



HM TREASURY

Financial Reporting Advisory Board Paper

Minutes of the 132nd FRAB meeting and matters arising

Issue:	For information - minutes of the last 132 nd FRAB meeting held on 15 th March 2018 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 approved the minutes of the 132 nd meeting by email but to note the matters arising.
Timing:	N/A

Detail

1. To note the minutes of the 132nd FRAB meeting which were circulated and approved by email after the meeting (Annex A). The updated FRAB Terms of Reference have been updated following Board comment and are for approval (Annex B).
2. Matters arising are noted below:

Paragraph	Issue	Action
2	The ONS to provide an update in respect of its ongoing work on leases as part of the implementation of IFRS 16	Agenda item 7
3	The Board asked the Treasury for an update to the discount rate project and move to the introduction of use of nominal rates from 2018-19.	Agenda item 8
7	Updated FRAB terms of reference to be brought back to the Board.	Updated Terms of Reference attached – Annex B
13 & 40	IPSASB update to be a regular feature on the FRAB agenda	Closed - item added to forward work programme. Next update in March 2019 but consider inclusion in November 2018 if needed.
18	The Board asked for an updated version of the IFRS 16 Exposure Draft to be circulated to members prior to issue	Closed – ED circulated with some minor comments received. Updated version published in May. Update on implementation plan as agenda item 6
25	The Board asked that updates from the IFRIC be added as a regular item on the forward agenda.	Closed - regular updates will be provided. Next update planned for November meeting.
27	The Board asked for a further update once the revised Conceptual Framework had been issued by the IASB	Update on Conceptual Framework and impact on the FReM to be provided at the November meeting
41	The Board asked for an update to the government's response to the PACAC inquiry report	Agenda item 9
43	The Chair suggested an update from EFRAG to be added to the agenda item	Closed - Andrew Watchman from EFRAG has agreed to present to the Board at the November 2018 meeting

Annex A

MINUTES OF THE 132nd FRAB MEETING HELD ON THURSDAY 15th March 2018 AT HM TREASURY

Present:

Ian Mackintosh (Chair)	Aileen Wright
Andrew Buchanan	Larry Honeysett
Ian Bulmer	Bob Richards
Ron Hodges	Ian Webber
David Aldous	Karl Havers
Joseph Mclachlan	Gareth Caller
Veronica Poole	Joanne McBurney
Anthony Appleton	Bob Branson

On the phone: Sarah Sheen (CIPFA)

Secretariat: Vikki Lewis (FRAB Secretary)

Apologies: Craig Mackinlay MP, Christopher Young, Gawain Evans, Fiona Kordiak

AGENDA ITEMS (in order tabled)

1. *Minutes and matters arising*
2. *Terms of Reference*
3. *IPSAS Board update*
4. *IFRS 16 update and Exposure Draft*
5. *Balance sheet review and contingent liabilities*
6. *IFRIC update*
7. *Conceptual Framework*
8. *Public sector financial reporting landscape*
9. *NAO update*
10. *Local government update*
11. *Forward work programme*
12. *Any other business*

Item 1: Minutes and matters arising

1. The Chair welcomed members to the meeting. The Board agreed that the minutes from the previous meeting on the 16th November 2017 had already been approved via email and agreed that there were no further amendments necessary.
2. The Chair went through the matters arising of which the only item outstanding was the report expected from the ONS on its work on the leases project. This is expected to be brought to the next meeting.
3. The Chair asked for an update on the discount rate project. The Treasury informed the Board that at the last FRAB meeting, the Board had made the decision to move to nominal rates. The Treasury also informed the Board that it was considering providing guidance for departments on the application of nominal rates and inflationary adjustments to cash flows before the Supplementary Supply Estimates process. The Treasury will provide the Board with an update at the June FRAB meeting.

Item 2: Terms of Reference

4. The Treasury presented the Board with the terms of reference to review and invited comments from members. The Treasury suggested the addition of a requirement to review board effectiveness every three years and the Board agreed.
5. Board members highlighted that some references to relevant organisations needed updating due to name changes, machinery of government changes and changes in organisational responsibilities.
6. The Board also agreed that whilst members should attend in person, deputies could attend in exceptional circumstances and at the Chair's discretion. The terms would be updated to this effect.

