



HM TREASURY

Financial Reporting Advisory Board Paper

Minutes of the 133rd FRAB meeting and matters arising

Issue:	For information - minutes of the last 133 rd FRAB meeting held on 14 th June 2018 and matters arising.
Impact on guidance:	N/A
IAS/IFRS adaptation?	N/A
IPSAS compliant?	N/A
Interpretation for the public sector context?	N/A
Alignment with National Accounts	N/A
Impact on budgets/Estimates?	N/A
Recommendation:	The Board has already approved the minutes of the 133 rd meeting by email but to note the matters arising.
Timing:	N/A

Detail

1. To note the minutes of the 133rd FRAB meeting which were circulated and approved by email after the meeting (Annex A).
2. Matters arising are noted below:

Paragraph	Issue	Action
4, 6 & 7	FRAB Annual Report	Amendments to be made to the draft report and recirculated to the Board – Updated FRAB report circulated to members out of meeting. For discussion – agenda item 12
43	Update on the alignment of budgets and accounts in respect of IFRS 16 be added to the agenda	Update on IFRS 16 implementation added to agenda – agenda item 2
44	Update on the government response to the PACAC inquiry be added to the November meeting agenda	Item added – agenda item 8

Annex A

MINUTES OF THE 133rd FRAB MEETING HELD ON THURSDAY THE 14th JUNE AT HM TREASURY

Present:	Ian Mackintosh (Chair)	Richard Barker
	Ian Bulmer	Joanne McBurney
	Gawain Evans	Iain King
	Pam Beadman	Ian Webber
	Gareth Caller	Joseph McLachlan
	David Aldous	Fiona Kordiak
	Karl Havers	Craig McKinlay MP
	Larry Honeysett	David Hobbs
	Stuart Stevenson	Andrea Pryde

On the phone: Aileen Wright, Sarah Sheen, Chris Young

Secretariat: Matthew Rowe

Apologies: Anthony Appleton, Andrew Buchanan, Ian Ratcliffe, Bob Richards,
Vikki Lewis

Agenda Items (in order tabled)

1. Matters arising
2. FRAB Annual Report
3. Overview of Whole of Government Accounts 2016-17
4. CIPFA/LASAAC 2019-20 Code of Practice
5. Local Government Update
6. HMT IFRS 16 Implementation Update
7. ONS IFRS 16 Workplan Update
8. Discount rates
9. Public Administration and Constitutional Affairs Committee Inquiry Response
10. NAO Update
11. Annual Improvement Cycle 2015-17 and Narrow Scope Amendments
12. Forward Work Programme
13. AOB

Item 1: Matters arising

1. The Chair welcomed members to the meeting, particularly new Board members Andrea Pryde, Richard Barker, Pam Beadman, Iain King, Sarah Sheen, Chris Young, and Ian Ratcliffe.
2. The Board agreed the minutes from the previous meeting on the 15th March 2018 which had already been circulated via email. It was agreed that there were no further amendments necessary.
3. There were no outstanding items from the matters arising.

Item 2: FRAB Annual Report 2017-18

4. The Board discussed the draft annual report and agreed to reformat chapter 3 of the draft which should also include a summary and focus on key areas of discussion during the year such as discount rates and the Apprenticeship Levy.
5. The report is laid in the UK Parliament and those of the Devolved Administrations and the Board requested that the report improves clarity that this is the case.
6. The Board asked that the dates of leavers and joiners of members are confirmed.
7. The Treasury agreed to make the changes the Board suggested and to circulate the finalised draft to members out of meeting.

Item 3: Overview of Whole of Government Accounts 2016-17

8. Kevin Pertaub, from the Treasury's WGA team, delivered a presentation to the Board on the 2016-17 Whole of Government Accounts. Kevin noted that this was to be the 8th Whole of

Government Accounts that the Treasury has prepared and that the expected publication date is at the end of June. Kevin explained that the Whole of Government Accounts consolidates over 6,000 bodies across the UK public sector and is the largest of its type in the world.

9. Kevin explained that whilst timeliness remains an issue, the quality of WGA continues to improve year on year supported by positive feedback from the Treasury's Audit and Risk Committee and the NAO. In the 2016-17 WGA, there was a particular emphasis on "telling a story" with significant areas within the financial statements such as provisions, being highlighted to show how they have changed and managed.
10. The Board was also informed of significant improvements to the WGA internal preparation and data collection processes which leaves it well placed for the future. Nevertheless, there are significant challenges on the horizon, including the introduction of major new financial reporting standards.
11. Kevin talked through the qualification issues arising from the consolidation of academy schools, underlying qualifications from individual entities' accounts, the consolidation boundary and inconsistent application of accounting frameworks.
12. Kevin informed the Board that income and expenditure have remained largely stable for 2016-17 with the main change being a loss on one-off income from the sale of financial assets in 2015-16. The Board was told that a qualification remains around the valuation of Local Authority Highways Infrastructure assets.
13. It was explained that liabilities have significantly changed since the prior year of WGA. Pension liabilities have increased due to a change in the discount rate. Attention was drawn to the agreed Brexit disclosures in the accounts.
14. The Board discussed the future likely impact on WGA on adoption of IFRS16 with a significant number of leases coming on balance sheet. The Treasury offered to provide the Board with further details of the expected impact and an estimate of the amounts involved.
15. The Chair thanked Kevin for presenting the very interesting information on the 2016-17 WGA and agreed that it is a very helpful and useful document.

