segments***

14.2.19 IFRS 8 is interpreted for WGA in the following ways:

- a) the requirement to report separately information about each operating segment will be met by following the sub-sector classification (central government, local government and public corporations) used by the Office for National Statistics in the National Accounts prepared under the European System of Accounts 1995 with the following exceptions:
  - parts of entities classified in the National Accounts to a different sector from the classification of the main part of the entity should be classified with the main part of the entity; and
  - NHS Trusts and Foundation Trusts should be separately disclosed within the central government sector.

Other exceptions may be agreed from time to time with HM Treasury;

- b) the requirement to report information about profit and loss for each reportable segment will be met by reporting taxation revenues, operating costs, other operating income, operating surplus, surplus/(deficit) on the disposal of fixed assets, interest receivable and similar income, interest payable and similar charges and the surplus or deficit for the year within the reportable segments identified in a) above;
- c) the requirement to report information about assets and liabilities for each reportable segment will be met by reporting total non-current assets, total current assets, total current liabilities, long-term borrowings, long-term provisions (excluding pensions provisions), other non-current liabilities, pensions provisions and the total net assets at the statement of financial position date within the reportable segments identified in a) above;
- d) the information defined in b) and c) above shall be reported, for each reportable segment, after the elimination of all transaction streams and balances internal to that segment. Consolidation adjustments for transaction streams and balances between segments shall be disclosed in a separate column to arrive at the total for WGA on a consolidated basis; and
- e) no information needs to be given about products or services, geographical areas or major customers.

14.2.20

### **Other accounting policies**

14.2.21 This section sets out the WGA accounting policies that are not covered by the accounting standards covered in section 14.2.

### ***Revenue from taxes and duties***

14.2.22 WGA shall consolidate the financial statements of the revenues from taxes and duties, and shall not include them in a separate Trust Statement as defined in Chapter 13. It shall be prepared in accordance with the requirements of this Manual, with the exception that revenue collected as an agent of the European Union shall be excluded. WGA shall also consolidate Council Tax and Non-Domestic Rate revenues recognised in local authority collection funds.

14.2.23 Levies reported as income in the financial statements of consolidated entities but which are classified as taxes by the Office for National Statistics shall be reported as taxes in WGA. Such levies include, but are not restricted to, the BBC licence fee, sugar levies, and levies collected by non-departmental public bodies that exist to promote British produce.

14.2.24 Revenues collected on behalf of the European Union that should be excluded from the consolidation comprise Traditional Own Resources (customs duties including those on agricultural products collected by Her Majesty's Revenue and Customs, and sugar levies collected by the Department for Environment, Food and Rural Affairs) and the Third Resource (VAT, which is the product of the application of a uniform rate to a harmonised expenditure base). Monies retained as reimbursement of collection costs in respect of Traditional Own Resources shall be accounted for as other operating income.

### ***Monetary gold and IMF Special Drawing Rights***

14.2.25 The UK Government's holdings of gold are valued at the sterling equivalent of the London Bullion Market Association dollar denominated spot price as at the Statement of Financial Position date. Revaluation gains and losses on gold assets are recognised within fair value changes of gold in the Statement of Comprehensive Income.

14.2.26 Special Drawing Rights (SDR) are an international reserve asset created by the International Monetary Fund (IMF), representing member governments' rights within the international monetary system. The UK Government's SDR shall be recognised on the WGA statement of financial position in sterling, converted at the SDR exchange rate, published by the IMF, as at the statement of financial position date. Any income receivable in SDR shall be recognised in interest income at the exchange rate prevailing on the date of receipt.

## ***14.3 Reporting requirements for Whole of Government Accounts***

14.3.1 The requirements of Part 15 (Accounts and reports) of the Companies Act 2006 as applied in Chapter 5 of this Manual shall not apply to Whole of Government Accounts. Additional reporting requirements set out in paragraphs 5.2.15, 5.4.28-31 and 5.4.60 of the FReM shall not apply to the Whole of Government Accounts

### ***Commentary accompanying Whole of Government Accounts***

14.3.2 The Treasury shall prepare commentary to accompany WGA that includes the following information:

- a) a statement that detailed information about the underlying activities and governance arrangements of the public sector can be obtained from the individual accounts consolidated into WGA;
- b) a clear and concise discussion of WGA, which should include:
  - a highlights section that provides a summary of significant events affecting the financial statements;
  - an analysis of significant risks and uncertainties inherent in the government's financial position and a reference to the strategies and policies adopted to manage those risks and uncertainties (which might be a cross-reference to other published documents);
  - an analysis of the reasons for underlying variations between financial performance and the financial position between reporting periods (with the exception of the first year of publication, when the analysis shall be restricted only to the variations in financial position); and
  - information about any significant trends related to financial assets and liabilities, revenues and expenditure, and cash flows associated with long-term provisions.