7. The Board agreed other minor amendments and that an updated version would be circulated out of meeting with a final version including any further comments brought to the next Board meeting in June.

Item 3: IPSAS Board update

8. The Chair of the International Public Sector Accounting Standards Board (IPSASB), Ian Carruthers, joined the meeting to give an update on the work of IPSASB and its future strategy.
9. Ian gave an overview of IPSASB and its work to set international accountancy standards for the public sector. These are based on IFRS where appropriate, although new standards will be developed which may not be completely aligned to IFRS where necessary if there is a specific public sector context. Processes for determining whether IPSAS should converge with IFRS were outlined, along with procedures for dealing with differences with GFS (ESA) statistical standards. An international comparison of compliance with IPSAS was given, along with data regarding global adoption of accrual based accounting in the public sector.
10. The development of IPSASB from its establishment in 1997 was outlined, along with its current work programme. This includes projects on social benefits, revenue and non-exchange expenditure, financial instruments, leases, public sector measurement, heritage and infrastructure assets.
11. Ian also updated the Board on the proposed projects from 2019 onwards, with future plans including work on natural resources, differential reporting for smaller entities, an update of IPSAS on segmental reporting, and a limited review of the IPSAS Conceptual Framework.
12. IPSASB also aim to promote the wider use of accrual based data within international central governments, and to engage with ratings agencies to increase their use of this data. Ian informed the Board that the UK public sector is approximately 95% compliant with IPSAS at both local and central government levels.
13. Following much discussion by the Board on the issues raised, the Chair thanked Ian for his very welcome and interesting presentation. The Chair also noted that IPSASB updates should remain a regular item on the Board's agenda.

Item 4: IFRS 16 update and Exposure Draft

14. The Treasury presented a paper to the Board providing a progress update on the IFRS 16 implementation project and a draft of the Exposure Draft for comment. The paper also highlighted potential divergences between the FReM and the CIPFA Code of Practice identified to date.

15. The Board made a number of comments on the Exposure Draft to improve clarity for respondents. In particular, the Board discussed the proposal to use the IFRS 16 cost model as a proxy for the IAS 16 revaluation model for subsequent asset measurement. The Board asked for increased narrative on the rationale for the approach, further highlight the costs and benefits and improve understanding of the differences between owned assets versus right of use assets.
16. Bob Richards from the ONS informed the Board that the ONS were reviewing a lease provided by HM Treasury with a committee meeting to discuss the findings in the coming week. These will then be discussed HM Treasury to feed into proposals for addressing the alignment challenges. The ONS will also be consulting with economic experts to consider the effect of the Standard on a macro-economic level.
17. The Board expressed concern on the divergences between the FReM and the Code indicating they should be minimised where there was no clear rationale for divergence.
18. The Treasury agreed to update the Exposure Draft based on the comments received and circulate out of committee before publication.

Item 5: Balance sheet review and contingent liabilities

19. The Treasury's Balance Sheet Review Team presented its work to the Board on analysing the public sector balance sheet and public sector contingent liabilities approval framework. The presentation on the balance sheet review set out the scope and objectives of the review. The Treasury highlighted the large level of international interest in this analysis and have already made presentations at the OECD and at an International Monetary Fund meeting. The Treasury also noted that it expected this exercise to result in greater value for money and improved financial management of public sector assets and liabilities.
20. The Treasury also presented details of the public sector contingent liabilities approval framework, highlighting that the largest contingent liabilities were in relation to clinical negligence and nuclear decommissioning. The Treasury set out details of a new control framework in place that identified all policies which may give rise to a contingent liability and therefore must be considered by the Treasury. As a result, over £1bn of new potential contingent liabilities have been reviewed to date.
21. The Board discussed that contingent liabilities usually arise due to circumstances outside organisational control. The Treasury responded by stating that the framework is relevant to all contingent liabilities and it was hoped that formalising this process would help ensure that there was greater consideration of contingent liabilities, and improved risk management in general.

