

# MINUTES OF THE 125<sup>th</sup> FRAB MEETING HELD ON THURSDAY 19<sup>th</sup> November 2015 AT HM TREASURY

**Present:** Kathryn Cearns (Chair)                      David Hobbs  
David Aldous    Ron Hodges  
Anthony Appleton                                      Larry Honeysett  
Andrew Baigent                                        Kate Mathers  
Andrew Buchanan                                    Joanne McBurney  
Gareth Caller    Veronica Poole  
Ian Carruthers                                         Alison Scott  
Gawain Evans                                         Derek Yule  
Neil Hartley

**On the phone:** Aileen Wright

**Secretariat:** Michael Sunderland (FRAB Secretary)

**Guests:** Sarah Sheen, CIPFA, Stuart Park and Ian White, Department for Business Innovation and Skills

**Apologies:** Apologies were received from Vicky Rock, Bob Branson, Mike Usher, Jason Dorsett, Ruth Elliott

## ***AGENDA ITEMS (in order tabled)***

1. Matters arising
2. FReM 2015-16 and 2016-17
3. IFRS 9 update
4. IFRS 15 update
5. Conceptual framework update
6. EPSAS update
7. IPSAS verbal update
8. WGA Strategy
9. Research and Development update
10. Simplifying and Streamlining: Research Councils pilot project
11. Update on CIPFA/LASAAC 2016-17 code
12. Health Manual merger – update.
13. Any other business

### ***Item 1: Matters Arising***

1. The minutes of the last FRAB meeting held on 18th June 2015 were agreed.
2. The Chair welcomed Kate Mathers from the National Audit Office and Derek Yule, Director of Finance, Highland Council as new members of the Board. She thanked Maggie Mcghee for her contribution as representative from the National Audit Office. The Chair also noted the new parliamentary observer, Craig Mackinlay MP will be attending meetings from next year.
3. The Chair congratulated Ian Carruthers on his recent appointment as IPSASB Chair.

### ***Item 2: FReM 2015-16 and 2016-17***

4. The Treasury presented a paper, which provided the Board with the revised Financial Reporting Manual (FReM) 2015-16 and illustrative statements updated to correct minor errors and inconsistencies. The draft FReM 2016-17 and illustrative statements were also presented for consideration by the Board.
5. No further changes to the FReM 2016-17 were proposed from the 2015-16 version. The Treasury noted the FReM 2016-17 will need to be updated once CIPFA/LASAAC have finalised proposals for local authorities on highways network assets and the budgetary treatment of research and development expenditure. Any EU adopted standards or amendments may also need to be reflected. The Board were requested to consider the proposed amendments to both the 2015-16 and 2016-17 FReM and illustrative statements and agree their publication.

6. Ian Carruthers noted the removal of the need for entities to make separate disclosures of balances held in the public sector and questioned if this remained a requirement for the Whole of Government Accounts (WGA) returns to help reduce the level of inter government eliminations and the qualification in this regard. The Treasury confirmed that there had not been a change to the WGA data requirements and the removal of financial reporting disclosures stems from the streamlining and simplification project.
7. Andrew Buchanan suggested additional reference could be made to the early adoption of the IASB's Disclosure Initiative project amendments to IAS1 which may help draw users' attention to its application and the Treasury agreed to include detail in the FReM.
8. The Chair asked for any final drafting issues on the FReM to be passed to the Treasury in the next few days.

### ***Items 3 & 4: IFRS 9 and IFRS 15 update***

9. The Treasury presented joint papers which provided the Board with an update on progress against the work plans for IFRS 9 and IFRS15 implementation. Since the last Board meeting, there have been three technical working group meetings held for each new Standard with representatives from across the public sector attending. The Treasury recognised the engagement and contribution of the technical working group members, thanked Board members Veronica Poole for providing the technical experts from a professional accountancy firm and Andrew Buchanan for attending a working group meeting and providing support. The Treasury also thanked the NAO for their attendance.
10. Following the working group meetings, each Relevant Authority approached their respective sectors to conduct an initial impact assessment. The Relevant Authorities will consider the outcome of the consultations and the views of the Board before preparing exposure drafts for the each of the two Standards. The Treasury will present these exposure drafts to the Board at the March meeting for consideration prior to publication.
11. The Chair suggested the Relevant Authorities start work as soon as possible and that it should be in tandem given the similarities between central and localised issues. The Chair also asked the Board to consider the options for transition to the Standards and if there is any objection to the proposal to have retrospective application without restatement.
12. In respect of IFRS9, Anthony Appleton noted that whilst there are no additional complexities foreseen in the options for transition arrangements, he emphasised that it is unlikely to be a simple exercise.
13. Andrew Buchanan raised a number of points relating to the consultation exercise and transition arrangements including the operation of business models and the use of cost as a proxy for fair value and its applicability in the public sector. He also noted that the IASB has issued educational guidance for non-quoted financial instruments which may be of use to the public sector.

