

Financial Reporting Advisory Board 154th Meeting Minutes

21st November 2024
Commencing: 10:00am

	Item	Presented by	Time	Paper
1.	Welcome, minutes and matters arising	Chair	10.00	FRAB 154 (01)
2.	FRAB Recruitment Update	Louise Armstrong	10.10	FRAB 154 (02)
3.	2023/24 Reporting Cycle Update	Elle Richardson	10.20	FRAB 154 (03)
4.	CIPFA/LASAAC Update	David Lyford-Tilley	10.35	FRAB 154 (04)
5.	Machinery of Government accounting treatment	Louise Armstrong	11:15	FRAB 154 (05)
	Break		11.35	
6.	FReM 2024-25 in-year update and FReM 2025-26	Andrew Evans	11.45	FRAB 154 (06)
7.	Sustainability Reporting Update and TCFD Application Guidance for Phase 3	Max Greenwood	12.20	FRAB 154 (07)
	Lunch		13.00	
8.	Non-investment assets	Kevin Pertaub	13.45	FRAB 154 (08)
9.	Government Financial Reporting Review – 5-year update	Joshua Rushbrooke Kevin Pertaub	14.15	FRAB 154 (09)
	Break		14:30	
10.	Pensions 24-25 Reporting Update	Andrew Evans	14:40	FRAB 154 (10)
11.	IFRS 18 & 19 – overview of standards and work plan for IFRS 18	Andrew Evans	14:55	FRAB 154 (11)
12.	IFRS 16 post-implementation review	Sarah Logsdail	15:10	FRAB 154 (12)
13.	FRAB Strategy, Action Plan and Risk Register	Elle Richardson	15:20	FRAB 154 (13)
	AOB			-
	To Note			

13.	IFRS Interpretations Committee update	HM Treasury		FRAB 154 (14)
14.	User and Preparer Advisory Group update	HM Treasury		FRAB 154 (15)
15.	Relevant Authorities Working Group Update	HM Treasury		FRAB 154 (16)
17.	Combined Updates	HM Treasury		FRAB 154 (17)

Attendees:

Lynn Pamment (Chair)
 Jenny Carter
 Mike Metcalf
 Jasmine Mathews
 Mike Sunderland
 Ian Webber
 Ryan Oliver
 Jill Roberts
 Christine Golding
 James Osborne
 Suzanne Jones
 Kevin Pertaub

Vanessa Singleton
 Stuart Stevenson
 Aileen Wright
 Kim Jenkins
 Iain Murray
 Alex Knight
 Louise Armstrong
 Andrew Evans
 Joshua Rushbrooke
 Sarah Logsdail
 Max Greenwood
 Elle Richardson

Observers
 Conrad Hall
 Kathryn Allen
 Declan Cooper
 Jackie McAllister
 Anthony Veale

Speakers
 David Lyford-Tilley
 Ben Matthews
 Myles Riordan

Agenda item 1: Welcome, minutes and matters arising.

1. The Vice-Chair welcomed members to the 154th FRAB meeting, inviting comments on the minutes from the previous meeting. FRAB approved the minutes subject to minor editorial changes.
2. As the Chair was delayed, the Vice-Chair began the meeting. Agenda Item 2 was moved to after the CIPFA/LASAAC Update. The Chair took over Chairing the meeting from the start of Item 4.

Agenda item 3: 2023/24 Reporting Cycle Update

Departmental Annual Reports and Accounts (ARA)

3. An HMT representative provided an update on ARA laying:
 - 30 bodies laid their accounts before summer recess, slightly lower than previous years. 5 ministerial bodies were still to lay their reports.
 - Delays were caused by the General Election's impact on laying time and delays with public sector auditing.
 - DWP and HMRC continued to receive qualified opinions. OFQUAL has also received a qualification.
4. FRAB members queried whether DWP and HMRC could avoid qualifications in the future. The NAO representative confirmed that there are no current expectations for the qualifications to be removed but that longer term discussions around cost effective control environments were the key to resolving the longstanding qualifications.

