



HM TREASURY

Financial Reporting Advisory Board Paper 2018-19 FRAB Report

Issue:	As this Board meeting is the final one of the current chair, the Board is invited to consider an early draft of the FRAB annual report which will be edited to include the activities from the 04 April meeting. The Board is requested to provide comment on the draft version of the FRAB annual report .
Impact on guidance:	N/A
IAS/IFRS adaptation?	N/A
Impact on WGA?	N/A
IPSAS compliant?	N/A
Interpretation for the public sector context?	N/A
Impact on budgetary and Estimates regimes?	N/A
Alignment with National Accounts	N/A
Recommendation:	The Board are invited to review the initial draft and requested to provide any comments on the structure and content of the current draft in the meeting.
Timing:	A revised report will be recirculated reflecting comments by the Board and activities from the April 2019 meeting. The intention is for this to then be signed off in the June 2019 Board meeting to allow for publication before summer recess.

Background

1. The FRAB is an advisory Board and publishes an annual report in Parliament setting out its activities for that reporting year. The report is a key element of ensuring the independence of the Board and is drafted by the FRAB Secretary, but is formally cleared by the Chair.

2. The 2018-19 report currently summarises the Board's activities for the first two meetings of the 2018-19 financial year. The final report will include the Board's activities from the 4th April 2019 meeting.
3. In light of the Chair's retirement, the report has been circulated to the Board sooner than usual to request any initial feedback on the current structure and content of the report. Please note this is very much an early draft and will undergo further refinement prior to an updated version being recirculated to the Board prior to the June 2019 meeting.
4. The final report will be published before the summer recess, subject to clearance.

Summary and recommendation

5. The Board are invited to review the initial draft and requested to provide any early comment on the structure and content of the current draft in the meeting.

HM Treasury
4th April 2019

22nd Report of the Financial Reporting Advisory Board: April 2018 to March 2019

Presented to the House of Commons pursuant to Section 24(4) of the
Government Resources and Accounts Act 2000

Laid before the Northern Ireland Assembly under Section 20(3) of the
Government Resources and Accounts Act (Northern Ireland) 2001 by the
Northern Ireland Executive

The report is laid before the Scottish Parliament and presented to the
Audit and Finance Committees of the Scottish Parliament by agreement
with the Scottish Ministers

The report is submitted to the Public Accounts Committee of the National
Assembly for Wales by the Welsh Government

Ordered by the House of Commons to be printed on DD MONTH YEAR

HC xxx
SG xxx



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Foreword

This will be my final Foreword as Chair as after three years, I am retiring and the Board's April meeting will be my last. I have taken this decision to retire, due to my move to Australia and it is no longer practical for me to continue as Chair of the Board.

We have achieved many things during my term as Chair. In particular, we have dealt with the introduction of a number of important IFRS standards including IFRS 9 *Financial Instruments*, IFRS 15 *Revenue from Contracts with Customers*, IFRS 16 *Leases* and IFRS 17 *Insurance Contracts*. We also resolved a difficult situation in relation to discount rates, and one which has seen a move to the application of nominal rates in the discounting of general provisions in the public sector. These issues have been challenging and the Board has played a critical role in providing advice to the Relevant Authorities in their application in the public sector.

We are moving to an improved situation with Local Government. This will lead to better consideration and resolution of Local Government issues.

I have been impressed by the work done, and presented to the Board on using financial statements for better financial management and balance sheet management, particularly in respect of the Treasury's project on the Balance Sheet Review and Contingent Liabilities approval framework. These will lead to greater efficiencies in the running of government finances and are world leading initiatives. I am confident that the UK remains an exemplar in public sector financial reporting and management.

The staff of HMT who work with, and assist me, have continued to impress. They are helpful and cooperative and have fine knowledge of the issues the Board consider and provide advice on.

The Board is a large, diverse, and interesting group of people. They have worked wonderfully together over the last three years and it has been a pleasure to Chair them. Their skills and expertise are impressive and has brought critical challenge and discussion to the issues we have faced. New members to the Board this year have brought invaluable skills and expertise. I have no doubt, they have contributed to significant improvements in the quality of financial reporting in the public sector. I am sure that they will work in the same manner with the new Chair.

I would like to thank HM Treasury for giving me the honour and pleasure of being the Chair. I am sad that circumstances have forced me to retire from the position. It has been challenging, stimulating and, sometimes, fun. I wish the new Chair and the Board all the best in the future.

Ian Mackintosh

Placeholder for the new chair's foreword.

