

The User Preparer Advisory Group

12th October 2022

Virtual

09:30am – 11:30am

UPAG 6

Meeting minutes

Attendees:

Andrew Buchanan, Chair & Independent member
Mike Hammerton, Department for Business, Energy & Industrial Strategy
Alex Macneill, East West Rail/Department for Transport
Fiona Yallop, HM Revenue and Customs
David Heald, University of Glasgow
Jane Piccaver, Natural England
Helen Creeke, The National Archives
Ed Hammond, Centre for Governance and Scrutiny
Sarah Sheen, CIPFA
Henry Midgley, Durham University
Max Greenwood, HM Treasury
Hannah Oliver, HM Treasury
Sarah Logsdail, HM Treasury
Sarah Geisman, HM Treasury
Sudesh Chander, HM Treasury
Libby Cella, HM Treasury
Shikha Sharma, HM Treasury
Michael Sunderland, HM Treasury

Guests

Giga Meshki, Deloitte
Mags Scott, Deloitte
Richard Howe, Deloitte

Apologies:

Debbie Paterson, Healthcare Financial Management Association
Alison Ring, ICAEW
Marcus Wilton, House of Commons
William Moy, Full Fact
Gavin Freeguard, independent consultant to the Institute for Government

| Time | Item | Presenter | Associated Paper |
|-------|---|-------------------------------|------------------|
| 09:30 | Welcome and minutes from the last meeting | Andrew Buchanan, Chair | UPAG 6 (1) |
| 09:35 | Update on Central government reporting and timetable, WGA update | Hannah Oliver & Shikha Sharma | UPAG 6 (2) |
| 09:50 | Local government update | Sarah Sheen | UPAG 6 (3) |
| 10:05 | Thematic review update <ul style="list-style-type: none"> • Valuation for non-investment assets • Future thematic reviews | Shikha Sharma & Hannah Oliver | UPAG 6 (4) |
| 10:50 | Sustainability reporting update | Max Greenwood | UPAG 6 (5) |
| 11:00 | IPSASB/ICAEW update | Henning Diederichs | UPAG 6 (6) |
| 11:15 | IFRS 17 update | Sudesh Chander | UPAG 6 (7) |
| 11:25 | AOB <ul style="list-style-type: none"> • Chair stepping down | Andrew Buchanan, Chair | Verbal |

Item 1: Welcome and minutes from the last meeting

1. The Chair welcomed the Group and thanked members for taking the time to join the meeting and extended a warm welcome to a new member of the group, Henry Midgley.
2. The Group received a paper from HM Treasury prior to the meeting including the minutes from the last meeting and the matters arising.
3. A member expressed concern about the 2-day time interval between the 2019-20 Whole of Government Accounts (WGA) being laid and the Public Accounts Committee (PAC) meeting. It was stressed that the WGA is a technical document, and a significant amount of time is needed for the document to be digested by the primary user of the account.
4. A point was also raised regarding paragraph 11 in the minutes, which stated that there was a consistent improvement in the WGA prior to the pandemic. The member flagged that there were timeliness problems before the pandemic, and therefore the statement is not accurate.
5. The Chair agreed that there has been a troubling timetable for a significant amount of time but explained that if you looked at a trend line, it was always slightly improving, with minor setbacks.

Item 2: Update on Central government reporting and timetable, WGA update

6. HM Treasury presented slides on the 2021-22 central government reporting timetable, covering the number of departments which made the administrative deadline, audit qualifications, WGA publications and the current work plan.
7. HM Treasury highlighted that only 38% of DCT returns had been submitted for the 2020-21 WGA as of 3rd October. It was explained that there are still performance

issues, however, there have been significant improvements since last year. The Group were also informed that the director of public spending will be writing out to finance directors to drive further returns, and the team will also be writing to the PAC to keep them updated on the current position.

8. A member flagged that colleagues are still experiencing issues with the Oscar II system, encountering problems such as being logged out, data not uploading and receiving system error messages that are difficult to interpret. Despite this, it was emphasised that they have received efficient service from HM Treasury, who have been able to discuss practical and technical issues promptly.
9. HM Treasury agreed that the system does not always work smoothly, however, explained that the difference this year is the understanding of the system. It was highlighted that many issues can be resolved internally, without going to Deloitte.
10. A member queried how the WGA balance sheet affected decision-making during Covid-19. HM Treasury commented that the finances represent 2019-20, which wasn't a full Covid-19 year, and therefore the 2020-21 publication will show the full Covid-19 impact.
11. A member expressed concern that there are further requirements each year in the PES guidance, which does not align with the idea of 'streamlining accounts' or consider the demands on ALBs. It was highlighted that this extends the time needed to produce accounts, and therefore results in other programmes within the organisation being paused.
12. HM Treasury sympathised that some requirements are fast-moving and that they do not go through the same review as the FReM. It was accepted whether ALB reports should include the same amount as central government is a good question for review.
13. The member also commented on the growing amount of requirements for sustainability reporting, which will contribute to the difficulties ALBs are already facing. HM Treasury responded that this has resulted from IFRS and what is being implemented in the private sector.
14. A member acknowledged that there is still a significant number of laying delays and audit qualifications and questioned what could be done to take a fresh look at these issues. Similarly, suggested that relevance and materiality could be looked at to try and streamline requirements. The Chair observed that a review of this might be helpful.
15. A question was raised on whether there has been any attempt to carry out a gap analysis in relation to what is published in the accounts and the purpose of the financial reports on page 7 of the FReM. HM Treasury responded that best practice reports are produced, and there is a commitment to undertake thematic reviews, so this could potentially be looked into in the future.
16. The Chair observed the different points made by members. It was highlighted that the WGA is more of a confirmatory piece rather than a forward look, and informed members that the ISSB is reviewing the scale of sustainability, as the concerns raised on the demands for smaller entities have been flagged in the private sector.