Whole of Government Accounts

5. An HMT representative gave an update on the following:
 - The 2021-22 WGA had been laid in March and had been disclaimed due to missing data, which largely related to local authority accounts.
 - Secondary legislation had been put in place to create a statutory backstop.
 - The 2022-23 WGA was to be laid in November in line with the recovery plan.
6. The Board noted that a more detailed update on the missing data from local authority accounts would be provided as part of agenda item 4.

Agenda item 4: CIPFA/LASAAC Update

Local Audit Updates

7. A CIPFA/LASAAC representative discussed local government audits:
 - Legislation for backstop date and the Local Audit Code of Practice have been laid. The 13th December backstop date is expected to clear majority of outstanding accounts. CIPFA/LASAAC anticipate a large number of disclaimed and modified opinions.
 - NAO have published relevant guidance for auditors ahead of the backstop.
8. A member of FRAB stated that local authorities are concerned about the effects of receiving disclaimed opinions. The Board concluded that many authorities will not receive any assurance from auditors.

9. The Board emphasised that backstop dates are temporary solutions. The CIPFA/LASAAC representative agreed that more work would be required to create a sustainable reporting system for local government.
10. The Board reflected on potential consequences of disclaimed opinions, including reputational damage, reduced credit scores for local authorities, and potential financial problems not being identified by a timely audit.
11. The CIPFA/LASAAC representative also highlighted that some accounting officers could be hesitant to certify their accounts if the accounts had not been audited or are based on incomplete data.

Further Updates

12. The CIPFA/LASAAC representative then updated on the following:
 - CIPFA/LASAAC have released Bulletin 18 and continue to work with the Better Improvement Group.
 - CIPFA/LASAAC are commissioning an external review of governance and effectiveness.
13. A member of FRAB questioned why there was an open question about the continuance of the IFRS 9 statutory override applicable to local authorities rather than committing to following IFRS. The CIPFA representative clarified that changes to the override could cause significant repercussions that need to be explored further.
14. The guidance currently produced by CIPFA/LASAAC includes alternate site provisions within the language. The representative confirmed that this would be updated to align with FRAB when a decision is reached.
15. The CIPFA/LASAAC representative considered including the topic of non-investment asset valuation within the guidance with the purpose of getting users to consider the impact that a move to non-investment asset valuation would have.
16. A FRAB member recommended that wording in the guidance should be amended to make clear that existing use value should be the primary valuation method. The CIPFA/LASAAC representative agreed with this.
17. CIPFA/LASAAC confirmed that they intend to publish the updated Code on the revised date of 1st June.

Agenda item 2: FRAB Recruitment Update

18. The Board were informed that the Nominations Committee had appointed Jenny Carter as Vice Chair and Adrian Hannell as the new User/Preparer representative.
19. The Nominations Committee are to conduct interviews for the independent member representative in the coming weeks. An update will be provided to FRAB in March.
20. Efforts are ongoing by Cabinet Office to select a Parliamentary observer.

Action: If an Observer cannot be found by March, HMT should bring potential alternate arrangements to the Board.

Agenda item 5: Machinery of Government accounting treatment

21. An HMT representative presented five different options for making changes to existing guidance around Machinery of Government accounting treatment. HMT recommended to proceed with option 3 which proposed the following:
 - Existing accounting requirements for public sector combinations, under transfer by merger or transfer by absorption, should be retained.
 - Associated application guidance should be updated, and
 - The fair play disclosure information requirement should be removed, when a public sector business combination occurs.
22. FRAB members challenged whether accounting requirements for public sector business combinations could be analysed in more depth again and determine whether more changes could be made.
23. A FRAB member queried whether business combinations could result in impairment in assets. Another FRAB member responded that there are number of complexities associated with assets when a business combination happens, but tends not be impairment as the function the asset is used for normally stays the same, though the FRAB member stated there is a potential for impairment of assets.
24. A FRAB member commented that IFRS 16 could create issues where common contracts and commitments are in place between merging departments, and results in notable reconciliation complexities before and after the business combination.
25. A FRAB member stated the importance of aligning the accounts and budgeting process. An HMT noted that data on OSCAR is restated up to 7 years after a machinery of government change happens.
26. A FRAB member highlighted that the current requirement of disclosing a statement of financial position as at the beginning of the previous reporting period (3rd SoFP) when a machinery of government change occurs is based on IAS 1 paragraph 40. The member stated that if 3rd SoFP was no longer required to be disclosed, the Board should be comfortable with how that decision interacts with IAS 1 and IAS 8.

