HM Treasury

Financial Reporting Advisory Board Paper

Minutes of the 144th FRAB meeting and matters arising

Issue:	For information – minutes of the last 144th meeting held on 24th June 2021 and matters arising.
Impact on guidance:	N/A
IAS/IFRS adaptation?	N/A
IPSAS compliant?	N/A
Interpretation for the public-sector context?	N/A
Alignment with National Accounts	N/A
Impact on budgets/estimates?	N/A
Recommendation:	The Board has already provided comments on the minutes of the 144th meeting by email but to note the matters arising
Timing:	N/A

Detail

1. To note the minutes of the 144th FRAB meeting which were circulated, and comments received by email after the meeting (Annex A)
2. Matters arising are noted below:

Matters arising

Paragraph	Issue	Action
3	HMT agreed to revisit grantor accounting and the linked issue of IFRS 9.	Carry forward to future meeting – further consideration to be given in new year, combined with ongoing tracking of progress in IPSASB Transfer Expenses project.
31	CIPFA colleagues to share a debrief report with the Board on the local government completion of accounts.	To include in local government update (agenda item 5).
32	CIPFA colleagues to check if the Board see the consultation before it is issued. If they don't, the Board are keen to see this going forward.	CIPFA colleagues confirmed this isn't required but happy to share consultation going forward.
33	HMT to come back out of meeting if there is anything else to check on service concession arrangements.	FRAB agreed to align treatment with IFRS 16 from 2022. HMT has drafted guidance on the application of IFRS 16 and PPP arrangements which are indexed linked. The guidance has been circulated to RAWG members for input.
35	CIPFA colleagues to share the Sustainability Report when finalised. And perhaps be a future agenda item.	See agenda item 15. Copy of report here.
38	Welsh colleagues to have a discussion offline with DHSC (and Scottish Government joining) on how to reach a pre-recess timetable when in control of many subsidiary bodies.	Relevant FRAB members to confirm.
59	HMT to issue a further paper on IFRS 9..	See agenda item 13.
82	HMT to check how discount rates are described in the FReM and to look at disclosure requirements/best practice sharing.	Best practice to be identified as part of the best practice report currently being prepared with update to FReM when complete. In interim: include recommendation to provide explanation within additional guidance issued
93	Discussion between DAs to share practice in respect of legislation around sustainability reporting.	Outstanding – to arrange

95	HMT to send an email with more info on sustainability/climate change reporting to allow members to volunteer themselves.	Done. SWG members volunteered, and first meeting held on 5th October.
101	Volunteer needed from user/preparer group for nominations committee to let Vikki know.	Done. Ian Webber volunteered.
103	HMT to send out the relevant forms to members for diversity and ethnicity data to include in the FRAB annual report.	Done. FRAB members sent back diversity forms to HMT colleagues.
105	Final comments on the FRAB report to be sent by email to HMT colleagues.	Final comments were received, and the report was published in July. FRAB annual report here.

Annex A

Financial Reporting Advisory Board Meeting June 2021: Minutes

Location: Virtual

Time: 12:00pm – 04:30pm

Attendees:

Lynn Pamment (Chair)	James Osborne	Pam Beadman	Sally King (HMT)
Aileen Wright	Jenny Carter	Richard Barker	Sudesh Chander (HMT)
Andrea Pryde	Jen Nichols	Stuart Stevenson	Adeel Rehman (HMT)
Bob Richards	Karen Sanderson	Suzanne Walsh	Louise Roberts (HMT)
Conrad Hall	Karl Havers	Steven Cain (CIPFA)	Vikki Lewis (Secretariat, HMT)
Gareth Caller	Larry Honeysett	Chris Wilcox (HMT)	
Gawain Evans	Michael Metcalf	Libby Cella (HMT)	
Ian Ratcliffe	Michael Newbury	Hannah Oliver (HMT)	
Ian Webber	Michael Sunderland	Max Greenwood (HMT)	

Henning Diederichs - guest presenter for IPASB agenda item
Siobhan Jones – guest presenter for summary on the Local authority financial reporting and external audit agenda item
Danny Slater – guest presenter for summary on the Local authority financial reporting and external audit agenda item

Notes and Apologies:

