HM Treasury

Financial Reporting Advisory Board Paper

Minutes of the 147th FRAB meeting and matters arising

Issue:	For information – minutes of the last 147th meeting held on 29th-30th June 2022 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 147th meeting by email but to note the matters arising
Timing:	N/A

Detail

1. To note the minutes of the 147th FRAB meeting held on 29th-30th June 2022 which were circulated, and comments received by email after the meeting (Annex A).
2. Matters arising are noted below:

Paragraph	Issue	Action
4	HM Treasury to update the attendees list for FRAB 146, to indicate Pam Beadman attendance.	Attendees list updated.
5	CIPFA to circulate an out of meeting paper on the ISA 260 report.	HM Treasury circulated the paper on behalf of CIPFA.
19	HM Treasury to report to FRAB on how they've considered the IPSASB adaptions for non-current assets held for sale.	See below the line paper - FRAB 148 (22) Out of scope of the thematic review - a comparison between what we have in the FReM and what IPSAS 44 says about NCA held for sale.
52	Action plan is to invite the User and Preparer Advisory Group to a future meeting	UPAG Chair has stepped down, so defer to a 2023 meeting. HMT about to appoint new Chair.
60	HM Treasury to review the mitigation to risk seven in the risk register.	Risk register updated - see FRAB 148 (18). The mitigation has been updated as 'to continue to monitor the timeliness of accounts through the sector updates on the agenda – and to use the FRAB report to draw attention to the issue'.
63	HM Treasury to prepare a list on the future thematic reviews to bring to the November meeting for discussion, taking feedback from members on which areas these should focus on.	Done - see FRAB (148) 13. Views were gathered from UPAG members at the meeting held in October, and HM Treasury have created a shortlist of the results.
65	HM Treasury to circulate an updated forward action plan as an out of meeting paper.	Updated forward action plan circulated as part of 'early batch' of November 2022 FRAB papers.
80	HM Treasury to reflect the finalised wording agreed by the Board with regards to the deferral of IFRS within local government in the FRAB report.	Wording update. FRAB report published on 7th July 2022.
82	HM Treasury to circulate papers earlier than 1 week for the next meeting (if they are ready).	Done. Papers sent out in 2 batches.
86	Board members to provide further detailed drafting comments to CIPFA on the 2023-24 code offline.	Done.

111	CIPFA to circulate an out of meeting paper , following a proposal being taken to CIPFA/LASAAC on the infrastructure assets issue.	Out of meeting paper circulated on 1st September.
112	Arrange a single item agenda meeting to discuss the CIPFA infrastructure assets issue	Meeting held on 21st September.
113	In terms of the risk register, do members need to think about whether there are other risks we are unaware of and once they come to light there could be a problem.	FRAB members review the register with the forward plan, they have the opportunity to suggest any additions outside of meetings.
146	HM Treasury to review the wording for accounting for social benefits, with a focus on principles, and provide an example to show what it means in practice.	Wording updated - see paper FRAB 148 (15) for further discussion. Seeking board approval for the updated wording.
149	HM Treasury to review students loans, where the fair value on day one is significantly less than the amount advanced to the student.	Discussion had with DfE and will be covered in the IFRS 9 update paper (FRAB 148 (14))
153	HM Treasury to consider a thematic review on discount rates in the future.	Views were gathered from UPAG members at the October meeting regarding which thematic review should be priority. Discount rates was ranked as a low priority.
154	HM Treasury to reflect on whether departmental whole of government accounts can have more transparency to what rates are being used and how they are derived.	This would be covered in a thematic review of discount rates.
160	HM Treasury to circulate an out of meeting paper regarding an issue on what the appropriate double entry for the PPP liability revaluation should be.	Out of meeting paper circulated to members on 22nd August.
170	November meeting to be held in-person	Meeting will be hybrid - in-person at HM Treasury and virtual.

Annex A

Financial Reporting Advisory Board Meeting March 2022: Minutes

Location: Virtual

Time: 1:00pm-4:00pm

Attendees:

Aileen Wright	Ian Webber	Karl Havers	Suzanne Walsh
Alex Knight	James Osborne	Lynn Pamment	Max Greenwood
Bob Richards	Jennifer Griffiths	Michael Newbury	Libby Cella
Conrad Hall	Jennifer Nichols	Michael Sunderland	Sally King
Gareth Caller	Jenny Carter	Mike Metcalf	Hannah Oliver
Gawain Evans	Joseph McLachlan	Pam Beadman	Chris Willcox
Ian Ratcliffe	Karen Sanderson	Steven Cain	Shikha Sharma
		Stuart Stevenson	Makeeda Brown

Guest presenters:

Henning Diederichs (IPSASB)
Roberta Ravelli (IASB)
Mardi McBrien (ISSB)

Notes and Apologies:

Andy Brittain – unable to attend, Jen Nichols deputised
Iain King – unable to attend, Jennifer Griffiths deputised
Andrea Pryde – unable to attend both meetings
Shiva Shivakumar – unable to attend both meetings
Gareth Caller – unable to attend Wednesday meeting

Agenda

Meeting 1				
	Item	Presented by	Time	Paper
1.	Welcome, minutes and matters arising	Chair	1:00pm	FRAB 147 (01)
2.	IPSASB update	Henning Diederichs	1:10pm	FRAB 147 (02)
3.	IASB update	Roberta Ravelli	1:25pm	FRAB 147 (03)
4.	ISSB update	Mardi McBrien & Ravi Abewardana	1:40pm	FRAB 147 (04)
5.	FRC update	Jenny Carter	2:00pm	Verbal
6.	Discussion on where members see direction of travel for work plan	Chair	2:15pm	FRAB 147 (06)

	• FRAB strategy, risk register and action plan.			
	Break		2:50pm	
7.	Update on GFR actions	Chris Willcox	3:00pm	FRAB 147 (07)
8.	Devolved Administrations updates and 2021-22 progress	Gawain Evans, Stuart Stevenson and Aileen Wright	3:10pm	Verbal
9.	Health sector update, accounting issues as a result of the white paper on the Health and Care Bill	Jen Nichols (DHSC) & Ian Ratcliffe	3:25pm	FRAB 147 (09)
10.	2021-22 FRAB report	Libby Cella	3:45pm	FRAB 147 (10)
11.	AOB	Chair	3:55pm	Verbal