Action: HMT to return to Board setting out whether the current accounting requirements for business combinations under common control should be listed as adaptations and/ or interpretations in Chapter 8 of the FReM and whether the accounting for a gain/ loss on transfer in the SoCNE is appropriate.

Action: HMT to return to the Board with a recommendation for decision on whether a 3rd SoFP should be disclosed when a machinery of government change happens.

27. The Board agreed to remove the requirements for restating fair pay disclosures when a machinery of government change happens.
28. The Board agreed that HMT should proceed with issuing the rest of the revised guidance while assessing balance sheet losses and the third balance sheet.

Action: HMT to define a scope and timescale for a more detailed review to ensure that accounting is fit for purpose, easier for both preparers and auditors, and useful to end users of accounts.

Agenda item 6: FReM 2024-25 in-year update and FReM 2025-26

2024-25 in-year update

29. An HMT representative summarised the changes detailed in a shared paper on proposed in-year amendments to the FReM:
- References to the FRC 2018 guidance have been removed from the strategic report;
 - Further detail has been added on ONS reclassification changes;
 - Language has been updated on which government department outcomes and strategic objectives should be reported against;
 - Guidance concerning when pension data is not available in a timely manner has been removed;
 - Further changes have been made to provide greater clarity surrounding MoG changes, and
 - The initial measurement of indexed-linked PPPs has been removed.
30. The Board requested further clarification on the proposed amendments to the implications of ONS reclassifications, concerning delays between creation and classification.
31. A FRAB member expressed concern that the machinery of government changes most often apply to entities that are below the level of merger accounting. The restatement approach, however, would mean that a classification change would always require merger accounting even for smaller entities. A FRAB member requested that the restatement treatment is clarified.

Action: HMT to work with Kim Jenkins and James Osborne to clarify wording around ONS reclassifications.

The Board considered how the language on performance reporting should be changed, particularly in years where there has been a change of government and departments have potentially been working to achieve different overarching objectives. The Board suggested that the language should be clarified further.

32. The Board discussed how departmental performance should be measured, with members suggesting that yearly outcome delivery plans and overarching missions could be useful reference points.
33. A member of the Board suggested using the 'forward look' requirement within the accounts to report on outgoing and incoming ministers' priorities.

Action: HMT to update the language around performance reporting and update the Board.

2025-26 update

34. The Board suggested the following minor changes to guidance:
- Wording should be updated to be clear that it applies to social benefits that are receivable rather than received (to be consistent with the accruals principle); and
 - Illustrative financial statements to be updated to include IFRS 16 and Right of Use assets.
35. The Board approved the publication of the draft FReM for 2025-26, subject to the above changes being enacted.

Agenda item 7: Sustainability Reporting Update and TCFD Application Guidance for Phase 3

36. An HMT representative presented the streamlined guidance, with added clarifications on materiality and principal risk considerations. The guidance reverted to original

recommended disclosures for climate scenarios. HMT have also incorporated clarifications about transition risks and transition driven scenarios.

37. The Chair thanked the Sustainability sub-committee.
38. A FRAB member clarified HMT's approach to two- and four-degree scenarios. HMT clarified that this change is due to departments including one scenario of two degrees below as a default.
39. FRAB approved the guidance.
40. The HMT representative shared the plan for a sustainability thematic review to be conducted. The Board suggested looking into other jurisdictions.
41. The Board suggested a further consideration of Greening Government Commitments and how they align with which outcomes would be useful within annual reports.
42. The Board emphasised the importance of aligning with future sustainability standards within a broader policy and financial reporting context.