Chapter 1

Introduction

Background to the Financial Reporting Advisory Board

The Financial Reporting Advisory Board (the Board) is an independent body fulfilling the statutory role as the 'group of persons who appear to the Treasury to be appropriate to advise on financial reporting principles and standards' for government, as required by the Government Resources and Accounts Act 2000.¹

The Board acts as an independent element in the process of setting accounting standards for government and exists to promote the highest possible standards in financial reporting by government. In doing so, the Board seeks to ensure that any adaptations of, or departures from, Generally Accepted Accounting Practice (GAAP) in the public sector context are justifiable and appropriate.

The Board's focus is on examining proposals for amending current, or implementing new, accounting policies in the accounting guidance for central government departments, executive agencies, non-departmental public bodies and trading funds, and for examining the proposals for accounting guidance for local authorities. The Board also advises HM Treasury on the implementation of accounting policies specific to Whole of Government Accounts (WGA).

Further information about the Board (including: membership, Terms of Reference, meeting minutes and papers) is available on the gov.uk website.²

Background of the Financial Reporting Advisory Board report

In accordance with its Terms of Reference, the Board has a responsibility to prepare an annual report of its activities, including its views on the changes made to accounting guidance within the Board's remit.

The Board is required to send a copy of its report direct to the Public Accounts Committee and the Treasury Select Committee of the UK Parliament, to the Welsh Government, the Scottish Ministers and the Northern Ireland Executive.

HM Treasury, the Scottish Ministers, and the Northern Ireland Executive formally lay the Board's report before (respectively) the House of Commons, the Scottish Parliament, and the Northern Ireland Assembly. The Welsh Government submits the report to the Public Accounts Committee of the National Assembly for Wales.

¹ <http://www.legislation.gov.uk/ukpga/2000/20/section/24>

² <https://www.gov.uk/government/policy-advisory-groups/financial-reporting-advisory-board-frab>

This is the Board's 22nd report.

Box 1.A: Representatives include the following organisations who are members or observers to the Board



Chapter 2

Financial Reporting Advisory Board membership during 2018-19

Chair: Ian Mackintosh, Independent member

Independent/ External members:

Anthony Appleton
Andrew Buchanan

Richard Barker
Andrea Pryde

Commented [LV-H1]: Add start date for new members

Preparers/ Users:

Pam Beadman
Iain King
Bob Richards

Gareth Caller
Joseph McLachlan
Ian Webber

Auditors:

David Aldous
Fiona Kordiak

Karl Havers

Relevant Authorities:

Ian Bulmer (until June 18)
Ian Ratcliffe
Sarah Sheen
Aileen Wright

Gawain Evans
Vicky Rock (from Nov 18)
Stuart Stevenson
Christopher Young

Parliamentary Observer:

Craig Mackinlay MP

Larry Honeysett

The following members have joined the Board post March 2019:

Commented [MN-H2]: Placeholder for new members

Chapter 3

Summary of Board activities in 2018-19



Accounting Standards

Scrutinising the IFRS 16 *Leases* implementation plan and proposed adaptations across the public sector

Agreeing to a one year deferral of the implementation of IFRS 16 across the public section to April 2020

Supporting a consistent public sector approach to the implementation of IFRS 16

Discussing the public sector implementation plan for IFRS 17 *Insurance Contracts*



Public Sector Reporting Landscape

Receiving key updates on the work of IFRIC and EFRAG

Discussing the impact on the endorsement process of new accounting standards post Brexit

TBC on annual improvement cycle post April meeting



Developments from HM Treasury

Advising on the discount rate project and agreeing the new discount rate methodology for discounting general provisions with application from 2018-19

Receiving updates on the government financial reporting review

Making recommendations on the form and content of the Whole of Government Accounts 2016-17

Agreeing both the 2018-19 and 2019-20 FReM



Other Relevant Authorities

Approving relevant financial reporting guidance

Monitoring and advising on the importance of consistency across the public sector

TBC on FRAB working group



National Audit Office

Receiving a NAO report on the 2017-18 accounts preparation cycle

Being updated on the success of local government bringing their accounts publication sooner

Receiving an update on the NAOs publication of their first report summarising key themes emerging from audits

Recognising the value of the role the NAO plays in the quality and improvement of financial reporting



Governance and Future Work

Agreeing a forward agenda to ensure future developments are tracked

Overseeing and advising on the post implementation plan for IFRS 9 and IFRS 15

Monitoring changes in the relevant national and international financial reporting environments