Meeting 2

	Item	Presented by	Time	Paper
12.	CIPFA local government update and ISA 260 report	Sarah Sheen, Karen Sanderson & Conrad Hall	1:00pm	FRAB 147 (12)
13.	NAO and NIAO update	James Osborne & Suzanne Walsh	1:20pm	Verbal
14.	BEIS consultation on audit and corporate governance reform	Hannah Oliver	1:35pm	FRAB 147 (14)
15.	Proposed wording on treatment of social benefits in FReM	Hannah Oliver	1:50pm	FRAB 147 (15)
16.	IFRS 9 update	Chris Willcox	2:10pm	FRAB 147 (16)
	Break		2:25pm	
17.	Discount rates	Chris Willcox	2:35pm	FRAB 147 (17)
18.	PPP arrangements	Sally King	2:50pm	FRAB 147 (18)
19.	WGA 2020-21 update	Shikha Sharma	3:00pm	FRAB 147 (19)
20.	FRAB Sustainability Sub-Committee (FRAB-SSC) update	Max Greenwood	3:15pm	FRAB 147 (20)
21.	Thematic review – valuation for non-investment assets	Michael Sunderland	3:30pm	FRAB 147 (21)
22.	AOB • IFRS 17 update • FRAB meeting survey (plan for November)	Chair	3:45pm	Verbal
	Papers to note only			
23.	IFRS Interpretations Committee summary of announcements			FRAB 147 (23)
24.	User Preparer Advisory Group update			FRAB 147 (24)
25.	Relevant Authority Working Group update			FRAB 147 (25)

Agenda item 1: Welcome, minutes and matters arising

1. The Chair welcomed members to the 147th FRAB meeting and asked for any further comments on the minutes of the previous meeting which had already been circulated. Matters arising were also considered.
2. The Chair summarised the two-day meeting format. The first day focuses on the strategic landscape with updates from standard setters and starts the sector updates. The second day continues with the sector updates, before moving on to the technical matters requiring the Board's opinion.
3. After the last FRAB meeting, the Chair circulated the minutes, along with a proposed position statement on the deferral of IFRS 16 for local government. The Chair confirmed the new version would be circulated to members for review, before being approved and appended to the minutes.
4. Pam Beadman requested that the attendance list for FRAB 146, within the minutes, be corrected to indicate her attendance. The Chair confirmed that members had no other comments or matters arising from the previous meeting.
5. A CIPFA/LASAAC representative explained that as the group plan to cover infrastructure assets in the CIPFA/LASAAC update; they won't have time to cover their ISA 260 report - previously earmarked for this session. Subsequently, the ISA 260 report will be circulated in an out-of-meeting paper or covered at the next meeting in November 2022.
6. A member asked to discuss HMT's response to their email concerning the treatment of pensions in the salary ratios. The member was not persuaded by HMT's justification, specifically, that pension benefits are outside the control of the department. As an employee's pension benefit is dependent on their salary, and as the departments set the salary, the pension benefit is also under the control of the department. For example, if a senior staff's pension and salary were considered to represent a too larger package compared with staff, then the department could choose to reduce the salary to reduce the total package – defeating the objective of the ratio.
7. The HMT representative agreed with the member that pensions are affected by an individual's salary. However, the wider positions around the extent they are employee or employer-funded, and the overall generosity of those pensions, are driven by wider policy decisions set outside of the entity. While the HMT representative conceded that salary changes can drive changes to the pension; the extent to which departments accrue pensions and the determination of the pension rates are outside of the entity's control.
8. The member raised that if the government isn't publishing these central pension rates; the process isn't transparent. The member vocalised his preference for the public sector following a similar process to the private sector. The Chair confirmed that other FRAB members didn't have further comments/similar concerns. However, the Chair agreed to note the member's concerns in the minutes.
9. The Chair confirmed with members that there were no further comments from members on the minutes or matters arising.

Agenda item 2: IPSASB update

10. Henning Diederichs joined the meeting to present the IPSASB update, introducing himself, his current role and his experience. He presented a high-level overview of the recent IPSASB meeting, including their project work plan. The representative provided the Board with an overview of IPSASB projects, including:
    - the Leases Standard which aligns with IFRS 16 (effective date: 1 January 2023)
    - the Non-Current Assets Held for Sale Standard aligns closely with IFRS 5 with the following minor adaptation[1] requiring additional disclosure where an entity is holding an asset at the carrying value, but the fair value (less cost to sell) is materially different.
    - The Revenue and Transfer Expenses Standard and the Measurement Standard have both been out for consultation
    - The Natural Resources consultation is currently out for consultation
11. Henning presented an overview of the measurement project. This included an update on the current operational value - IPSASB's proposed public sector-specific valuation basis. The separate basis was deemed necessary, as the application of fair value isn't always applicable in a public sector context (e.g., highest/best use, based on market participants). IPSASB agreed that fair value, aligning with IFRS 13, should be mirrored in the IPSASB Standard.
12. Following a presentation by RICS at their meeting, IPSASB noted complications in applying 'value in existing use' - a market-based valuation which introduces an 'element of exchange'. However, IPSASB agreed with RICS that existing location and existing use are important factors – although there were concerns around surplus capacity and valuation techniques with the income approaches remaining as an item to address.
13. Henning updated the board on the Revenue and Transfer Expenses projects. For revenue, both contractual and non-contractual receivables are considered as financial assets and accounted for under IFRS 9. Despite concern from preparers over the level of disclosure, IPSASB decided to retain the same disclosure requirements.
14. Henning also updated the Board on the Natural Resources consultation, concerning mainly subsoil, water and living resources. The IPSASB representative's personal view is that the Standard is unlikely to have a significant impact on the balance sheet due to the difficulties in meeting the definition of the asset (e.g., existence uncertainty, measurement uncertainty, and for water on control issues). The Standard also scopes out assets which have had human intervention which is often hard to define (e.g., preservation activities to improve the asset may then scope out the asset).
15. Furthermore, the World Bank called on IPSASB to consider future sustainability reporting for the public sector. IPSASB has issued a consultation which considers

