

Financial Reporting Advisory Board 152nd Meeting Minutes 21st March 2024 Commencing: 10:00am

	Item	Presented by	Time	Paper
1.	Welcome, minutes and matters arising	Chair	10.00	FRAB 152 (01)
2.	Preparer Updates: <ul style="list-style-type: none"> - Devolved Administrations - Local Government - DHSC 	Kim Jenkins, Stuart Stevenson & Aileen Wright Iain Murray Ian Ratcliffe & Vanessa Singleton	10.10	Verbal
3.	Audit Updates <ul style="list-style-type: none"> - NAO - Devolved Administrations 	James Osborne Suzanne Jones	10.30	Verbal
4.	TCFD – Post-Exposure Draft Update	Max Greenwood Eva Grace, Chris Paterson, Charlotte Marcinko (GAD)	10.45	FRAB 152 (02)
	Break		11.30	
5.	Valuation of Non-investment assets – Post-Exposure Draft Update	Louise Armstrong	11.45	FRAB 152 (03)
6.	GAM Update	Vanessa Singleton	12.30	FRAB 152 (04)
7.	Application guidance for new requirement for accounting for social benefits	Louise Armstrong	12.50	FRAB 152 (05)
	Lunch		13.10	
8.	Annual update from FRC's Director of Local Audit	Neil Harris (FRC)	14.00	FRAB 152 (06)
9.	FRAB Effectiveness Review	Chris Coyne & Mfon Akpan (NAO) Louise Armstrong	14.30	FRAB 152 (07)
10.	FRAB Membership Update	Louise Armstrong	15.10	FRAB 152 (08)

11.	AOB	Chair	15.25	
	To Note			
13.	FRAB Strategy, Action Plan and Risk Register	HM Treasury		FRAB 152 (09)
14.	RAWG Update	HM Treasury		FRAB 152 (10)
15.	IFRS Interpretations Committee summary of announcements	HM Treasury		FRAB 152 (11)
17.	Timeliness of Reporting	HM Treasury		FRAB 152 (12)

Attendees:

Lynn Pamment
Jenny Carter
Karl Havers
Mike Metcalf
Shiva Shivakumar
Charlotte Goodrich
Iain Murray
Ian Ratcliffe

Suzanne Jones
Aileen Wright
Kim Jenkins
Michael Sunderland
James Osborne
Ian Webber
Ryan Oliver
Christine Golding

Vanessa Singleton
Conrad Hall
Caitlin Stanley
Josh Rushbrooke
Max Greenwood
Kathryn Allen
Louise Armstrong

Agenda item 1: Welcome, minutes and matters arising.

1. The Chair welcomed members to the 152nd FRAB meeting, inviting comments on the minutes from the previous meeting. FRAB approved the minutes with minimal changes.

Agenda item 2: Prepares Updates

Wales

2. The Welsh Government representative updated the board of the Welsh Local Government progress against their target of the 30th of November 2023, for laying their 22/23 Annual Reports and Accounts (ARAs), with most local audits completed and just one outstanding. For Welsh Local Government 23/24 ARAs, the 30th of November 2024 has been agreed as the deadline for laying accounts.
3. For Welsh Central Government 23/24 ARAs, the 30th of November has been agreed as the deadline for laying accounts, with the possibility of an early adoption of the audit standard ISA 600 applied to their 23/24 and 24/25 ARAs.
4. Some of the challenges Welsh Government are currently facing were outlined, which included: the resource required for the IFRS 16 implementation; and the potential restructuring of groups and budget areas due to the arrival of the new First Minister.

Northern Ireland

5. An update was given on the restoration of the institutions of Northern Ireland with new ministers coming into place and work on going to approve the 24-25 budget which is having an impact on capacity of finance colleagues.
6. The NI representative updated on the progress of laying their 22/23 ARAs, with four set of accounts outstanding. The accounts have nine qualifications due to regulatory issues and limitations of scope. Northern Ireland 23/24 ARAs are on target to be laid pre-recess.
7. There is one body outstanding for Northern Ireland's 23/24 Whole of Government Accounts (WGA) Cycle one, and two bodies for Cycle two.

Scotland

8. The representative from the Scottish Government noted that one public body audit remains incomplete for their 22/24 ARAs.
9. Some of the current pressures Scottish Government are facing include the implementation of a programme to replace the current corporate systems which is creating resource pressures on finance colleagues, and the implementation of IFRS 16.

Local Government

10. The Local Government representative updated the Board on the proposed local audit backstop measures currently under consultation.
11. The Select Committee report has been published, and responses will be used to provide insight when considering changes to Local Government accounts.

