



Financial Reporting Advisory Board Paper

Update on the pilot thematic review of IFRS 9 and IFRS 15

Issue:	This paper details the background to the pilot thematic review of IFRS 9 and IFRS 15, including an update on how the review is progressing so far. This paper is for information to provide an interim update on this review
Impact on guidance:	Initial responses indicate there is not going to be any significant changes to guidance and therefore any changes will form part of the business as usual update of the 2019-20 FReM that will be presented to the Board for sign off in November. Responses to the questionnaire are invited up to the 30 th August and therefore there is a small chance that there could be further comments that are significant enough to potentially affect to 2020-21 FReM. Further detail will be provided in the November meeting.
IAS/IFRS adaptation or interpretations?	N/A
Impact on WGA?	Unlikely given the responses received so far
IPSAS compliant?	N/A
Impact on budgetary regime?	Any revisions to guidance will consider the ongoing importance of alignment between the Estimates, budgets and accounts.
Alignment with National Accounts (ESA10)?	Any revisions to guidance will consider the ongoing importance of alignment between the Estimates, budgets and accounts.
Impact on Estimates?	Any revisions to guidance will consider the ongoing importance of alignment between the Estimates, budgets and accounts.
Recommendation:	The Board is asked to note the content of the paper, which is for information as an interim update. The Board is invited to provide any comments on the review so far.
Timing:	Changes to guidance that can be incorporated into the business as usual update will feed into the 2019-20 FReM, presented to the FRAB in the November meeting for sign off. Any more substantive changes will be taken to the November FRAB for discussion and would be incorporated into phase 2 of the 2020-21 FReM review. A report summarising the pilot thematic review of IFRS 9 and 15 will be published in December 2019.

DETAIL

Background

1. HM Treasury provided the Board with an overview of the actions and next steps arising from the [Government Financial Reporting Review](#) at the June 2019 meeting. HM Treasury provided further detail on the next steps arising, at the request of the Board, in an out of meeting paper in August 2019. This included a summary of the pilot thematic review of IFRS 9 and IFRS 15, including a commitment to provide further detail on this review to the Board at the September 2019 FRAB meeting.
2. This paper aims to provide the Board with an update of progress on the pilot thematic review of IFRS 9 and IFRS 15 with some early findings.

Purpose of the review

3. As set out in the August 2019 out of meeting paper, the overall aim of the government financial reporting review implementation project is to improve guidance by implementing the changes recommended in the Government Financial Reporting Review. In turn, this should improve the quality of the information provided in government annual reports and accounts (ARAs) and therefore benefit the users of accounts.
4. As part of the Government Financial Reporting Review, HM Treasury committed to undertake regular thematic reviews of government financial reporting. The thematic reviews are intended to support the Treasury's statutory role as a standard setter for central government.
5. IFRS 9 *Financial Instruments* and IFRS 15 *Revenue from Contracts with Customers* were implemented in the public sector from 01 April 2018. This followed a four-year implementation plan by HM Treasury, which included valuable input from the Board.
6. The introduction of IFRS 9 and IFRS 15 has been a major reporting challenge for the whole of the public sector. HM Treasury are keen to support the continuous improvement of financial reporting and learn from the implementation of these standards.

Scope

7. IFRS 9 and IFRS 15 are the first significant standards to be implemented for some years and the Treasury has committed to undertaking a pilot thematic review. This review is an early post implementation review that focuses on the way the standards were implemented in central government, rather than a detailed look at the standards themselves. It will not look to reopen the decisions that have already taken place in respect of the FReM adaptations and interpretations, but instead will seek to identify any issues with the existing guidance and provide solutions where needed. Therefore, this review focuses on the implementation process led by the Treasury, the guidance provided and the usefulness of information to users disclosed in the ARAs.
8. This review considers the current adaptations and interpretations in the FReM for completeness, inconsistency and inaccuracy, as well as content in other chapters of the FReM that relate specifically to these two financial reporting standards. It also considers the

consistency between the application guidance for each standard and the FReM. HM Treasury will also look to draw on lessons learnt from the implementation process of IFRS 9 and IFRS 15 that could potentially be useful when considering the planned process for IFRS 16, IFRS 17 and future new standards, where possible.

9. The review is also considering the usefulness of the information provided in the ARAs to the user, and whether it has met the objectives for each standard as set out by the International Accounting Standards Board (IASB). For both of these standards, the IASB sets out as part of the objectives that the entity should present “useful information to users of financial statements”.
10. Therefore, the outcomes of this review could have an impact on future decisions the Board will be advising on. As the thematic review is looking at the timescales for guidance, this could have an impact on future timelines for finalising interpretations, adaptations and guidance in general as necessary for future standards. This may mean these will have to be agreed by the Board earlier in the implementation process than they are currently. The review into how useful the disclosures are to users could also provide useful intelligence on the needs of users and consequently, the public sector specific adaptations that are applied for IFRS 9, IFRS 15 and any future standards.