[1] At FRAB 147 'extending the 12-month sales period, considered challenging in the public sector' was identified as a specific public sector issue. On review of the 'Comparison with IFRS 5' section in IPSAS 44 this was not identified as a difference. The minutes have been adjusted to remove this as a key point for IPSASB consideration and avoid confusion with genuine adjustments. The other noted differences to IFRS 5 (in IPSAS 44) were not significant and were limited to terminology and acknowledgment of differences.

options for developing a sustainability reporting framework. These range from full reliance on private sector standards (e.g., International Sustainability Standards Board) to developing their own framework independently.

16. Henning views on the ISSB exposure drafts are that they would require a level of adaptation – due to their current focus on investor and enterprise value. Furthermore, the ISSB's exposure drafts focus on the impact of climate risks on an entity's bottom line. This is relevant for profit-driven entities delivering returns to investors, but less relevant for organisations with the aim of delivering a service.
17. When considering wider stakeholder implications (e.g., 'double materiality'), the ISSB focuses on the reputation risk for investors. For example, large polluters risk losing investors, which in turn impacts the enterprise value through a large share sell-off. The Global Reporting Initiative (GRI) and European Commission publications explicitly consider double materiality, focussing on the entity's impact on its external environment. This seems relevant for the public sector, as governments have an obligation to preserve biodiversity and nature within their borders.
18. A member asked whether in applying IFRS 9 to the Revenue and Non-Contractual Assets Standards, there was a plan to apply these to all non-contractual assets. For example, if the statutory right to tax is in scope, then would entities be required to value the right to tax in perpetuity? The Chair, as a member of IPSASB, explained that the right to tax is not an asset under the recognition criteria.
19. The Chair then summarised the key matter to be considered for FRAB's future work programme, relating to the IPSASB adaptions for the Non-Current Assets Held for Sale Standard. The Chair requested the Treasury report to FRAB on how they've considered the IPSASB adaptions for non-current assets held for sale. Furthermore, the Chair voiced their expectation that there would be a cross-over between IPSASB's measurement considerations and the Treasury's thematic review on valuation.
20. Finally, Henning promoted the Public Sector Standard Setters Forum, being held in Portugal, to connect with peers and experts from a variety of backgrounds – with further details available in the distributed slides. The Chair and members thanked Henning for his presentation.

Agenda item 3: IASB update

21. Roberta Ravelli, from IASB, joined the meeting and introduced herself. She updated the Board on the IASB consultations work plan included in the presentation. She also mentioned the other 2019-20 consultations, including a goodwill impairment discussion paper, the exposure draft on the primary financial statements; and the request for information on the post-implementation review of IFRS 10, IFRS 11 and IFRS 12. She confirmed that the IASB is now focused on considering the feedback from their consultations.
22. For the Third Agenda Consultation, which sets their priorities for 2022-26, the IASB agreed for the primary focus to be on projects within the existing work plan, as well as coordination with the ISSB. The IASB representative then

discussed new projects, forthcoming documents and post-implementation reviews – detailed in the slides. For the maintenance project on climate-related risks, the representative explained that the IASB would consider whether there are deficiencies in financial reporting - highlighted by the ISSB's work.

23. For the IFRS 16 narrow scope amendment, the IASB plans to address, the specific type of sale and leaseback transaction, where the leaseback include variable payments (e.g., linked to future performance, the underlying value of the asset). While these transactions are not frequent, when they occur, they are highly structured, and the values may be significant.
24. A FRAB member asked whether the IASB's intangibles project, on IAS38, was focused on scope, recognition, measurement or a general review. The IASB representative explained that there was significant variation in the requests from stakeholders to the consultations. An initial step for the IASB will be to determine the scope of the projects.

Agenda item 4: ISSB update

25. Mardi McBrien joined the meeting to present the ISSB's update on progress and next steps. At COP 26, the IFRS launched the ISSB and announced the consolidation of the Value Reporting Foundation (VRF) and the Climate Disclosure Standards Board (CDSB), where Mardi was previously the Managing Director. In addition, the ISSB published 'the climate prototype' which demonstrated to the market, how the existing standard, being consolidated into IFRS, would be linked to a global baseline.
26. The representative updated the Board on the ISSB, including:
    - setting up their multilocation model,
    - establishing advisory groups,
    - appointing board members to become quorate, and
    - having two open consultations on the exposure drafts.
27. The representative confirmed that the ISSB's exposure drafts are aimed at investors but allow for jurisdictional requirements to be added in a 'building blocks approach'. For example, if the UK introduces the global baseline, an additional building block could be the government's transition pathways which are being introduced as legislation. The ISSB has been able to move at speed to develop standards due to building on the work of existing stakeholders.
28. The ISSB has two exposure drafts, IFRS-S1 General Requirements and IFRS-S2 Climate. The two exposure drafts have been structured around the Taskforce for Climate-related Financial Disclosure's (TCFD's) recommendations. Under the ISSB framework, entities are first expected to follow the requirements under IFRS-S1, before considering thematic standards (e.g., IFRS-S2 on climate), as well as specific industry-based standards (e.g., from CDSB).
29. The ISSB representative explained that the General Requirements Standard was aimed to address the linkage of the sustainability information to the financial statements. Often the financial statements and sustainability reports are published on different dates and in separate documents – leading to a lack of connectivity. The Climate Standard is considered to be closely aligned with the

TCFD framework – with a few additional requirements (e.g., quantitative metrics on offsets).