Item 3: Local government update

17. The Group was presented with slides from Sarah Sheen on the local government update, covering areas such as changes to the 2023-24 Code, Infrastructure assets, areas of temporary change to resolve the issue, updates to the Code approval process and the long term solution. It was highlighted that approximately 35% of 2020-21 accounts are still not completed, due to audit issues.
18. Sarah explained the various changes to the 2023-24 Code, including the deferral of IFRS 16 (with encouragement where possible), infrastructure assets, four new standards, insurance contracts application, legislative changes and the strategic plan.

19. The group were updated on the two areas of change to resolve the issues temporarily, including the removal of the mandatory disclosure of gross cost and accumulated depreciation and the introduction of the new assumption that where replacement expenditure takes place the amount to be recognised is on average nil amount.
20. Sarah discussed the Code approval process, highlighting an out-of-meeting report issued to FRAB and a single-issue meeting held on the 21st of September. It was confirmed that FRAB agreed with the removal of the mandatory disclosure provided it was described as a temporary relief, however approval on the introduction of the new assumption is still inconclusive.
21. The group were reminded of the Task and Finish Group which look at the issues with accounts preparers, auditors and other stakeholders. The longer-term solution options were listed, where it was confirmed that option one to maintain the temporary solution was not supported by CIPFA, CIPFA/LASAAC or FRAB. It was noted that options two and three are resource intensive.
22. The Chair commented that the situation within local government is a significant issue from both an auditor and preparer perspective, and a longer-term solution is essential.

Item 4 (a): Thematic review update on valuation of non-investment assets

23. HM Treasury delivered an update on the current thematic review being undertaken on the valuation of non-investment assets. It was explained that the review contributes to supporting DLUHC in addressing underlying issues in local authority reporting and audit, with the aim to identify possible alternative valuation regimes to determine the case for any change.
24. The Group were informed that interviews were conducted with stakeholders across the public sector, as well as a survey being circulated to obtain quantitative data. The results of the survey were shared with the group.
25. HM Treasury explained that four different options for change were presented to stakeholders to measure the relevance, reliability and usefulness of the information. It was identified that option three - 'refinement of classes of non-investment assets application of historical deemed cost model vs revaluation model per each class of asset', was the preferred option. It was confirmed that this will be explored further, alongside additional stakeholder conversations.
26. A member stressed that decisions should be made considering user expectations, not just preparers. It was highlighted that the risk should be avoided of setting a dangerous precedent by only conferring with account preparers when conducting the review.
27. A member appreciated receiving sight of the survey and shared the same views from a preparer's perspective. It was flagged that if option three was chosen, heritage assets in particular have been an issue in audit. A request was made to consider this when making refinements. HM Treasury confirmed this will be considered and also mentioned that DCMS were consulted – as the department who hold the largest amount of heritage assets – during the interviews with stakeholders.
28. The Chair questioned whether option three, splitting up assets by class, would solve the issue within the Department for Health and Social Care (DHSC), as some departments still require current values. HM Treasury commented that there have been various discussions with DHSC, who have confirmed that they could accommodate adjustments to methodology and change the basis of calculation if needed.
29. The Group reiterated the importance of timeliness, and how this needs to be considered with both central government and local government. A member raised a concern about using the audit crisis to revert from current values.
30. The Chair observed the concerns for part of the approach and suggested that HM Treasury consider and address the feedback provided by the group.