Andrea Pryde – joined at 12:30pm
Conrad Hall – joined at 12:30pm
Gawain Evans – joined at 1pm
Andy Brittain – unable to attend, Jen Nichols deputised
Craig Mackinlay – unable to attend
Iain King – unable to attend
Joseph McLachlan – unable to attend
Sarah Sheen – unable to attend

Agenda:

	Item	Presented by	Time	Paper
1.	Welcome, minutes and matters arising	Chair	12:00	FRAB 144 (01)

2.	HMT update and 2020-21 progress	Max Greenwood & Sally King (HMT)	12.10	FRAB 144 (02)
3.	Devolved Administrations updates and 2020-21 progress	Aileen Wright, Gawain Evans & Stuart Stevenson	12.20	Verbal updates
4.	Health sector update 2020-21	Andy Brittain	12:45	Verbal update
	Lunch break		13:00	
5.	The Code developments and local government update	Karen Sanderson	13:30	FRAB 144 (03) (To follow)
6.	NAO update on 2020-21 audit cycle & NAO reflections on the BEIS led Consultation, Restoring trust in audit and corporate governance: proposals on reforms	James Osborne	13:45	FRAB 144 (04) (To follow)
7.	Devolved Administrations Audit Institutions update on 2020-21 audit cycle	Suzanne Walsh	14:10	Verbal update
8.	IFRS 9 adaptation	Chris Willcox (HMT)	14:20	FRAB 144 (05)
9.	WGA 2019-20	Louise Roberts & Adeel Rehman (HMT WGA team)	14:35	FRAB 144 (06)
	Break		14:50	
10.	Summary on the Local authority financial reporting and external audit: government response to the independent review	Siobhan Jones & Danny Slater (MHCLG)	15:00	Tabled at meeting
11.	IPSASB update including ED77 Measurement and grantor accounting	Henning Diederichs (ICAEW)	15:25	FRAB 144 (07) Slides tabled at meeting
12.	Discount rates	Chris Willcox (HMT)	15:50	FRAB 144 (08)
12.	FRC update including on the UK Endorsement Board	Jenny Carter	16:00	FRAB 144 (09)
13.	Sustainability reporting in the public sector	Max Greenwood (HMT)	16:15	FRAB 145 (10) (To follow)
15.	FRAB Governance matters	Vikki Lewis (HMT)	16:30	FRAB 144 (11)
16.	FRAB Annual Report	Libby Cella (HMT)	16:45	FRAB 144 (12)
17.	AOB	Chair	17:00	
	Papers to note only:			
18.	IFRS Interpretations Committee summary update			FRAB 144 (13)

Agenda Item 1: Welcome, minutes and matters arising

1. The chair welcomed members to the 144th FRAB meeting and highlighted that it was Larry Honeysett and Richard Barker's last meeting.
2. The Board was asked for any further comments on the minutes of the previous meeting which had already been circulated. Matters arising were also considered.
3. A point was raised on the IAS 37 grantor application guidance issued by HM Treasury in May 2021 after discussion at the March 2021 Board meeting and subsequent recirculation. The IFRS 9 interaction with grantor accounting had not been addressed within the guidance. HM Treasury clarified that it was important to issue the grantor accounting guidance in time for accounts preparers to use for the 2020-21 financial year, resulting in the need for it to be of a narrower scope, with the endeavour to look at IFRS 9 interaction in the coming months. HM Treasury agreed the interaction with IFRS 9 will be revisited at a future FRAB meeting.
4. The Board approved the previous meeting's minutes, and the matters arising.

Agenda Item 2: HMT update and 2020-21 Annual Report and Accounts progress

5. HM Treasury provided a short overview of the paper, which included updates on the progress and laying timetable for the government departmental 2020-21 ARAs, IFRS 16 early adoption, issued guidance and potential year-end issues.
6. The Board was advised that Parliament's summer recess will be followed by Conference season from 23rd September to 18th October, resulting in 7 departments who had planned to lay accounts in Parliament during that period now being unable to. HM Treasury advised that departments will be contacted, and alternative arrangements will be agreed.
7. The Board noted the contents of the paper and thanked HM Treasury for the update.

