

# **21<sup>st</sup> Report of the Financial Reporting Advisory Board**

**Report for the period  
April 2017 to March 2018**

**HC 1844**

**SG/2019/2**



# 21<sup>st</sup> Report of the Financial Reporting Advisory Board: April 2017 to March 2018

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# Foreword

I would like to start by paying tribute to the members of the Board and the Treasury staff who support it. They are a high-quality group of people and have provided advice and support throughout the year across a range of complex issues. This has reinforced the importance of the FRAB in the scrutiny of Treasury proposals and accountability to Parliament for changes to the financial reporting framework. This year has seen considerable progress on adopting new accounting standards. Major updates on financial instruments and revenue have been successfully implemented, while work on the new leasing standard continues. This will require a major effort across the public sector to manage the impact of this substantial change, including aligning proposals across different sectors to ensure consistency and comparability.

The UK Government has a strong financial reporting system in place and is widely regarded as an international leader in this area. As I noted in my previous report, the financial statements are helpful documents to aid government decision-making and the wider management of the public finances. This remains a challenge for the Treasury, although I note the advances made in using the Whole of Government Accounts for this purpose and welcome the work of the Balance Sheet Review project.

There are challenges and opportunities ahead for the Board. The significant standard changes are now implemented or in progress so focus at the international level is shifting to the narrative reporting and how to explain the numbers. This is a key enabler to making the reports easier to understand for users and I look forward to working with the Treasury in the coming year on this and other areas of financial reporting policy.

Once again, I would like to thank the Treasury staff and the Board for their work.

# Chapter 1

## Introduction

### Background to the Financial Reporting Advisory Board

- 1.1 The Financial Reporting Advisory Board (the Board) is an independent body fulfilling the statutory role as the 'group of persons who appear to the Treasury to be appropriate to advise on financial reporting principles and standards' for government, as required by the Government Resources and Accounts Act 2000.<sup>1</sup>
- 1.2 The Board acts as an independent element in the process of setting accounting standards for government and exists to promote the highest possible standards in financial reporting by government. In doing so, the Board seeks to ensure that any adaptations of, or departures from, Generally Accepted Accounting Practice (GAAP) in the public sector context are justifiable and appropriate.
- 1.3 The Board's focus is on examining proposals for amending current, or implementing new, accounting policies in the accounting guidance for central government departments, executive agencies, non-departmental public bodies and trading funds, and for examining the proposals for accounting guidance for local authorities. The Board also advises HM Treasury on the implementation of accounting policies specific to Whole of Government Accounts (WGA).
- 1.4 Further information about the Board (including: membership, Terms of Reference, meeting minutes and papers) is available on the gov.uk website.<sup>2</sup>

### Background of the FRAB report

- 1.5 In accordance with its Terms of Reference, the Board has a responsibility to prepare an annual report of its activities, including its views on the changes made to accounting guidance within the Board's remit.
- 1.6 The Board is required to send a copy of its report direct to the Public Accounts Committee and the Treasury Select Committee of the UK Parliament, to the Welsh Government, the Scottish Ministers and the Department of Finance (Northern Ireland).
- 1.7 HM Treasury, the Scottish Ministers, and the Department of Finance (Northern Ireland) formally lay the Board's report before (respectively) the

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<sup>1</sup> <http://www.legislation.gov.uk/ukpga/2000/20/section/24>

<sup>2</sup> <https://www.gov.uk/government/policy-advisory-groups/financial-reporting-advisory-board-frab>

House of Commons, the Scottish Parliament, and the Northern Ireland Assembly. The Welsh Government submits the report to the Public Accounts Committee of the National Assembly for Wales.