### **The Statement of Accounting Officer's responsibilities**

14.3.3 The Treasury's WGA Accounting Officer shall prepare a Statement of Accounting Officer's responsibilities in respect of WGA, in a form to be agreed by HM Treasury, including a statement of overall responsibility for producing WGA, which must give a true and fair view of the state of affairs of the Government at the Statement of Financial Position date and statement of cash flows for the financial year.

### **The Governance Statement**

14.3.4 The Treasury's WGA Accounting Officer shall prepare a Governance Statement in relation to the preparation of WGA in a form to be agreed by HM Treasury. The Governance Statement shall include information about the arrangements in place to assure the quality of the financial and other information included in WGA, including the role of Internal Audit.

14.3.5 The Governance Statement shall include information about the relationship between the Treasury's WGA Accounting Officer and officials appointed by the Treasury to assist in the preparation of the consolidation information (including the relevant accounting and disclosure requirements and all relevant consolidation adjustments).

## **14.4 Audit and Publication**

14.4.1 The Comptroller and Auditor General will examine the accounts to satisfy himself that they present a true and fair view, consistent with the guidance in the FReM.

14.4.2 Treasury shall lay accounts and reports before the House of Commons in accordance with an order under section 11(6) of the Government Resources and Accounts Act 2000 which specifies the dates by which the audit must be completed and the report and accounts laid.

14.4.3 A governance body set up specifically to consider WGA will review the accounts.

**ANNEX 1****Statement of Accounting Officer's responsibilities****Introduction**

Annex 1.1 This Annex contains three model Statements of Accounting Officer's Responsibilities. The first is for an entity with a single Accounting Officer the second for a government department with a principal Accounting Officer and one or more additional Accounting Officers and the third for a government department which prepares consolidated resource accounts that include NDPBs or other central government bodies. This third statement also provides for additional Accounting Officers, but can be adapted if there are none. The precise wording of the statements may be adapted, in agreement with the relevant authority and the auditor, to meet an entity's circumstances.

**Model Statement of Accounting Officer's responsibilities for an entity with a single Accounting Officer**

Under the [name of relevant Act], the [name of relevant authority – or Secretary of State (with the consent of the relevant authority)] has directed [name of entity] to prepare for each financial year [resource accounts detailing the resources acquired, held or disposed of during the year and the use of resources by the department during the year] [a statement of accounts in the form and on the basis set out in the Accounts Direction]\*. The accounts are prepared on an accruals basis and must give a true and fair view of the state of affairs of [name of entity] and of its net resource outturn, application of resources, changes in taxpayers' equity and cash flows for the financial year.

In preparing the accounts, the Accounting Officer is required to comply with the requirements of the *Government Financial Reporting Manual* and in particular to:

observe the Accounts Direction issued by [name of relevant authority as above], including the relevant accounting and disclosure requirements, and apply suitable accounting policies on a consistent basis;

make judgements and estimates on a reasonable basis;

state whether applicable accounting standards as set out in the *Government Financial Reporting Manual* have been followed, and disclose and explain any material departures in the [accounts] [financial statements]\*; and

prepare the [accounts] [financial statements] on a going concern basis.

The [relevant authority has appointed] [ Accounting Officer of [name of sponsoring department] has designated] [the Permanent Head of the Department] [ the Chief Executive] as Accounting Officer of [name of entity]. The responsibilities of an Accounting Officer, including responsibility for the propriety and regularity of the public finances for which the Accounting Officer is answerable, for keeping proper records and for safeguarding the [name of entity]'s assets, are set out in *Managing Public Money* published by the HM Treasury.

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\* Delete as appropriate.

***Model Statement of Accounting Officer's responsibilities for a government department with a principal Accounting Officer and one or more additional Accounting Officers***

Under the Government Resources and Accounts Act 2000, HM Treasury has directed [name of department] to prepare, for each financial year, resource accounts detailing the resources acquired, held or disposed of during the year and the use of resources by the department during the year. The accounts are prepared on an accruals basis and must give a true and fair view of the state of affairs of the department and of its net resource outturn, application of resources, changes in taxpayers' equity and cash flows for the financial year.

In preparing the accounts, the principal Accounting Officer is required to comply with the requirements of the *Government Financial Reporting Manual* and in particular to:

observe the Accounts Direction issued by the Treasury, including the relevant accounting and disclosure requirements, and apply suitable accounting policies on a consistent basis;

make judgements and estimates on a reasonable basis;

state whether applicable accounting standards as set out in the *Government Financial Reporting Manual* have been followed, and disclose and explain any material departures in the accounts; and

prepare the [accounts] on a going concern basis.

HM Treasury has appointed the Permanent Head of the Department as principal Accounting Officer of the department. In addition, HM Treasury has appointed [an] additional Accounting Officer[s] to be accountable for [that part] [those parts] of the department's accounts relating to [a] specified request[s] for resources and the associated assets, liabilities and cash flows. [This appointment does] [These appointments do] not detract from the Head of Department's overall responsibility as Accounting Officer for the department's accounts.