Agenda Item 3: Devolved Administration update and 2021 progress

8. The Board received updates from members of each of the devolved administrations.
9. The Board heard from the Scottish Government, which confirmed that it is operating to a similar timeline for the accounts production process to last year. The aspiration was to bring the statutory deadline forward to October, however after discussions with Audit Scotland confirming that this would be a risk, the deadline will remain mid-December. It was identified that the health boards, working towards summer deadlines were a key risk to the critical path having had several issues flagged needing resolution with the auditors involving accounting for personal protective equipment (PPE) and testing kits. Now resolved, there should not be a significant impact on the timeline.
10. The Board was informed of Scotland's key areas of audit interest, including potential fraud in COVID-19 schemes, financial instruments and balance sheet valuations which may be impacted by subsequent events, performance reporting, how to present the impact of the pandemic in annual reports and accounts and the potential to produce more accounts, for example a WGA for Scotland. Scottish colleagues highlighted that there have been some difficult areas relating to COVID-19 expenditure, mainly involving the complexity of accounting for schemes delivered through local authorities, however early communication with CIPFA/LASAAC has helped to resolve issues.
11. Discussion moved on to an update from Northern Ireland colleagues who informed the Board that 60% of departments are aiming to meet the targeted NI summer recess deadline of 9th July, with the remainder planning to lay by the end of September. The Board was

informed of some of the reasons for the delays in finalising the 2020-21 accounts, including COVID-19 related grants and expenditure, additional disclosures on COVID-19, EU exit, diversity and inclusion disclosures, the budgeting framework and staff turnover disclosures. Northern Ireland colleagues noted some of the improvements in the account's preparation process including embedding remote working; continuous engagement with auditors; e-laying of accounts and the support measures; and guidance issued by HM Treasury. Northern Ireland informed the Board that reporting exemptions were not utilised by departments, due to scrutiny from select committees.

12. The Board heard from colleagues from Wales, who are experiencing similar issues to the other devolved administrations and England. It was highlighted that Wales have a separate performance report to the annual reports and accounts, as this is requested by Ministers. The Chair raised whether FRAB has previously expressed a view on incorporating all elements of the report together and questioned whether FRAB should be expressing a view on this. Colleagues from Wales highlighted that they have the programme for government in Wales, and Ministers have taken a view that anything in terms of delivery of that programme should form part of a report that they have ownership and responsibility for.
13. The Board was informed of the discussion with Audit Wales in respect of tax liabilities for clinicians pay which may lead to an alternate view to that considered by the NAO. Audit Wales are considering a potential regularity opinion qualification on the annual report and accounts based on these tax arrangements. It is uncertain how material this will be at this stage, however it is likely that it will be material by nature. The Board expressed interest in understanding the differences of opinion and accounting at some point. Colleagues from Wales agreed they are happy to come back to FRAB on this matter.

Agenda Item 4: Health Sector update 2020-21

14. The Board were presented with a verbal health sector update for 2020-21.
15. Health sector colleagues outlined the challenges the sector has faced this year given the complexity in accounting for COVID-19 related spend, particularly PPE and test and trace. The Board was informed that the Department is making significant progress and all COVID-19 accounting has been completed. Health colleagues highlighted that the accounts are expected to be qualified in respect of inventory as external auditors cannot attend stock counts due to for example, restricted access of inventory being held in China and those in sealed containers. The Department is following its planned timetable and expects to lay the accounts in either November or December, with the ambition to lay closer to pre-recess in 2021-22.
16. The Board learnt that the Department is progressively moving away from focusing wholly on the operational delivery of COVID-19 and starting to focus more on broader policy issues.
17. Health sector colleagues outlined several function transfers being planned. The creation of the 'Office for Health Promotion' will take on several functions currently being taken on by Public Health England (PHE), which will be closing later in the year. The Board was also informed of the planned move of responsibility for the test and trace system out of the Department and into a new agency called UK Health Security Agency (UKHSA) from the 1st October. Similarly, there is a potential shareholding change relating to Supply Chain Coordination Limited (SSCL), with movement between the Department and NHS England. The Department also noted that it will be looking at the future of the PPE programme, and that the Medicines & Healthcare Products Regulatory Agency (MHRA) will be coming into the departmental accounting consolidation boundary from 1 April 2022.