1.8 This is the Board's 21<sup>st</sup> report.

**Box 1.A: Representatives include the following organisations who are members or observers to the Board**





## Chapter 2

# Financial Reporting Advisory Board membership during 2017-18

*Chair:* Ian Mackintosh, Independent member

*Independent/ External members:*

Anthony Appleton

Andrew Buchanan

Ron Hodges (until Mar 18)

Veronica Poole (until Mar 18)

*Preparers/ Users:*

Bob Branson (until Mar 18)

Gareth Caller

Ruth Elliot (until Feb 18)

David Hobbs (until Nov 17)

Joseph McLachlan

Bob Richards (from Nov 17)

Ian Webber

*Auditors:*

David Aldous

Karl Havers

Russel Frith (until Nov 17)

Fiona Kordiak (from Mar 18)

*Relevant Authorities:*

Andrew Baigent (until June 17)

Ian Bulmer (from Nov 17)

Gawain Evans

Joanne McBurney

Vicky Rock (until June 17)

Alison Scott (until Dec 17)

Christopher Young (from Nov 17)

Aileen Wright

*Parliamentary Observer:*

Craig Mackinlay MP

*The following members have joined the Board post March 2018:*

Richard Barker

Pam Beadman

Iain King

Andrea Pryde

Ian Ratcliffe

Stuart Stevenson

Sarah Sheen

# Chapter 3

## Summary of Board activities in 2017-18



### Accounting Standards

- Overseeing the IFRS 9 *Financial Instruments* implementation plan
- Overseeing the IFRS 15 *Revenue from Contracts with Customers* implementation plan
- Providing advice to the Relevant Authorities on implementation of the new standards
- Scrutinising the IFRS 16 *Leases* implementation plan across the public sector



### Public Sector Reporting Landscape

- Monitoring of key developments in the use of non-financial reporting
- Monitoring of the government's work to improve capability across the finance function
- Receiving updates on the Conceptual Framework and IFRIC
- Receiving international financial reporting updates
- Receiving updates on two recent Parliamentary Select Committee enquiries



### Developments from HM Treasury

- Agreeing a change in the discount rate methodology for discounting general provisions with application from 2018-19
- Receiving updates on the public sector balance sheet review project and contingent liabilities approvals framework
- Making recommendations on the form and content of the Whole of Government Accounts 2015-16
- Agreeing both the 2017-18 and 2018-19 FReM



### Other Relevant Authorities

- Approving relevant financial reporting guidance
- Recommending consistency across the public sector
- Advising on the treatment of the Apprenticeship Levy in financial statements
- Discussed the requirements for the annual account to the Scottish Parliament of Devolved Taxes



### National Audit Office

- Receiving an NAO report on the 2016-17 accounts preparation cycle
- Noting the value of the NAO's perspective on the quality of financial reporting



### Governance and Future Work

- Agreeing revised Terms of Reference
- Agreeing a forward agenda to ensure future developments are tracked
- Monitoring changes in the relevant national and international financial reporting environments
- Overseeing proposed changes due to the PACAC report recommendations

# Chapter 4

## Board activities in 2017-18

### Introduction

- 4.1 This chapter describes the developments in financial reporting in the public sector, both new and continuing, which were considered by the Board during 2017-18. Papers and minutes from those meetings are available on the gov.uk website.<sup>1</sup>
- 4.2 In addition to continuing work on known developments in financial reporting, the Board monitors international developments in accounting standards which may have implications for public sector financial reporting in the United Kingdom and in which the Board has an interest. These include consultation documents issued by the International Accounting Standards Board (IASB), the International Financial Reporting Standards (IFRS) Interpretations Committee (IFRIC) and the International Public Sector Accounting Standards Board (IPSASB).
- 4.3 This chapter also highlights the key work HM Treasury and other Relevant Authorities<sup>2</sup> have undertaken in their role as the financial reporting standard setters for central government and the rest of the public sector.
- 4.4 The Board's future work on accounting standards will include considering the public sector implications of new standards on leases and insurance contracts and active monitoring of the International Public Sector Accounting Standards (IPSAS).

### Accounting Standards

- 4.5 Any changes to accounting standards undergo a comprehensive process from the first announcement by the IASB to the final adoption of the standard by the public sector. It is important that the effect on the financial statements of public sector bodies due to new accountancy standards is carefully considered. The Board plays a major part of this process, reviewing all stages of the implementation project including the potential need for specific public sector adaptations and interpretations, and making recommendations as to what format they should take.
- 4.6 Over the period of this report, the Board has overseen the final preparations for the introduction of 2 new accounting standards – IFRS 9 *Financial*

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<sup>1</sup> <https://www.gov.uk/government/collections/hmt-financial-reporting-advisory-board-minutes>

<sup>2</sup> Relevant Authorities are set out in the Terms of Reference and consist of HM Treasury, Department of Health and Social Care, NHS Improvement, the Executive Committee of the Northern Ireland Assembly, Scottish Government, Welsh Government and CIPFA.

