

## **Developing financial reporting guidance for the public sector: Memorandum of Understanding between the relevant authorities**

1. The Financial Reporting Advisory Board (FRAB) is responsible for providing independent advice to the relevant authorities on financial reporting principles and standards. The “relevant authorities” for this purpose are HM Treasury in respect of central government, the Scottish Government, the Northern Ireland Assembly and the Welsh Assembly Government in respect of central government and the health sector in their territories, the Department of Health and Monitor in respect of the health sector in England, and CIPFA/LASAAC<sup>1</sup> in respect of local authority accounts across England, Wales, Scotland and Northern Ireland.
2. This Memorandum of Understanding sets out the operational arrangements for developing financial reporting guidance for the public sector.

### **Financial reporting guidance for the public sector**

3. Financial reporting guidance for the public sector is based on EU-adopted International Financial Reporting Standards (IFRS), adapted as necessary for the public sector context. Financial reporting guidance for the UK public sector is set out in:
  - the Financial Reporting Manual (FReM) for government departments and their arms length bodies;
  - the NHS Accounting Manuals for the NHS;
  - the FT FReM for Foundation Trusts; and
  - the Code of Practice on Local Authority Accounting in the United Kingdom (the Code).

### **Due Process**

#### *The FRAB Working Group*

4. The relevant authorities ensure that the financial reporting guidance set out in the manuals and the Code is kept up to date.
5. The relevant authorities shall establish a FRAB Working Group whose membership shall comprise:
  - the Secretaries of the FRAB and CIPFA/LASAAC; and
  - representatives from each of the other relevant authorities.

The Group shall be chaired by the FRAB Secretary, and its members shall be approved by the FRAB.

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<sup>1</sup> The Chartered Institute of Public Finance and Accountancy/Local Authority (Scotland) Accounts Advisory Committee Local Authority SORP Board

6. When proposing amendments to the FReM or, for the Code and other manuals, adoption of a divergence from IFRS and/or the FReM, the relevant authority shall discuss those proposals with the FRAB Working Group.
7. The Working Group shall consider the proposals for consistency across the public sector, or seek reasons for sector-specific differences being proposed.
8. The representatives from CIPFA/LASAAC and the devolved administrations shall advise of any impacts the proposals might have on Council Tax and whether there are acceptable alternative treatments.

#### *Public consultation*

9. Once discussed by the Working Group, the relevant authority shall consult publicly on the proposal. Where the proposal will be considered by the FRAB without deliberation by any other body, the proposal shall be published by the FRAB Secretariat in a FReM Exposure Draft (FED). Each FED shall be numbered and the FRAB secretariat shall be responsible for maintaining a FED register.
10. Where the proposal will instead be considered by another body as part of its Due Process (for example, CIPFA/LASAAC), the proposal shall be published in a suitable document for the purpose.
11. The public consultation shall comprise placement on the relevant authority's website and by targeted circulation or consultation as appropriate. The public consultation period shall be eight weeks.
12. The relevant authority shall, except where respondents have requested confidentiality, place responses on their websites.

#### *Papers considered by the FRAB or other bodies*

13. The relevant authorities shall analyse and summarise the responses in the paper that is taken either to the FRAB for approval or, where a separate body (for example, CIPFA/LASAAC) deliberates, to that body. Only where the responses to the consultation do not support the proposal should the FRAB Working Group be consulted again.
14. The FRAB secretariat shall aim to distribute papers to FRAB members at least one week prior to the meeting date. Other bodies (for example, CIPFA/LASAAC) need to build into their Due Process arrangements an allowance for adherence to this timetable.
15. Papers for meetings of the FRAB and the other bodies shall be published on the relevant authority's website together with the minutes for those meetings, once these have been agreed at the next meeting.
16. Where a separate body considers the responses to its consultation, that body shall be responsible for agreeing the content of the manuals or Code. That separate body shall present for approval to the FRAB:
  - the full and final text of the manuals or Code prior to its being issued for the first time; and, thereafter

- a list of differences between the manual or Code and the FReM.
17. Where requested, the FRAB Chairman shall provide a letter to the separate body summarising the results of FRAB's considerations of the proposals under paragraph 16.

### **Implementation dates**

18. The version of the FReM for financial years starting on 1 April shall be available by the preceding 1 January and shall incorporate all IFRS effective as at that date – that is, 15 months before the end of the financial year to which the FReM relates. The relevant versions of the other manuals and the Code shall be available by 1 April for the financial year starting on that day and ending on the following 31 March. Exceptions in respect of the NHS Accounting Manuals, the FT FReM and the Code may be made to this general rule, with the agreement of the FRAB, where additional time is needed to change charging regimes or regulations in order to mitigate the potential impact of guidance changes on Council Tax.

### **Hierarchy**

19. The manuals and the Code shall be prepared using the following hierarchy:
- EU-adopted IFRS<sup>2</sup>;
  - International Public Sector Accounting Standards;
  - UK accounting standards issued by the Accounting Standards Board.

### **Influencing the development of accounting standards**

20. The secretariats of the FRAB and CIPFA/LASAAC shall monitor the activities of the International Accounting Standards Board (IASB) and the International Public Sector Accounting Standards Board (IPSASB). The two secretariats shall, working together, prepare analyses of relevant Discussion Papers and Exposure Drafts issued by either standard setter, for discussion with the FRAB Working Group. The Working Group shall determine whether or not to recommend that the FRAB submit a response to the IASB or IPSASB. In the event that a response is required, the Working Group shall also discuss the draft of the response before it is considered by the FRAB.

### **Review**

21. This Memorandum of Understanding shall be reviewed every two years or at the request of one of the relevant authorities.

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<sup>2</sup> Taken to include IASs and interpretations of IFRSs and IASs issued by IFRIC or SIC.

## **Signatures**

22. Signed on behalf of the relevant authorities:

Ken Beeton  
Director, Financial Management and Reporting  
HM Treasury

Alyson Stafford  
Finance Director  
Scottish Executive

Dr Christine Daws  
Finance Director  
Welsh Assembly Government

Jeff Tomlinson  
Deputy Director of Group Financial Accounting  
Department of Health

David Thomson  
Treasury Officer of Accounts  
Department of Finance and Personnel  
Northern Ireland Assembly

Stacey George  
Finance and Procurement Manager  
MONITOR

Ian Carruthers  
Policy and Technical Director  
CIPFA