Overseeing proposed changes due to the PACAC report recommendations and strategy for further developments in financial reporting

Chapter 4

Board activities in 2018-19

Introduction

This chapter describes the developments in financial reporting in the public sector, both new and continuing, considered by the Board during 2018-19. Papers and minutes from those meetings are available on the gov.uk website.¹

In addition to continuing work on known developments in financial reporting, the Board monitors international developments in accounting standards which may have implications for public sector financial reporting in the United Kingdom and in which the Board has an interest. These include consultation documents issued by the International Accounting Standards Board (IASB), the International Financial Reporting Standards (IFRS) Interpretations Committee (IFRIC) and the International Public Sector Accounting Standards Board (IPSASB).

This chapter also highlights the key work HM Treasury and other Relevant Authorities² have undertaken in their role as the financial reporting standard setters for central government and the rest of the public sector.

The Board's future work on accounting standards will include considering the public sector implications of new standards on leases and insurance contracts and active monitoring of the International Public Sector Accounting Standards (IPSAS).

Accounting Standards

Any changes to accounting standards undergo a comprehensive process from the first announcement by the IASB to the final adoption of the standard by the public sector in the UK. It is important that the effect on the financial statements of public sector bodies due to new accountancy standards is carefully considered. The Board plays a major part of this process, reviewing all stages of the implementation project including the potential need for specific public sector adaptations and interpretations, and making recommendations as to what format they should take.

Over the period of this report, the Board has played a pivotal role in the on-going implementation process for IFRS 16 *Leases* and have had discussions over the implementation plans for IFRS 17 *Insurance Contracts*. The Board will also closely monitor the post implementation review of IFRS 9 *Financial Instruments* and IFRS 15 *Revenue from Contracts with Customers* which will commence in the next financial year.

¹ <https://www.gov.uk/government/collections/hmt-financial-reporting-advisory-board-minutes>

² Relevant Authorities are set out in the Terms of Reference and consist of HM Treasury, Department of Health and Social Care, NHS Improvement, the Northern Ireland Executive, Scottish Government, Welsh Government and CIPFA.

IFRS 16 – Leases

A key priority for the Board has been the ongoing monitoring and evaluation of the application of IFRS 16 *Leases* and to ensure it is implemented appropriately. The important concepts, for clear line of sight and consistency across the public sector have been a crucial focus of this work.

IFRS 16 *Leases* is applicable for reporting periods beginning on or after 1 January 2019 but due to issues which will be covered below and after much deliberation, the Board agreed to defer its introduction across the public sector for a period of one year. This decision followed extensive analysis and engagement with the Relevant Authorities and was not taken lightly. The risk of misalignment between the public spending framework and financial reporting has created a unique circumstance affecting the public sector.

Alongside the decision to defer the implementation, the Board was keenly involved in the proposals of the public sector adaptations and interpretations and ensuring they were both fit for purpose and relevant.

The Board carefully considered the proposed adaptations and interpretations to IFRS 16 put forward by the Relevant Authorities and provided significant challenge and assessment. These areas covered many aspects of the standard; such as, the definition of a contract and its expansion to include intra-government arrangements; a number of adaptations in relation to the measurement and recognition of peppercorn leases; the withdrawal of various transition options; the option to disapply the short-term lease exemption; and, an interpretation on the use of HM Treasury discount rates.

Some of these adaptations and interpretations were agreed but others have required extensive additional analysis such as the subsequent measurement of right of use assets and leases with nil consideration, an issue rarely prevalent in the private sector. The nature and time to develop the public sector adaptations needed, has left the public sector with less time for preparation. Notwithstanding, the private sector faces other similar challenges to the public sector, for example in the collection of high quality data ready for asset recognition.

The Relevant Authorities, HM Treasury, DHSC and CIPFA/LASAAC worked closely together to minimise differences between their respective financial reporting guidance proposals. Nevertheless, some differences remained, and the Board encouraged the resolution of the differences working throughout the year to provide expert help and challenge.

A significant factor that led to the agreement to defer implementation is the importance of maintaining full alignment between of the public sector spending frameworks, that being between budgeting and financial reporting. This principle of clear line of site has been under pressure due to the divergence created with the introduction of the new standard and the existing treatment of leases in the national accounts, reflected in budgets. The Office for National Statistics (ONS) also highlighted the difficulties it faced in agreeing the methodology for the treatment of historic leases and obtaining sufficiently high quality data.