14. Andrew Buchanan raised the suggestion that a significant increase to credit risk would trigger an impairment which could fall into the stage 3 category, a move from stage 1 (12 month expected losses) to stage 2 (lifetime expected losses) would take place at an earlier stage. Relevant Authorities should follow the discussions of the Transition Review Group on this issue. In respect of hedge accounting, he also questioned why entities would follow IAS 39 when IFRS 9 is more in line with internal management accounting. He also emphasised derecognition and redesignation would be required for the change to the new Standard.
15. The Treasury noted that central government entities often hold financial instruments primarily for policy reasons, rather than with a business model objective. They asked the Board whether an interpretation of IFRS or additional guidance may be required in respect of the 'business model' concept in IFRS 9, in the public sector context.
16. Ron Hodges agreed that guidance would be helpful but would like to see business models interpreted in a wider sense for application to the public sector. A policy decision to hold financial instruments is not necessarily a reason to adapt or interpret the Standard. Although changes in fair value can lead to volatility through the profit and loss statement, it does not provide sufficient reason to propose adaptation to the Standard.
17. The Chair and other Board members agreed that volatility in value is not in itself a reason to adapt the Standard but there is a potential concern over the interpretation of business models in the public sector context. The Chair requested if Relevant Authorities could use the information in IFRS and supporting material to provide examples for the public sector to comment on in the planned exposure draft and to request feedback as to whether additional guidance would be helpful.
18. Veronica Poole raised the analogy with the private sector where any anticipated change in regulatory approach is not taken into account and Andrew Baigent agreed the public sector should not be reporting on the basis of anticipated future changes in policy. However, should there be a change in policy part way through the reporting period, then additional guidance would be helpful in this regard.
19. The Chair suggested that it would be useful to set out how the business model approach and transition arrangements for IFRS9 could be discussed and interpreted in the public sector in a brief note to be circulated out of meeting for comments before the exposure draft in March.
20. The Chair asked members to raise any other issues relating to IFRS9 for discussion and Anthony Appleton noted from feedback in the consultation, entities would use the simplified approach to impairments. He questioned whether public sector bodies had underestimated the impact of a simplified approach.
21. Veronica Poole pointed out that if systems are not well established then a simplified approach may be easier even if it has a larger impact on the profit and loss in the first year. Anthony Appleton raised the impact of adopting a simplified approach on impairments and suggested this will have a significant effect. The Board agreed and the Chair asked for further consideration to be given by the Treasury on this issue.