30. The consultations on both exposure drafts are currently open; with the standards still planned for issuance by the end of 2022 – depending on feedback and the Board’s deliberation process. There is also a consultation on a digital sustainability reporting taxonomy. The ISSB representative explained that the ISSB is working closely with the IASB.
31. The ISSB has established a working group, including representatives from international institutions with similar consultations (e.g., Financial Conduct Authority in the UK, US Securities and Exchange Commission, the European Commission, and the European Financial Reporting Advisory Group) to enhance compatibility. The ISSB has signed a memorandum of understanding with the Global Reporting Initiative. The SASB Standards will now undergo the IFRS’s due process and be updated where necessary.
32. A FRAB member commented that the proposed digital taxonomy would provide reporting benefits, including machine-readable information. The member then asked the ISSB representative what the proposed ‘staff request for feedback’ would involve. The representative explained the ‘staff request for feedback’ would set out the initial views from ISSB staff in developing their proposal, allowing for early input from stakeholders, before significant developments are made.
33. Another FRAB member observed that the sustainability reporting landscape had become a very crowded space with numerous voluntary standards. While significant progress has been made, other organisations (e.g., EFRAG) are defining their own sustainability-related standards. The member asked the ISSB representative what their expectations are for the future – considering the consolidation of standard setter, and other consultations (e.g., IPSASB).
34. The ISSB representative explained that often in the development of standards, there’s initially considerable growth with significant early developments/innovations, then a period of consolidation/contraction. Different international jurisdictions will be impacted by different sustainability-related risks (e.g., climate, sustainability goals, human rights, the living wage, etc.). The ISSB recognises that these jurisdictions will have to deviate from the ISSB’s baseline – despite it being ambitious. Europe has a very ambitious agenda which extends much further than the ISSB’s planned baseline.
35. The ISSB expects these nuances - as different regions have different responses to different risks. The ISSB Standards look to provide a globally consistent baseline, focused on enterprise value. This will drive resilient markets through transparency, and effectively allocate resources to meet climate goals. While there will continue to be developments in sustainability reporting (e.g., valuation techniques for natural capital/social impacts), recently, there has been significant welcomed progress in consolidation and rationalisation.
36. The FRAB member asked the ISSB representative for their views on the IPSASB consultation, considering the ISSB’s focus on value creation. The ISSB representative explained that some of the key disclosure points are likely to be the same across the public and private sectors (e.g., transition plans, governance, strategy). For sustainability reporting (e.g., net zero, climate change, carbon

emissions), the public sector needs to consolidate its emissions with the private sector emissions for country-level reporting.

Agenda item 5: FRC update

37. The Board then received an update from FRC colleagues on the current focus of the FRC. The Board heard that the FRC have issued new additions of current standards, reflecting all the amendments that have recently been made, and have also recently completed the annual review of FRS 101, with no amendments implemented this year.
38. The FRC have also put an exposure draft out for comment, FRED 80, in relation to company law and the application guidance on equivalence in whether consolidated accounts need to be issued by intermediate parents.
39. The FRC also have an interest in the IFRS subsidiaries without public accountability project and will be reviewing the progress and, in the future, considering whether there are any implications for FRS 101.
40. The Board heard that the FRC is currently undertaking a periodic review of FRS 102. FRS 102 was initially developed from IFRS for SMEs, and this continues to be relevant for consideration during periodic reviews. The last periodic review was completed in 2017 and it is expected that following the current periodic review, an exposure draft will be released later this year, with an effective date no earlier than 1st January 2025.
41. As part of the review, the FRC are reviewing developments in IFRS, including current practice and emerging issues, and wider developments. The Board heard that the FRC were particularly interested in the review of the IFRS for SMEs, IFRS 15 and 16 and the expected credit loss component of IFRS 9, and the IASB's work on revenue.
42. The FRC have received feedback from stakeholders that they agree with general alignment with international standards and with the idea of bringing in the five-step model of revenue and the Board heard that most stakeholders were also in favour of bringing in IFRS 16 into FRS 102.
43. In terms of wider issues, the FRC are reviewing the Government's proposed new definition and reporting requirements for public interest entities and have recently reissued guidance on the strategic report to take account of TCFD-aligned reporting.

Agenda item 6: Discussion on where members see direction of travel for work plan

44. The Chair opened the discussion on the strategy, risk register and work program of the Board.
45. A member raised the concern that as there are already delays in certain areas, and so the Board should be focused on resolving all of those issues first before tackling additional issues.
46. The Chair commented that there should still be a point at which issues come onto the work program of the Board, such as when there is a final pronouncement on work that is relevant in the public sector and raised the

question about if and when the Board wanted to comment or receive updates on other projects.

47. A member queried whether the Board should be aiming to implement at the same time as wider developments, e.g., in IFRS, or if time was needed after any changes to review and work out what the public sector response would be.
48. The Chair raised a concern around capacity and recourses, and how quickly the Board would be able to analyse new standards as they are being developed. However, concurred with the point that once there is a pronouncement of a change, can the Board quickly analyse this and decide on next steps.
49. A member raised the point that implementing changes in the public sector after they have already been implemented in the private sector can result in benefits, such as learning from any issues that arise in the private sector due to the change.
50. Colleagues from the NAO raised a point about looking at the extent public sector standards should deviate from new private sector standards. For example, auditing does not have separate standards or adaptations for the public sector – only interpretations to practice notes. In contrast, our ambition on timescales for adoption of sustainability standards may vary. There are existing internal public sector sustainability reporting frameworks.
51. A member raised that there is a need to periodically consider whether the needs of the users in the public sector are being met, and that these may differ to those in the private sector.
52. The Chair noted that a point in the action plan is to invite the User and Preparer Advisory Group to a future FRAB meeting.
53. A member raised the point that there needs to be plans around implementation of new standards and also that the Board should focus on this as opposed to commenting on all possible developments in reporting.
54. The Chair proposed that initial temperature checks on changes would be useful to determine from the outset what is needed for implementation in the public sector. HMT colleagues agreed, raising the idea of triaging standards and changes when they arise, and that trying to influence the work of IASB directly may pose a challenge.
55. A member raised a point around the importance of communicating the decisions of the Board in relation to changes in standards and reporting.
56. The Chair summed up the discussion, referencing the need to triage pronouncements of changes to determine the forward work plan, including reflecting on sustainability reporting, and also considering the needs of users more.
57. The Chair then raised the Board risk register and additional risks being proposed for discussion.
58. A member agreed with the additional proposed risk seven on failure of the Board to provide sufficient challenge and suggested that a mitigate may be for the Board to have more independent members.
59. Other members noted that more independent members may not resolve this risk and that there were other potential mitigations, such as escalation of the Board response when there are concerns, not endorsing proposals, or through comments in the FRAB report.

