



## Financial Reporting Advisory Board Paper

### Minutes of the 138<sup>th</sup> FRAB meeting and matters arising

<b>Issue:</b>	For information – minutes of the last 138 <sup>th</sup> meeting held on the 21 <sup>st</sup> of November 2019 and matters arising.
<b>Impact on guidance:</b>	N/A
<b>IAS/IFRS adaptation?</b>	N/A
<b>IPSAS compliant?</b>	N/A
<b>Interpretation for the public-sector context?</b>	N/A
<b>Alignment with National Accounts</b>	N/A
<b>Impact on budgets/estimates?</b>	N/A
<b>Recommendation:</b>	The Board has already approved the minutes of the 138 <sup>th</sup> meeting by email but to note the matters arising
<b>Timing:</b>	N/A

### Detail

1. To note the minutes of the 138<sup>th</sup> FRAB meeting which were circulated and approved by email after the meeting (Annex A).
2. Matters arising are noted below:

## Matters arising

Paragraph	Issue	Action
2	Link to the PACAC hearing transcript to be circulated.	Completed
<b>8-36</b>	<b>20-21 FReM – actions following discussion:</b>	
18	HMT to consider how GDPR affected areas of ARAs outside of the staff report as part of phase 2 of the FReM review.	Ongoing – as part of phase 2 of FReM review
20	Review of risk reporting requirements in FReM	Partial completion – cross-referencing emphasised in Phase 1 of the FReM. To be re-examined when quality of risk reporting can be assessed
22	Review of the discussion of materiality, particularly to non-financial reporting in the FReM	Ongoing – to be considered in phase 2 of the FReM
23/24	Reconsideration of the use of, “a complete understanding” in chapter 2 of the FReM to reduce ambiguity.	Completed – wording amended in published FReM
25	Consideration of the applicability of the FReM, including charitable bodies	Ongoing – to be considered in phase 2 of the FReM
26	Add clarity to para 2.4.2 in FReM	Completed – updated FReM circulated and agreed
27	Review of references to relevant authorities for accuracy including updated flow chart	Partial completion – further review of references

30	Update FReM to explain difference between adaptations and interpretations.	Completed – updated FReM circulated and agreed
32	Further comments from the Board in respect of the revised FReM to be sent through to HMT within 1 week of the meeting	Completed
33	HMT agreed to recirculate an updated 20-21 FReM following Board discussion and prior to publication in December 2019.	Completed
35	Details of phase 2 of the FReM review to be provided at the March meeting	See FRAB 139 (02)
41	Circulate a copy of the thematic review to the Board – post implementation review of IFRS 9 & IFRS 15	Completed
55/56	A working group to meet and consider the applicability of IFRS16 to school licences and a subsequent out of meeting paper to be circulated.	Completed
62	Details of the DHSC GAM consultation to be circulated out of meeting and the GAM brought to the March meeting for approval.	Consultation circulated and see paper FRAB 139 (06)
63	Update on issues of the IFRS Interpretations Committee	Added to future meeting agenda

## Annex A

### Financial Reporting Advisory Board Meeting 21<sup>st</sup> November 2019: Minutes

**Location:** HM Treasury, 1 Horse Guards Road, London, SW1A 2HQ

**Time:** 12:30pm – 17:00pm

**Attendees:** Lynn Pamment (Chair)

Vicky Rock

Ian Webber

Gareth Davies

Joseph McLachlan

Larry Honeysett

Anthony Appleton

David Aldous

Kim Jenkins

Bob Richards

Gareth Caller

Pam Beadman

Conrad Hall

Stuart Stevenson

Karl Havers

Andrew Buchanan

Fiona Kordiak

Richard Barker

Chris Young

Iain King

Andrea Pryde

Ian Ratcliffe

**On the phone:**

Aileen Wright

**Secretariat:**

Vikki Lewis

**Apologies Received:**

Craig Mackinlay, Gawain Evans

**Agenda:**

Item	Presented by	Time	Paper
1. Minutes and matters arising	Chair	12:30	FRAB (138) 01
2. FReM 2019-20 – in year updates	Vikki Lewis	12.40	FRAB (138) 02
3. FReM consultation outcome and FReM 2020-21, SoPs Thematic review	Matt Rowe/Sam Calvert	12:50	FRAB (138) 03
4. Post implementation review of IFRS9 & 15	Nicky Maslin	14:15	FRAB (138) 04
5. IFRS 17 Insurance contracts – implementation update	Nicky Maslin	14:30	Verbal update
6. IFRS 16 – Outstanding Issues	Sarah Geisman	14:40	FRAB (138) 06
7. CIPFA/LASAAC 2020-21 Code	Gareth Davies	14:55	FRAB (138) 07
8. Local government sector update	Gareth Davies	15:30	Verbal update
9. NAO reflections	David Aldous	15:40	FRAB (138) 09
10. Health sector update	Chris Young & Ian Ratcliffe	16:10	Verbal update
11. IFRS Interpretations Committee update	Andrew Buchanan	16:25	Verbal update
12. Relevant Authorities Working Group update	Vikki Lewis	16:40	FRAB (138) 12
13. FRAB forward plan programme	Vikki Lewis	16:45	FRAB (138) 13
14. AOB	Chair	16:50	