*Instruments* and IFRS 15 *Revenue from Contracts with Customers*<sup>3</sup>, and have been heavily involved in the on-going implementation process for IFRS 16 *Leases*.

## IFRS 9 – Financial Instruments

- 4.7 The introduction of this new standard in the public sector from 1<sup>st</sup> April 2018 followed a 4-year implementation plan which the Board had close oversight of throughout. The Board provided expert opinion on the proposed application of the standard as well as ensuring the adaptations and interpretations of the standard for the public sector were appropriate and fit for purpose.
- 4.8 The Board focused on ensuring the application guidance was clearly written, to reduce opportunity for misinterpretation of the guidance, including clarity around possible exemptions of certain bodies from part of the 3-stage expected credit loss model. The detailed application guidance to support implementation was agreed by the Board before publication by HM Treasury in December 2017<sup>4</sup>.

## IFRS 15 – Revenue from Contracts with Customers

- 4.9 IFRS 15 followed a similar implementation project plan and timetable to IFRS 9 and, was again, closely monitored by the Board. After some debate, the Board agreed the public sector interpretations and adaptations of IFRS 15, to ensure consistency of revenue recognition and improvement in the usefulness of the financial statements. Further details of the adaptations and interpretations to the standard can be found in the application guidance<sup>5</sup>.
- 4.10 The Board monitored the implementation process throughout the year, receiving regular updates from the Relevant Authorities. The Board paid significant attention to the content of the application guidance and made specific recommendations. These included suggesting that the guidance should emphasise the importance of applying materiality when considering relevant disclosures, to ensure that the extensive disclosure requirements of IFRS 15 would not be too burdensome to public sector bodies. After the Board's agreement, the final application guidance was issued in December 2017.

## IFRS 16 – Leases

- 4.11 A key priority for the Board is to ensure that the IFRS 16 *Leases* standard is implemented appropriately. The standard is applicable for reporting periods beginning on or after 1 January 2019, so the implementation project will run further than the period covered by this report. Oversight of the

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<sup>3</sup> IFRS 9 and IFRS 15 will be adopted by the public sector on 1<sup>st</sup> April 2018

<sup>4</sup>

[https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/669332/IFRS\\_9\\_Financial\\_Instruments\\_-\\_public\\_sector\\_application\\_guidance\\_Decem....pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/669332/IFRS_9_Financial_Instruments_-_public_sector_application_guidance_Decem....pdf)

<sup>5</sup>

[https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/669334/IFRS\\_15\\_Application\\_Guidance.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/669334/IFRS_15_Application_Guidance.pdf)

implementation project has taken a considerable amount of the Board's attention during the year.