22. Andrew Baigent confirmed that the Department of Health had started to consider the impact of impairments on DEL and AME and that the recognition points could lead to alignment issues between budgets and accounts. He also recognised the need for a change in mind set of applying the new Standard.
23. Kate Mathers confirmed that the NAO will be pragmatic – to the extent that auditors are able given the requirements of accounting and auditing standards - in its view when auditing entities’ application of the Standard and that additional guidance would be helpful. She recommended entities engage early with their audit teams to agree an accounting treatment.
24. The Chair asked that the Exposure Draft on IFRS9 is circulated to the Board prior to publication to gauge members’ views on the issues included.
25. The Board turned its attention to progress of the IFRS15 work plan and the Chair noted the level of nil returns from the public sector to the consultation exercise. The Board were asked for views on any significant issues to raise in respect of the work plan.
26. Ian Carruthers felt that local government is still in its infancy of considering the implementation of the new Standard. He noted that IPSASB is now in the early stages of a project to review both its revenue and non-exchange revenue standards in the light of the introduction of IFRS 15. Issues under debate include the boundary between exchange and non-exchange transactions. He noted some of the income streams that may fall outside the boundary of the new Standard such as council tax and compared and contrasted this to revenue from fees and charges.
27. Andrew Buchanan suggested that some entities in the private sector were unduly optimistic about the level of work involved in the Standard’s implementation and that nil responses from those in the public sector consultation also indicated this could be the case. He stressed that whilst IAS 18 and IFRS 15 looked similar there were subtle differences that organisations needed to be aware of. IFRS 15 is a contract based standard and there is a requirement to train both finance staff and those that enter into sales/contracts with customers. IASB/FASB are providing more detail on the principal/agent impacts, which the public sector should also consider.
28. The Chair acknowledged the difficulties of linking front and back office staff i.e. those engaged in agreeing and devising contracts and those accounting for the revenue and costs arising from the contract agreement. Any disconnect between the two could become problematic. It is therefore important for reporting entities to plan well for the Standard’s implementation.
29. The Chair summarised the Board’s view that it would be useful if the technical working groups continue and consider these issues and how best to offer guidance and support to entities. It would also be beneficial to compare implementation in the private sector and if needed seek help from those operating in the sector.
30. The Board discussed the planned Exposure Draft and the Chair requested that members have sight of it before its publication, as also requested for IFRS9, to offer opportunity for comment. She suggested that future guidance includes examples of common forms of

transactions to help preparers. The Chair also requested that the communication strategy for circulating across the public sector is shared with the Board.

## *Item 5: Conceptual Framework*

31. The Treasury provided an update to the IASB's work on the Conceptual Framework following the issue of the Exposure Draft in May 2015. The Exposure Draft proposes a number of enhancements that were either not covered or not covered in sufficient detail in the original Consultation Paper. High level components of these amendments were given to the Board as well as a summary of early feedback to the Exposure Draft from the ICAEW and FRC's Accounting Council. The potential implications on the public sector were also considered.
32. Anthony Appleton confirmed that the FRC had identified areas of disagreement with the Exposure Draft in respect of stewardship, reliability and in particular so called "asymmetric prudence". The FRC have also raised areas which they consider the IASB have not yet resolved such as measurement, performance reporting and the distinction between equity and liabilities.
33. The Chair sensed that the review of the Conceptual Framework will be long running and suggested that further sector discussions on the issue of measurement in particular would be helpful to translate to the public sector. Veronica Poole underlined that the Conceptual Framework is not a standard and signposted the future outcome of potential changes to the definition of a liability within the Framework review process which could also have an impact on future public sector financial reporting.
34. Ian Carruthers gave an overview of the work by IPSASB on its Conceptual Framework and that similar issues had been encountered particularly in respect of stewardship and accountability. The Social Benefits Project was being used to test a revised liability definition. A further key project area to be considered next year will look at measurement bases and how they are applied in practice both in relation to National Accounts and IFRS.
35. The Board agreed with feedback to the Exposure Draft that the Conceptual Framework should be a living document, updated as needed and used when devising new standards. David Hobbs echoed the need to review any change in definition of a liability as the National Accounts do not recognise provisions under ESA10. Ron Hodges agreed that it is important to clarify the definitions under different frameworks and to agree an approach should they differ.

## *Item 6: EPSAS Update*

36. The Treasury updated the Board on the progress of Eurostat's project to develop European Public Sector Accounting Standards following attendance at Eurostat's first working group meeting in September 2015. The Board were advised that Eurostat has identified an alternative approach to EPSAS which is being considered alongside its original proposition. The two potential approaches were outlined as well as the key priorities for 2015-16 which include a programme of financial support to encourage member states

to adopt accrual accounting over the next 4-5 years including the option to move to IPSAS as a potential proxy for EPSAS.