The Board was approached by HM Treasury with a request to agree to defer implementation of the standard by one year with the aim of allowing the ONS and HM Treasury more time to agree the budgeting treatment and meet data quality requirements.

Commented [MN-H3]: Decision made in the April meeting on final adaptations and interpretations

The Board was satisfied with the suggested work plan to address the challenges and the impact it could have on agreeing the budgeting treatment. After much deliberation, the Board agreed to defer implementation of IFRS 16 for one year to April 2020. Representatives of CIPFA/LASAAC and the Department for Health and Social Care informed the Board they would suggest a deferral for local government and the health sector, to ensure consistency in the public sector.

The Board has been clear that the deferral agreement was only given for a maximum of one year recognising the importance of alignment. Monitoring of the joint HM Treasury and ONS workplan to resolve the challenges has continued and indeed, will extend into next year.

Whilst the deferral of IFRS 16 until 1 April 2020 was agreed it became apparent that a blanket approach was not appropriate. In fact, the Board was also asked to consider whether in a very limited set of requirements organisations would have to meet, entities could adopt IFRS 16 from 1 April 2019 in line with the private sector. The argument for this was made due to the identification of two central government departments with significant Companies Act compliant arm's length bodies which must adopt IFRS16 from 2019. As a result, failure to implement the standard at group level would lead to a material misstatement in their accounts and fail to provide the expected level of accountability to users of the accounts.

The Board agreed that in these very limited circumstances, early adoption would be permitted but sought assurance that they could provide supplementary disclosures for Whole of Government Account purposes, and that sufficient adjustments could be made to feed into a central adjustment for the ONS. The Board was aware that allowing early adoption could undermine the arguments made for deferral for the rest of the public sector but was sufficiently satisfied it was in the best interests of accountability to go ahead. The Board will continue to monitor the implementation and impact of early adoption.

IFRS 17 – Insurance Contracts

As well as focusing on new financial standards currently being implemented in the public sector, the Board also pays close attention to other new financial standards on the horizon. The International Accounting Standards Board (IASB) has not yet confirmed the effective date of IFRS 17 *Insurance contracts*, and is still consulting on the standard.

The Board discussed the potential issues around the uncertainty of the implementation date and final principles of the standard. The Board also discussed the potential impact this standard could have on contracts and other financial instruments and highlighted the importance of consistency across the public sector.

The Board stressed to the Relevant Authorities the importance of starting planning for the implementation of IFRS 17 in this year.

The Board will continue to keep on close eye on the outcomes of the IASB consultation on the standard, and the implications of Brexit on the adoption of any new Standards going forward.

Public Sector Reporting Landscape

The breadth of expertise across the Board allows best practice in the private sector to inform application in the public sector. There have been a number of developments in the financial reporting landscape over the 2017-18 financial year and the Board places high importance in maintaining its awareness of them and the implications on the public sector reporting landscape. The Board actively continues to be involved in discussions about changes that are or could affect the way public sector financial reporting operates.

IFRIC update

During the year, the Board considered various updates on the outcomes of the meetings of the IFRS Interpretations Committee (IFRIC) and is grateful that a member of the Committee is also a member of the Board. These updates included the ongoing work of IFRIC in respect of recently adopted standards, such as some recently made decisions in respect of IFRS 15. The Board recognises the importance of keeping aware of the development and monitored other areas in respect of IFRS 16 and the implications for corporate entities and deferred tax.

The Board was also updated on discussions that were ongoing in IFRIC around IFRS 9 and how to treat the changes in the expected credit loss on interest-bearing assets where the credit risk had reduced.

The Board agreed the updates received were very helpful in assisting the Board with keeping abreast of changes occurring in the international financial reporting landscape, especially those that could impact the United Kingdom public sector financial reporting landscape.

EFRAG update

The Board received updates from the European Financial Reporting Advisory Group (EFRAG) during the year and was very grateful to welcome the Chair and CEO of EFRAG, Andrew Watchman at the June 2019 meeting. Andrew presented developments within EFRAG and highlighted the role EFRAG played in the development of IFRS and gave a brief summary to the Board of the continuing discussions around IFRS 9, IFRS 15 and IFRS 16. Andrew also updated the Board on a discussion paper that EFRAG would be publishing for consultation around research and development and non-exchange transactions.

Andrew explained the role EFRAG plays in the EU, being an advisory body, with the aim of pulling together a European wide view of accounting standards to allow for a consistent application of IFRS. Andrew noted that a deferral of IFRS 17 would mean the UK may have to endorse this accountancy standard, rather than as part of the EU.