18. The Board was informed that most NHS trusts expect to meet internal DHSC accounts preparation deadlines, with a small number missing by a short window, due to specific technical and assurance issues.
19. Health sector colleagues informed the Board on the greater level of capital expenditure this year, and the engagement with the audit community on the judgement of the definition of capital expenditure. Auditors are exploring at what point a payment on account becomes capital expenditure, which has been a significant audit and accounting issue for trusts. Health sector colleagues also advised they would bring an item to a future FRAB meeting on the new health White Paper.
20. The Board learnt that there may be the need to apply modified absorption accounting when Clinical Commissioning Groups (CCGs) become integrated care systems in 2022-23.
21. A Board member questioned whether the impact of COVID-19 has resulted in higher build costs. Health sector colleagues outlined that it is too early to determine the impact on prices, however trusts have reported on the supply constraints they have experienced, alongside a limited supply of contractors.
22. Discussion progressed on to whether there is still the same level of concern in the sector regarding the implementation of IFRS 16. The Board was informed that the sector made a huge amount of progress in the Autumn of 2019 before the Standard was deferred and are keen to shift the focus back to IFRS 16. Colleagues expressed that this will not be an easy process, however noted that they are not expecting to seek a further deferral.
23. The Chair queried if there are any specific areas where guidance needs further refinements. Health sector colleagues were content with the current guidance and highlighted that the level of judgements have been around the quality of data that departments hold, not around a lack of clarity on standards.

Agenda Item 5: The Code developments and local government updates

24. The Board received an update from CIPFA colleagues on the Code developments and the local government sector. The sector will pursue IFRS 16 implementation in 2022, though recognised that there is still concern that this could be problematic to the sector as it is not fully prepared for transition. CIPFA colleagues noted a recent consultation on the impact of IFRS17 in the local government sector, which suggested there would not be a significant impact on the sector. However, more analysis is planned as part of the implementation agenda.
25. CIPFA colleagues highlighted the expectation of an increase in local authority reserves shown in the 20-21 accounts, due to the volume and timing of COVID-19 grant payments. The need to set up new COVID-19 grants at pace means it has not been possible to undertake the normal lengthy consultation on implementation and so some grants have loosely defined criteria. In addition, there is a rather fragmented approach to assurance checks sought by issuing central government departments.
26. The Board was informed that there remain delays in the annual reports and accounts being signed off and completed. Usually, several reports would have been signed off by the end of May, however there were none at this stage.
27. CIPFA colleagues highlighted ongoing delays with some local authorities still awaiting sign off and completion of 2019-20 accounts. This is having a significant knock-on effect for current and future financial years with some 20-21 interim work not having been carried out. Feedback received identified that the additional volume and complexity of work needed for NHS audits due to the pandemic, may have delayed the start of local authority audits.

The sector expects to see a similar level of backlog to last year, with a high risk that it could be even worse. It was stressed that recommendations from the Redmond Review remains a big focus, and colleagues are involved within several of the workstreams across the sector.

28. The Board questioned whether divergence on the assurance approach to grants has also been identified by the NAO. It was clarified that this has not been the case yet.

29. Discussion moved on to some of the steps taken to help auditors manage the flow of work, particularly in relation to the new VFM commentary, by providing a route for auditors to not fully report on the commentary at the same time as the accounts audit. CIPFA also worked with auditors around the flow of Local Government Pension Scheme (LGPS) assurances to improve communications between auditors and to understand causes of delays earlier.

30. A point was raised on understanding what the relationship is between the development of the Code and the development of the FReM. CIPFA clarified that there is a strong linkage through the Relevant Authority Working Group and the IFRS 17 working group and aim to be consistent with the rest of the public sector where appropriate.

31. The Board discussed the ongoing challenges around the local government completion of accounts and the assumption of the delays being based primarily on the timeliness of auditing. The Board was informed of other root causes including: the knock-on delays from last year's cycle, the timeliness of entities producing annual reports and accounts and the quality of the annual reports and accounts when they are provided to auditors. CIPFA colleagues agreed a debrief report would be useful, and this would be reported back to the Board.

32. The Chair questioned whether the Board is presented with a final version of the Code consultation prior to issue. CIPFA colleagues agreed to check, however believe that this is not the case. The Board expressed an interest in receiving sight on this when it is issued.

33. The Board questioned whether HM Treasury are looking at service concession arrangements from a FReM perspective. Treasury colleagues believed this has already been addressed within the proposition in the FReM regarding the implementation of IFRS 16. However, it was agreed that HM Treasury will check and confirm to the Board out of meeting.