DHSC

12. The DHSC and NHS England representatives noted that DHSC laid their 22/23 ARAs on the 25TH of January 2024, ahead of the statutory deadline.
13. The DHSC accounts received a qualified opinion due to regulatory breaches and because UKHSA accounts were disclaimed. DHSC are supporting UKHSA to work through this.

14. DHSC, NHS and their group bodies are planning to lay their 23/24 ARA's by the 30th of November 2024.
15. There is optimism for improving the timeliness of NHS' 23/24 ARAs, due to: planning with the NAO being brought forward months earlier and fewer bodies will requiring audit in 23/24.
16. Some of the challenges NHS England is facing were outlined, including: the impacts of Local Government Pensions; the re-measurement of the PFI liabilities applicable to IFRS 16; and increased burden on local bodies following the shift or responsibility of Dental, Pharmacy and Ophthalmology from NHS to Local bodies.

Agenda item 3: Audit Updates

NAO

17. The NAO representative updated the Board on the 70% target for 23/24 ARAs to be submitted pre-recess. This target was not met in 22/23.
18. There has been a change in portfolio due to the Machinery of Government (MoG) changes which have led to the creation of new departments.
19. The NAO are going through an audit transformation programme, which will cover the implementation of ISA 315 and new auditing software.
20. NAO noted that they are reviewing the principles of ISA 600 in the larger group audits, and considering areas where they can get ahead in implementation.
21. FRAB enquired into the differences in standards with ISA 600. NAO explained two key changes included how the audit is scoped, with risk assessments to be done at group level which will determine the components to be considered; and greater expectations for auditors when they are relied on for final reviews of component auditors.
22. HMT flagged the impact ISA 600 could have on WGA due to the volume of component entities.

Devolved Administration

23. The Devolved Administrations are currently focused on clarifying and certifying delayed audits; and planning for the 23/24 audits.
24. An update was provided from the recent quality meeting hosted by the Northern Ireland Audit Office, which was focused on reviewing the lessons learnt from the implementation of ISA 315; and ongoing challenges faced by agencies.

Agenda item 4: TCFD – Post-Exposure Draft Update

25. The HMT representative provided an overview of the changes made to the Phase 2 Task Force on Climate-Related Financial Disclosure (TCFD) -aligned application guidance, following the responses to the exposure draft.
26. If there are no further significant changes to the draft, then it will be possible for it to be published before this upcoming year-end.
27. A FRAB member noted that the implementation of the TCFD will require learning and highlighted the opportunity to provide more guidance on policy risks, as it's an area of scrutiny. HMT noted the possibility of addressing this by including examples in the annex, and also explained that Phase 3 may provide more guidance on these risks as it will feed in the strategy on risk mitigation.
28. Another member raised the potential difficulties faced with adopting the guidance in Phase 3. HMT explained that Phase 3 reporting requirements are only required if climate

is a principal risk, and that early adopters of Phase 3 have already advanced the thinking into the future strategy.

29. FRAB approved the TCFD-aligned disclosure application guidance for Phase 2.
30. A GAD representative provided an overview of their advice on TCFD-aligned disclosure for Phase 3 climate scenario analysis, noting the conscious effort of providing detailed guidance to drive consistency and guide users unfamiliar with conducting such an analysis.
31. GAD assessed the recommendations on three criteria: consistency; complexity; and the level of conviction to allow alternative approaches to be used where applicable.
32. The HMT representative shared views from the Subcommittee on certain GAD recommendations:
 - a. Time horizons – where the TCFD requirements for short, medium and long-term to be defined, there will be inconsistencies within these timeframes and other risks.
 - b. Scenario definitions – GAD’s recommendation considers global socio economic and temperature changes but not UK government policy specifically. The Subcommittee discussed the amount of UK policy to be brought into scenario analysis without the risk of pre-empting policy.
33. FRAB members raised the risk of inconsistencies and misrepresentation if entities are left to decide what is reported in the WGA and suggested a centralised view. HMT noted that this was a consideration but flagged the difficulties with risk analysis for the whole of government annual reports and accounts – by consolidating entity-level specific data.
34. A member requested clarity on the guidance for transitional risk. HMT clarified that there is flexibility in the guidance on transition risks -through comply or explain - where entities may have different policies.
35. A suggestion from a member was to consult the PAC on specifying the time frames, as they are a principal user of accounts.
36. FRAB members raised concerns with the suggested timeframe for long-term. GAD explained the reasoning behind the timeframes, noting that a long-term time frame of 10 years isn’t enough time for the physical impact of climate change to materialise; and government timescales differ to the private sector due to its longevity. HMT noted that they will consult the Subcommittee on this with options, and invited FRAB members to contact HMT if they wish to join the May Subcommittee meeting.