The Board was appreciative of the insights given from EFRAG, and discussed the technical ability across different boards involved in accounting standards within the UK and the importance of the accounting standard adoption process.

IASB's Annual Improvement Cycle

The Board noted that the IASB had issued a number of narrow scope amendments as part of their annual improvements process and recognised that the majority of these were currently under consideration for adoption by the European Union and at the time of discussion had not yet been endorsed.

The Board follows the amendments closely and agreed that entities should ensure they are compliant. The Board agreed with HM Treasury that currently, there was no need for any adaptations to the FReM to reflect these proposed amendments.

Commented [MN-H4]: To be updated following April's meeting

Developments from HM Treasury

The Board plays a statutory responsibility to act as an advisor to HM Treasury on financial reporting and its part in the new accountancy standards is covered above. HM Treasury, in its role as a Relevant Authority, provides the Board with regular updates in other areas of its work in financial reporting and management.

Financial Reporting Manual (FReM) 2018-19 and 2019-20

The FReM is HM Treasury's technical accounting guide for the preparation of financial statements. It provides guidance on the application of IFRS, as adapted and interpreted for the public sector context. The Board provides a valuable review of the guidance as part of quality assurance and confirming the appropriateness of the guide.

It is the Board's duty to review the manuals and ensure they maintain a high quality of content. To do so, the Board dedicates considerable time to consider proposed amendments to the 2018-19 FReM, the 2019-20 FReM and the accompanying illustrative statements. Discussions focused on the General Data Protection Regulation (GDPR), the Conceptual Framework, IFRS 9 and IFRS 15. The Board requested HM Treasury revisit the proposed amendment relating to IFRS 9 for any unintended consequences and to ensure consistency is maintained. The Board also requested HM Treasury revise the wording in relation to GDPR, the Conceptual Framework and the IFRS 15 proposed amendment. The Board reiterated its stance on consistency between the GAM, the Code and the FReM and requested the references to the Conceptual Framework to be consistent across the three documents.

The manuals were revisited during the year to ensure that the recommendations were taken into consideration and the Board was satisfied that each had been sufficiently reflected.

Going forward and as part of the next steps following an extensive review of the quality of financial reporting by HM Treasury in 2019, a zero-based review of the FReM will be launched in the 2019-20 financial year. The Board will play an important role in ensuring any amendments to the FReM are necessary and relevant to the government financial reporting landscape and welcome the opportunity to participate in the improvements to financial reporting.

Discount rates

The application of discount rates for general provisions has been an ongoing area of discussion by the Board. It commissioned an in-depth review into the discount rate methodology, and HM Treasury updated the Board on the outcomes of this review.

Proposals were considered by the Board on the aspects of HM Treasury's proposals on discount rates including:

- The inflationary effect on cash flows and the index rate requirement.
- Whether there should be a mandated rate, but allowing for bespoke discount rates if more appropriate
- Whether the application of nominal rates (a move from real rates) would be an accounting policy or estimate change

The outcome of the review was welcomed but the Board sought to consider the extent of evidence presented and breadth of research to support the option analysis of methodological change in discount rate application. As a result, more inquiry was undertaken prior to supporting a decision to move from the application of real rates to nominal discount rates.

Commented [LV-H5]: Add more information on the rationale for change

HM Treasury also highlighted to the Board that departments had been made aware as early as December 2017 about this review. The Board was satisfied such advance notice should not unduly effect preparers for the 2018/19 Supplementary Estimates process.

The Board agreed to mandating the use of OBR / CBI forecasts but that there may be situations where a bespoke inflation assumption is more appropriate. The Board advised HM Treasury that clear requirements should be issued to ensure any bespoke rate is independent and objective with evidence that would satisfy auditor requirements.

The Board advised HM Treasury that the application of nominal rates would likely be a change in estimate.

The Board noted the appreciation by HM Treasury for the role the Board, the NAO and departments had played in supporting the discount rate project. The new discount rate PES paper was published in December 2018 which the Board noted was in line with the Treasury's usual publication date of discount rate guidance.

Government Financial Reporting Review

An important feature of the Board's oversight role is to keep up to date with projects the Relevant Authorities are undertaking, in respect of improving the quality of financial reporting.

The 2017-18 FRAB report referred to the Public Administration and Constitutional Affairs Committee (PACAC) report produced following its review of departmental management accounts and financial reporting. HM Treasury had previously advised the Board of the intention to perform a review into government financial reporting as part of the government's response to this report.