60. The Chair summarised the discussion and resolved that the action was to review the mitigation to this risk.
61. A member also agreed with the additional risks, and particularly risks eight and nine proposed.
62. On the forward work agenda and the action plan, colleagues from the NAO raised the need for post-implementation reviews, e.g., for IFRS 16.
63. The Chair agreed that the action point was to prepare a list on the future thematic reviews, taking feedback from members on which areas these should focus on.
64. A member also raised the need to add sustainability reporting to the forward work programme and the frequency of review of this needs to be determined. The member also raised the need to review new standards coming out and a stocktake on the guidance currently in place.
65. The Chair proposed that an updated forward action plan should be circulated as an out-of-meeting paper.

Agenda item 7: Update on GFR actions

66. HM Treasury delivered an update to the Board regarding progress on the seven headline commitments in the 2019 Government Financial Reporting Review.
67. HM Treasury has met or is in the process of meeting these commitments, and next steps are under review by the User and Preparer Advisory Group (UPAG).
68. UPAG would appreciate any suggestions which board members may wish to offer, and members can contact the HM Treasury secretariat regarding this.
69. Areas which were noted by members as potentially being helpful areas for FRAB input included on best practice examples, use of thematic reviews and how these can feed into future implementation, and acknowledgement of balance sheet impact. Members discussed how users of accounts has been defined for UPAG.

Agenda item 8: Devolved Administrations updates and 2021-22 progress

70. The Welsh Government representative noted that their 2020-21 accounts have not yet been signed, due to an outstanding issue. This has also delayed the timeframe for publishing the Welsh Government's 2021-22 accounts, with a targeted publication date of November 2022.
71. The Northern Ireland Executive representative noted that they expect to lay 12 of 14 of their 2021-22 accounts by the first week of July 2022, which is an improvement on previous years. The remaining two accounts are expected to be laid by early September, in advance of the mid November legislative laying date deadline.
72. The Scottish Government representative noted that they are progressing work on their 2021-22 accounts and hope to publish slightly earlier than in recent years, likely in October or November 2022.

Agenda item 9: Health sector update, accounting issues as a result of the white paper on the Health and Care Bill

73. The Health and Care Act gained Royal Assent on 28th April 2022. It was noted that this introduces a number of structural changes to the health service, including the demise of clinical commissioning groups or CCGs, and the establishment of new statutory entities called integrated care boards (ICBs) and non-statutory entities called integrated care systems (ICSs).
74. NHS England will be the parent body of ICBs, a modified transfer absorption approach will be taken for the move from CCGs to ICBs, and two existing bodies will merge into NHS England this year.
75. There will not be significant changes from a financial reporting perspective or to the Health Sector Group Accounting Manual (GAM). There will be no divergence from the FReM.
76. The Act contains some additional reporting requirements which will be included in the 2023-24 GAM.
77. A general update on the Health sector was then given. Preparation of DHSC 2021-22 group accounts is progressing well. The vast majority of providers and CCGs met the recent deadline for local audited accounts, but there has been a small increase in delayed audits to which close attention is being paid to control this trajectory.
78. ICBs go live on 1st July 2022; meaning in 2022-23 there will be 3 months under CCGs and 9 months under ICBs. The vast majority of audit firms will audit the three month CCG accounts at the same time as the year end ICB audits.

Agenda item 10: 2021-22 FRAB report

79. The Chair noted the pending publication of the 2021-22 FRAB report and invited questions or comments from members. A covering letter will be sent with the FRAB report to the Public Accounts Committee including additional commentary on issues within local government.
80. A member asked for confirmation that the FRAB report would reflect the finalised wording agreed by the Board with regards to deferral of IFRS 16 within local government, it was confirmed that it would.
81. A query was raised on how the Board would monitor early adoption of IFRS 16 within local government, which is mentioned within the report. It was agreed this would be fed back as part of regular local government updates to the Board.

Agenda item 11: AOB – day 1

82. A request was made that in future, papers be sent two weeks before Board meetings rather than one week before. It was agreed by the HM Treasury secretariat that the one-week deadline would be kept in place for the next meeting, but that papers will be sent out earlier than this if they are ready in advance.
83. A member noted that when planning future Board meetings, it would be useful to consider the planned dates of CIPFA LASAAC board meetings and the gap between those meetings and FRAB meetings.