- 4.12 The Board retained oversight of the implementation plan for IFRS 16, including receiving a summary of the decisions and initial conclusions of the HM Treasury technical working group. The Board noted the 3 areas where interpretations to IFRS 16 are being considered:
- all short-term leases should be exempt from applying IFRS 16
  - clarifying the definition of a contract where there is no enforceability in Crown-to-Crown agreements
  - mandating the choice of certain options available on transition
- 4.13 The Board discussed the implications of these potential interpretations, agreeing that it would be appropriate to mandate the exemption for short-term leases in the public sector to maintain consistency, as well as that the revised definition of a contract should be included as a legitimate public sector interpretation. The Board recommended that the Financial Reporting Manual (FRM) should not specify a monetary value for which assets would be determined as low value but that instead, HM Treasury could offer some guidance to assist preparers.
- 4.14 The Board scrutinised the responses from the initial impact assessment, undertaken across August and September 2017. Whilst the responses identified some 55,000 leases in central government and 75,000 in the public sector as a whole, the Board stated it believed this was an understatement of the number of leases across the whole of government and expected this number to increase as departments undertake more work on the implementation of IFRS 16.
- 4.15 The Board made several recommendations to improve and focus attention on the initial Exposure Draft before it was issued in the summer of 2018.
- 4.16 The potential misalignment on the recognition of leases between IFRS 16 and European System of Accounts 2010 (ESA 10) is the most significant since the adoption of IFRS, and will influence transition arrangements as well as accounting policy choices. The Board paid close attention to this issue and recognises the importance of maintaining the Clear Line of Sight principal where ever possible. The Board appreciated this potential misalignment would go against this principal of consistent reporting across budgets and National Accounts, and therefore received updates from the Office for National Statistics (ONS) and HM Treasury during the year on efforts to find a resolution. The ONS informed the Board that it will continue to assess this divergence, with a view to address the alignment challenge during 2018.
- 4.17 The Board highlighted to the Relevant Authorities the importance of the public sector implementing accounting standards in line with the IASB timetable, but also showed an understanding that the above misalignment issue was public sector specific. The Board has therefore requested to continue to receive regular updates on the above potential misalignment in the coming year, including an update on the action plan from the ONS and HM Treasury on how they intend to reach a conclusion. The Board requested

this action plan includes a timeframe which would specifically highlight any proposed delay in implementation.

- 4.18 The Board stressed to all Relevant Authorities the importance of a unified approach to adaptation across the public sector and provided challenge to those areas where divergences between central and local government accounting could arise. The Board encouraged the Relevant Authorities to work together closely to minimise the risk of divergence and requested that if any divergence was to be proposed, that the Relevant Authority would provide the Board with a strong argument of rationale to do so.
- 4.19 The Board will continue to consider further proposed adaptations for the public sector as a result of continuing consultations and working group discussions.

## Public Sector Reporting Landscape

- 4.20 The breadth of expertise across the Board allows best practice in the private sector to inform application in the public sector. There have been a number of developments in the financial reporting landscape over the 2017-18 financial year and the Board places high importance in maintaining its awareness of them and the implications on the public sector reporting landscape. The Board actively continues to be involved in discussions about changes that are or could affect the way public sector financial reporting operates.

## Non-financial reporting

- 4.21 Non-financial reporting regulations are important in the public sector. There are a number of different government documents that cover the requirements set by the Non-Financial Reporting Regulations. Some of these the Board has no oversight of, for example, Single Departmental Plans (SDPs) and Public Expenditure System guidance but others fall under the remit of the Board, for example the FReM.
- 4.22 There have been several developments during the year to enhance non-financial reporting in the public sector. The Board agreed the key elements of the Non-Financial Reporting Regulations<sup>6</sup> and the Financial Reporting Council (FRC) Guidance on the Strategic Report<sup>7</sup> that are reflected in the 2017-18 FReM to maintain alignment of public sector reporting with best practice in the private sector.

## Capability across government

- 4.23 The Board noted the work underway to improve financial capability across government and that the Comptroller and Auditor General (C&AG) had raised some concerns about capability within the Government Finance Function.

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<sup>6</sup> Introduced for periods beginning on or after 1 January 2017, for entities with a Public Interest, with over 500 employees, as result of EU Directive (2014/95/EU)

<sup>7</sup> <https://www.frc.org.uk/getattachment/fb05dd7b-c76c-424e-9daf-4293c9fa2d6a/Guidance-on-the-Strategic-Report-31-7-18.pdf>

- 4.24 The Board sought assurance from HM Treasury that it is providing ongoing assistance to departments on the introduction of IFRS 9 and IFRS 15, which had been identified as particular areas of concern. Support is being provided to improve the quality of financial reporting and guidance has been issued on the application of the new standards. There has been extensive departmental engagement through technical working groups, professional training and workshops.
- 4.25 HM Treasury also informed the Board of the programme of work the Government Finance Function is undertaking to actively build financial management capability across government, ensuring that the right resources with the necessary skills are allocated effectively. The recently created Technical Accounting Centre of Excellence, will form a key role in supporting departments and providing high quality advice and understanding of financial reporting across government. The Board welcomed these actions to address the areas of concern and will monitor how this develops in forthcoming periods.