The Board was pleased to contribute to the review with a number of Board members being part of the Advisory Board created as part of the governance arrangements.

The scope of the review concentrated on central government but HM Treasury had liaised with a number of different stakeholders including CIPFA/LASAAC.

PACAC made a number of recommendations to improve the quality of financial reporting and the Board agrees with the spirit of these recommendations and is fully committed to continually improving the quality of management information and financial reporting.

The Board discussed the readability of annual reports and accounts as they currently stand and questioned how public engagement in annual reports and accounts could be increased. The Board received regular updates on the review's progress and was interested to hear the final report from HM Treasury would also attempt to set out the government financial reporting landscape for the first time and outline the principles for financial reporting.

Commented [LV-H6]: To add more once the report has been published

The Board recognises that HM Treasury's review into government financial reporting will lead to changes in in the coming year. The Board is supportive of HM Treasury's plans to improve the usability of government financial reporting and the Board will lend their expertise where it can.

Whole of Government Accounts (WGA)

In its role to advise HM Treasury on the implementation of accounting standards in WGA, the Board receives regular notices on progress on the preparation of the account and issues arising. Enabling transparency and accountability of public sector financial reporting is of great importance, and the Board supports the role the WGA plays in this. The Board also acknowledged that the WGA is a very comprehensive document which takes extensive resource to produce.

The Board received an overview from HM Treasury of the 2016-17 WGA.³ This was a challenging and interactive session with an opportunity to discuss the detail of disclosures within WGA and the future of the product.

Further to feedback the Board gave after the presentation of the 2015-16 WGA, the Board was pleased to note HM Treasury had placed particular emphasis on "telling the story" with significant areas, for example provisions, being highlighted to show how they had been changes and managed in the 2016-17 WGA.

The Board welcomed the news that there have been significant improvements in the WGA internal preparation and data collection processes but that significant challenges remain on the horizon, including the introduction of major new financial reporting standards. The Board commended HM Treasury for the continuing improvement in the WGA and look forward to being advised of further improvements planned in the next financial year.

Key highlights noted that income and expenditure have remained largely stable for 2016-17 but that a qualification remains in respect of the valuation of Local Authority Highways Infrastructure assets. Some of the challenges around disaggregation of expenditure were discussed, as well as the use of Public Expenditure Statistical Analysis (PESA) data as a way of providing further transparency of information.

³ HM Treasury published the WGA on 28 June 2018

https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/720178/WGA_2016-17_web.pdf

The Board strongly supports the importance of WGA for understanding the financial position across the public sector, and the resultant benefit of greater transparency. For example, due to the WGA document, the Board was able to challenge HM Treasury on the movement in valuation of the liabilities from the 2015-16 to the 2016-17 WGA and HM Treasury explained this was due to the changes in the discount rate.

The Board also discussed how future events could impact on WGA. The conversations focused on the likely future impact of the adoption of IFRS 16, as a significant number of leases would be coming onto the balance sheet, and the impact of Brexit on disclosures in the accounts.

Other Relevant Authorities

In its advisory role, the Board requests updates from the other Relevant Authorities. After receiving these updates, the Board provides its expert opinion and approval of some key financial reporting guidance.

Group Accounting Manual (GAM) 2018-19 (Department of Health and Social Care)

The Department of Health and Social Care's (DHSC) Group Accounting Manual meets the requirements of the FReM and provides technical guidance to DHSC group bodies.

As part of the annual cycle of review of financial reporting guidance in the public sector, the Board considered the first draft of the 2019-20 GAM presented by DHSC along with a summary of the changes. The majority of the changes allow greater consistency between the FReM and the GAM.

The Board agreed with the DHSC that the GAM should be updated in respect of the deferral of IFRS 16 to ensure consistency across the public sector. However, the Board recommended that DHSC continue to engage with preparers on IFRS 16 and encouraged DHSC to share draft requirements and guidance on the implementation of IFRS 16 early to allow the sector to be ready for implementation.

After some further minor amendments to reflect additional updates made to the FReM, the GAM was approved by the [Board for publication](#).

CIPFA/ LASAAC 2018-19 Code

The Board noted that the CIPFA/LASAAAC IFRS 16 consultation paper had been issued in May and reflected the comments made by the Board in previous meetings on closer alignment with the FReM. CIPFA highlighted the practical implications further IFRS 16 amendments could have on local authorities. The Board stressed the importance of alignment between the FReM and the Code.

