

22 July 2010

**GOVERNMENT FINANCIAL REPORTING
MANUAL (FReM) EXPOSURE DRAFT No:**

(10)03

EXPOSURE DRAFT OF PROPOSED

AMENDMENTS TO THE FReM

**TRUE AND FAIR VIEW OVERRIDE
PROVISION**

Comments to be received by 17 September 2010



HM TREASURY

**ASSURANCE AND FINANCIAL REPORTING POLICY TEAM
HM TREASURY**

This exposure draft of proposed amendments to the Government Financial Reporting Manual (FReM) is published by HM Treasury for comment only. The proposals may be modified in the light of comments received in this consultation process before being presented to the Financial Reporting Advisory Board for its approval. Final proposals approved by the Financial Reporting Advisory Board will be published as amendments to the FReM from the proposed effective date.

Comments on this exposure draft should be submitted in writing so as to be received by **17 September 2010**. Respondents are asked to send their comments electronically to FReM.consultation@hmtreasury.gsi.gov.uk.

All responses will be published on the FReM website unless the respondent requests confidentiality.



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CONTENTS

pages

PROPOSED AMENDMENTS TO THE GOVERNMENT FINANCIAL REPORTING MANUAL (FReM)

Introduction and Invitation to Comment	4
Background	5
Proposal	6
General Questions	7
Proposed Amendments to Chapter 2, Accounting Principles	9

Proposed amendments to the FReM

Introduction

The Assurance and Financial Reporting Policy team, HM Treasury, has published this exposure draft of proposed amendments to the Government Financial Reporting Manual (FReM) as part of its ongoing work in ensuring that the Manual reflects the latest developments in government financial reporting.

Structure of exposure draft

The exposure draft includes a section for each FReM chapter for which an amendment is proposed. Each section includes:

- (a) An explanation of why the amendment is proposed.
- (b) When necessary, any specific additional question unique to that proposed amendment;
- (c) The paragraphs of the FReM chapter that are affected by the proposed amendment;
- (d) The proposed effective date of each proposed amendment.

Invitation to comment

HM Treasury invites comments on the proposed amendments. It would particularly welcome answers to the questions set out below. Comments are most helpful if they:

- (a) Answer the question as stated;
- (b) Indicate the specific paragraph or paragraphs to which they relate;
- (c) Contain a clear rationale; and
- (d) Describe any alternative HM Treasury should consider.

HM Treasury will consider all comments received in writing by 17 September 2010. In considering the comments, HM Treasury will base its conclusions on the merits of the arguments for and against each alternative, not on the number of responses supporting each alternative.

Reinstate the FReM and fair View Override Provision	
Why the amendment is proposed	Prior to the introduction of IFRS, the 2008-09 FReM included the provision for a true and fair view override for those exceptional circumstances where compliance with the FReM would have resulted in a compromised true and fair presentation. The override was intentionally omitted from the 2009-10 FReM, as at the time, it was considered that the override provision in IAS 1 would preclude the necessity to include it. However, the override provision in IAS 1 does not apply directly to the FReM (which applies EU adopted IFRS adapted and interpreted in the public sector context) but to IFRS. Therefore it is proposed that the true and fair override provision be reinstated within the FReM, for use in those exceptional circumstances, applying the principles set out in IAS 1, effective from 2010-11.
Paragraph(s) affected by the amendment	Paragraph 2.2.6
Proposed date	2010-11

Background

1. The 2008-09 FReM included the provision for a true and fair view override for those exceptional circumstances where compliance with the FReM would have resulted in a compromised true and fair presentation. This was in accordance with Companies Act 2006 requirements. The relevant paragraph (para 1.2.4 in the 2008-09 FReM) states:

1.2.4 When an entity considers it necessary to apply a 'true and fair override' in accordance with section 226(5), the entity should use informed and unbiased judgment to devise an appropriate alternative treatment, which should be consistent with both the circumstances of the entity and the spirit of this Manual. Any material departure from the Manual should be discussed in the first place 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. The first IFRS based FReM for 2009-10 intentionally excluded the override provision on the basis that the provision in IAS 1 would preclude the necessity to include it. This is the first time that an accounting standard has explicitly provided for an override that achieves a fair presentation, interpreted in the 2009-10 FReM (para 2.2.14 a)) as to mean 'give a true and fair view'.

3. Under IAS 1, fair presentation requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the Framework for the Preparation and Presentation of Financial Statements (Framework). Paragraph 19 of IAS 1 allows entities to depart from compliance with a requirement in a Standard or an Interpretation where it is likely to mislead to the extent of conflicting with the objective of financial statements as set out in the Framework.

4. Whilst the provision in IAS 1 is sufficient to override IFRSs it cannot be used to override the FReM which adapts or interprets EU adopted IFRS in the public sector context. The absence of an explicit true and fair override in the FReM suggests that adaptations or interpretations of financial reporting standards in the FReM cannot themselves be overridden, however, the overriding requirement is that general purpose financial statements produced in accordance with the FReM should provide a 'true and fair' view. For those exceptional circumstances where this is not the case, the reinstatement of the true and fair override provision will ensure that an override can be considered.

5. At its meeting on the 18 February 2010, the Financial Reporting Advisory Board agreed in principle to the reinstatement of the true and fair view provision in the FReM, subject to the results of this consultation.

6. Your views are sought on the proposal to amend the FReM.

Summary and Proposal

7. The 2010-11 FReM does not provide for a true and fair view override where, in exceptional circumstances, compliance with the FReM would result in a compromised true and fair presentation. At the time, it was considered that the override provision in IAS 1 would preclude the necessity to include it within the FReM. However, the override provision in IAS 1 does not apply directly to the FReM (which applies EU adopted IFRS adapted and interpreted in the public sector context) but to IFRS. Therefore it is proposed that the true and fair override provision be reinstated within the FReM, for use in exceptional circumstances, applying the principles set out in IAS 1, effective from 2010-11.

General questions (applicable to all proposed amendments)

Question 1

Do you agree with HM Treasury's proposal to amend the FReM as described in the exposure draft? If not, why not, and what alternative do you propose?

Question 2

Do you agree with the proposed effective date, and any proposed transition provisions, for the issue as described in the exposure draft? If not, why not, and what alternative do you propose?

FReM chapters addressed

The following table shows the topics addressed by these proposed amendments.

FReM Chapter	Subject of amendment
Chapter 2	Paragraph 2.2.6 b) has been added to permit departure from the requirements of the FReM, only when necessary, in order to provide a true and fair view of financial statements.

Proposed amendment to
Government Financial Reporting Manual Chapter 2
Accounting Principles

Introduction

An amendment to Chapter 2 *Accounting Principles* is proposed.

Why the amendment is proposed

The amendments proposed in this Exposure Draft seek to amend the FReM so that there is a provision to override any FReM interpretations or adaptations to achieve a true and fair view.

Proposed amendment

Paragraph 2.2.6 is amended (new text is underlined and deleted text is struck through).

Paragraph 2.2.6 proposed to be amended as:

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 for the Preparation and Presentation of Financial Statements* 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 place 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.

Effective date of amendment

The effective date for the proposed amendment is 1 April 2010.