### **Agenda Item 1: Welcome, minutes and matters arising**

1. The Chair thanked the Board for attending the meeting and welcomed Conrad Hall who attended as an observer but whom is expected to join FRAB as the CIPFA/LASAAC member going forward once his membership is ratified.
2. There was brief discussion on the PACAC hearing that took place on 5<sup>th</sup> of November 2019, and Vicky Rock provided her reflections on the hearing. Larry Honeysett agreed to send the link of the transcript of that hearing to the FRAB secretariat for circulation to members of the Board.
3. The Board approved the minutes and the matters arising from the previous meeting held on 6<sup>th</sup> of September.

### **Agenda Item 2: FReM 2019-20 – in year updates**

4. The Board was provided with an overview of the in-year updates to the current Financial Reporting Manual.
5. The main changes included the implementation of IFRS 16, for those entities that are applying the Standard in 2019-20, and changes made to the SOPS as outlined within the FReM consultation. Members had been notified of these changes in the form of a paper circulated prior to the meeting. This paper included an amendment log of all changes made.
6. The Board raised some minor comments, including corrections to reflect updated wording for the devolved administrations, minor comments on nil consideration leases from a lessor perspective as well as suggestions to include a link on page 18 to the illustrative guidance in relation to 4.2.12 and making it clear that this is supporting guidance.
7. The Board approved the inclusion of the proposed updates, provided any clarifications made in later agenda items were reflected within this FReM as deemed appropriate.

### **Agenda Items 3: FReM Consultation outcome and FReM 2020-21, SoPS Thematic review**

8. The Board received an update on the 2020-21 FReM and a summary of the analysis of the consultation responses received, as well as tracked and untracked versions of the 2020-21 FReM which had been updated in response to the consultation analysis. The Board had also received a log of the detailed responses.
9. The Board questioned the breadth of consultation responses and noted that HMT was pleased with the variety of responses that had been received. HMT explained that a variety of stakeholders had been contacted directly to encourage feedback including departmental ALB's, users of ARAs and other interested stakeholders.
10. The Board questioned how the outcome of the consultation will be notified to respondents and that some actions from the consultation may form part of phase 2 of the FReM Review.
11. HMT explained that it intends to notify respondents and will publish the outcome of the consultation. Feedback to some key respondents that raised specific issues has already begun.

12. HMT explained that some actions from the consultation will form part of phase 2 in order to allow for further consideration and ensure compliance with the requirements of relevant authorities.
13. The Board agreed that it is content with the consultation process.
14. The Board discussed the potential changes proposed by HMT and heard that the PACAC hearing specified that disclosure of turnover figures was of significant interest to the Committee.
15. The Board discussed the potential implications of mandating the inclusion of the staff turnover report and noted that the guidance was not yet available from the Cabinet Office.
16. The Board noted some consultation responses which raised concern over the difficulty of reporting staff turnover and lack of guidance available, however, was reassured that the arrangements will allow entities sufficient scope for disclosures. It also raised concerns that it may be difficult for devolved public bodies to include turnover data as it is not currently mandated for those bodies. The Board agreed with HMT's proposals on staff turnover.
17. The Board suggested including examples of best practice in the explanation aspect of comply or explain. HMT agreed this could be included within the bank of best practice examples in future.
18. The Board discussed the changes to language around GDPR but noted the current requirements had been extensively discussed with legal advisors. The Board asked if there were other areas of the ARA, outside of the staff report, where GDPR may apply and whether the FReM reflects this. HMT agreed to look at this further in phase 2.
19. The Board suggesting streamlining risk reporting, currently required in three areas within the ARAs. HMT explained that this had been a key area of consideration and the separation made following a recommendation from Parliament to strengthen risk reporting and provide more balanced narrative for the user.
20. HMT explained the reasons for why risks were reported in the performance and accountability sections of ARAs and explained that it would amend the FReM in Phase 1 to emphasise the importance of cross-referencing. The Board recommended the approach should be re-examined as part of phase 2 or once an evaluation of the quality of reporting could be made.
21. The Board briefly discussed the possibility of a "FReM lite" which had been highlighted as a suggestion from the consultation responses. The Board agreed that this was not appropriate however, suggested that a checklist could be useful for those smaller bodies.
22. The Board discussed materiality and how it was discussed in the FReM, and the extent it applies to non-financial reporting. HMT explained that materiality will be considered as part of phase 2 of the FReM review.
23. The Board discussed the wording within chapter 5 and questioned if the use of the phrase "a complete understanding" was necessarily the best approach. HMT agreed to amend the wording in the FReM before it was published.