Item 4: CIPFA/LASAAC Code of Practice 2019-20

16. Sarah Sheen informed the Board that the CIPFA/LASAAC IFRS 16 consultation paper was issued on the 22nd May. The consultation paper had taken the FRAB's previous comments on Board and the aim has been to align it as far as possible to the FReM exposure draft. Sarah reminded the Board that IFRS 16 amendments may have practical implications for local authorities.

17. The Code has been updated to reflect changes to the recently updated Conceptual Framework, specifically around recognition and measurement.
18. Sarah explained that the number of responses to CIPFA's post implementation review had been disappointing and that there were three main areas to highlight as part of the consultation; group accounts disclosures, income on third party payment model, and complex financial instruments.
19. The Chair strongly encouraged the Board to review the Code and consultation in more detail and to provide comment ahead of the November board meeting. There are a number of areas and variations to pay particular attention to with the biggest difference coming from subsequent asset measurement.
20. The Board also noted that no update on progress towards developing the NHS Group Accounting Manual for 2019-20 had been provided to today's meeting. Therefore, no update had been given on any relevant implications or considerations arising from IFRS 16 at this meeting. It was noted that liaison between Treasury and the relevant authorities would help to support early engagement with the Board in good time ahead of its November meeting.

Item 5: Local Government Update

21. Sarah Sheen provided the update as part of agenda item 4.

Item 6: Implementation of IFRS 16

22. The Treasury provided the Board with an update on the implementation plan for IFRS 16. The consultation has begun and some initial responses to the IFRS 16 Exposure Draft have been received.
23. Work is ongoing to agree the budgeting treatment under IFRS 16 for central government entities and this remains a significant work stream. The Treasury continues to liaise with the ONS to resolve the misalignment between the treatment of leases under financial reporting and National Accounts.
24. The Treasury highlighted differences between its own Exposure Draft and the CIPFA/LASAAC Exposure Draft, but informed the Board that dialogue is taking place on the six main areas of divergence, although some are expected to remain given different accounting applications between central and local government. Sarah Sheen raised her disagreement with some of the noted areas of divergence and agreed to circulate a summary of the differences between the proposals for the Code and the FReM's adoption of IFRS 16 and set out why the differences exist. Sarah also stressed CIPFA/LASAAC's commitment to ensure that the Code remains consistent with the FReM where possible.
25. The Treasury informed the Board that the target date for implementation of IFRS 16 remains 1 April 2019. David Aldous noted the issues around budgeting, financial reporting and clear

line of sight that need to be resolved prior to implementation and raised concern about the potential misalignment. Ian Bulmer reassured the Board that the Treasury is working to reduce the risk of misalignment between budgets and accounts. The Board were reminded that if a solution could not be reached, protocol dictates that the Alignment Review Committee must be consulted.

26. The Board discussed other ongoing issues around IFRS 16 implementation and Karl Havers noted that the private sector is facing similar significant difficulties particularly in respect of data collection.

Item 7: ONS Implementation of IFRS 16

27. David Hobbs presented a paper to the Board on behalf of the ONS in respect of IFRS 16 implementation. It revealed that the ONS has identified areas of the National Accounts which are likely to be affected by adopting IFRS 16 but the value of these is still unknown. A tender is open for research to estimate the impact of IFRS 16 but it would be unlikely to report back until August. Whilst a methodology for new leases going forward is expected to be agreed, the treatment of the historic leases is very likely to be problematic.
28. There followed a discussion on the merits of IFRS 16 and its relationship to ESA10 and the general uncertainty about the UK's position post Brexit in the wider European and international statistical community. It was noted that driving forward all the organisations involved at the same pace was extremely challenging.

Item 8: Discount Rates

29. The Treasury updated the Board on its proposals on discount rates. The Treasury identified two key issues: the application of nominal rates and how to apply the inflationary effects on cashflows. The Treasury put forward its proposals on how to inflate cash flows and suggested using the OBR or CBI forecasts or other similar forecast options. The Board discussed the nature of the cash flows and whether an index rate is more applicable. The Treasury proposed options including mandating OBR/ CBI forecasts to support inflation assumptions in most cases, allowing derogations or a framework providing some flexibility of choice in those specific cases where it might be more appropriate to have a bespoke inflation assumption, noting that each had benefits and disadvantages.
30. The Board discussed these options. In relation to those bodies where it might be more appropriate to have a bespoke inflation assumption, David Aldous noted the need for preparers of accounts to be clear on the requirements that they would need to meet to support their estimates. In particular, management would need to be able to demonstrate that their assumptions are based on independent, objective evidence and are free from management or policy bias. This is a high bar and preparers will wish to be aware that auditors will need to be satisfied that assumptions used by individual entities are appropriately evidenced. Therefore, David Aldous welcomed the proposal that there should