Agenda item 5: Valuation of Non-investment assets – Post-Exposure Draft Update

37. A representative from HMT updated on the responses received in response to the publication of the Valuation of Non-Investment Assets Exposure Draft.
38. The responses were grouped in themes with an accompanying recommended change to address any comments:
 - a. Introduction on Asset Class: Clarifying the terminology by renaming “Asset Class” to “Asset Category” and using the application guidance to address any queries in this area.
 - I. FRAB had no objection to this recommendation.
 - b. Proposed Processes for Asset Valuation: Allowing flexibility on valuations for specific cases.
 - I. FRAB questioned whether this was necessary, and expressed concern that the measure would cause risks such as the difficulties entities could face proving they meet the exception; or the risk that it would lead to entities reverting to yearly

- valuations. FRAB therefore rejected the proposed changes to the FReM text.
- II. The Board also requested clarification around some of the terminology.
 - c. Revaluation Cycle: Keeping to the 5-year re-evaluation cycle, however allowing flexibility for more frequent valuations.
 - I. Some members raised the risk to timetables if all organisations select the same 5-year time frame.
 - II. FRAB was keen for there to be clarification in the Valuation Office Agency (VOA) guidance that valuations must not exceed 5 years.
 - d. Alternative Site Valuations: No changes recommended; however, HMT acknowledged DHSC and NHS England request for sighting on planning.
 - e. Valuation of Intangible Assets: No changes recommended.
 - f. Indexation: A suggested, non-prescriptive, list of indices in the guidance.
 - I. Some members felt it might be helpful to indicate some of the benefits and disadvantages associated with each index.
 - II. FRAB was also open to considering whether a central index provided by the VOA would be beneficial
 - III. A FRAB member questioned whether a future item for the board discussion should centre on whether HMT should have more of a 'parent' role to organisations when considering financial reporting. HMT noted this as a potential item for discussion, but explained the organisation of government centres on departments having their own accountability.
 - g. Further guidance: FRAB to provide feedback on the draft VOA guidance and for HMT to discuss further with the VOA and the working group.
 - h. Transition: Suggesting the year of 25/26 for implementation.
 - I. FRAB agreed with this recommendation.
 - II. A FRAB member highlighted the impact on preparers and auditors with also IFRS 17 and TCFD Phase 2 implementation taking place that year. HMT recognised this, but emphasised the reduction of burden the guidance should bring to preparers and auditors.
 - i. Disclosure Guidance: Be compliant with IFRS 16 and the requirement to re-value for material change in value; and provide some adaptation to clarify that ISA 8 is applied prospectively.
 - I. FRAB were content with this recommendation.
39. HMT noted there were no substantial changes from FRAB's comments and will update the FReM exposure draft accordingly.

Action: HMT to make updates to the draft FReM text and bring back to June FRAB meeting ahead of publication. HMT to liaise with VOA on their application guidance (e.g. to ensure that guidance is clear that the gap between valuations should not exceed 5 years and detail on alternative site valuations) before it also comes to June FRAB meeting.

Agenda item 6: GAM Update

40. A representative from DHSC provided an overview of the changes made to the 24/25 Government Accounting Manual (GAM) including:

- a. Additional text on the TCFD disclosure requirements.
 - b. Removal of the transition guidance under IFRS 16
 - c. Changes to reflect the code of governance.
 - d. Additional text to note remuneration reports and pension disclosures won't include negative values; and
 - e. Changes on the Public Dividend Capital (PDC) calculations.
41. A FRAB member questioned why the manual refers to IAS 32, which considers liabilities, when discussing the PDC assets.

Action: DHSC will clarify query about IAS 32 with the individual Board member.

42. Another FRAB member requested clarity on the what the disclosure in Paragraph 3.52 entails. The NHS representative clarified that the code of governance sets disclosure expectations for entities making decisions on corporate governance that differs from NHS England's expectation of best practice, mainly on a comply or explain basis.

Agenda item 7: Application guidance for new requirement for accounting for social benefits

43. In June 2023, FRAB agreed to the development of an application guidance on the new requirement, accounting for social benefits.
44. HMT introduced the draft application guidance, noting that the ONS were content with this even though it differs from their own accounting treatment.
45. FRAB members requested further examples be included in the application guidance on specific areas, including for when the period in which the amount is determined is backdated to before the claim has been received.
46. FRAB also asked for the wording in the guidance be clarified in certain areas, and agreed to share comments after the meeting.
47. Subject to the comments provided, FRAB were content with this item.