The Board considered and agreed the CIPFA/LASAAAC Code of Practice on the Local Authority Accounting in the United Kingdom (the Code) for 2019-20 which had been updated to reflect some minor amendments.

The Board also discussed through the proposed amendments to the Code in respect of IFRS 16 but acknowledged these would not be reflected in the 2019-20 version of the Code due to the agreed one-year deferral of IFRS 16.

Commented [MN-H7]: Not yet approved. Check before publication of report.

The Board noted that CIPFA/LASAAC was intending to use a different method for subsequent measurements of right-of-use assets in the Code compared to the FReM and expressed concern over the implications this could have for the WGA, and whether this could lead to a potential audit qualification. The Board recommended that CIPFA/LASAAC work with HM Treasury on aligning this treatment and CIPFA/LASAAC also agreed to reword their definition of a peppercorn lease to align with the FReM.

The Board queried why the FReM and the Code were intending on having different transitional arrangement and requested that CIPFA/LASAAC review this divergence from the FReM.

CIPFA also provided the Board with regular updates on any issues arising, or relevant information on local government financial reporting. The Board appreciates CIPFA giving these regular updates, and the opportunity for the Board to advise over financial reporting in local government.

FRAB working group

Commented [MN-H8]: To be added following the April meeting

National Audit Office (NAO)

The NAO scrutinises public spending, including the audit of financial statements of all central government departments, agencies and other public bodies, and then report the results of the audit to Parliament. A representative of the NAO is a welcome observer on the Board and regularly provides feedback on the Office's audit findings and issues arising through the year.

A notable issue that came to the fore through the year, was the observation that a number of public bodies still had a considerable amount of work to do to meet the new requirements of the IFRS 9 and IFRS 15 implementation in 2018-19. Whilst considerable engagement has been made with reporting entities, the scale and complexity of the new standards should not be underestimated. HM Treasury is planning a post implementation review of these standards in the late summer of 2019 and the Board looks on with interest to see the result of the review. The NAO reminded the Board of the importance of using this experience to highlight the need for public bodies to plan early for the implementation of IFRS 16.

The Board was pleased to note the improvements highlighted by the NAO on the audit of the 2017-18 accounts, including:

- the achievement made by preparers of central government and other public bodies' annual accounts and the audit teams in ensuring the majority of accounts were audited pre-recess
- the achievement of the local government sector in England with the success of bringing forward the timetable by two months.
- no increase in the number of qualifications of the true and fair opinion
- the successful publication of the Consolidated Annual Report and Accounts for the Academy Schools Sector in England highlighted by the NAO as a notable achievement

However, the NAO reminded the Board that challenges remain on the audit completion timetable with some central government accounts being finalised towards the end of the period leading to undue pressure on audit teams. The NAO are working closely with departments and the Relevant Authorities to continually improve collaborative efforts to project manage the accounts end of year accounts production and audit process,

The NAO also highlighted to the Board the NAOs publication of the first report summarising key themes emerging from audits across the local authority and health sector. The Board was advised this would add to the suite of other NAO reports on local services.

The Board recognised the value of both the NAO's perspective on the quality of financial reporting, as well as the efforts of the NAO to support entities to improve their financial reporting. The Board looks forward to seeing further developments in the coming years.

Governance and forward agenda

Governance

Ian Mackintosh announced in the 2018-19 financial year that he would be retiring as Chair of the Board. His retirement from the role is due to personal reasons and his leadership will be missed. Ian's last meeting as Chair of the Board was the 4th April 2018. A recruitment process to appoint his successor was initiated with a high quality of candidates being considered. The Head of the Government Finance Function has appointed xxx who will take up the role from the June 2019 meeting. This appointment was agreed by the C&AG.

Commented [MN-H9]: To fill once appointed

Commented [LV-H10]: Ensure this is achieved prior to publication

The Board has agreed to reviewing its terms of reference as part of the government financial reporting review that has been undertaken by HM Treasury. This will include setting the strategic direction of the Board going forward and how the role of the Board should be developed further to include financial and non-financial reporting in annual reports and accounts more broadly.

FRAB forward agenda

The Board's attention this year has been focused on the complex nature of the financial reporting standards and the drive to ensure a consistent application across the public sector as a whole. This has had many challenges and is by no means complete. Significant work is still to be done and the Board will remain very active in seeing it through providing support to the resolution of remaining issues.

