



## HM TREASURY

# Financial Reporting Advisory Board Relevant Authorities

## Working Group

<b>Issue:</b>	To update on the first meeting of the FRAB Relevant Authorities Working Group, and to request approval for the revised Memorandum of Understanding
<b>Impact on guidance:</b>	N/A
<b>IAS/IFRS adaptation?</b>	N/A
<b>Impact on WGA?</b>	N/A
<b>IPSAS compliant?</b>	N/A
<b>Interpretation for the public sector context?</b>	N/A
<b>Impact on budgetary and Estimates regimes?</b>	N/A
<b>Alignment with National Accounts</b>	N/A
<b>Recommendation:</b>	The Board are invited to review and agree the Memorandum of Understanding for the FRAB Relevant Authorities Working Group. The Board is also invited to note the draft minutes of the first meeting and the forward work plan of the working group.
<b>Timing:</b>	The Board are requested to agree the Memorandum of Understanding in this meeting, so it can be in place for the next meeting of the FRAB Relevant Authorities Working Group in May 2019.

### Background

1. The FRAB Relevant Authorities Working Group is a forum for representatives from the relevant authorities to discuss common themes and issues together.
2. The FRAB Working Group has not met in a number of years and has been revitalised, with the first meeting occurring in February 2019.

3. This meeting was used as an opportunity for the FRAB Working Group to update the Memorandum of Understanding and agree how the group can be best utilised going forward.
4. The Memorandum of Understanding has been circulated to the Board to review and agree.
5. The draft minutes and forward plan have also been circulated to the Board for information.

#### **Summary and recommendation**

6. The Board is invited to review and agree the Memorandum of Understanding for the FRAB Relevant Authorities Working Group. The Board is also invited to note the draft minutes of the first meeting and the forward work plan of the FRAB working group.

**HM Treasury**  
**4<sup>th</sup> April 2019**

## Developing financial reporting guidance for the public sector: Memorandum of Understanding between the relevant authorities

1. The Financial Reporting Advisory Board (FRAB) is responsible for providing independent advice to the relevant authorities on financial reporting principles and standards. The “relevant authorities” for this purpose are HM Treasury in respect of central government, the Scottish Government, the Northern Ireland Executive and the Welsh Government in respect of central government and the health sector in their territories, the Department of Health and Social Care (DHSC) and NHS Improvement in respect of the health sector in England, and CIPFA/LASAAC<sup>1</sup> in respect of local authority accounts across England, Wales, Scotland and Northern Ireland.
2. This Memorandum of Understanding sets out the operational arrangements for developing financial reporting guidance for the public sector.

### Financial reporting guidance for the public sector

3. Financial reporting guidance for the public sector is based on EU-adopted International Financial Reporting Standards (IFRS), adapted as necessary for the public sector context. Financial reporting guidance for the UK public sector is set out in:
  - the Financial Reporting Manual (FRM) for government departments and their arms length bodies, including related application guidance;
  - the DHSC Group Accounting Manual (the GAM) for DHSC group bodies including clinical commissioning groups, NHS trusts, NHS foundation trusts and arm’s length bodies; and
  - the Code of Practice on Local Authority Accounting in the United Kingdom (the Code).

### Due Process

#### *The FRAB Working Group*

4. The relevant authorities ensure that the financial reporting guidance set out in the manuals and the Code is kept up to date.
5. The relevant authorities shall establish a FRAB Relevant Authorities Working Group whose membership shall comprise:
  - the Secretaries of the FRAB and CIPFA/LASAAC; and
  - representatives from each of the other relevant authorities.
  - representative from MHCLG<sup>2</sup>

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<sup>1</sup> The Chartered Institute of Public Finance and Local Authority (Scotland) Accounts Advisory Committee Local Authority Code Board

<sup>2</sup> Ministry of Housing, Communities and Local Government

The Group shall be chaired by the FRAB Secretary, and FRAB shall be advised of its members. Participants are able to nominate a deputy from their relevant authority when necessary.