37. Ian Carruthers agreed with the summary of Eurostat's work in this area and noted that initially Eurostat will focus on considering IPSAS, possibly endorsing individual standards in the future, rather than creating new ones. However, there is opposition from Germany and the Netherlands to the introduction of accrual accounting and so the first stage will be to achieve transparency in financial reporting followed by comparability across member states.
38. Larry Honeysett asked if a mapping exercise had been undertaken across the different standards - EPSAS, IPSAS, ESA10 and IFRS - which shows how they link together and the different approaches under each framework. The Treasury agreed this would be useful and explained that whilst the FReM showed the misalignments between accounts and budgets there was not a single document which pulled these standards together, but also noted that EPSAS is yet to be developed.
39. Ian Carruthers said that a summary was produced by IPSASB which could be circulated to the Board and in addition he referred the Board to a reconciliation in WGA between the FReM and the National Accounts which members may find helpful.
40. Ron Hodges also mentioned that according to a report by one of the Big 4 accountancy firms, the UK is well over 90% compliant with IPSAS without directly applying this framework. He also highlighted some political issues with the implementation of EPSAS and suggested that implementation was unlikely to take effect for a number of years.

## *Item 7: IPSAS Verbal Update*

41. The Chair congratulated Ian Carruthers' on his recent appointment as Chair of IPSASB. Ian Carruthers then provided the Board with slides and a verbal update on the progress made by IPSASB in implementing its strategic objectives for 2015 and beyond.
42. IPSASB has held its first public consultation on its strategic objectives and work plan in Autumn 2014. Responses to the consultation exercise had been analysed and IPSASB has developed a work plan in the light of these responses. Ian Carruthers accepted there had been some previous criticism of IPSASB for a lack of focus on pure public sector projects, rather than maintaining convergence with IFRS but that this is now being addressed with a strategy anchored in strengthening public sector financial management and a programme of projects on significant public sector issues.
43. IPSASB are now using the Conceptual Framework in practice and a number of new and revised standards have been issued during 2015. In addition to which, an exposure draft has been published which considers the scope of organisations that apply the use of IPSAS. Ian Carruthers gave an oversight to the number of other both major and narrower scope projects also underway such as amendments to IPSAS 25. A consultation paper has been issued on guidance for accounting for social benefits which has proved to be an area of particular complexity for example, in respect of potential criteria for recognition

points. There will also be a consultation paper in 2016 which looks at various issues stemming from the new IFRS financial instruments standard.

44. Other recently started major projects include a review of non-exchange expenses other than social benefits such as those costs in relation to defence, health and education and a major project examining revenue recognition with an assessment of the extent to which the IFRS performance obligation approach can be applied in the public sector and the need for a 'residual' non-exchange revenue standard. A project to develop guidelines on heritage assets has recently started which aims to provide requirements and guidance to replace interim guidance in IPSAS17. There are a number of recognition and measurement issues and the conceptual framework should help in framing these discussions.
45. Ian Carruthers further explained the future work programme running until 2019 which included a multi-phase project considering public sector measurement, work to address differences between IPSASs and the Conceptual Framework and accounting requirements for infrastructure assets.
46. Other limited scope projects will run concurrently which will examine employee benefits, impairment of assets valued on a current value basis, and an exposure draft of amendments to the Cash Basis IPSAS.
47. IPSASB is moving forward with measures to strengthen its governance and is now subject to oversight by the new Public Interest Committee. A Consultative Advisory Group comprising users and stakeholders is to become operational in 2016.
48. The Chair thanked Ian Carruthers for his very helpful update and expressed concern when Ian Carruthers mentioned that engagement in the process of some stakeholders such as credit agencies, is still minimal. Anthony Appleton questioned whether adding balance sheet items such as some exchange and non-exchange transactions would prove useful. Ian Carruthers stated there is indeed a need to hold a debate around recognition in the balance sheet and performance statements of key items such as, multi-year grants.

## ***Item 8: WGA Strategy***

49. The Treasury provided the Board with an overview of the strategy for the delivery of the 2014-15 Whole of Government Accounts and the work underway to resolve audit qualifications and improve the utility of the publication. Delivery of the 2013-14 WGA in March 2015 was a major milestone in achieving the objective of faster closing. The priority for 2014-15 is to consolidate the substantial progress to date in earlier publication and to focus on narrative improvements. Developments to the communications strategy and usefulness of the document are also underway. The 2014-15 account is expected to be published in March 2016.