Action: HMT to investigate this and bring findings to FRAB in March.

Agenda item 8: Non-investment assets

43. An HMT representative summarised the changes to non-investment assets as already agreed by FRAB to be implemented in the 2025-26 FReM:
 - The move to quinquennial revaluations supported by indices in the interim; a rolling programme of valuations over a 5-year cycle, with annual indexation in the intervening years, or appropriate indices for non-property assets;
 - The removal of references to specialised and non-specialised assets in the FReM;
 - The removal of references to assets held for their service potential, to be replaced with assets held for their operational capacity, and
 - The change to measure intangible assets at historical cost.
44. In addition, FRAB previously agreed to a proposal from HMT for entities to no longer consider alternative locations when valuing an asset using depreciated replacement cost (DRC). HMT stated to FRAB they intend to undertake a separate workstream in 2025 covering how to value land in the DRC valuation. If the proposed changes are significant and/ or require DRC models to be reworked, HMT's indicative timeline would be for changes to be implemented in the 2027-28 FReM at the earliest to allow entities at least 2 financial years to implement significant financial reporting changes.
45. The Board examined the option of introducing three yearly desktop revaluations in between full revaluations where indices are not available.
46. Board members raised concerns about stating 3-yearly desktop valuations are used when an index cannot be obtained without undue cost and effort due to the level of judgement which would need to be exercised.
47. A member of FRAB identified that there may be difficulties in defining desktop valuations, stating that an index would be needed to conduct a desktop valuation. A VOA representative added that desktop valuations may contain limited physical inspections.
48. Another member suggested that desktop valuations, if reliable, could be presented as an alternate option to indexation in between full valuations.

49. A VOA representative stated that the VOA is creating proposals to provide valuation indices for use in government asset valuations and non-domestic rating proposals.
50. The Board discussed that the desktop valuations should only be utilised in rare instances where an index is not available. They wish this to be made clearer in the guidance, which currently states that desktop valuations should be used where an index cannot be obtained without 'undue cost and effort'.
51. The Board supported introducing the 3-year desktop valuation with clear guidance that it should be used in rare/exceptional circumstances.

Action: HMT to refine the language to make clear that desktop revaluations should only be used in between full revaluations in rare circumstances where an index is not available.

52. The VOA representative confirmed that Modern Equivalent Asset principles apply to land and buildings that are specialised in nature and valued using DRC.
53. The Board agreed to the non-investment asset workstream beginning in 2025.
54. FRAB identified the following objectives of the workstream:
 - It would be preferable to make all changes to the FReM in one go, rather than multiple small changes.
 - It considers whether land is a separate unit of account or joint asset and how this impacts the accounting.
 - It should consider compliance with IPSAS 46.
 - It should include stakeholders involved in transport infrastructure assets.

Agenda item 9: Government Financial Reporting Review – 5-year update

55. An HMT representative explained how HMT has actioned all recommendations from the GFR Review while focussing on continuous improvement. The representative acknowledged that the financial reporting landscape has changed significantly since the report was published and that there are now new challenges to consider and address.
56. HMT confirmed that as part of its commitment to continuous improvement it is currently reviewing ARAs and considering areas for further improvement of government financial reporting.
57. A FRAB member suggested a broader consideration of how the financial reporting system interacts with the rest of the government framework could be beneficial.
58. Another FRAB member highlighted that while it was helpful to acknowledge that the recommendations of the GFR review have been actioned, it is important to reflect on whether these actions have achieved their intended outcomes.

Action: HMT to discuss current challenges facing government financial reporting with FRAB and to discuss potential areas of focus for future improvements.

Agenda item 10: Pensions 2024-25 Reporting Update

59. An HMT representative provided an update on pensions reporting, following the issues with the provision of CETV figures in time for inclusion in 2023/24 ARAs.
60. HMT recommended that FRAB agree to the proposal to disclose pension benefit figures using the rolled back approach going forward, as this is a reasonable legal basis to present figures and judged by the scheme administrator to be achievable.