6. When proposing amendments to the FReM or, for the Code and other manuals, adoption of a divergence from IFRS and/or the FReM, the relevant authority shall discuss those proposals with the FRAB Working Group.
7. The Working Group shall consider the proposals on a case by case basis for consistency across the public sector, or seek reasons for sector-specific differences being proposed. Consistency is regarded as the expected objective but, dependent on circumstances, in some cases divergence may be considered appropriate.
8. Where a relevant authority has a materially different approach due to differing statutory or stakeholder requirements, the relevant authority will inform and seek discussion with members of the Working Group before submission to FRAB.
9. The representatives from CIPFA/LASAAC and the devolved administrations shall advise of any impacts the proposals might have on Council Tax and whether there are acceptable alternative treatments.

#### *Public consultation*

10. Each relevant authority will follow their due process of consultation and engagement, including bringing any item for discussion by the Working Group. Whether the proposal is to be consulted on publicly or is to be considered by the FRAB without deliberation by any other body, the proposal shall be published by the relevant authority.
11. The public consultation shall comprise placement on the relevant authority's website and by targeted circulation or consultation as appropriate. The public consultation period shall be not less than four weeks.
12. The relevant authority shall, except where respondents have requested confidentiality, place a summary of responses on their websites.

#### *Papers considered by the FRAB or other bodies*

13. The relevant authorities shall analyse and summarise the responses in the paper that is taken either to the FRAB for approval or, where a separate body (for example, CIPFA/LASAAC) deliberates, to that body. Only where the responses to the consultation do not support the proposal should the FRAB Working Group be consulted again.
14. The FRAB secretariat shall aim to distribute papers to FRAB members at least one week prior to the meeting date. Other bodies (for example, CIPFA/LASAAC) need to build into their Due Process arrangements an allowance for adherence to this timetable.
15. Papers for meetings of the FRAB and the other bodies shall be referred to on the relevant authority's website together with any links were appropriate.

16. Where a separate body considers the responses to its consultation, that body shall be responsible for agreeing the content of the manuals or Code. That separate body shall present for approval to the FRAB:
- the full and final text of the manuals or Code prior to its being issued for the first time; and, thereafter
  - a list of differences between the manual or Code and the FReM.
17. Where requested, the FRAB Chair shall provide a letter to the separate body summarising the results of FRAB's considerations of the proposals under paragraph 16.

### **Implementation dates**

18. The version of the FReM for financial years starting on 1 April shall be available by the preceding 31 December and shall incorporate all IFRS effective as at that date – that is, 15 months before the end of the financial year to which the FReM relates. The version of the GAM for financial years starting on 1 April shall be available by 30 April of that year. The relevant versions of the other manuals and the Code shall be available by 1 April for the financial year starting on that day and ending on the following 31 March. Exceptions in respect of the DHSC Group Accounting Manual and the Code may be made to this general rule, with the agreement of the FRAB, where additional time is needed to change charging regimes or regulations in order to mitigate the potential impact of guidance changes on Council Tax.

### **Hierarchy**

19. The manuals and the Code shall be prepared using EU-adopted IFRS<sup>3</sup>. Where appropriate, the manuals and the Code can then refer to International Public Sector Accounting Standards (IPSAS) and UK accounting standards issued by the Accounting Standards Board.

### **Influencing the development of accounting standards**

20. The FRAB Working Group shall monitor activities of accounting setters and other relevant organisations. Where FRAB requests the Working Group to analyse a Discussion Paper or Exposure Draft, the Working Group will do so at their next meeting and will agree the draft of the response before it is considered by the FRAB.

### **Review**

21. This Memorandum of Understanding shall be reviewed every two years or at the request of one of the relevant authorities.

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<sup>3</sup> Taken to include IASs and interpretations of IFRSs and IASs issued by IFRIC or SIC.