50. The Treasury also brought the Board's attention to the consolidation of Network Rail in WGA for the first time, a complex exercise particularly around the valuation of infrastructure assets.
51. The Chair commented that timing of the WGA publication was crucial in improving its usefulness and broadening its readership.
52. Ian Carruthers noted it was helpful to have sight of the strategy to remove the qualifications and agreed on the importance of addressing them. He drew attention to two issues which had not been highlighted; the rising number of academy trusts and the recent reclassification of housing associations both of which significantly increase the complexity and size of the consolidation exercise.
53. The Treasury explained that the ONS have reclassified housing associations in England to the public sector, applying retrospectively from 2008. This decision was too late for inclusion within the 2014-15 WGA. A package of reform is currently underway which will deregulate the sector and therefore consideration is being given as to whether the inclusion in the public sector boundary is only short term. However, in the interim it may result in additional qualifications to the audit opinion due to the consolidation boundary and application of IFRS.
54. Gareth Caller raised a concern over the complexity of WGA returns needed for the elimination of intra-group transactions and indicated that this may compound the problems leading to the qualification. He felt that local authorities are removed from the process and insufficient resources are being assigned to preparing the necessary returns.
55. Gawain Evans questioned the requirement for departments to complete returns to the prescribed timetable if the WGA publication date was not moving forward. The Treasury explained that the local government statutory deadline is in fact later than others which delayed elimination procedures as the majority of eliminations are between central and local government. However, the Treasury would review the returns timetable and adjust where practicable.
56. Ian Carruthers expressed the drive to bring the timetable forward further to promote the use of WGA in fiscal events and policy decision making. The Board agreed with the assertion but the Chair recognised the level of investment in resource to achieve significant earlier publication is great.
57. Andrew Buchanan asked whether for 3G/4G licences, the Treasury were considering early adoption of IFRS 15 for WGA. The Treasury explained IFRS15 would not be adopted earlier for WGA. The National Accounts treatment had changed since the original accounting judgement under IAS 18. Planning for the introduction of IFRS 15 provides a suitable juncture to revisit the treatment under IAS 18.
58. The Chair raised the issue of encouraging the use of WGA by a wider cohort or stakeholders which would also raise the profile of the Accounts. David Aldous asked about the work by Cranfield University, which utilised the underlying data, and Ian Carruthers spoke of the interest PAC had taken in it looking at how the information is being used rather than focusing only on the qualifications. Ron Hodges agreed that PAC and select

committees are seen to be important users. The Chair also commented that Craig McKinley, the new MP observer on the Board from next year, is an accounting practitioner who may be able to provide assistance on the Parliamentary angle.

### ***Item 9: Research and Development***

59. The Treasury presented a paper addressing the request made by the Board at the June 2015 meeting for further information on the approach taken by the Treasury on research and development costs and scale of the change in treatment, following the change in treatment under the European System of Accounts 2010.
60. The Treasury outlined its intention to apply an approach analogous to the existing misalignment between Supply Estimates and financial reporting for capital grants. Initial indications are that the change in budgeting treatment will mean circa £8bn of expenditure currently treated as resource being scored as capital. However, subject to parliamentary approval for including the change in the 2016-17 Main Estimates, better data on the scale of the change will become available as departments prepare for the Main Estimates process.
61. The Board were also advised that support for this approach has been gained from the Alignment Review Committee and the Treasury intends to write to Parliament in line with the principles of the protocol agreed under Clear Line of Sight, to seek its support for the intended budgetary changes so that they can likewise be applied in the Supply Estimates.
62. Andrew Baigent acknowledged the complexity of the adjustment and explained that the Department of Health had put forward a proposal to undertake the R&D change at a simple core departmental level. He raised concern around the difficulty of an inter group implementation and the potential impact on the SOPS and therefore audit opinion.
63. Larry Honeysett explained the interest of Parliament and in the area of spend more generally. He asked whether further consideration had been given to the adjustment in the National Accounts. David Hobbes stated it was the intention of the ONS to ensure consistency of information.

### ***Item 10: Simplifying and Streamlining: Research Councils pilot project***

64. The Department for Business Innovation and Skills presented the Board with a proposition of a pilot project for the rationalisation of financial reporting among Research Council bodies. These proposals follow the implementation of the first phase of the Simplification and Streamlining Accounts Project in 2015-16. The Treasury is currently considering the options of the next phase with a particular focus on the appropriate reporting requirements for smaller bodies that are themselves consolidated into a departmental

group. It is in this context, BIS have been considering opportunities to pilot a more streamlined approach to Research Councils that are consolidated within the BIS departmental group accounts.