## Conceptual Framework

- 4.26 Before the revised Conceptual Framework was published by the IASB in March 2018, the Board received an update covering the main points that were revised.<sup>8</sup>
- 4.27 The Board is aware that this revised Conceptual Framework will have implications on public sector financial reporting in the future. Therefore, the Board will keep sight of updates and implications by including the Conceptual Framework on its forward agenda, so the Board is able to consider any proposed changes to public sector reporting guidance that may arise in the future.
- 4.28 The Board also discussed a review of IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* in line with the new Conceptual Framework, IFRS 3 *Business Combinations* and its relevance to the public sector and the implementation of IFRS 15.

## IFRIC update

- 4.29 During the year, the Board received updates on the outcomes of the meetings of the IFRS Interpretations Committee (IFRIC). These updates included the decisions finalised by the Committee, new IFRIC interpretations currently being reviewed by the European Financial Reporting Advisory Group (EFRAG) and other related matters (such as the Committee's work in progress).
- 4.30 The Board agreed the updates received were very helpful in assisting the Board with keeping abreast of changes occurring in the international financial reporting landscape, especially those that could impact the United Kingdom public sector financial reporting landscape. Due to the importance

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[https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/718024/FRAB\\_\\_132\\_\\_07\\_Conceptual\\_Framework.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/718024/FRAB__132__07_Conceptual_Framework.pdf)

the Board has placed on these updates, the Board added the IFRIC updates as a regular item on its forward agenda.

## International update

- 4.31 The Board received updates on International Financial Reporting Standards, International Public Sector Accounting Standards (IPSAS) and European Public Sector Accounting Standards (EPSAS). HM Treasury informed the Board that Eurostat has been working with member states and other stakeholders in developing more concrete proposals for the EPSAS framework. The discussions at the EPSAS working group aligned with the IPSAS Board (IPSASB) work programme, featuring heritage assets, social benefits, and infrastructure assets.
- 4.32 In March 2018, the Chair of IPSASB, Ian Carruthers, presented the work of IPSASB and its future strategy to the Board. Ian also provided the Board with an overview of IPSASB and its work to set international accountancy standards for the public sector, including the processes IPSASB use for determining whether IPSAS should converge with IFRS, and procedures for dealing with differences with statistical standards. The Board was provided with an international comparison of compliance with IPSAS, along with data regarding global adoption of accrual based accounting in the public sector.
- 4.33 A forward look of IPSASB's proposed projects from 2019 onwards was highlighted to the Board, with future plans to include 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. The Board is keen to ensure that the international financial reporting landscape remains on its forward agenda.

## Parliamentary Select committee inquiries

- 4.34 The Board was advised of the two recent UK Parliamentary inquiries, one on the Estimates process and the other on the utility of departmental annual reports and accounts and management accounts.
- 4.35 The Board was informed that the Procedure Committee held an inquiry looking at the authorisation of government spending through the Supply Estimates process. The Board was updated on both the conclusions and recommendations made by the Committee, and the government response to the Procedure Committee report in December 2017. The Committee concluded that the current Estimates arrangements lack effectiveness because the number of allocated Parliamentary days for debate on the process do not focus on the Estimates themselves. The Committee recommended improvements to the format of the documentation to improve ease of use and understanding for both Parliamentarians and other users.
- 4.36 The Board also noted that the Public Administration and Constitutional Affairs Committee (PACAC) had produced a report following its review of departmental management accounts and financial reporting. The Board received a summary of the conclusions and recommendations made by The Committee which are as follows:



- Accruals accounting gives confidence in the annual reports and accounts currently prepared by central government entities.
- The Committee was supportive of the steps taken to simplify and streamline the accounts.
- The report recommended making resource accounts even more useful by including further analysis of expenditure, improving performance information and ensuring the performance report is fair and balanced, as well as suggesting a number of additional reporting requirements.
- The Committee proposed that the Board itself should be open to wider membership such as representatives from users of the accounts, although recognised this may lead to some practical difficulties.