Methodology

11. HM Treasury is welcoming of the involvement of stakeholders throughout this review. HM Treasury has invited feedback from preparers of government accounts, the National Audit Office (NAO), and identified users of ARAs through online questionnaires. This review has also been discussed with departments at the second FReM working group in July, with the NAO at the FReM NAO workshop, and with the Scrutiny Unit and Institute for Government at another workshop.
12. The questionnaire for preparers and the NAO has three sections:
 - The first section contains 7 questions and asks respondents to reflect on the timeliness of the information provided by HM Treasury. This includes questions on the timing of and engagement on, the impact assessment, exposure draft and application guidance.
 - The second section contains 12 questions and seeks feedback on the content and sufficiency of the guidance provided by HM Treasury. This includes questions on the alignment of the FReM to other HM Treasury published documents relating to the standards, and usefulness and appropriateness of the guidance content.
 - The third section contains 3 questions seeking preparers’ views on the usefulness of information provided in the ARAs. This includes questions on how the disclosures in the ARAs have been used by the entity themselves, and the level of user focus when deciding on the content of disclosures.
13. The questionnaire contains a mix of question types between those that were multiple choice, with the option to give a comment, and those which were comment boxes only. Those questions that were multiple choice received more responses than those questions where respondents were invited to give written answers only.

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14. Feedback from users has been sought via a separate questionnaire. This questionnaire contains 10 questions related to the level of experience the user has with the 2018-19 ARAs and the usefulness of the disclosures in these accounts.
15. The deadline for responses for both questionnaires is the 30th August, and responses will be reviewed and consolidated in September. However, the user engagement process for this review so far has been challenging, and as such, the deadline for the user survey has been extended to Friday 27th September. This will enable HM Treasury to maximise the opportunity for responses for users, without impacting the timeline for the project. The users' responses may impact communication to departments on the preparation of their ARAs, but is unlikely to impact the FReM guidance itself. This revised closing deadline would still enable a summary of the responses to be brought to the Board in the November meeting, and form part of the final report to be published in December 2019.
16. HM Treasury is also undertaking their own desktop analysis for this review, on the quality of compliance of the disclosures relating to IFRS 9 and IFRS 15 in the central government ARAs. A sample of ARAs has been selected, which includes all major departments, and is being reviewed against a checklist which is similar to those questions asked in the user survey. This checklist looks at whether the ARAs explain that the new standards are in place, the ease of understanding the impact on an entities accounts and whether any judgements or choices have been easily explained.

Early findings

17. No departmental accounts received a qualified opinion as a result of IFRS 9 or IFRS 15 in 2018-19 and no common issues in relation to the FReM or application guidance were discovered by HM Treasury at year-end. Some minor issues have been raised by the NAO throughout the year, but nothing with a significant impact. The technical accounting centre of excellence (TACoE) also received minimal queries on both of these standards, and did not raise any common issues with HM Treasury. Therefore, this initial work carried out suggests that significant changes to the FReM will not be required.

Feedback from preparers

18. There has been a varied number of responses from preparers to each of the questions. As at 19th August, there have been 46 responses recorded, although around 20 of those answered were incomplete. Respondents were asked the same questions for IFRS 9 and IFRS 15. On the whole, the responses were identical for both IFRS 9 and IFRS 15, although there were a few questions where different responses were given.
19. An initial review of the responses to date suggest overall satisfaction in the timing of the implementation process and guidance issued for IFRS 9 and IFRS 15. The most selected response for all questions on timing and content was that the information provided was satisfactory. However, a few of the questions had a higher share giving a different response.
20. Whilst in the timing section of the questionnaire, 30% of respondents marked that having the application guidance earlier would have been useful, only 18% of respondents marked they had used the application guidance as soon as it was issued with the majority not using it until the 2018-19 financial year, or until the year-end process. The written feedback suggested that the timing of an entity's implementation plan was dictated primarily by the

resource available within the entity itself, with only a few being impacted by the timing of the HM Treasury guidance.

21. In the content section of the questionnaire, only 50% of respondents agreed that the application guidance gave enough information on sector-specific issues, with the other 50% either selecting that not enough guidance was given, or that the application guidance was satisfactory but contained less guidance than expected. 15 respondents gave further information to support their response. The written feedback for the content section overall suggested that more examples would have been useful, and referred to the need to use the FReM in conjunction with the application guidance and not as a standalone document.
22. In terms of responses regarding the use of training and application guidance, the majority of responses suggested that respondents were generally satisfied. However, some respondents flagged they were unaware of some of the training that had been on offer and therefore had been unable to take advantage of it. The NAO raised a similar point in the workshop HM Treasury had with them, specifically that smaller ALBs have fed back that they were unaware of the support on offer. This feedback will form part of the lessons learnt for future implementation plans.
23. The final section was in respect of the disclosures in the ARAs on IFRS 9 and IFRS 15. Most respondents answered that the needs of users had been taken into account when thinking of the disclosures to make in the ARAs with respect to both IFRS 9 and IFRS 15. However, most preparers also responded that the disclosures in the accounts have not been used internally for decision making or by those in charge of governance.