Item 6: IFRIC update

22. The Treasury presented a paper identifying the tentative decisions made and the agenda decisions finalised at the November 2017 meeting of the IFRS Interpretations Committee. The paper also identified the decisions that were finalised at the January 2018 meeting of the Committee; other matters (such as the Committee's work in progress); the latest meeting of the Committee which was held on the 13th March 2018; and any new IFRIC interpretations currently being reviewed by EFRAG.
23. Andrew Buchanan, as a member of the Committee, provided the Board with background and context of the work of the Committee and gave a verbal update of the March 2018 meeting.
24. The Board considered:
- the IAS 37 agenda item (from the Committee's November 2017 meeting) and suggested that it be reviewed when the new conceptual framework becomes effective;
 - the IFRS 3 agenda item (which was finalised at the Committee's November 2017 meeting) and recognised that it may be relevant to the public sector but is likely to be more relevant when IFRS 16 is introduced; and
 - the tentative agenda decisions from the Committee's November 2017 meeting on IFRS 15 (which were deliberated again at the Committee's March 2018 meeting) and discussed that even though the issues may not be directly relevant to the public sector, they should be kept under review as they may prove useful to IFRS 15 implementation (such as relevant to the performance obligation assessment).
25. The Board agreed to keep further updates on the IFRS Interpretations Committee as a regular item on the Board's agenda.

Item 7: Conceptual Framework

26. The Treasury presented a paper to the Board on the updated Conceptual Framework which is due to be published by the IASB at the end of March 2018. The paper covered the main points in the Conceptual Framework expected to be updated i.e. measurement, definitions of assets and liabilities, recognition and derecognition, the reintroduction of prudence and, substance over form.
27. The Board discussed that the revised Conceptual Framework is still to be finalised and that there have been some significant changes from the published Exposure Draft. The Chair therefore asked that the Treasury updates the Board at a future FRAB meeting after the final Conceptual Framework has been published.

Item 8: Public sector financial reporting landscape

28. The Treasury introduced a paper to the Board updating it on some key developments in the financial reporting landscape. The paper outlined the changes in; non-financial Reporting Regulations, the PACAC report into government accounts, the Comptroller & Auditor General's (C&AG) reflections on the most recent audit cycle and the work being

carried out to improve capability in the finance function across government.

29. The Treasury informed the Board that the key elements of the non-financial Reporting Regulations and FRC Strategic Report Guidance have been incorporated into the 2017-18 Financial Reporting Manual (FRM) to align public sector reporting with best practice in the private sector.
30. The Treasury informed the Board that the Public Administration and Constitutional Affairs Committee report published in April 2017 recommended many new reporting requirements to be included in annual report and accounts. The report also recommended that the FRAB be more representative of account users. The Board noted that the government's response to the report is in the process of being finalised.
31. The Treasury highlighted to the Board that the C&AG letter on the 2016-17 audit cycle noted concerns around the capability of the Government's Finance Function. The Treasury advised that it has provided ongoing support to departments to ensure readiness for the introduction of IFRS 9 and 15. The Treasury also reported that the Finance Function Target Operating Model includes the creation of a set of new cross government Finance Centres of Excellence with the aim of improving finance delivery in the future, including more systematic collaboration and sharing of expertise between departments. The Technical Accounting Centre of Excellence will go live later in the year, whilst the Grants Centre of Excellence has just been launched. The Treasury also told the Board of the two-day Government Finance Conference and that the Government Finance Academy will be running day long workshops across the UK which support departments in enhancing technical expertise.
32. The Board questioned whether it was suitable for such large volumes of additional information suggested by the PACAC report to be included the accounts, and whether some of it would be best presented through over vehicles.

Item 9: NAO update

33. David Aldous reinforced key messages in the C&AG's letter on 2016-17 audits, referred to in the previous item, and gave an update to the Board on the NAO's considerations of the PACAC report into government accounts and accountability arrangements. While the NAO supports the aims and principles behind the PACAC report David highlighted that there may be scope for further consideration of how best to take forward those recommendations that promoted the preparation and publication of additional information in departmental annual reports and accounts. It may be appropriate to consider further how, and through what forms of reporting, any additional requirements might best be achieved.
34. David suggested to the Board that the last year of accounts preparation and audit cycle had been particularly difficult for preparers and auditors, with much of the work taking place at the tail end of the process. To note, this was during a period of relative stability in the financial reporting landscape but a period of change is ahead and therefore greater challenge for preparers. He recognised the continuing work that the Treasury

had highlighted in the previous item was very helpful.