## Signatures

22. Signed on behalf of the relevant authorities:

Vicky Rock  
HM Treasury

Aileen Wright  
Scottish Government

Gawain Evans  
Welsh Government

Christopher Young  
Department of Health and Social Care

Stuart Stevenson  
Northern Ireland Executive

Sarah Sheen  
Chartered Institute of Public Finance and Accountancy

Ian Ratcliffe  
NHS Improvement

# Minutes of FRAB Working Group Meeting Held on Tuesday 26<sup>th</sup> of February 2019 At HM Treasury

Present:

Vikki Lewis (Chair)

Gareth Caller

Gareth Davies

Eleanor Shirtliff

Steven Wareing

**On the Phone:** Kathryn Allen, Alison Douglas, Kim Jenkins, Aileen Wright

**Secretariat:** Nicky Maslin

**Apologies:** Gawain Evans

**Invitees:** Sam Calvert, Ruth Ward

## **Agenda Items:**

1. Welcome and introductions
2. Memorandum of Understanding
3. Timing of Relevant Authorities financial management process
4. CIPFA forward look and stakeholder engagement
5. IFRS 16 Leases – update since November FRAB meeting
6. Financial Reporting in the public sector and the Government Financial Reporting Review
7. Forward Plan for the FRAB Working Group
8. AOB

## **Item 1: Welcome and introductions**

1. Each attendee to the group gave an introduction into who they are the role they have in their organisation
2. The aims of the working group were agreed upon which include:
  - a. to enable more effective joined up working across the relevant authorities
  - b. to have consistency in the treatment of IFRS 9, 15, 16 and 17
  - c. to improve operational effectiveness and working with the respective boards.

## **Item 2: Memorandum of Understanding**

3. The draft Memorandum of Understanding (MoU) was presented to the working group.
4. It was agreed the aim was to agree a revised MoU in time to be presented at the April 2019 FRAB meeting.

5. The group acknowledged the Memorandum of Understanding had not been updated in some time, so, each paragraph was discussed in turn by the group.
6. A number of amendments were suggested by the group to the MoU, to align the MoU with the current practices that were in place across the Relevant Authorities and to acknowledge the impact of differing legislation.
7. The working group agreed to keep one chair for consistency and voted for it to be the secretariat to FRAB.
8. The Treasury agreed to make the discussed changes and recirculate to the group at the beginning of March.

### **Item 3: Timing of Relevant Authorities financial management process**

9. The Treasury and CIPFA set out a suggestion for each Relevant Authority to send round information on their respective financial management process, including those things that do not need FRAB approval.
10. The group agreed this would be a useful exercise and for this to be collated into a single document to be used as a basis for how meetings will be fit in throughout the year.
11. The Northern Ireland Executive updated the group on how they had structured their information and agreed to send to the Treasury for this to be circulated as a template for other members to use as a reference point.
12. All Relevant Authorities agreed to send their process documents to the Treasury by the end of March, with the Treasury to collate this and circulate in a single document.
13. All the members agreed this should then be discussed in the next working group.

### **Item 4: CIPFA forward look and stakeholder engagement**

14. CIPFA gave the group an overview of the discussions from the CIPFA/LASAAC away day that happened in September 2018. This included comments on the implementation of IFRS 9 and 15, and also included developing a strategy that allowed for more strategic thinking and ensures that financial statements clearly articulate their key message.



15. CIPFA also highlighted the aim of CIPFA/LASAAC to engage more with stakeholders. It was agreed that a review of the differences between the FReM and the CIPFA Code would be desirable.
16. CIPFA highlighted the different financial management and budgetary framework for local government. This is currently based on statutory requirements and the arrangements are anticipated to be a key feature of discussions regarding the future approach of the local government Code of Practice.
17. The group discussed the points raised by CIPFA and agreed once the new chair of FRAB had been selected, the group would ask FRAB to consider the objectives of financial reporting, including good practice examples, across the public sector.

#### **Item 5: IFRS 16 Leases – update since November FRAB meeting**

18. CIPFA reminded the working group of the outcome from FRABs meeting in November, and the ongoing issue with the subsequent measurement of right of use assets. CIPFA also highlighted the work Treasury colleagues had done engaging with stakeholders following the FRAB meeting in November.
19. It was confirmed to the group that the position agreed between CIPFA and the Treasury was that, when determining a current value in existing use or fair value for right-of-use assets, in most cases the cost model in IFRS 16 would be an appropriate proxy. However, for some right-of-use assets, the cost model in IFRS 16 will not be an appropriate proxy, in which case the current value in existing use or fair value should be used.
20. This suggestion is a 'meet in the middle' between the CIPFA and HMT suggestions given at the last FRAB meeting. This proposal will be going to the CIPFA/LASAAC meeting on Tuesday 5th March for approval before FRAB on 4th April.
21. The group agreed they were broadly happy with this approach and agreed that there shouldn't be any issues with evidencing choosing the full revaluation method if used correctly.
22. The group also highlighted that a number of accounts preparers had spoken to their respective Relevant Authority about the issues facing them with the uncertainty of the budgeting decision, especially about any capital assumptions. The Treasury confirmed they are still working with the ONS on the budgeting and have written to Ministers with a budgeting proposal.
23. The Treasury recognised how useful it had been to engage with CIPFA on this leases issue, which has enabled broad alignment between the Code and the FReM. The Treasury also highlighted an out of meeting paper had been sent to

