

Fact Sheet

2015-16 Financial Reporting changes for FReM compliant entities

Overview

This Fact Sheet highlights the key changes in the 2015-16 HM Treasury published **FReM**, including content and presentational changes. If you have any queries about any of the content in this document, please contact your audit team who will be happy to discuss the points raised.

FReM content changes

Fair Value – Adoption of IFRS 13 and adaptation of IAS 16

The IASB issued IFRS 13 Fair Value Measurement in May 2011. This Standard applied to the private sector for accounting periods beginning on or after 1 January 2013. It has now been considered from a public sector perspective and will apply to central government entities following the FReM from 2015-16. The Standard has not been adapted and will apply in full.

Following consideration of IFRS 13, HM Treasury have adapted IAS 16 Property, Plant and Equipment. This adaptation means that assets which are held for their service potential (ie operational assets used to deliver either front line services or back office functions) should be measured at their current value in existing use. For non-specialised assets current value in existing use should be interpreted as market value in existing use which is defined in the RICS Red Book as Existing Use Value (EUV). For specialised assets current value in existing use should be interpreted as 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.

Where an asset is not held for its service potential it should be valued in accordance with IFRS 5 or IAS 40 depending on whether the asset is actively held for sale.

Where these standards require the asset to be held at fair value then it should be valued in accordance with IFRS 13. This will mean that the valuation would be the price that would be received to sell an asset in an orderly transaction between market participants at the measurement date.

Further details and some less commonplace examples are included in chapter 7 of the 2015-16 FReM.

New charities SoRPs – arm's-length bodies which are charities

For periods commencing on or after 1 January 2015, there are two SoRPs; one based on the new FRS102 and the other based on the Financial Reporting Standard for Smaller Entities (the FRSSE). Charities can choose to use the SoRP based on the FRSSE if they meet the size criteria. However it is expected that this SoRP will be replaced within a year of coming into effect. As such, charities should carefully consider whether this is the most appropriate choice for them.

Please note that Departments will need to make any necessary (material) adjustments on consolidation to achieve uniform application of group accounting policies.

If you would like further information on the new SoRPs please speak to your NAO contact.

Annual Report and Accounts structure and content changes

The Performance Report, the Accountability Report and the Financial Statements

In 2013-14 the FReM adopted the Companies Act requirements for a Strategic Report and Directors' Report within the Annual Report. As part of the Simplification and Streamlining Project the 2015-16 FReM introduces changes to the structure of the Annual Report and Accounts. There is now a requirement for these to be split into three parts; the Performance Report, the Accountability Report and the Financial Statements.

Main changes – all entities

- accounting policies or disclosure notes are only required in relation to material items (although where wider commentary would be helpful to the user this may be included);
- the Accountability Report includes a redesigned “Remuneration and staff report”. This combines the disclosures for average number of persons employed and related costs and exit packages (previously included in the notes to the financial statements) with the remuneration report disclosures.

Main changes – departments

- the format of the Statement of Parliamentary Supply has been streamlined and will be included within the Accountability Report;
- removal of the requirement to produce SOPs Note 1 – Statement of accounting policies;
- reduction of disclosure for SOPs Note 3 – an amendment to only include a reconciliation for resource outturn;
- SOPs Notes 4 and 5 may be published in an annex;
- core primary financial statements to move to a two column format: 'core department & agencies' and 'group';

The following slide summarises what should be included in each of the reports. The scope of the external audit has not been reduced and the C&AG will continue to provide the same level of assurance. We will continue to review all other areas of the Annual Report and Accounts and report for consistency with the information obtained during the course of the audit.