34. CIPFA provided the Board with an update on other areas of focus beyond local authority accounting. It reported an increase in the number of international organisations using accruals accounting rising from 6% to 30% as at 2018. Correspondingly, the Board learnt that as of 2020 57% of those using accrual accounting in the public sector are using IPSAS as a reference point.

35. CIPFA confirmed that it is due to publish its research on sustainability reporting at the upcoming Public Finance Conference and it had involved participation from 31 countries. At the Chair's request, it was agreed that a copy will be shared with the Board once published and to include it as an agenda item in the future.

Agenda Item 6: NAO update on 2020-21 audit cycle & NAO reflections on the BEIS audit consultation

36. The NAO talked the Board through the presentation that had been circulated prior to the meeting and confirmed that the plan remains on track to meet the deadlines set out within the 3-tranche approach discussed at the March 2021 FRAB meeting. It was highlighted that the audits within the post-recess laying timetable generally have more complex issues, for example on fraud and regulatory.

37. The Board was informed that the NAO is planning to continue a 3-tranche approach into 2021-22, with the key focus to return to a normal timetable as soon as possible. It was confirmed that the PAC is taking an interest in the matter.
38. Colleagues from Wales queried if some departments would be willing to have a discussion on how to achieve a pre-recess timetable when they are in control of many subsidiaries. Health sector colleagues offered to take this offline, with Scottish colleagues also expressing interest in joining.
39. The Board questioned whether there are any new issues arising from the 2021-22 cycle where additional guidance would be helpful. The NAO confirmed the issues are in relation to loans, loan guarantees, conversion into share capital etc, however no additional guidance is necessary at the moment.
40. Colleagues from DEFRA raised the difficulties expected in reverting back to a pre-recess timetable and are experiencing issues with the valuation of fixed and heritage assets. The NAO noted awareness that new and revised auditing standards have increased requirements in several areas and have driven some additional challenge for entities.
41. Discussion progressed on to the NAO’s reflections of the BEIS consultation, with 4 key areas being identified including: director requirements, proposals for audit and assurance policies, public interest entities (PIEs) and strengthening requirements on auditors.
42. CIPFA colleagues informed the Board that it will be submitting a response to the consultation and have expressed key concern about the potential impact on the public sector on the proposed definition of PIEs. It was identified that the way some of the proposals are defined could scope in certain public-sector entities, who would need to be made aware of the implications.
43. A point was also raised on the concept of an audit profession within the proposals and what that would mean. NAO colleagues addressed that this has been considered and there have been discussions with other audit institutions. The view is that it is seen as a broader profession issue, not public sector specific, however it is an area that the NAO has an interest in.
44. A member queried the proposals around director requirements and how they could apply to the public sector. A concern was raised that accountability to Parliament is very different from accountability to shareholders. Existing frameworks within HM Treasury mean that it’s unclear whether it is for BEIS to judge the applicability to the public sector. Treasury colleagues advised that one policy option would be a carved out for the public sector, and then for the Board and Ministers to consider whether some of the principles should be applied through changes to the public sector regime.
45. A suggestion was raised that those entities with a lack of governance and control should be the key focus, whereas these proposals may not be necessary for those who are already showing good governance and control.
46. The Chair observed that sometimes there has been a lack of clarity on where and when things apply in the public sector, so once the rules are finalised, confirmation on which bodies they apply to would be useful.
47. The NAO also noted current proposals for changing the oversight body for the NAO Comptroller and Auditor General from the Financial Reporting Council to Parliament.

Agenda Item 7: Devolved administration audit institutions update on 2020-21 audit cycle

48. The Board received an update from the NIAO on the 2020-21 audit cycle of the devolved administrations. NIAO colleagues emphasised that this is seen as being a transitional year with similar challenges to those outlined within the previous agenda item, including relating to assurance over COVID-19 expenditure, balance sheet valuations, increased risk of fraud. The helpfulness of extensive use of analytics in auditing COVID related expenditure was also noted.

49. The Board was informed that there is significant progress being made, with 60% of entities in Northern Ireland laying their accounts pre-recess. NIAO colleagues highlighted that although Scotland and Wales's audit bodies have adopted a slightly different approach, they are also confident that they will meet their revised timelines.

50. It was confirmed that each of the devolved administration auditor institutions will be responding to the BEIS consultation independently and as a collective under the Public Audit Forum. All agreed with the concerns on the definition of the auditing profession and how this could impact future recruitment and retention of auditors.