65. BIS proposed a two stage approach with the first phase involving the preparation of seven individual sets of mandated standardised financial statements for the year ended 31<sup>st</sup> March 2016. The second phase would be to prepare a single set of consolidated accounts for the Research Council Group for the year ended 31<sup>st</sup> March 2017. BIS outlined the potential benefits of the proposal including greater consistency and understandability of the financial statements by users and process and efficiency benefits. BIS explained that the business models of Research Councils are broadly the same and concern the awarding of research grants to academic experts and institutions.
66. Ian Carruthers agreed that the proposals, in principle, would improve efficiency but that the second phase raised the question around accountability, governance and allocation of funding.
67. Gawain Evans asked whether this was a way of reducing the burden of preparing financial statements and whether it is pilot for a possible "FReM light". The Treasury stated the next stage for the simplifying and streamlining agenda is a possible "FReM light" but that BIS had approached the Treasury with this proposal, responding to the simplifying agenda. The proposal explores the Board's appetite for an adaptation to IFRS to allow for the BIS pilot to proceed.
68. Kate Mathers stated the first option was reasonable but highlighted that materiality considerations would have to be taken into account as well and advised early discussion with the audit teams. She expressed concern about the second option given the current Accounting Officers' accountability responsibilities and the existing statutory requirements for Councils preparing individual accounts. She also questioned whether the Research Councils would be likely to be merged in the future and BIS confirmed that this is the expected direction of travel and that the legality of groups or aggregate accounts production is being examined.
69. Ron Hodges raised the need to consider the reporting of segmental information as part of accountability measures where individual accounts are no longer prepared. Alison Scott stated her concern that this would set an unwanted precedent.
70. Andrew Baigent reminded the Board of an example of a consolidated account already undertaken for foundation trusts where there is a no parent entity.
71. Andrew Buchanan put forward his view that stage one was a reasonable proposition. He questioned how simple a set of individual financial statements could be and that this provided a potential opportunity to test this. However, he suggested that the stage two would actually provide a set of combined financial statements rather than a consolidated set. He also questioned whether this approach would satisfy the legal requirements of accounts preparation.
72. Anthony Appleton raised a concern over the possible loss of accountability if individual accounts are not produced and that until the legal framework was amended in this vein,

the status quo should remain. David Aldous agreed with this sentiment, and emphasised that the financial reporting should flow from the governance and accountability framework, rather than changing governance and accountability frameworks merely to achieve a financial reporting outcome.

73. Gawain Evans did however, note interest in the future of the pilot and that it would be of particular interest to adopt the approach in Wales where similar group structures exist.
74. The Chair summarised the Board's support for stage one of the proposal but reiterated that it was the view of the Board that BIS should take legal advice and possibly delay stage two until the legal framework advocates a combined or consolidated set of financial statements for the group of Research Councils. The Board did not support a precedent of this type being set.

### ***Item 11: Update on CIPFA/LAASAC Code 2016-17***

75. Sarah Sheen presented papers on the draft Code of Practice on Local Authority Accounting in the United Kingdom (the Code) 2016-17 with a separate paper on the move to measuring the Highways Network Asset including the (Update to the 2015/16 Code) at Depreciated Replacement Cost and the second paper focussing on the remaining amendments to the Code. Changes to the 2016-17 Code included those emanating from improving the presentation of financial statements (ie those amendments arising from the Telling the Story consultation), a review of accounting and reporting for pension funds, augmenting the Code's provisions on concepts following the issue of the Conceptual Framework by the IPSASB, narrow scope amendments and other minor drafting amendments.
76. CIPFA/LASAAC issued two consultations on the 2016/17 Code from July 2015, Sarah Sheen presented the changes focussing on the implementation of the new measurement requirements for the Highways Network Asset previously described as Transport Infrastructure Assets. Sarah Sheen noted the very positive response rate of seventy-two responses received to the main consultation on the Code whilst eighty-nine responses were received regarding the Telling the Story consultation. The responses were mostly supportive of the proposals.
77. Of the respondents to the consultation and other stakeholder feedback audit firms were particularly concerned about full retrospective restatement because of the significant risks around the opening balances (1 April 2015) and preceding year information and one audit body suggested the focus should be on the approach in IAS 8 to a change in accounting policy for revaluations.
78. The Chair noted the transition issue and the Board's lack of objection to not restating opening year balances.

