



Square pegs in round holes

Debbie Paterson, February 2026

Purpose of financial reporting

- Conceptual framework (paragraph 1.2):

‘The objective of general purpose financial reporting is to provide financial information about the reporting entity that is useful to existing and potential investors, lenders and other creditors in making decisions relating to providing resources to the entity.

Those decisions involve decisions about:

- a) buying, selling or holding equity and debt instruments
- b) providing or settling loans and other forms of credit or
- c) exercising rights to vote on, or otherwise influence, management’s actions that affect the use of the entity’s economic resources.’

Purpose of financial reporting

- Financial reporting manual (paragraph 4.2.12):

‘The primary users of financial reporting identified in the IFRS Conceptual Framework are existing and potential investors, lenders and other creditors. By contrast, Parliament is the primary user of government annual reports and accounts, which enable Parliament to hold the government to account.’

So why use IFRS?

- The Government Resources and Accounts Act 2000:
‘The Treasury shall exercise the power to issue directions with a view to ensuring that resource accounts
 - a. present a true and fair view,
 - b. conform to generally accepted accounting practice subject to such adaptations as are necessary in the context of departmental accounts, ...’
- FReM (paragraph 4.2.9):
‘The application of UK adopted IAS, as adapted and interpreted for the public sector context with additional disclosure when necessary, is presumed to result in financial statements that give a true and fair view.’

Conceptual framework

Provides key definitions:

- an asset is a present economic resource controlled by the entity as a result of past events.
- a liability is a present obligation of the entity to transfer an economic resource as a result of past events
- income and expenditure are movements in assets and liabilities

Review and adoption process

- [IFRS foundation](#)
 - Develops IFRS
- [UK endorsement board](#)
 - Approves IFRS standards for use in the UK
- [FRAB](#)
 - Adapts and interprets IFRS for the public sector
- [DHSC/ NHS England](#)
 - Applies the adaptations and interpretations to the NHS

Interpretation and adaptation

Accounting standards	39
Applied without interpretation or adaptation	9
Applied with interpretation	14
Applied with interpretation and adaptation	9
Applied with adaptation	7

IFRS 19 *Subsidiaries without public accountability: disclosures*

- Expected to be effective in the public sector from 2028/29
 - Effective date of the standard, accounting periods beginning on or after 1 January 2027
- An entity may elect to apply IFRS 19 if the following criteria are met:
 - it is a subsidiary
 - it does not have public accountability and
 - it has an ultimate or intermediate parent that produces consolidated financial statements available for public use that complies with IFRS accounting standards.

IFRS 19 *Subsidiaries without public accountability: disclosures*

- HM Treasury plan to adopt the standard with adaptations and interpretations
 - What does public accountability mean in the public sector?
 - How should the size of bodies and group structure impact on the standard's applicability?
 - Are there any standards where disclosure requirements are key for transparency and accountability in the public sector?
- Aligns with the NAO's work on proportionality of standards for small bodies

IFRS 18 *Presentation and disclosure in financial statements*

- Expected to be effective in the public sector from 2028/29
 - Effective date of the standard, accounting periods beginning on or after 1 January 2027
- Replaces IAS 1:
 - Specifies the format of the profit and loss statement, as well as totals and sub-totals, to ensure consistency
 - Splits the statement into five categories - operating, investing, financing, tax and discontinued operations.
 - Requires the disclosure, and audit, of management defined performance measures

IFRS 18 *Presentation and disclosure in financial statements*

- HM Treasury plan to adopt the standard with limited adaptations and interpretations
- Areas that are being considered:
 - Are the five categories, totals and sub-totals appropriate for the public sector?
 - Should the format of the income statement be prescribed?
 - Are there any transaction types where these categorises are likely to present challenges for the public sector?
 - Is the definition of management performance measures (MPMs) appropriate to the public sector? Will it lead to additional work for preparers and auditors? Are there other consequences?

IFRS 17 *Insurance contracts*

- Applicable 2025/26
- Affects issuers of insurance contracts (the insurer)
- An insurance contract is a contract where the issuer agrees to take on the risk of something happening in the future that will cost money to fix or resolve, in return the policy holder pays a fee for the insurance coverage
- Interpretations and adaptations:
 - Legislation and regulations are not equivalent to insurance contracts
 - Options are mandated
 - Discount rates

IFRS 17 *Insurance contracts*

- Key issue for NHS bodies – does it apply?
 - Review contracts
 - Consider usual arrangements – letters of comfort, indemnities
 - Consider contingent liabilities
- Document your thinking and assessment

IFRS 16 Leases

‘The objective is to ensure that lessees and lessors provide relevant information in a manner that faithfully represents those transactions. This information gives a basis for users of financial statements to assess the effect that leases have on the financial position, financial performance and cash flows of an entity.’

Big change for all entities applying IFRS:

- For lessees, no operating/ finance lease distinction
 - the key question becomes ‘does the contract contain a lease?’
- For lessors, very little change
 - mismatch between lessor and lessee accounting

IFRS 16 Leases

Public sector specific issues

- Treatment of Crown contracts and other public sector contracts
- Peppercorn arrangements
- Discount rates
- Subsequent measurement of right of use assets
- PFI and ESA 10
- Impact on national budgets and accounts

Practical issues

- Identification of leases
 - Managed service contracts
- Contract documentation

IFRS 16 *Leases*

- Embedding the standard into business as usual
 - New leases
 - Changes to leases



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About the HFMA

The Healthcare Financial Management Association (HFMA) is the UK representative body for finance professionals working in the NHS and the wider healthcare sector. Our aim is to support the NHS finance function, to promote good practice in financial management and to improve the general understanding of NHS finance issues.

Our work is informed by a number of committees and special interest groups made up of healthcare finance practitioners. We publish numerous guides and briefings aimed at finance professionals, non-executive directors and non-finance staff. We also provide training and development opportunities – including a suite of web based learning modules – across all of these groups.

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