Action: HMT to update with Board's comments and publish application guidance

Agenda item 8: Annual update from FRC's Director of Local Audit

48. The Financial Reporting Council (FRC) representative provided an overview of key responsibilities they will have as a shadow system leader, and outlined some of the current and planned activities, including:
- a. Leading a coherent and coordinated policy response to challenges arising across the local audit system – this is the main area of focus and one of the immediate challenges is addressing the local audit backlog.
 - b. Facilitating stronger governance across local audit framework – the FRC chair the local audit Liaison Committee that unites senior partners across the system.
 - c. Lead work to improve competition, bolster capability and market supply in local audit – the FRC are developing a workforce strategy
 - d. Oversee the quality framework for local audit
 - e. Implement effective and useful reporting on the local audit system to drive better outcomes
49. The three phases to return Local Audit to the timetable were outlined:
- a. Phase 1, Reset – clearing the backlog of historical audit opinions up to an including financial year 22/23 by 30 Sept 2024
 - b. Phase 2, Recovery – assurance is re-built over multiple audit cycles

- c. Phase 3, Reform – addressing systemic challenges in the local audit system and embedding timely financial reporting and audit
50. Some FRAB members shared concerns about auditing in the Reform Phase and instead felt the Phase should consider resourcing and the culture to produce high-quality accounts. FRC clarified that their current focus is on Phase 1 and 2, which will consider the support necessary to produce quality accounts.
 51. A member questioned the resolution process when there is a difference in opinion between auditors and preparers. The FRC confirmed they are developing an escalation reporting framework that is designed to manage significant levels of disagreement.
 52. The certainty of the reset date (30th September) was questioned. FRC noted that they are awaiting results of the consultation for a view on this.
 53. It was noted that the regulatory standards team are working with audit firms to understand whether there is need for guidance on moving away from disclaimed opinions, and if this is identified as needed, then FRC will work with the NAO to develop this.
 54. Members emphasised the importance of considering Artificial Intelligence (AI) in Phase 3 mindful of the potential efficiency and productivity gains it could generate across accounts preparation and audit.

Agenda item 9: FRAB Effectiveness Review

55. NAO representatives provided an overview of the results from the FRAB effectiveness review, noting the response rate of 58% which was slightly lower than last year's response at 61%.
56. In addition to reviewing the board minutes, Terms of References (TOR) and questionnaires, the NAO conducted interviews with FRAB members for the review.
57. Strong evidence from the review shows FRAB is effective and acts in accordance with its TOR.
58. The review also found that FRAB conducts analysis on accounting issues and provides independent and timely advice.
59. NAO shared a summary positive feedback received from the questionnaire and interview including views that the meetings were well chaired; and that the board provides constructive challenge.
60. In response to the review recommendations HMT committed to several actions including:
 - a. Updating the ToR
 - b. Including an annual agenda item for the Board to review its performance
 - c. Convening a meeting of the nominations committee to discuss skills and experience, succession planning, and the appointment of a vice-chair
61. One member suggested the TOR should include more detail the board's relationship with its Subcommittees and working groups.
62. Another member proposed the board expands its TOR to make reference to the sustainability Subcommittee.
63. A FRAB member requested the NAO, for the next FRAB effectiveness review, set a benchmark to compare the board performance to other standard setting boards.

Action: The chair noted that the progress against the actions committed in response to the review will be shared at the June FRAB meeting.

Agenda item 10: FRAB Membership Update

64. HMT provided an overview of the changes in membership with Vanessa Singleton replacing Andy Brittain, and the addition of Kim Jenkins to the nominations committee.
65. The Devolved Administrations audit representative enquired whether instead of a rotating representative on FRAB, the board could have representatives from all three of the Devolved Administrations
66. A member from the Board suggested the Board could have representation from GAD.
67. Another member suggested FRAB increase the number of independent members on the board to reflect similar boards who have more independent members.
68. One FRAB member reflected on the benefits brought from previous FRAB member's experience working with cross standard setting boards, and suggested this experience be considered in future appointments
69. The Chair noted that the suggestions will be considered at the nominations Committee.

Action: Nominations committee to meet and consider the Board's membership recommendations, and bring an update to the June meeting

Agenda item 11: AOB

70. The Chair acknowledged the meeting was Pam Beadman's, FRAB member, last meeting before her membership expires, and thanked Pam for her contributions over the years.
71. The Chair thanked FRAB members and closed the meeting.

Agenda item 14: FRAB Strategy, Action Plan and Risk Register

72. The Board noted the update paper.

Agenda item 15: RAWG Update

73. The Board noted the update paper.

Agenda item 16: IFRS Interpretations Committee summary of announcements

74. The Board noted the update paper.
75. HMT informed the board on the considerations into the timing and sequencing of completing the IFRS 16 post implementation review.

Agenda item 17: Timeliness of Reporting

76. The Board noted the update paper.