Feedback from users

24. As mentioned above, external stakeholder engagement has been challenging. Currently, HM Treasury has only received one answer to the user survey and therefore it is not possible to draw any general conclusions from this. However, HM Treasury has been undertaking some direct targeting of users of ARAs and are therefore are hopeful of receiving some more responses, especially if the questionnaire deadline is extended.

Desktop review

25. The desktop review is currently underway. Below list some early findings, although these may be subject to change as more ARAs are reviewed. The final summary of the findings will be presented at the November 2019 FRAB meeting.
26. As mentioned above, there were no qualified opinions given as a result of IFRS 9 and IFRS 15 in the 2018-19 ARAs. Therefore, this suggests that all ARAs were compliant with the disclosure requirements in the standards.
27. Initial findings of the desktop review support the above, that all ARAs demonstrate a compliance with the requirements in both of the standards. However, there is a varying degree of detail presented in different ARAs in respect to both IFRS 9 and IFRS 15. This is both in respect to the explanation around the numbers and information provided around the standards. Within an ARA, there can also be differing levels of information provided on each standard, sometimes even when the impact of both standards was material to the entity.

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28. The review so far suggests that preparers of the ARAs were well referenced in respect of the implementation of IFRS 9 and IFRS 15 in the 2018-19 financial year, and whether or not there was a material impact on opening balances.
29. Preparers explained the main points of each of the new standards, although the level of detail from each ARA varied significantly. For example, for IFRS 15 one ARA referenced the fact performance obligations could be recognised at a point in time or over time, whereas another went into a lot of detail on the five stage model. This is something for HM Treasury to reflect on, when deciding on the information to provide when new standards come in, ensuring there is a careful balance between consistency and allowing an entity to 'tell its own story'.
30. In respect of the communication to users on the methodology chosen, and other judgements and conclusions made in respect of the standards, a number of ARAs were relatively silent on this. Entities preferred to use the flexibility in the standard as the reasoning behind a methodology choice, or gave a very brief explanation as to their logic behind making a particular choice.

Preliminary conclusions

31. The responses received suggest that there will not need to be any significant changes to the HM Treasury guidance, but are more likely to feed into the implementation plan for future standards. Therefore, any FReM changes are expected to be relatively minor and not require consultation. These changes would form part of the business as usual update to the 2019-20 FReM, which will be taken to FRAB in November for sign off.
32. However, there is still an opportunity for more respondents to answer the questionnaire. If these responses suggest that significant changes are required to the FReM then supplementary guidance will be produced, and only issued following FRAB approval.
33. The feedback does also demonstrate that there are areas where HM Treasury will need to reflect on, when implementing new standards in the future.

Stakeholder engagement

34. The aim of the thematic review is to target specific areas of concern, share best practice and ensure that the guidance issued by the Treasury is fit for purpose by allowing supporting guidance to be updated and improved.
35. The thematic reviews are also intended to strengthen the annual feedback cycle between HM Treasury and departments to help support continuous improvement in government finance reporting, including making annual reports and accounts more user friendly.
36. Therefore, stakeholder engagement has an important role to play in this thematic review. The above sets out the role stakeholders have been encouraged to play in the initial analysis of the post implementation review, via the two surveys. The Scrutiny Unit and Institute for Government were also part of a workshop in August, which included a discussion on this post implementation review. HM Treasury is also working to increase the level of stakeholder engagement for this review, to encourage a greater number of responses, including working with the Whole of Governments Accounts team.

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37. A workshop is scheduled for the end of September, where respondents to either survey will be invited to attend, which will discuss the responses received and the next steps.

Next steps

38. HM Treasury will continue to work with stakeholders on this review over the coming months. For example, the NAO are consulting their audit teams and have raised with HM Treasury that the NAO will have points to feed in to this review. These will be on various issues raised in relation to implementation of these standards, which will be captured to inform approaches to implementing future changes to standards.

39. A report summarising the pilot thematic review, including its findings, will be presented at the November 2019 FRAB meeting, with the aim of publishing in December 2019 on gov.uk. This report will include a combination of the responses from HM Treasury's questionnaires, HM Treasury's own desktop analysis and feedback from respondents in the September workshop, as well as any other expected outcomes, for example, the impact on the IFRS 17 implementation plan.

40. The IFRS 9 and IFRS 15 review is one of two pilot thematic reviews HM Treasury is currently undertaking. Following the completion of both of these, their effectiveness will be reviewed in order to inform future thematic reviews.

HM Treasury
6th September 2019