Agenda Item 8: IFRS 9 adaptation

51. HM Treasury introduced a paper that had been circulated prior to the meeting and sought approval from the Board to add a new adaptation to how financial guarantees are accounted for under IFRS 9 in specific circumstances. The Board was invited to comment on the proposal.

52. The Board questioned the extent to which financial instruments in the public sector would be affected by the adaptation and raised a point on whether there needs to be any transitional provisions. HM Treasury explained that this is a very specific adaptation and do not expect there to be a significant cascade effect and therefore do not consider that transitional provisions would be required.

53. A member also queried whether this is a unique situation, as IFRS 9 does deal with losses and highlighted that the recent discussions at the IFRS Interpretations Committee relating to targeted longer-term refinancing operations (TLTRO) may raise other questions. The Board member provided the view that there does not seem to be a justification to adapt IFRS 9 as the transactions can be accounted for under the Standard without adaptation or interpretation.

54. HM Treasury referenced the BEIS intervention measures, as this situation initially prompted the issue. It was highlighted there has been considerable review by HM Treasury, NAO and BEIS to navigate a way through the Standard which could not be resolved through application of the Standard as it currently applies. The purpose of the adaptation is to avoid issues previously experienced going forward.

55. A Board member questioned the need for the amendment, as level 3 fair value could be applied instead for the amounts. HM Treasury clarified that the amendment proposed is specifically for when a level 3 fair value could not reasonably be obtained.

56. The Chair addressed that IPSAS 41 does discuss how to value financial guarantees in non-exchange transactions. It was clarified that if the measure of fair value cannot be determined, then lifetime credit loss can be used instead. HM Treasury highlighted the intention to deviate as little as possible from the Standard, in order to provide a transparent and fair view from day one.

57. A point was raised on whether the adaptation can be broader, particularly from a consistency perspective. HM Treasury agreed to explore whether there is a need to go broader than just financial guarantees.

58. The Board proposed HM Treasury provide a deeper analysis of the issue and the reasons and need for the proposed adaptation, so that members can clearly see the justification for the departure from IFRS 9.
59. The Chair observed that the Board support the principle of accounting to recognise a day one loss. However, a further paper is required to determine whether an adaption is needed and to provide more evidence on other routes taken. HM Treasury agreed to issue an out of meeting paper for further views from members.

Agenda Item 9: WGA update 2019-20

60. The Board was presented with an update on the WGA, which included detail on the 2018-19 timetable, 2019-20 challenges, stakeholders and users, planned improvements and the outlook on 2020-21 and beyond. It was reconfirmed that the 2019-20 WGA target laying date is in Autumn 2021.
61. WGA colleagues outlined that they expect next year's timetable will be impacted again by central government laying accounts later than usual and by the ongoing issues with the timely production of local authority accounts. The likelihood is that the WGA will not revert to a normal timetable until 2023.
62. A member expressed support of the improvements to visual representation of data in the accounts, however raised concern on how this affects searchability. WGA colleagues clarified that the information is still available as text within the document, and the graphics are used to represent more complex data for the benefit of the user.
63. The Board learnt that the key roadblock is the timeliness of the underlying entities accounts. WGA colleagues highlighted that they could potentially use the data within cycle 1 as a starting point.
64. The Board thanked the WGA team for the update.

Agenda Item 10: Summary on local authority financial reporting and external audit

65. The Board was presented with an update from MHCLG colleagues on the government's response to the Redmond Review. MHCLG highlighted that the last 6 months has been spent working through recommendations and delivering on commitments made in December.
66. The Board learnt that MHCLG intends to publish a consultation ahead of summer recess, which will set out the next steps on system leadership, as well as other areas.
67. MHCLG colleagues informed the Board that a working group has been established with membership including CIPFA, Financial Reporting Council (FRC), NAO, Public Sector Audit Appointments (PSAA) and ICAEW to consider how to implement recommendations around auditor capacity, skills, training and experience.
68. Following Sir Tony Redmond's finding that there was a lack of coherence in the local audit framework, MHCLG colleagues clarified that the Audit, Reporting and Governance Authority (ARGA), who are the proposed audit regulator intended to be established in the United Kingdom to replace the FRC, would be given a statutory 'system leadership' responsibility, as well as taking on the audit quality framework.