24. The Board discussed the potential for improving comply or explain guidance to outline a clear example of best practice.
25. The Board discussed the intention of guidance on reporting for smaller bodies, including charitable bodies. HMT agreed that the question of applicability of the FReM and which parts of and which parts FReM applied to who would be considered as part of phase 2.
26. The Board discussed the amendments to chapter 2 and thanked HMT for their work on this. The Board discussed paragraph 2.4.2 on the purposes of financial reporting and requested that a qualifier be included within this paragraph. HMT agreed to include an additional sentence on how IFRS standards are presumed to give a true and fair view and meet the needs of users, as suggested by the Board.
27. The Board suggested a change to the flow chart in chapter 3 in order to include other relevant authorities and an edit to chapter 6 to reflect the nature of the section's application to Scotland.
28. The Board questioned where the request from the PACAC committee to report on major commitments may feature within the manual, HMT explained that this is not currently a HMT commitment.
29. The Board questioned if the changes to the SoPs still mirror the Supply Estimates format. HMT explained that the changes mirror the SoPs including for the financial year 19-20
30. In respect of chapter 8, the Board questioned if there was a difference between adaptations and interpretations, and if this could be explained within the manual. HMT agreed to include this.
31. The Board agreed to approve the proposed changes to the SoPs outlined within the meeting paper
32. The Board agreed to send any minor editorial suggestions through to HMT.
33. HMTs agreed to recirculate an updated FReM considering the Board's discussion. The Board provisionally approved the revised draft 2020-21 FReM, subject to the changes being made and draft recirculated for approval by correspondence.
34. The Board asked if HMT had considered providing training or guidance for these changes. HMT explained that an extensive stakeholder communication exercise has been ongoing engaging with the finance leaders within government, preparers and as part of technical updates for government bodies.
35. The Board also suggested to include a full log of changes within Phase 2 and HMT agreed to provide this at the next meeting

#### **Agenda Item 4: Post implementation review of IFRS9 and 15**

36. The Board heard an update from HMT on the post implementation review of 9 and 15 in line with the paper circulated prior to the meeting.
37. HMT highlighted the large number of responses received to the questionnaire HMT had published for preparers of annual reporting and accounts, and that these responses were positive including good support for the timing and planning undertaken by HMT.



38. The paper circulated to the Board prior to the meeting set out some suggested next steps from this review. HMT highlighted where some next steps have already been actioned, for example increasing the amount of regional training offered. The final report will be published on gov.uk.
39. HMT requested any observations and comments from the Board including on the findings, conclusions and next steps suggested by HMT.
40. The Board asked for further detail from the Treasury on the review, including on the terminology found in the annual reports and accounts, whether examples of disclosures found in the review would be shared, and the differences between the public and private sectors.
41. HMT outlined that it would circulate a copy of the report once complete.

#### **Agenda Item 5: IFRS 17 Insurance contracts – implementation update**

42. The Board received a verbal update from HMT on the progress of the implementation of IFRS 17, noting that the technical working group (TWG) has already met three times, with more meetings scheduled in the new year. These meetings have primarily focused on the scope of IFRS 17.
43. HMT outlined that the decision tree from the TWG shared with the Board in June, was shared with central government entities over the summer of 2019 as an informal consultation. Departments were asked to respond with a rough estimate of the potential impacts on them and their ALBs to support a high-level impact assessment. Only 10 responses have been received so far, and the majority did not quantify their liability. HMT will continue to engage with departments on the request for information sent in the summer.
44. HMT also gave an overview to the Board on a project the Balance Sheet Analysis team within HMT were undertaking, and how this was linking to the IFRS 17 implementation project
45. The Board asked some questions on the scope of IFRS 17, including on accounting for financial guarantees and how HMT would ensure that all contracts within scope are identified.

#### **Agenda Item 6: IFRS 16 – Outstanding Issues**

46. The Board discussed a paper containing drafting changes to the FReM guidance on IFRS 16. HMT highlighted that there were no substantive changes from those requirements previously agreed by the Board.
47. The Board discussed the clarifications in drafting around the interaction between FReM PPP guidance and IFRS 16. The Board expressed support for the overall aim that IFRS 16 should not introduce changes for accounting for PPPs, apart from any PPPs that previously met the definition of a lease and were accounted for under IAS 17. The Board supported adding some language to the application guidance for IFRS 16 with this message.
48. The Board then made some additional minor drafting recommendations including suggestions around the reference to the short-term lease exemption; the interaction

between the peppercorn lease transition guidance and the grandfathering exemption; disclosures around on-balance sheet PPPs; and the guidance around the subsequent measurement of right-of-use assets.