Agenda item 12: CIPFA local government update and ISA 260 report

84. CIPFA reported on the latest version of the 2022-23 Code which takes on the advice provided at the last FRAB meeting in relation to allowing deferral of mandatory implementation of IFRS16 and the encouragement for adopting in advance of 2024-25.
85. The Board were accepting of the statement and the code provided that the word 'strongly' to encourage was included.
86. The Chair welcomed any significant comments on the 2023-24 Code, with minor comments to be raised offline. A member highlighted item E concerning the proposal of misaligned IFRS 17 implementation dates and queried the extent of the issue for the local authority sector. CIPFA confirmed that there are not many insurance contracts, and the intention is for local government to align with central government.
87. CIPFA provided background on local audit difficulties and the deliberations of CIPFA/LASAAC including significant delays, deferral of IFRS 16 and infrastructure asset issues. The Board learnt that 50% of accounts had been signed, however, there has been no movement beyond that due to the infrastructure assets issues.
88. CIPFA/LASAAC assured the Board that they are doing their best to work within the remit of FRAB requirements whilst acknowledging the ongoing difficulty in getting accounts signed off.
89. The Board learnt about the historical background to the Infrastructure assets issues which date back to 1995, and also the current position.
90. CIPFA colleagues explained that the consultation paper sets out the historical context to work out what the baseline position is. It was highlighted that an adaptation was proposed for local authorities to not have to report on gross historical cost and accumulated depreciation, due to information deficits.
91. The Board were provided with an overview of the consultation responses, which highlighted a 70% support for adaptation or derecognition.
92. CIPFA colleagues addressed a potential way forward that codifies existing practice by making the default assumption that replaced elements will be derecognised at nil value and stressed that this should not reduce the quality of financial statements but potentially bring marginal benefits instead. It was acknowledged that particular authorities may require an exemption.
93. CIPFA recognised that more work is needed for a longer-term solution in this area, however, emphasised that they are working on the current situation and trying to do this expediently. CIPFA expressed that they are keen for the Board to provide advice and input when drafting an adaptation for approval.
94. A Board member observed that what is being proposed is a choice between changing the accounting rules to align with the ongoing information deficit or accepting an audit qualification. The view was expressed that we should be open about the fact that high quality financial reporting cannot be met, as that is the purpose of an audit qualification, and therefore disagreed with the proposal. However, the member indicated they are in favour of omitting a disclosure that is materially misstated and would be happy to omit the disclosure of gross numbers.
95. Another member shared a different view that they would be more inclined to have an accounting policy based on this valuation basis, which is largely

historical cost, as it would provide more reliable information on the item cost, compared to other calculations that would not be indicative of anything. It was stressed that the ability to estimate a reliable number is impossible due to the variability in how the number is calculated.

96. A point was raised that subject to any debate between individual authority and the auditors on the evidence, there is no reliable historical cost figure, and it would depend on whether those replaced components did have a zero netbook value (NBV) which is unknown due to the records problem. A query was raised about whether there is a record of what has been spent on the assets over time, assuming that each year things are recorded properly.
97. The Chair responded that it would be known how much is spent on them however, that does not mean the gross cost is correct nor does it mean the netbook value is correct as that depends on whether the previous assumption was based on nil netbook value of assets disposed of being correct or if assets replaced were correct.
98. CIPFA reiterated the proposal that the default assumption should be nil netbook value, as in the majority of cases the component is only being replaced because its life has expired. Though, they are considering where there is reliable evidence of a value other than nil, and how that should be illustrated in the adaptation.
99. The Chair questioned why this is needed in the Code rather than preparer's guidance with estimation guidelines. CIPFA commented that the initial driver was that it would make it simple from an audit perspective and that an economic perspective was also considered.
100. CIPFA outlined that due to the information deficit, there are questions as to how local authorities have derived a value to derecognise. It was highlighted that the task and finish group reviewed the information they have received and asked questions regarding the accuracy and reliability in terms of derecognition.
101. A member raised their concern that whilst there is sympathy with some arguments, the arguments given could also apply in other scenarios. The point was reiterated that there is a need to reflect on how historic information leads to this issue.
102. A suggestion was made that potential mandatory wording in the accounts that explains the deficiency of some of the issues, might present some of the information to the users of accounts that could have been in an audit report qualification.
103. HM Treasury commented that when setting a new standard there is consideration of the transition, due to the need to consistently restate what happened in the past, which can involve practical expediency. This issue here appears to be a legacy issue which is now resurfacing. It was stated that if the broad assumption could be aggregated and evidenced strongly, this may provide support for inclusion in the Code.
104. Whilst sympathising with CIPFA colleagues, a member expressed that serious consideration needs to be taken to figure out a longer-term solution, rather than just solutions that fix an immediate problem. The member agreed with previous comments that a system to better explain what long-lived asset figures represent would be useful.
105. The Chair did not support an adaptation that requires an assumption to be made in an estimation technique and highlighted that the accounting code

and accounting framework is not the best place to do that, and it is the responsibility of each local authority to produce the best set of accounts that it possibly can with the information available.

106. NAO colleagues highlighted that they are not aware of any equivalent circumstances concerning a change in the accounting framework, that looks at the limitations of evidence issues. It was explained that they have judgements when looking at limitations of evidence and of applications, where some result in an audit qualification and some result in no material issues.

107. A member flagged that they have some knowledge on this matter, due to what is done with the network asset in Scotland, but not detailed knowledge of how central government account for roads. It was outlined that from a Scottish perspective, it is treated as a single asset and there is a methodology for this. The member questioned what the main point would be in the long term.

108. The Chair identified that there is a risk of a qualification in the Whole of Government Accounts, and therefore the aim and objective should be clearer.

109. The CIPFA/LASAAC Chair highlighted that the helpful feedback would be considered and thanked the Board for their constructive comments. It was observed that from member feedback careful consideration is needed for there to be a resolution, which is not via the Code.

110. CIPFA colleagues stressed that the local authorities have been guided to information deficits, rather than created them, and so need to be mindful that they have been compliant with the information they had available and have not been disregarding accounting records. It was reiterated that this needs to be acknowledged when moving forward.

111. The Board were informed that CIPFA will consider the advice and then take the proposal to CIPFA/LASAAC. The Board should then expect an out of meeting paper in July, once a decision has been made.

112. The Chair suggested that a single item agenda meeting to discuss the matter would be more appropriate than an exchange of emails, so requested CIPFA colleagues to flag that once the paper is circulated.

113. A member reflected on the situation and flagged in terms of the risk register whether members need to think about whether there are other risks we are unaware of and once they come to light there could be a problem. The Chair responded that this is a difficult issue but stated that this would be taken away with the secretariat to decide whether it could be something to think about.

Agenda item 13: NAO and NIAO update

114. The NAO provided the Board with an update on the 2021-22 audit cycle and a current consultation around practice note 10.

115. The Board was informed that the audits to be completed before summer recess is targeted at 65%, compared to 55% for 2020-21. This includes a significant increase in the larger departments being brought forward. It was also highlighted that the ambition is to bring those post-recess this year, pre-recess next year, with around an 80% target.