35. David also highlighted the FRC's recent open letter to Audit Committee Chairs, which had sought to raise the profile of the need for appropriate reporting of the likely impact – ahead of their full adoption – of new financial reporting standards (notably IFRS 9, 15 and 16) through relevant disclosures. In the light of the profile that the FRC is giving, David commented that departments and other bodies would find it helpful to have guidance from relevant authorities to support consistency between bodies on the nature and level of disclosure that might be appropriate.

Item 10: Local Government update

36. Sarah Sheen informed the Board that CIPFA/LASAAC is moving towards convergence with the FReM on two elements concerned with leases, but other differences have been extended. Sarah also advised that CIPFA/LASAAC are considering delaying implementation of IFRS 16 in local government to 2020-21, one year behind planned central government adoption, due to concern that local government may not be ready for implementation in 2019-20. An impact assessment and invitation to comment will test readiness for implementation.
37. The Board raised its concern about the potential implications of delays which would lead to inconsistencies in application across the public sector and questioned why this was necessary. The Board noted that the deviation from central government in the timing of implementation would create a misalignment for Whole of Government Accounts and consequent potential audit opinion qualification. The Board agreed that any case for deviation should be rigorously analysed and tested and suggested that CIPFA/LASAAC may wish to reevaluate the planned delay in introducing the Standard. The Board did not foresee unique circumstances that would apply to local government and hence warrant a delay.
38. Sarah Sheen also informed the Board of changes to the 2019-20 code. CIPFA/LASAAC is considering a number of narrow scope amendments i.e. IAS 40 Investment Property, Annual Improvements Cycle 2014-16, and IFRIC 22 Foreign Currency Transactions and Advance Considerations. Sarah also stated that when the new Conceptual Framework is published, elements of the CIPFA/LASAAC code will be updated to reflect the changes.

Item 11: Forward work programme

39. The Treasury asked the Board for views and suggestions to the agenda items for the next three FRAB meetings.
40. The Board proposed that it should engage in more active monitoring of IPSAS exposure drafts in the run up to March 2019 and that IPSAS updates would remain a regular feature on the FRAB agenda.

41. The Chair suggested that the Treasury response to the PACAC report on government accounts should be discussed at the next meeting.
42. Updates from the International Financial Reporting Interpretations Committee are to remain as a regular item on the Board agenda.
43. The Chair also considered inviting a representative from EFRAG to present an update to the Board.
44. The Treasury invited further comments from members via email.

Item 12: Any other Business

45. The Chair announced that Veronica Poole, Bob Branson and Ron Hodges would be leaving the FRAB after this meeting having completed their term of membership. The Chair and the Board thanked them for their valuable contributions and wished them all the very best for the future.

Date of next meetings: 14th June 2018 & 22nd November 2018

Annex B

The Terms of Reference for the Financial Reporting Advisory Board

1. Context

- 1.1 The primary aims of financial reporting by public sector bodies are to demonstrate to the public and their representatives:
 - An accurate record of a body's financial performance,
 - Details of the body's aims, objectives and responsibilities, and how accountability is exercised
 - Sufficient and reliable information to enable consideration of the body's performance, value for money and efficacy of spending incurred
 - Evidence that public monies and other resources have been used for the purposes intended when the funds were authorised.
- 1.2 Financial reporting is also intended to underpin the UK Government's planning, monitoring and management of public expenditure and provides management with a tool to improve performance.
- 1.3 The authority to develop financial reporting requirements rests with:
 - for the central government and health sectors, the Treasury, the Welsh Assembly Government, the Scottish Ministers and the Executive Committee of the Northern Ireland Assembly in respect of accounts meeting the criteria set out in paragraph 2.1.b. below; and
 - for local government, the Secretary of State for Housing, Communities and Local Government, the Welsh Assembly Government, the Scottish Ministers, and the Department for Communities, Northern Ireland.
- 1.4 Public sector financial reporting should be based on International Financial Reporting Standards (IFRS) as adapted where appropriate to take account of the public sector context. For Resource Accounts prepared by government departments for which an Estimate is laid before the House of Commons and for Whole of Government Accounts (UK), this requirement is set out in sections 5 and 9 of the Government Resources and Accounts Act 2000. A similar requirement is included in sections 9 and 14 of the Government Resources and Accounts Act (Northern Ireland) 2001.
- 1.5 Under section 24 of the Government Resources and Accounts Act 2000, the Treasury is required to consult an advisory group on financial reporting principles and standards for resource accounts (in practice, for England and Wales) and Whole of Government Accounts. Under section 20 of the Government Resources and Accounts Act (Northern Ireland) 2001, the Department of Finance, Northern Ireland