49. The Board agreed to the recommended drafting changes in the paper.

#### **Agenda Item 7: CIPFA/LASAAC 2020-21 Code**

50. The Board received an update on the progress with the CIPFA/LASAAC code, in line with the papers circulated as part of the meeting materials. The Board informed what future actions will be undertaken including engaging with stakeholders, review of the current structure, differential reporting and the development of narrative reporting.

51. The Board questioned how CIPFA/LASAAC will form a conclusion based on the consultation responses. CIPFA/LASAAC will consider WGA and will look to simplify the accounts whether through recognition, disclosure, presentation or a combination of each.

52. The Board suggested that any changes should focus on not just the preparers but users and other stakeholders.

53. The Board discussed several proposed adaptations and interpretations to make to the CIPFA/LASAAC code. Generally, the Board requested more information as to the protocol, frameworks and evidence base used to decide whether an adaptation or interpretation is appropriate.

54. Therefore, the Board withheld approval on several of the proposed adaptations (including adaptations on PPE disclosures); the application of IFRS 16 to HRAs; and the application of peppercorn leases to lessors.

55. The Board discussed the applicability of IFRS 16 to school licenses. The Board agreed it would be helpful for a working group to be established to further explore this issue and potentially help relevant authorities develop application guidance in this area. The Board also noted that a forthcoming IFRS Interpretations Committee decision on the guidance around lease term may be relevant to this area. The Board noted the sensitivity in this area and the urgency in terms of timing and suggested that an out-of-meeting paper be prepared.

56. The Board also discussed a potential adaptation regarding the revaluation of finance leases upon implementation of IFRS 16. A Board member clarified after the meeting that, under IFRS 16, the revaluation of existing finance lease assets is required to be performed separately from the transition adjustments. With this additional information, CIPFA/LASAAC subsequently discussed the clarification provided and considered that the proposed adaptation should be withdrawn. This will be confirmed in the out of meeting paper for FRAB.

#### **Agenda Item 8: Local Government Sector Update**

57. The Board was given a brief verbal update on the current work ongoing surrounding Local Government.

58. The Board agreed to continue this discussion at the next meeting with further updates to follow.

**Agenda Item 9: NAO – Reflections on the 2018-19 audit round**

59. The Board received a presentation on the reflections of the C&AG following the completion of the 2018-19 financial audits of ARAs. The NAO explained that this information has been shared with the HMT permanent secretary and is now being shared with FRAB. The NAO asked if this sort of information was welcome by the Board and if there are any suggestions for what can be included next year.

60. The Board thanked the NAO for the paper that had been circulated and welcomed the sharing of this information.

61. The Board discussed how some audits had found that basic elements of financial controls had not been done as accurately as possible such as bank reconciliations and questioned if there are any areas for FRAB to consider going forward in supporting improvements to the quality in reporting and accounts preparation. The Board agreed formulating actions points from this information is best placed within the scope of FLG.

**Agenda Item 10: Health Sector Update**

62. The Board was given notice that the Government Accounting Manual is due to be published at the end of this week in a pre-consultation format. The representatives from the health sector agreed to provide a further update at the next meeting with further correspondence to follow.

**Agenda Item 11: IFRS Interpretations Committee Update**

63. The Board heard a brief update of the work ongoing at the IFRS Interpretations Committee. The Board was informed that there is currently a large variety of work ongoing within the committee however, some of less relevance to the public sector. Further details will be provided at the next meeting.

**Agenda Item 12: Relevant Authorities Working Group Update**

64. The Board noted details of the ongoing work within the Relevant Authorities working group.

**Agenda Item 13: FRAB forward work plan programme**

65. The Board received an updated forward work plan prior to the meeting. HMT asked if FRAB had any comments or suggestions for this paper.

66. FRAB made some minor suggestions for the paper, including the addition of an item to review the FRAB terms of reference, an update on the CIPFA/LASAAC code. The Board also suggested that some space was left within the forward work plan to allow for an additional item that may arise due to any potential change in government.

**Agenda Item 14: AOB**

67. The Board received a brief update from HMT on the progress with actions arising from the review in government financial reporting. The Board was updated that HMT is forming a group of users and preparers of accounts group of 10-12 people split equally between users and preparers of ARAS. The first meeting is planned for the beginning of next year.
68. The Chair thanked the Board for the attendance and looked forward to the next meeting in March.

Date of next meeting: 19<sup>th</sup> of March 2020