Agenda Item 11: IPSASB update

69. The Board welcomed Henning Diederichs who provided an update on the work ongoing at the IPSASB.
70. The Board was informed on some recent projects, including social benefits. The Board learnt that there had been criticism around the IPSAS being too closely aligned to IFRS, and that they do not provide enough coverage of public sector specific financial reporting issues.
71. The Board was also informed that IPSASB is working on a series of publications focusing on key differences between IFRS and IPSAS, including detail on government grants and measurement. IPSASB invited the Board to suggest any other topics it would like to see a review on.
72. Discussion progressed on to IPSASB's exposure drafts on revenue and transfer expenses, including detail given on both revenue with performance obligations, and revenue without performance obligations.
73. The Board learnt of other IPSASB developments such as, issues covering heritage assets, infrastructure assets, natural resources and consultation on the mid-period work plan.
74. A point was raised on the long-term strategic goal that there should be a choice of adoption between IFRS and IPSAS, and whether at some stage HM Treasury will have to decide on what is the more suitable framework for the UK public sector. However, it was also noted that government financial reporting in the UK using IFRS as adapted or interpreted for the public sector is one of the most IPSAS compliant frameworks across all jurisdictions.
75. A suggestion was made for the Board to identify the areas where potentially IFRS do not work as effectively within the public sector. The Chair highlighted that currently IPSAS is not as comprehensive as IFRS, however IPSASB has the ambition to make IPSAS more comprehensive. It was agreed that this should be kept on the agenda and could potentially influence the future work programme of IPSASB.
76. The Board thanked Henning for the very useful presentation and update.

Agenda Item 12: Discount rates

77. HM Treasury introduced a paper that had been circulated prior to the meeting and sought the Board's approval on the proposed policy change to updating general provisions long term and very long-term discount rates on an annual basis from 2021-22. The Board was also invited to provide comments on the financial instrument discount rates.
78. An observation was made that from a user perspective, it can be difficult to understand the concept of discounting, particularly in relation to the volatility of liabilities values, for example pension liabilities and whether updating annually would be optimal. It was agreed however, that consistency of updating rates between short, medium, long term and very long term would be beneficial to the user and that entities provide narrative to explain fluctuations for the benefit of the user.
79. HM Treasury colleagues confirmed that the methodology is not changing, as the Bank of England yield curves will still be used. It was highlighted that the issue with not updating discount rates regularly is that it results in significant movements in Spending Review years.
80. A point was raised on examining whether it would be possible to look at rates as of the 31st March and HM Treasury clarified that the reason for using rates as of 30th November as a proxy for year end, is due to the Supplementary Estimates process undertaken in January. Clarity on discount rates is required in advance of the Estimates process when departments finalise budgets and Supply.

81. A Board member noted that some entities disclose undiscounted values as well (e.g. the Nuclear Decommissioning Authority), alongside narrative explaining changes to the users of accounts. As a result, it was questioned whether there could be additional guidance to enhance disclosures around the impact of discounting.
82. The Chair concluded that the Board agrees with the recommendation, however outlined that this should be kept on the agenda going forward to determine whether there are any better solutions. It was requested that HM Treasury check how discount rates are described in the FReM (in respect of the date at which discount rates are calculated) and are encouraged to look at disclosure requirements/best practice sharing.

Agenda Item 13: FRC update

83. The FRC talked the Board through the presentation that was circulated prior to the meeting, which outlined updates on both the FRC and the UK Endorsement Board.
84. The Board was informed that some recent minor amendments to UK standards have been made.
85. The Board was also informed that there have been some new projects within financial reporting lab. This relates to reporting on stakeholders, and on risks and uncertainties in certain scenarios. The FRC highlighted that this picks up on some Companies Act reporting requirements that do not translate exactly into the performance reporting that departments do.
86. The Board thanked the FRC for the overview.