116. The NAO outlined that the public audit forum has been working with the FRC on developments to practice note 10, to ensure that the new audit

standards align with the practice note. The revisions of the standards have been centred around fraud, risk assessment and quality management.

117. The Board learnt of a NAO consultation with the 'Task & Finish group', which connects auditors across the public sector in terms of issues raised. The proposals are based on materiality, and how that interacts with the public sector focus on income and expenditure. It was flagged that there has also been further work around guidance on going concern and the continued provision of service.

118. The NAO reiterated that this is currently out for public consultation and agreed to share the link if members were interested.

119. Discussion progressed onto an NIAO update on the 2021-22 audit cycle of the Devolved Administrations.

120. NIAO flagged that Audit Scotland's health statutory deadline is the 31 August and they are working on completion of the majority. The local government audit deadline is 31 October, compared to it being 30 September pre-covid. It was also raised that the central government accounts deadline is 31 December.

121. The Board learnt that in Wales there is only one NHS account outstanding, in comparison to local government accounts that have a challenging deadline of 31 October. It was highlighted that central government accounts have various deadlines throughout the year.

122. NIAO outlined that Northern Irelands summer recess date is 1 July, with the ambition to get the majority of accounts certified on time. It was stressed that there are expected delays to the Department for Economy account, due to the level of covid expenditure.

123. The challenges for audit agencies were emphasised concerning ISA 315 and ISQM, all of which are progressing well. It was noted that Audit Scotland has piloted ISA 315 for early adoption and has identified various issues in attaining the information they require to conduct the audit.

Agenda item 14: BEIS consultation on audit and corporate governance reform

124. The Chair welcomed the paper on the BEIS consultation on audit and corporate governance reform and its potential impact on the public sector and outlined consideration for the paper as read.

125. The Chair opened up the paper for comments and observations.

126. The Board raised no further comments on the paper.

127. The Chair found the paper interesting and looks forward to seeing the further work and proposal when it comes out.

Agenda item 15: Proposed wording on treatment of social benefits in FReM

128. HM Treasury introduced a paper that had been circulated before the meeting on accounting for social benefits and sought agreement from the Board on the proposed wording.

129. A member queried how benefit payments work and expressed uncertainty about how the cut-off point was determined and how events after the reporting date might be impacted because of that. HM Treasury clarified that if a

continuing claim does span the year-end, then the portion that relates the period of entitlement in year is accrued.

130. A member flagged that normal accounting would be for all the benefits for the period cost up until the 31st March, whether they had been claimed by either existing claimants or new claimants. The member raised that the wording in the paper can be ambiguous, and so suggested that the HM Treasury colleagues evaluate what the intended meaning is, and also outline this clearly in the text.

131. A view was provided that expenditure with respect to social benefits should be recognised in financial statements as closely as possible to the time of the underlying activity that gives rise to the liability.

132. HM Treasury identified that there needs to be an establishment of entitlement, which links to the question concerning the timing of the new claim, and if you are claiming after year-end but may have had some underlying entitlement relating to the accounting period, an important factor is whether the establishment of entitlement could be back-dated to the accounting period.

133. NAO colleagues commented that in 2001-2002, the Board accepted that the accounting would be an amount to be paid in full following the approval of a claim. It was explained that the new IPSAS standard that considers how you would account for social benefits, is broadly consistent with the existing treatment that the Board agreed to. It was identified that HM Treasury has sought to capture this without repeating the whole IPSAS standard.

134. A concern was raised that the practice used in the paper may not be what would be done under IFRS.

135. A member highlighted that the eligibility criteria from IPSAS includes effectively, if you are alive at the time, you are eligible to receive the money, however, what it doesn’t state is that you must provide for the rest of the amount, which would potentially be an IFRS perspective. The member welcomed the paper but suggested that it would be helpful to make the ongoing point about eligibility and de facto that being alive can count as an activity.

136. The member expressed sympathy for the idea that if you have a claim you could potentially accrue that if it is backdated, however stressed that this is not something where a provision would be made. Instead, the member emphasised that it needs to be clear what a social benefit is, has it been defined correctly and how should it be recognised. The paper was welcomed but more clarity was requested for it to be clear that the aims HM Treasury are trying to get at are the aims that materialise.

137. The Chair requested clarification on the point that if the eligibility criteria had been met during that period, but a claim wasn’t made until post-year end, would a provision be expected. The member confirmed that it would most likely be an accrual, however it would be a minor element of the payments, as the majority of social security benefits are paid on an ongoing basis.

138. The member queried how social benefit claims are earned and if you can make a claim during a period in which you are currently employed, about the previous month in which you were unemployed. The Chair indicated that it links

to the discussion concerning what is the time frame by which people must claim a payment that relates to the period before the balance sheet date.

139. A member explained that an individual is assessed on the rules at the time they make the claim rather than the rules when the individual could have made the claim, which is an element that stops it from being an entitlement rather than a Social Security Benefit. The Chair addressed that if you remain entitled you could potentially have a claim that relates to the period of account.

140. NAO colleagues raised that the idea that the entitlement is an approved claim, links to the wording of the legislation and how it is written. It was stressed that care needs to be taken when reviewing the wording out of context of understanding those specific examples. It was also highlighted that the challenge of agreeing the wording is partly due to the IPSAS standard being complex, and the aim is to provide a shorter version of that, which matches current practice and ensures consistency.

141. The Chair emphasised that there are so many different benefits, and consideration must be taken to ensure a rule is not made that proves to be unsuitable for a particular benefit. It was highlighted that this should be kept at a principles-based level, to ensure the wording reflects the right principle for individual entities to apply the principle to benefits they operate.

142. HM Treasury queried whether the terminology concerning the underlying activity is not helping clarify how it works, and different phraseology is needed to consider how the principle can be applied. The Chair outlined that the wording in reference to the underlying activity in the paper could better highlight how people can clarify eligibility, such as, is it due to an individual meeting the eligibility criteria or whether they are eligible as they have made a claim.