Item 4 (b): Future thematic reviews

31. The discussion progressed onto the future thematic review item, where HM Treasury thanked the group for completing the survey circulated, which requested members to rank various suggestions in order of priority.
32. The Chair listed the top five priorities and identified that 'a more specific thematic review of the financial review section within the performance analysis to consider how well departments are conveying their financial information in terms which the reader can understand' was ranked as the top priority. Further views were requested from the group.
33. The CIPFA representative noted that the local government have a different emphasis on these matters, however, commented that a key Redmond Review recommendation is that a standardised statement of information and costs is produced, which fits in with the number one priority.
34. Members raised that some suggestions closely align with the top-ranked priority, e.g. outcome delivery plans. It was stressed that public sector ARAs are missing the real reason why they exist on what is being done in the short/medium term. Similarly, it was expressed that a key point is how successful departments have been in achieving objectives, which can be demonstrated by marrying up the performance report with the financial report.
35. A member queried whether HM Treasury would have the capacity to conduct five reviews simultaneously and what the time scales are.
36. HM Treasury clarified that five reviews would not be carried out simultaneously. It was explained that after UPAG, FRAB and HMT input, the highest priority topic would be reviewed first, and the list of topics maintained for discussion at future UPAG meetings to determine what should be the next priority. It was also confirmed that the time scales would depend on a number of factors, including the complexity of the topic and whether any external involvement is required.
37. A member expressed support for the financial analysis and raised a point on income recognition regarding new novel income in government based on green finance and credits. It was emphasised that this is an area that is increasing, which is causing difficulty for entities. HM Treasury agreed that this is a topic of interest and requested the member to discuss further offline.
38. A member highlighted how there is a significant amount of variation in relation to the financial review across central government and shared the view that a review on this topic would be helpful. It was explained that some information is too technical, and therefore the reader would prefer an easily understandable summary.
39. The Chair observed the support for a review of the financial section and how departments tell a story, interlinking with outcome delivery plans, and noted that it would be useful feedback to take to the next FRAB meeting.
40. The Chair supported the idea of conveying information in an easily understandable way, however, flagged that some ways of operating are extremely complex and may be unable to be summarised very simply.
41. A member identified that the topicality and urgency of particular issues should be considered, e.g. fraud and error reporting is particularly topical given the impact of Covid interventions.
42. A member explained that they initially considered a thematic review on discount rates to be the highest priority out of the options presented, however, after further reflection, the importance of the reader and usability at the front half of the report should take precedence due to topicality.
43. The Chair requested that when taking the top five ranked priorities to FRAB, the other five should be included as an appendix, to clearly show what was considered but not prioritised.

Item 5: Sustainability reporting update

44. HM Treasury talked the Group through the presentation that had been circulated before the meeting on sustainability reporting. The update covered the UK public sector, changes to the international landscape, ISSB's exposure drafts and the proposal for the public sector sustainability reporting framework.
45. The group was informed that a paper was taken to the June FRAB meeting on adopting the TCFD framework in a public sector context which the Board approved. Subsequently, the Chief Secretary (CST) approved the adoption of TCFD-aligned disclosure for central government ARAs. HM Treasury explained that public sector adaptations and interpretations will need to be applied to the framework.
46. A member queried how HM Treasury would find the Parliamentary audience for this information and whether any discussions have been made with the Environmental Audit Committee (EAC). HM Treasury explained that they hadn't yet contacted the EAC; however, would reconsider this based on the FRAB's recent advice and progress. HM Treasury agreed on the importance of identifying the most effective/appropriate reporting channel to Parliament for different environmental/sustainability-related information. ARAs should be focused on material information for the department; whereas alternative reports (e.g., Greening Government Commitments Annual Report) may better to track progress/comparisons in this area.
47. A member commented that there is genuine concern regarding smaller entities complying with these new requirements, and highlighted that some linkages with the Companies Act are aimed at big listed companies.

Item 6: IPSASB/ICAEW update

48. The group was given an update on the IPSASB/ICAEW by Henning Diederichs. This included an overview of IPSASB's projects, specifically measurement, natural resources and revenue & transfer expenses.
49. Henning also discussed the standard setters forum, concerning additional topics proposed for IPSASB's 2024-28 work program, breakout areas and group discussions.
50. A member expressed sympathy to reduce the burden of reporting on smaller organisations concerning risk rather than just size in terms of expenditure or balance sheet value. Henning commented that if there is capacity of scrutiny to investigate, it should be determined whether more organisational accounts need to be consolidated into larger accounts. The question is whether certain information should be in small entities' accounts or larger entities' accounts.

Item 7: IFRS 17 update

51. The group received an update from HM Treasury on IFRS 17, covering the background to the Standard, areas of discussion at the Technical Working Group (TWG), other issues and the proposed timeline.
52. HM Treasury gave a brief background to the new Standard, noting proposed mandatory implementation of the Standard is financial year 2025-26.
53. HM Treasury informed the group that an exposure draft is planned for Winter 2022/23, with the target publication of application guidance in April 2023. This provides two years' time between publication of the guidance and mandatory implementation of the Standard in 2025-26.
54. HM Treasury highlighted the key issues discussed at the TWG meetings and with other stakeholders, including the scope of the Standard in the public sector and transitional

arrangements. HM Treasury encouraged entities to engage with actuaries or the Government Actuarial Department (GAD) if they think IFRS 17 will have a material impact in their annual reports and accounts.

55. The Chair echoed the comments made regarding the complexity of the standard and also encouraged departments to engage with experts. It was highlighted that there are significant challenges in the private sector, and therefore the public sector will encounter similar challenges.

Item 8: AOB

56. The Chair announced that he would be stepping down as the Chair of UPAG, due to other commitments, and shared that it was a pleasure to be involved in the group.
57. HMT thanked the Chair for his involvement in the Group.
58. There were no items of other business.