be some form of early consultation with Treasury by departments. This could be achieved through the option of seeking a derogation or through a process of requiring formal consultation with Treasury when entities propose to adopt a bespoke approach (eg if they propose to rebut the presumption of using the OBR / CBI forecasts). As part of this process it would be possible to consider the robustness of the relevant department's proposal to having a bespoke inflation estimate and the objectivity, independence and reliability of the assumptions on which this would be based.

31. David Aldous asked for more background on the breadth of research undertaken as part of these proposals. The Treasury provided more detail of the research including an analysis of material departmental balances affected by discount rates, noting that 80% of balances relate to provisions. The Treasury informed the Board that part of its next steps is to go out to smaller departments for more information.
32. The Treasury sought a view from the Board as to whether the application of nominal rates (from real rates) would be an accounting policy or estimate change. The Board discussed the issue and put forward an initial view that it is more likely to be a change in estimate. Subject to further consultation with the NAO on the content, to understand the standards that auditors will need to meet when considering the reliability of estimates and assumptions, the Treasury is looking to issue guidance to departments on the application of nominal rates in the autumn.

Item 9: PACAC Inquiry Response

33. The Treasury updated the Board on the response to the Public Administration and Constitutional Affairs Committee (PACAC) report on Annual Reports and Accounts. It was explained that the formal response was currently embargoed until the Committee had published it on their website.
34. The Treasury largely agreed with the overall spirit of the Committee's report and its aims and objectives. The Treasury pointed out that it is committed to continually improving the quality of management information and financial reporting, noting that 2017-18 accounts will be the third year of the Simplification and Streamlining project which will provide good historical data for appraisal. The Treasury will also review some ALB's to identify best practice but informed the Board that the real challenge was how to quantify the quality of performance reporting within annual reports and accounts to better inform departments.
35. Craig McKinlay MP expressed his concern over the length of time the Treasury had taken to respond to the initial inquiry and questioned how to increase the level of public engagement with annual reports and accounts. He asked whether departments should include KPI's to better show whether departments are achieving value for money. The Board also held discussions around the readability of accounts.

Item 10: NAO Update

36. David Aldous reminded the Board that public bodies are part way through the 2017-18 financial reporting audit cycle. Local health bodies' audits in England are largely complete and the audit of the consolidation of these accounts is in progress supporting the audit of the Department of Health and Social Care. Most central government bodies' audits are also in progress with most due to be completed before the Summer Recess; and audits of local government bodies, in England, are due to be completed by the end of July – two months earlier than in previous years.
37. Although not finalised, there were as yet no reported qualifications of the true and fair opinion for audits of clinical commissioning groups, NHS trusts and foundation trusts. However, local auditors had reportedly included a significant number of emphases of matter referring to going concern disclosures and had raised a number of issues in relation to local health bodies' arrangements for securing value for money, particularly in relation to financial sustainability.
38. David informed the Board that, with regard to the NAO's audits of central government bodies, it is too early to comment on common themes arising from this ongoing work, but the Board may wish to note that discussions between auditors and audited bodies on preparations for the implementation next year of IFRS 9 and 15 had, in a number of cases, identified that there is still a considerable amount of work for public bodies to do to meet the new requirements. This experience is also highlighting the need to plan early for the work that bodies will need to do to implement IFRS 16.
39. David also reminded Board members that, as they see examples of annual reports and accounts during this reporting season, to consider whether there are any that could be nominated for the annual Building Public Trust Awards. These awards help to reinforce good practice in reporting by public bodies and so Board members are encouraged to put forward good examples of financial reporting.
40. Given the advance this year in the timetable for local authorities' reporting in England, the meeting discussed the drivers for bringing forward the accounts generally, and noted that the devolved administrations were still some way off from doing the same. However, recognition was given to the need to consider the potential trade-off between speed and quality of reporting.

Item 11: Annual Improvement Cycle

41. The Treasury asked the Board to note the paper on narrow scope amendments and comment on the proposed reporting implications, highlighting that there were no changes perceived to impact the public sector adversely.

Item 12: Forward Work Programme

42. The Treasury proposed the provisional forward work programme covering the next three FRAB meetings, until June 2019. The Treasury sought any comments from the Board.
43. The Board requested that an alignment conversation be added to the agenda once IFRS16 became clearer, with perhaps moving both the Local Authority Update and the Health Manual discussions to March.
44. It was also requested that the formal response to the PACAC inquiry be added as an additional item to the next meeting.

Item 13: AOB

45. There were no matters of AOB not covered by the earlier discussions.

Date and time of next meeting: 12.30pm on 22nd November 2018