is also required to consult with and take account of the recommendations made by this advisory group before issuing directions on resource accounts or determining the form and content of Whole of Government Accounts (Northern Ireland). The Scottish Ministers, with the agreement of the Audit Committee of the Scottish Parliament, have determined that they should be similarly advised on such matters. The Financial Reporting Advisory Board will be the advisory group.

2. Terms of Reference

2.1 Responsibilities of the Board:

- (a) The Board will provide independent advice to the Treasury, the Scottish Ministers, and the Executive Committee of the Northern Ireland Assembly.
- (b) The Board will advise the Treasury, the Scottish Ministers, the Executive Committee of the Northern Ireland Assembly and the Welsh Assembly Government on the application of financial reporting standards and principles:
 - (i) where the Treasury, the Executive Committee of the Northern Ireland Assembly and the Welsh Assembly Government are responsible for issuing reporting requirements in respect of:
 - Departmental resource accounts
 - Supply financed executive agencies
 - Non-departmental public bodies
 - Trading funds
 - Whole of Government Accounts
 - NHS trusts in England and Wales, and HSC trusts in Northern Ireland
 - NHS Foundation Trusts in England
 - (ii) where the Scottish Ministers are responsible for issuing reporting requirements in respect of:
 - accounts falling under sections 19 and 20 of the Public Finance and Accountability (Scotland) Act 2000¹.
 - accounts of executive non-departmental public bodies where the Scottish Ministers have the power of direction
- (c) The Board will advise CIPFA/LASAAC², which is responsible for developing the Code of Practice on Local Authority Accounting in the United Kingdom (the Code). The Code constitutes a 'proper accounting practice' under section 12 of the Local Government in Scotland Act 2003 and in England and Wales under section 21(2) of the Local Government Act 2003. In Northern Ireland, the Code's status and authority derive from accounts directions under article 24 of the Local Government (Northern Ireland) Order 2005.
- (d) The Board will decide how it reaches its conclusions.

¹ Public Finance and Accountability (Scotland) Act 2000 is available from the Stationery Office or can be located on the web at: www.legislation.hmso.gov.uk

² The CIPFA/LASAAC Local Authority Accounting Code Board is a standing committee of the Chartered Institute of Public Finance and Accountancy (CIPFA) and the Local Authority (Scotland) Accounts Advisory Committee (LASAAC).