4.37 The Board agreed to consider the recommendation on Board membership and explored other elements of the Committee's recommendations in some depth. The Board questioned whether it was suitable for large volumes of additional information to be included in annual reports and accounts and questioned whether other vehicles to report information may be more suitable.

4.38 The government responded to the PACAC report in June 2018 which included committing to a review of the Annual Report and Accounts during the 2018-19 financial year. To assist with the review HM Treasury has set up an Advisory Board, and invited some members of the Board to join it. The Board will continue to monitor the findings from the review and changes to financial reporting as a result of the inquiry.

## Developments from HM Treasury

4.39 The Board plays an important role as advisors to HM Treasury on financial reporting and its part in the new accountancy standards is covered above. HM Treasury, in its role as a Relevant Authority, provides the Board with regular updates in other areas of its work in financial reporting and management.

## Financial Reporting Manual (FReM) 2017-18 and 2018-19

4.40 The FReM is HM Treasury's technical accounting guide to the preparation of financial statements. It provides guidance on the application of IFRS, adapted and interpreted for the public sector context.

4.41 The Board considered and agreed the updates to the 2017-18 FReM. The 2017-18 FReM and its illustrative statements for application were amended during the year to improve clarity, to make minor corrections and to reflect the introduction of non-financial reporting regulations. The Board provides a valuable review of the guidance as part of quality assurance and confirming the appropriateness of the guide.

4.42 The Board also agreed the changes to the 2018-19 FReM and illustrative statements, which included updates to reflect the introduction of IFRS 9 and IFRS 15.

- 4.43 The Board discussed the accounting treatment for the Apprenticeship Levy in the public sector. The Board agreed with HM Treasury's public sector interpretation that it is deemed a grant when paid and therefore covered under IAS 20 and recommended that guidance should be included in the FReM.
- 4.44 The Board noted that CIPFA and the Department of Health and Social Care, as other Relevant Authorities, agreed to follow the same accounting treatment for the Apprenticeship Levy as HM Treasury.

## Discount rates

- 4.45 Discount rates are used in producing a balance sheet valuation of certain assets and liabilities. However, the discount rates issued by HM Treasury for general provisions had become negative, prompting a review of discount rates used for general provisions.
- 4.46 The Board agreed with HM Treasury's proposal to carry out an in-depth review into the discount rate methodology that was currently in operation. HM Treasury subsequently presented a paper to the Board on this review, which assessed the discount rate methodology used and whether it still met the requirements of accounting standards. The Board discussed the application of real and nominal rates and how this works in the private sector.
- 4.47 After evaluation of the findings of the review, the Board recommended that HM Treasury move to the application of using nominal discount rates when discounting general provisions and to introduce an additional discount rate for very long-term liabilities. The two advantages of this methodology change are that it avoids the issuance of negative rates (due to the low interest rate environment, historic real rates issued by HM Treasury have been negative) and aligns public sector accounting with best practice. HM Treasury accepted this recommendation and have advised the Board it intends to publish updated rates for use in discounting from 2018-19.

## Balance Sheet Review and contingent liabilities

- 4.48 An important feature of the Board's oversight role is to keep up to date with some of the projects the Relevant Authorities are undertaking, which have an impact on financial reporting.
- 4.49 As such, the Board welcomed HM Treasury Balance Sheet Review Team's presentation on its work to analyse the public sector balance sheet and public sector Contingent Liabilities Approval Framework which set out the scope and objectives of the review. HM Treasury highlighted to the Board the high level of international interest, and that the review's objectives were to improve value for money and financial management of public sector assets and liabilities.
- 4.50 HM Treasury also presented details of the government Contingent Liabilities Approval Framework. HM Treasury set out the new control framework, explaining to the Board how it could help to both reduce risk and improve the Treasury's ability to monitor risk across government.

## Whole of Government Accounts (WGA)

- 4.51 In its role to advise HM Treasury on the implementation of accounting standards in WGA, the Board receives regular notices on progress on the preparation of the account and issues arising.
- 4.52 The Board received an overview from HM Treasury of the 2015-16 WGA.<sup>9</sup>
- 4.53 The Board received an explanation from HM Treasury as to the reasons behind the changes in the value of assets and liabilities in the account. These changes were due to the change in discount rates which had significantly increased the value of provisions. The Board suggested to HM Treasury it should do more to explain the significant movements in pensions and provisions, including highlighting the underlying drivers and affected liabilities.