143. A member flagged that the issue is whether or not the conditions are met at year-end and is the post year-end evidence process (e.g. putting in claims and validating claims) part of the obligating event. It was expressed that once this principle is determined, the wording will not be difficult to adjust.

144. A member raised that the aim was to codify existing practice, which was compliant with IPSAS, and outlined that a better definition is required due to the difference of opinion and understanding.

145. The Chair observed that HM Treasury colleagues should review the wording and the IPSAS, which is different to the Board decision made in 2001-2002. The main issue is the timing piece regarding whether you require proper approval of a claim prior to accruing or do you have to have eligibility to accrue, even if a claim hasn't been made. It was also highlighted that it is important that when there is a new claimant, consideration is given to the use of the principle in practice.

146. HMT colleagues thanked the Board for their feedback and agreed to review with a focus on principles and provide an example potentially in the case of a DWP benefit to show what that means in practice. It was highlighted that

this could be done through an illustrative walk-through to demonstrate the application of that principle.

147. The Chair recognised that it may be the first time there has been an IPSAS released which may be different to how accounting has been carried out in practice in the UK. Therefore, the question is does the Board want to codify existing practice even if it does not completely comply with the IPSAS or do the Board want to change practice to comply with IPSAS.

Agenda item 16: IFRS 9 update

148. HM Treasury introduced a paper that had been circulated prior to the meeting on the impacts of the IFRS 9 adaptations, introduced in the 2021-22 FReM, and the plans to explore the expansion of the adaptation beyond financial guarantees.

149. A member expressed support for work on IFRS 9 adaptations to continue as widely as possible, ensuring that scope isn't restricted. A suggestion was made to review student loans, where the fair value on day one is significantly less than the amount advanced to the student.

150. HM Treasury requested any further comments to be sent after the meeting.

Agenda item 17: Discount rates

151. The Board received an update from HM Treasury on discount rates and sought agreement on the proposed policy change to update the financial instruments discount rate on an annual basis from 2022-23. HM Treasury also requested the Board to consider whether a wider review of discount rates is merited, and what the scope, focus and objectives of any such review would be.

152. There were no objections to the recommendation in the paper, and so the proposed policy change was approved by the Board.

153. One member expressed support for a thematic review on discount rates to be considered in the future once the valuation of non-investment assets thematic review has concluded. It was stressed that this is an important topic, and this would allow a broader perspective on it.

154. A member questioned whether it would be possible for departmental and whole of government accounts to have more transparency on what rates are being used and how they are derived. The Chair commented that this issue would be considered in the thematic review, though HM Treasury can reflect on this in the interim.

155. The Chair suggested that a forward work programme of thematic reviews should be brought to the November meeting for discussion, that should be ordered according to priority.

Agenda item 18: PPP arrangements

156. HM Treasury presented a paper on IFRS 16 PPP arrangements and requested the Boards views on whether they agree with chosen recommendation concerning the timing and approach for revaluing PPP liabilities related to index linked payments.
157. Members endorsed the recommendation from HM Treasury and highlighted that it would be useful for guidance to be developed on this, to support preparers.
158. A member queried whether this approach applies to PPP arrangements accounted for in the past under IAS 17, after reviewing diagrams in the FReM. HM Treasury clarified that the intention isn't to apply it to those sub-set of PPPs which are deemed to be leases, but those PPPs that do not fall into that part of the flow chart in the FReM that would follow specific FReM rules.
159. The Chair observed that the Board were content to proceed with HM Treasury's recommendation as set out in the paper.
160. HM Treasury agreed to return to the Board with an out of meeting paper regarding a separate issue which had arisen on what the appropriate double entry for the PPP liability revaluation should be.

Agenda item 19: WGA update

161. HM Treasury gave a presentation on the Whole of Government Accounts, including the completion of the 2019-20 accounts, subsequent PAC hearing and qualifications as well as forward work plans and OSCAR II usage.
162. A member queried the increase in materiality threshold for local authority accounts requiring audit. HM Treasury discussed, along with other board members, the difficulties for Local Authority accounts in 2019-20 and the motivations for raising the threshold.
163. A member requested more detail on the PAC's interest in the WGA during its last hearing. HM Treasury elaborated on the use and purpose of the WGA and the value it has to HM Treasury.

Agenda item 20: FRAB Sustainability Sub-Committee (FRAB-SSC) update

164. HM Treasury set out, as included in the paper, the sustainability sub-committee's meeting and whether the Government should move towards adopting TCFD alignment and to monitor the ISSB's new sustainability standards currently published as exposure drafts.
165. The Board was invited to give its views and was broadly favourable of adopting TCFDs and queried accountability standards and the scope of the sub-committee. These queries were answered by HMT and the NAO.

Agenda item 21: Thematic review – valuation for non-investment assets

166. HM Treasury introduced Deloitte representatives that are assisting/conducting the thematic review. HM Treasury asked the Board for reflections on the preliminary paper presented.

167. A member reiterated their support for the thematic review and requested in the final report the inclusion of an expansion on the uses of the included information and expansion on the motivation comments made about private sector entities (methodology: cost over valuation).

168. Other members added support and specific examples for Deloitte to consider for the final publication of the thematic review including DRC, divisions of central vs local government views and taking a view on the approach taken by other IFRS complaint jurisdictions.

Agenda item 22: AOB – day 2

169. HM Treasury updated the Board that work is still in progress in terms of IFRS 17, and a paper will be brought to the November meeting.

170. The Chair observed that the FRAB survey showed a preference for an in-person meeting and the intention for November is to be in person. HMT suggested a hybrid option should also be included.

171. The Chair thanked the Board for their participation and ended the meeting.

Agenda item 23: IFRS Interpretations Committee summary of announcements

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

Agenda item 24: User Preparer Advisory Group update

173. The Board noted the update paper and looked forward to receiving a future update on the work of the UPAG.

Agenda item 25: Relevant Authority Working Group update

174. The Board noted the update paper and looked forward to receiving a future update on the work of the RAWG.