FRAB on the proposed measurement of right of use assets, and that as two departments are early adopting, FRAB had been reminded of the importance of decisions being made in the April FRAB meeting.

## **Item 6: Financial Reporting in the public sector and the Government Financial Reporting Review**

24. The Treasury gave an overview of the Government Financial Reporting Review that the Treasury is currently undertaking, including an overview of the content in the report. The Treasury also mentioned to the members of the group about the zero based review in the FReM which is intended to start in summer 2019.
25. The Department of Health and Social Care, and NHS Improvement updated the group on their key priorities for enhancing the guidance currently in the Health Manual (the GAM) including that on the remuneration reporting. The Health sector also updated their intention to learn lessons from previous standard adoption to hone their approach to the adoption of IFRS 16.
26. The Northern Ireland Executive informed the group that their focus is on governance and accountability, with specific guidance being worked on, including whistleblowing, conflicts of interest and a detailed review and update of Managing Public Money Northern Ireland. They are also looking at implementing something similar to the Treasury's Clear Line of Sight in 2020/21 with the aim of being more consistent with Whitehall.
27. The Scottish Government updated the group on their focus of financial reporting and the fiscal framework changes. A review has already started on budget documents, and refreshing the Scottish Public Finance Manual.
28. The Welsh Government updated the other members on the challenges the Welsh Government faced with their new standards in financial reporting which has led to ongoing discussion with the PAC. The Welsh Government are also looking at a process of alignment mapping of their public bodies and ensuring the classification of each body is correct.
29. CIPFA reiterated their forward plan discussed earlier in the meeting and highlighted the options for action in the financial reporting landscape.
30. The DHSC highlighted the references to IFRS 16 in the 2019-20 GAM and agreed with the Board that these would be removed due to the deferral of the implementation date of the Standard. The Board recommended that DHSC continue to engage with preparers to ensure the sector is ready for implementation.

31. The DHSC informed the Board that the GAM will be amended to reflect any additional updates to the FReM and agreed with the Board it would then be recirculated for Board approval.

#### **Item 7: Forward Plan for the FRAB Working Group**

32. The group was invited to put forward suggestions for the forward plan for the working group.

33. The group made a number of suggestions including each Relevant Authority giving an update on their changes in financial reporting, post implementation and current implementation of standards and discussing the updates to NAO code of practice.

34. Members of the group were invited to send any other suggestions via email to the chair and secretariat, and the secretariat agreed to circulate a list of the forward plan suggestions.

35. The group agreed the next meeting should be in May 2019.

#### **Item 8: AOB**

36. The deadline for the FRAB chair applications closes on 28th February and the intention is that if a replacement chair is appointed, they will come to the FRAB meeting on the 4th April.

## FRAB Working Group Forward Plan

- Timing of Relevant Authority Financial Management Process (May meeting)
  - Discuss complete document
  - Implication for any changes to meetings
- Updates on changes in financial reporting (on-going)
  - Each Relevant Authority to update their on-going changes in financial reporting
  - Add a specific slot on the agenda for a Relevant Authority as requested
- Updates on financial standards (on-going)
  - Post implementation reviews of IFRS 9 and IFRS 15
  - On-going implementation of leases
  - Preliminary work on implementing IFRS 17
- NAO code of practice (May meeting)
  - Group to discuss the implications of the updates to the code
- Horizon scanning (on-going but way forward to be discussed in May meeting)
  - Changes to financial reporting in the international and private sectors
  - Stakeholder engagement with standard setters
  - How to feed into to technical accountant strongholds e.g. TACoE and RASIG