- (e) The Board's advice to the Scottish Ministers will be restricted to the technical rules of accounting and to minimum disclosure requirements. It will not extend to the format of accounts or to disclosures beyond the minimum requirements.
 - (f) The Board's advice to the Executive Committee of the Northern Ireland Assembly will incorporate accounting, formatting and minimum disclosure requirements.
 - (g) The Board will examine all amendments to the guidance in respect of the bodies listed in (b) and (c) above, with the aim of ensuring that they comply with GAAP, and that departures or modifications from GAAP, due to public sector and spending control contexts, are fully explained and justified. The Board will also examine, with the same aim, amendments to accounts directions referred to the Board, issued by the Treasury, the Welsh Assembly Government, the Scottish Ministers and the Executive Committee of the Northern Ireland Assembly.
 - (h) The Board will prepare an annual report of its activities, including its views on the changes made during the period to the accounting guidance, or, as appropriate, accounts directions, issued by the Treasury, the National Assembly for Wales, the Scottish Ministers and the Executive Committee of the Northern Ireland Assembly. in respect of bodies listed in 2.1 (b) above and the Code, and will send a copy of its report direct to the Committee of Public Accounts and the Treasury Select Committee of the UK Parliament, the Welsh Assembly Government, the Scottish Ministers, the Executive Committee of the Northern Ireland Assembly.
- 2.2 The Treasury, (in conjunction with the Department of Health and Social Care in respect of NHS trusts in England and NHS Improvement as the Independent Regulator of NHS Foundation Trusts in England), the Welsh Assembly Government, the Scottish Ministers, the Executive Committee of the Northern Ireland Assembly and CIPFA/LASAAC in respect of local authorities in England, Wales, Scotland and Northern Ireland:
- (a) will ensure that all relevant matters, including proposed changes to the guidance or, as appropriate, accounts directions, in respect of accounts meeting the criteria in 2.1 (b) above and the Code, are brought to the Board's attention within a reasonable time. Changes to International Financial Reporting Standards and other elements of GAAP that affect such guidance or accounts directions will, as far as possible, be brought to attention in sufficient time to enable their implementation, as appropriate, within the same timescale as changes are to be made generally;
 - (b) will examine all issues raised by the Board within its terms of reference;
 - (c) will consider all advice received from the Board.
- 2.3 The Treasury, the Scottish Ministers, and the Executive Committee of the Northern Ireland Assembly, will formally lay the Board's report before the House of Commons, the Scottish Parliament and the Northern Ireland Assembly respectively. The Welsh Assembly Government submits the report to the Audit Committee of the National Assembly for Wales.
- 2.4 The Board will undertake a review of its effectiveness at least once every three years.
- 2.5 The Treasury will provide the secretariat to the Board.

3. Membership

3.1 The Board, analysed into four membership groupings will comprise:

Independent members

- An independent Chair, appointed following open advertisement, by the Head of the Government Finance Profession, with the consent of the Relevant Authorities;
- One member, a professional academic with relevant accounting or economics experience, appointed by the FRAB Nominations Committee following open advertisement;
- Two independent members, appointed by the FRAB Nominations Committee following open advertisement;
- One member nominated by the Financial Reporting Council.

Preparers/Users members

- Three members nominated by the Finance Directors of UK government departments from respectively, a department, a trading fund and a non-departmental public body;
- One member nominated by the National Statistician;
- One member nominated by the Ministry of Housing, Communities, and Local Government;
- One member (local authority preparer) nominated by CIPFA/LASAAC from its membership.

Auditor members

- One member nominated by the Comptroller & Auditor General;
- Two members nominated by other public sector audit bodies.

Relevant Authorities members

- One member nominated by the Treasury;
- One member nominated by the Scottish Ministers;
- One member nominated by the Executive Committee of the Northern Ireland Assembly;
- One member nominated by the Welsh Assembly Government;
- One member nominated by the Department of Health and Social Care;
- One member nominated by NHS Improvement the independent regulator of NHS Foundation Trusts; and
- One member nominated by the Chartered Institute of Public Finance and Accountancy.

3.2 Nominations for FRAB membership will be considered by the FRAB Nominations Committee, in accordance with its terms of reference.

- 3.3 There will be one parliamentary observer, nominated by the Government Chief Whip.
- 3.4 The FRAB Chairman will be appointed for three years, renewable once.
- 3.5 Members will normally be appointed for three years, with a rebuttable presumption that membership is renewable only once.
- 3.6 Temporary FRAB membership is permitted at the discretion of the FRAB Chair to cover the long-term absence of a FRAB member.
- 3.7 Alternates/ deputies are permitted to attend FRAB meetings at the Chair's discretion.
- 3.8 Other participants from the Relevant Authorities are permitted to participate in meetings if Relevant Authority members are unable to do so, purely to provide a Relevant Authority perspective and at the Chair's discretion.
- 3.9 Observers at FRAB meetings may be permitted, at the discretion of the FRAB Chair.
- 3.10 The FRAB membership will be subject to regular review by the FRAB Nominations Committee, covering succession planning.
- 3.11 The Board will meet as required each year in closed session to discuss matters relating to financial reporting as they arise.

4. Review of Terms of Reference

- 4.1 These Terms of Reference should be subject to regular review and at least every five years.