79. Alison Scott responded in agreement to Andrew Buchanon's query that the highways network is treated as a single asset and that land values take into consideration location within the UK. Gawain Evans added that value precision is difficult due to the application of a modelling methodology which needs agreement with auditors. The Board recognised the complexity of the issue and David Aldous noted that the modelling methodology is still being implemented and it needs to be sufficiently robust to support the approach to estimation that will be required.
80. Alison Scott detailed how a working group has been established which includes representatives from the Wales Audit Office and Audit Scotland. The Chair congratulated CIPFA/LASAAC on the substantial work programme of all those involved.
81. Sarah Sheen then went on to describe the changes in respect of accounting for pension funds and adaptations to the scope of IFRS13 to include retirement benefit plan investments within the requirements of the Standard which will be introduced in 2016/17. She also mentioned the transaction cost disclosures which is an area of increasing scrutiny. A number of respondents to the consultation were concerned about the definition of transactions costs which the Code now confirms is the same as that in IAS39.
82. The narrow scope amendments were then described which includes amendments in respect of IAS1. Two other issues were brought to the Board's attention relating to the treatment of accumulated depreciation and impairment where the normal practice of local authorities is to eliminate on revaluation to avoid mixed accounting policies within the same class of asset. CIPFA/LASAAC proposed withdrawing the non-elimination option from the Code.
83. Sarah Sheen explained the second issue where CIPFA/LASAAC has agreed not to take forward the option in the amendments to IAS27 where equity accounting is applied for a local authority's interest in subsidiaries, associates and joint ventures. The view agreed is that the IAS27 change is not required for technical accounting reasons and for local authorities the single entity financial statements take precedence over the group accounts.
84. Sarah Sheen gave a summary of the eighty nine responses to the presentational changes in the telling the story consultation. One of the main elements of proposed changes is to introduce a new analysis note to the financial statements, an Expenditure and Funding Analysis. This analysis brings together the funding and accounting frameworks and reconciles them to the surplus or deficit on the provision of services, the local authority equivalent of profit or loss. The Analysis includes a service or segmental basis based on how the authority operates and manages financial performance.
85. The changes which remove the standardised segmental analysis in the top half of the performance statement (the Comprehensive Income and Expenditure Statement (CIES)) were described for Board and that this change now permits this part of the CIES to be reported on a functional basis in accordance with how local authority's operate and manage financial performance. Respondents considered other options or the status quo as is outlined in the report.

86. David Aldous queried whether the Update to the 2015/16 Code should also include the narrative reporting provisions included in the 2016/17 Code as the legislative changes for English authorities from which these provisions emanated applied from the 2015/16 financial year. Sarah Sheen confirmed that it was possible to do this and that she would propose this change to CIPFA/LASAAC. The Chair confirmed that as these changes have already been considered by FRAB in the 2016/17 Code that these do not need to be circulated to FRAB.
87. The Chair offered the Board the opportunity to provide further comment on the Code outside the meeting over the following few days.

### ***Item 12: Health Manual merger***

88. Andrew Baigent provided an update on progress in respect of the 2016-17 Department of Health Group Manual for Accounts merger with the Foundation Trust Annual Reporting Manual. Whilst the Department of Health and Monitor have discussed the structure and agreed the outline of the merged manual, the timetable for completion has been delayed but the intention is to present the Board with a draft for approval in March 2016.
89. Andrew Baigent advised that once the exercise has been completed, it will be easier and quicker to publish the manual in subsequent years. He explained that the Department and Monitor have agreed that Monitor will retain responsibility for setting the direction for foundation trusts' annual reports with the Department approving this guidance. This is due to the different accountability and governance model which Monitor retains expertise in.
90. The Chair welcomed the direction of travel of a merged manual.

### ***Item 13: Any other business***

91. There was no other business.

**Date of next meeting: 17th March 2016**