61. The Board discussed the implications of and misunderstanding surrounding the rolled back approach. Members suggested clarifying the legal basis for the rollback within the FReM guidance, explaining that members have been rolled back and that this will apply unless the member elects when reaching retirement to instead receive benefits for the remedy period under the terms of the alpha scheme.

Action: HMT to refine wording to be included in the 2024-25 FReM to be clearer that the rolled back approach reflects the legal position.

Action: HMT to commission MyCSP (Via the Cabinet Office) to produce an explainer document, setting out the methodology used to calculate remuneration report figures and the reason why individuals annual benefit statements (ABS) differ from the reported remuneration report figures.

62. The Board agreed that the FReM disclosure should be included in the 2024-25 FReM with wording refined as set out above.
63. The Board agreed that it was appropriate for figures to be presented using the rolled back approach going forward with this reflecting the default legal position.

Agenda item 11: IFRS 18 & 19 – overview of standards and work plan for IFRS 18

64. An HMT representative presented the work plan for considering the public sector impact of IFRS 18, with IFRS 19's workplan to be set out when the UK adopts IFRS 19.
65. The Board discussed the relevance and applicability of IFRS 18 to the public sector. FRAB encouraged HMT to undertake larger scale changes once rather than repeated smaller changes, and to consider the sector as a whole within the workplan.
66. Members raised concerns about the need for public sector adaptations and the potential impact on comparability of accounts.
67. Members discussed the need to proceed at pace with standards and to do a more in-depth analysis of the justification for any adaptations, recognising the complexity of finding a balance between these elements.
68. A member of FRAB recognised that adaptations cause further complexities for auditors and preparers.

Action: HMT to consider the scope and rationale for adaptations to IFRS 18, developing the projected timeline accordingly. Once this scope has been defined, HMT to return to FRAB for input.

IFRS 19

69. The Board expressed a desire for the size of the body to be taken into account within the guidance, as well as whether a body is consolidated into departmental accounts.

Action: HMT to consider options for differential reporting under IFRS 19.

Standard-setting update

Action: HMT to revisit IPSAS guidance on natural resources once final pronouncement is released.

Agenda item 12: IFRS 16 post-implementation review

70. An HMT representative stated how the post-implementation review of IFRS 16 would focus on stakeholder engagement and not revisit the interpretations and adaptations.

71. The Board were additionally interested to know if the adaptations and interpretations had the intended impact on departmental accounts and also had an appropriate cost/benefit balance but a member acknowledged that will be easier to ascertain after a few more accounts cycles.
72. A FRAB member recognised that past members of the Board may be able to provide expertise about the goals and rationale behind IFRS 16 adaptations.

Action: HMT to reflect on when would be a good time to review the appropriateness of the IFRS 16 adaptations and interpretations and their cost benefit.

Agenda item 13: FRAB Strategy, Action Plan and Risk Register

73. The Board noted the update paper and the actions that have been completed since the last meeting.
74. One risk has been added to the risk register around the challenges posed by delays in local government accounts to the Whole of Government Accounts (WGA) and wider challenges that the delays present to trust in the accounts and audit process.

Action: HMT to update paper with actions following this FRAB meeting.

Agenda item 14: AOB

75. The Chair recognised the contributions of Karl, Aileen and Suzanne as this was their final FRAB meetings.
76. The Chair welcomed Anthony Veale to the Board as Director of Audit Wales, replacing Suzanne Jones as the auditor representative from a devolved administration. This position will now rotate every three years, rather than every six years as has been done in the past.

Agenda item 15: IFRS Interpretations Committee update

77. The Board noted the update paper.

Agenda item 16: User and Preparer Advisory Group update

78. The Board noted the update paper.

Agenda item 17: Relevant Authorities Working Group Update

79. The Board noted the update paper.

Agenda item 18: Combined Updates

80. The Board noted the update paper.