Commented [MN-H11]: To be amended once the April 2019 meeting occurs

As highlighted throughout this report, the Board has an important role in maintaining its awareness of changes in the public sector reporting landscape, which will continue to develop over the coming years. The Board plays a pivotal role in ensuring financial reporting quality and consistency is maintained across the public sector. Therefore, the Board regularly considers the forward agenda for discussion at future Board meetings. A summary of those areas which the Board will be prioritising in the future is below.

The Board will oversee any proposed changes in government financial reporting that occur as a result of HM Treasury's response to the PACAC report on government financial reporting. The Board will also look to review its terms of reference, as set out by HM Treasury, in the response to the PACAC recommendations, including recognition that the scope of FRAB may need to be amended to ensure that good quality financial and non-financial reporting is a more prominent part of the Board's remit.

The Board will continue to be actively involved in the implementation of IFRS 16 *Leases*, ensuring any further proposed adaptations and interpretations are fit for the public sector, and that this standard remains on the agenda until successfully implemented.

The Board will review the outcome of the post implementation review into IFRS 9 *Financial Instruments* and IFRS 15 *Revenue from Contracts with Customers* and will discuss the lessons learned that can be used for the implementation of any new standards.

The Board will receive updates on other new accounting standards, specifically IFRS 17 *Insurance Contracts* to ensure the Board has early input into the implementation plan, exposure draft and application guidance across the public sector.

The Board highlighted the importance of ensuring that the agenda tracks potential future changes as a result of the findings of IFRIC, IPSASB exposure drafts, and other changes to financial reporting including the application of the revised Conceptual Framework which will come into effect in 2020.

The Board will continue to review the technical guidance published by Relevant Authorities in their accounting Manuals and Codes.

Annex A

Board meeting and topic of discussion

Accounting standard or reporting issue	Board meeting and topic of discussion		
	June 2018	November 2018	April 2019
IFRS			
IFRS 16, <i>Leases</i>	✓	✓	
IFRS 17, <i>Insurance Contracts</i>		✓	
Other issues			
<i>Discount rates</i>	✓	✓	
<i>Whole of Government Accounts (WGA)</i>	✓		
<i>Local government Update/ CIPFA/LASAAC Code</i>	✓	✓	
<i>FReM 2018-19 and 2019-20</i>		✓	
<i>Health Manual</i>		✓	
<i>International Update (EFRAG)</i>		✓	
<i>IFRIC Update</i>		✓	
<i>IPSAS Board Update</i>			
<i>Annual Improvement cycle and Narrow Scope Amendments</i>	✓		
<i>NAO Update</i>	✓	✓	
<i>Forward Work Programme</i>	✓	✓	
<i>PACAC inquiry response Government Financial Reporting Review</i>	✓	✓	
<i>FRAB Annual Report 2017-18</i>	✓	✓	

Annex B

Board attendance and future meetings

Annex C

Name	Jun 2018	Nov 2018	Apr 2019
Chair			
Ian Mackintosh (to April 2019)	✓	✓	
Independent / external members			
Anthony Appleton (to April 2022)		✓	
Richard Barker (to June 2021)	✓	✓	
Andrew Buchanan (to Aug 2020)		✓	
Andrea Pryde (to June 2021)	✓	✓	
Preparers / users			
Pam Beadman (to June 2021)	✓	✓	
Gareth Caller (to Feb 2021)	✓	✓	
Iain King (to June 2021)	✓	✓	
Joseph McLachlan (to Nov 2019)	✓	✓	
Bob Richards (to June 2021)		✓	
Ian Webber (to Feb 2021)	✓	✓	
Auditors			
David Aldous (to Jun 2020)	✓	✓	
Karl Havers (to Nov 2021)	✓	✓	
Fiona Kordiak (to March 2021)	✓	✓	

Relevant authorities¹			
Gawain Evans (to Feb 2020)	✓	✓	
Ian Ratcliffe (to Jun 2021)		✓	
Ian Bulmer (until Jun 2018)	✓	N/A	N/A
Vicky Rock (from Nov 2018, until Feb 2021)	N/A	✓	
Sarah Sheen (to Jun 2021)	✓	✓	
Stuart Stevenson (to Jun 2021)	✓	✓	
Aileen Wright (to Jan 2021)	✓		
Christopher Young (Nov 2020)	✓	✓	
Parliamentary Observer			
Craig Mackinlay MP	✓		
Larry Honeysett	✓	✓	

Future FRAB meetings

- 20 June 2019
- 21 November 2019

All meetings take place at HM Treasury, 1 Horse Guards Road, London, SW1A 2HQ

¹ Relevant Authority tenure is on-going, renewable every 3 years.