The allocation of Accounting Officer responsibilities in the department is as follows:

Estimate section A: [name and title of Accounting Officer]

Estimate section B: [name and title of Accounting Officer]

etc.

The responsibilities of an Accounting Officer, including responsibility for the propriety and regularity of the public finances for which the Accounting Officer is answerable, for keeping proper records and for safeguarding the [name of entity]'s assets, are set out in *Managing Public Money* published by HM Treasury.

***Model Statement of Accounting Officer's responsibilities for a government department preparing consolidated resource accounts that include NDPBs [and other arms length bodies]***

Under the Government Resources and Accounts Act 2000 (the GRAA), HM Treasury has directed [name of department] to prepare, for each financial year, consolidated resource accounts detailing the resources acquired, held or disposed of, and the use of resources, during the year by the department (inclusive of its executive agencies) and its sponsored non-departmental *[and other arms length]* public bodies designated by order made under the GRAA by Statutory Instrument 20XX no XXXX (together known as the 'departmental group', consisting of the department and sponsored bodies listed at note xx to the accounts). The accounts are prepared on an accruals basis and must give a true and fair view of the state of affairs of the department and the departmental group and of the net resource outturn, application of resources, changes in taxpayers' equity and cash flows of the departmental group for the financial year.

In preparing the accounts, the Accounting Officer of the Department is required to comply with the requirements of the Government Financial Reporting Manual and in particular to:

- observe the Accounts Direction issued by the Treasury, including the relevant accounting and disclosure requirements, and apply suitable accounting policies on a consistent basis;
- ensure that the department has in place appropriate and reliable systems and procedures to carry out the consolidation process;
- make judgements and estimates on a reasonable basis, including those judgements involved in consolidating the accounting information provided by non-departmental *[and other arms length]* public bodies;
- state whether applicable accounting standards as set out in the *Government Financial Reporting Manual* have been followed, and disclose and explain any material departures in the accounts; and
- prepare the accounts on a going concern basis.

HM Treasury has appointed the Permanent Head of the department as Accounting Officer of the [Name of the department]. In addition, HM Treasury has appointed [an] additional Accounting Officer[s] to be accountable for [that part] [those parts] of the department's accounts relating to [a] specified Estimate section[s] and the associated assets, liabilities and cash flows. [This appointment does] [These appointments do] not detract from the Head of Department's overall responsibility as Accounting Officer for the department's accounts.

The allocation of Accounting Officer responsibilities in the department is as follows:

Estimate section A: [name and title of Accounting Officer]  
Estimate section B: [name and title of Accounting Officer]  
etc.

The Accounting Officer of the department has also appointed the Chief Executives *[or equivalents]* of its sponsored non-departmental *[and other arms length]* public bodies as Accounting Officers of those bodies. The Accounting Officer of the department is responsible for ensuring that appropriate systems and controls are in place to ensure that any grants that the department makes to its sponsored bodies are applied for the purposes intended and that such expenditure and the other income and expenditure of the sponsored bodies are properly accounted for, for the purposes of consolidation within the resource accounts. Under their terms of appointment, the Accounting Officers of the sponsored bodies are accountable for

the use, including the regularity and propriety, of the grants received and the other income and expenditure of the sponsored bodies.

The responsibilities of an Accounting Officer, including responsibility for the propriety and regularity of the public finances for which the Accounting Officer is answerable, for keeping proper records and for safeguarding the assets of the department or non-departmental *[or other arms length]* public body for which the Accounting Officer is responsible, are set out in *Managing Public Money* published by HM Treasury.

## ANNEX 2

### Note on related party disclosures

Annex 2.1 This annex suggests forms of words that might be used by entities to which the interpretations of IAS 24 apply.

[Name of body] is a [category of body: for example, executive agency] of [name of department] [Name of department] is regarded as a related party. During the year, [name of body] has had [a (significant) number of / various] material transactions with the Department and with other entities for which the Department is regarded as the parent Department, viz:

[list of main other agencies, trading funds, non-departmental public bodies and other bodies sponsored by or the responsibility of the parent Department.]

*or*

The Department is the parent of the agencies [and other bodies, if appropriate] shown in note x and sponsor of the non-departmental public bodies shown in note x. These bodies are regarded as related parties with which the Department has had various material transactions during the year.

*and*

In addition, [name of body] has had a [small number of] [various material] transactions with other government departments and other central government bodies. Most of these transactions have been with [name of main entities].

*and*

either: During the year, no [Minister], Board member, key manager or other related parties has undertaken any material transactions with [name of body] during the year.

or: During the year [name of body] entered into the following material transactions with [give name and type of related party (for example, Minister, Board member etc.) and details of the transactions].