Agenda Item 14: Sustainability reporting in the public sector

87. HM Treasury introduced the paper on sustainability reporting, which was developed as a result of the paper brought to the March 2021 meeting. The Board was invited to provide their views on the two scoping options for setting up a FRAB working group to look at sustainability reporting issues.
88. The Board expressed support for the wider remit, however raised concerns on whether the Board has the right skills/expertise to advise on broad climate change reporting issues.
89. A suggestion was made to begin with the narrower remit, as it is important to address the financial implications, and then determine the issues that are firmly within the scope of the Board. A view was put forward that maintaining a focus on the financial statements and broadening out seems to be the most sensible option.
90. A member questioned whether there is any legislation that sets out the framework regarding narrative reporting or is the inclusion of it within the FReM the cause of entities disclosing this information. HM Treasury confirmed that in relation to sustainability reporting, the Government brought in the Greening Government Commitments (GGCs), which with the agreement of the Environmental Audit committee, led to their inclusion in ARAs as well as some other mandatory reporting.
91. The Board also discussed how the output of the working group would be taken forward and what the impact would be. A point was raised on whether proposals developed by the working group would be considered by the FRAB or whether they would be dealt with elsewhere. The fundamental question raised was whether the working group would produce recommendations, without necessarily knowing where they would be fed back for action.

92. The Chair addressed that despite the option chosen, the responsibility would be for the working group to establish a work plan for FRAB to then endorse. HM Treasury reiterated that this would not impact FRABs remit, as it will be a sub-committee of the Board.
93. The Board acknowledged that there are other departmental policy leads including BEIS and DEFRA which also play a significant part within sustainability reporting policy. A suggestion was made on whether membership from other government departments should be considered, as they already have the expertise. Colleagues from Wales highlighted legislation they have that goes beyond sustainability reporting and suggested that discussions with each of the devolved administrations would be useful as this moves forward.
94. HM Treasury explained that the working group would likely be a subset FRAB, and the membership will be formed by identifying those members who have the time and capacity to participate.
95. The Chair highlighted the support expressed by the Board to establish a group. It was agreed that the starting point would be for members to work with HM Treasury to develop terms of reference and a more definitive plan, and those interested should inform Treasury colleagues.

Agenda Item 15: FRAB governance

96. HM Treasury provided the Board with a short overview on the paper and reiterated that it covers discussions from the March meeting on the updated strategy and action plan; member induction pack; creation of standing nominations committee; and updated terms of reference. The Board was also informed about training on the public sector reporting framework which will be offered to members by both HM Treasury and CIPFA over the summer.
97. The Board discussed the updated strategy, action plan and risk register, and noted the increased risk of more audit qualifications following the introduction of new accounting standards. It was recognised that the introduction of new standards requires significant lead times and to allow for the Board to provide sufficient oversight and comment on the implementation plan. HM Treasury must undertake the most appropriate work plan and allow time to consult with preparers. Entities must also have sufficient capacity and resource to implement new standards. However, the Board recognised that the challenges of implementing a new standard should not imply inevitability of a risk of deferral to implementing it.
98. Similarly, the Board questioned whether members should reflect on challenges not being addressed in new standards coming over the line, and whether these issues should be checked in on periodically. The Chair agreed that this can be looked into.
99. The Chair requested members to provide further comments on the strategy and action plan out-of-meeting to the FRAB Secretariat.
100. Discussion progressed onto the forward work plan, in which a point was raised that there will be an extremely heavy agenda in November. The Board requested that the papers to be provided further in advance where possible. The FRAB Secretariat agreed that this would be done where possible with some items potentially being moved to the March meeting, as well as the use of Board Intelligence allowing discussions before the meetings, making it more effective on the day.
101. The Chair requested that those members within the user/preparer group who are interested in being part of the nominations committee, should inform the FRAB Secretariat.

Agenda Item 16: FRAB annual report

102. The Chair introduced a paper that had been circulated prior to the meeting, proposing the draft FRAB annual report. The Board was invited to comment on the contents of the paper.

103. The Board expressed support towards the inclusion of gender diversity data, however felt there was a lack of reporting on other diversity data. Members agreed to supply diversity data for inclusion within the Report.

104. A suggestion was also made for there to be a slightly better tie in between the activities for the year and the responsibilities of members.

105. The Chair agreed to finalise the report with HM Treasury colleagues, with agreement from members that this can be published without an updated version being recirculated. The Chair also requested members to send final comments to HM Treasury by email.

Agenda Item 17: AOB

106. The Chair thanked Larry Honeysett for his very valuable contribution to the FRAB and highlighted that he will be extremely missed.

107. The Chair thanked members for attending the meeting and looked forward to the next meeting scheduled for November 2021.

Agenda Item 18: IFRS Interpretations Committee – summary of announcements

108. The Board noted the paper and appreciated the summary from the IFRS Interpretations Committee meetings.