

# **Financial Reporting Advisory Board**

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*Dear Mr Sutcliffe*

## **INVITATIONS TO COMMENT ON REVENUE FROM NON-EXCHANGE TRANSACTIONS AND ACCOUNTING FOR SOCIAL POLICIES OF GOVERNMENT**

The Financial Reporting Advisory Board welcomes the initiative taken by the International Federation of Accountants' Public Sector Committee in addressing the development of guidance on key issues of specific interest to the public sector that are not addressed in existing international public sector accounting standards. The Board also welcomes the Committee's decision to tackle first the significant areas of governments' main sources of income and expenditure, and is pleased to respond briefly to the Invitations to Comment on *Revenue from non-exchange transactions and Accounting for social policies of government*.

The Financial Reporting Advisory Board was established against the backdrop of the introduction of resource accounting in the United Kingdom. The key purpose of the Board is to act as an independent element in the process of setting accounting standards for government; it exists to promote the highest possible standards in financial reporting by government and to help to ensure that any adaptations of, or departures from, generally accepted accounting practice (as allowed in the Government Resources and Accounts Act 2000) are justified and properly explained. In fulfilling this role, the Board has been consulted by HM Treasury on the government's proposals for accounting for taxation revenues on an accruals basis and on the issues associated with accounting for social security expenditure.

The UK was represented on the two Steering Committees set up to examine each of these topics by Treasury Officials appointed in their personal capacity. These Officials kept the Board informed of the Committees' work, which the Board has followed with interest, given its

significance in terms of the further development of accruals accounting in the United Kingdom.

#### *Revenue from non-exchange transactions*

There are two principal topics in this Invitation to Comment of interest to the Board – the application of the accruals concept to accounting for taxation revenues, and the financing of government activities.

We support whole-heartedly the intent behind the discussions to move to accruals accounting for taxation revenues, and the Board is pleased to note that the deliberations of the Steering Committee have, in the main, reached similar conclusions to those of the Board. However, our experience from the discussions we have had with Officials is that significant issues can arise in practice in attempting to apply the principles. The Board is of the view that this is likely to prove the case elsewhere – although the issues will, of course, be a reflection of the way in which tax administrations operate in particular jurisdictions and will not necessarily be common to all. The issues of which we are aware in the United Kingdom focus largely on the relationship between the taxation-collecting departments and taxpayers, both corporate and personal, in the way in which taxes are collected: the practical implementation of accruals based accounting policies has to take account of those relationships and the need to minimise administrative burdens. The Board's view is that it is not impossible that the move to accruals accounting for taxation revenues internationally may take several years.

The financial statements of government departments in the United Kingdom include an operating cost statement, which reports the cost of meeting a department's objectives for that year, net of any minor operating income that it might receive. The appropriation (to use the terminology of the Invitation to Comment) of central funds for that department is treated as financing (a 'contribution from owners'). This treatment was advocated because HM Treasury concluded, and the Board concurred, that users' focus will be on the cost of government and not on a spurious profit or loss of an individual component of government. Only when the government is very clearly purchasing a service should it account for that as an exchange transaction.

#### *Accounting for social policy obligations*

Prior to the work of the Steering Committees, the Board considered on several occasions papers prepared by Officials on the issue of accounting for social security expenditure – that is, the Board focused its discussions on the consideration of cash transfers to individuals, including the state old age pension (chapters 6 and 8 of the Invitation to Comment). The Steering Committee has reached broadly the same conclusions as the Board: agreement that cash transfers to individuals should be accounted for as and when they have satisfied all eligibility criteria and no agreement on the accounting treatment of the state pension.

The Board's discussions on the state pension appear to have anticipated those of the Steering Committee, with views split between recognition only on a due and payable basis, and recognition at an earlier stage – although there was no conclusion on when that earlier point might be. The Board cannot, therefore, respond positively to one option or another on

the question of the state pension – but looks forward to following what is likely to be an interesting and fiercely argued debate in the future.

A handwritten signature in cursive script, reading "Elwyn Eilledge". The signature is written in black ink and is positioned above the printed name.

**Elwyn Eilledge**  
Chairman