## Other Relevant Authorities

- 4.54 In its advisory role, the Board requests updates from a number of the other Relevant Authorities. After receiving these updates, the Board provides its expert opinion and approval of some key financial reporting guidance.

## Group Accounting Manual (GAM) 2018-19 (Department of Health and Social Care)

- 4.55 The Department of Health and Social Care's (DHSC) Group Accounting Manual meets the requirements of the FReM and provides technical guidance to DHSC group bodies.
- 4.56 As part of the annual cycle of review of financial reporting guidance in the public sector, the Board considered the first draft of the 2018-19 GAM presented by DHSC.
- 4.57 A sub-group of the Board was convened to review the draft GAM, which led to this document being agreed by the Board ahead of publication in April 2018.

## CIPFA/ LASAAC 2018-19 Code

- 4.58 The Board considered and agreed the CIPFA/LASAAC Code of Practice on the Local Authority Accounting in the United Kingdom (the Code) for 2018/19 which included the updates in respect of IFRS 9 and IFRS 15 as well as other narrow scope amendments to IFRS as adopted by the Code and other clarifications. The Board noted that the Code follows the FReM and its' interpretations of IFRS 9 but had not mandated the IFRS 9 simplified approach to impairment. Due to this, the Board advised HM Treasury it may need to ask for additional information from the local government sector when preparing Whole of Government Accounts.
- 4.59 CIPFA advised the Board in an out of meeting paper that where possible, CIPFA/LASAAC's approach was to align with the FReM on IFRS 16 but there

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<sup>9</sup> HM Treasury published the WGA on 13 July 2017, <https://www.gov.uk/government/publications/whole-of-government-accounts-2015-to-2016>

was one potential ongoing difference in relation to IFRS 16 that was not relating to differing circumstances and a small difference in the transitional reporting area.

- 4.60 CIPFA also advised the Board of CIPFA/LASAAC's intention to consider a delay in implementing IFRS 16 across local government to 2020-21. The Board discussed the potential implications of this delay which could lead to inconsistencies across the public sector. The Board noted that any deviation from central government would cause a misalignment in WGA and a potential audit qualification, although the Board was mindful of the misalignment issues that central government are currently facing, relating to misalignment between the central government budgeting and accounting frameworks, and the potential impact this could have on the central government implementation date of IFRS 16 (as discussed in paragraphs 4.16 – 4.17 of this report). The Board agreed that any case for deviation between local government and central government should be rigorously analysed and tested. Following consideration of the Board's comments CIPFA/LASAAC agreed to consult on the same approach as the FReM for consideration of the effective date of adoption of the standard and keep abreast of any updates from central government on their proposed implementation date.
- 4.61 CIPFA also advised the Board of its forthcoming public consultation on IFRS 16 and outlined the proposals within it, including mandating short-term lease exemptions and its preference for the revaluation model when it comes to the subsequent valuation of the right-of-use asset, this relating primarily to material leases of property.
- 4.62 CIPFA provided the Board with regular updates to issues arising in local government financial reporting. In this regard, CIPFA informed the Board that local authorities would be closing their accounts at the end of May 2018 with the audit completed at the end of June. The Board considered that this would help with the timing of the WGA consolidation.

## Devolved administrations

- 4.63 The Board discussed the Devolved Tax Account of the Scottish Government and the accounting treatment for it. The Board considered and approved the FReM text update applying the FReM principles for Trust accounts and equivalent disclosures to the annual account to be produced of the Devolved Taxes in Scotland.

## National Audit Office (NAO)

- 4.64 The NAO scrutinises public spending, including the audit of financial statements of all central government departments, agencies and other public bodies, and then report the results of the audit to Parliament.
- 4.65 The NAO provided regular updates to the Board drawn from its work with public sector bodies. In particular, the NAO highlighted to the Board that the 2016-17 central government accounts preparation and audit cycle had seen more work concentrated into the latter stages of the timetable than in

previous years. Work by preparers and auditors appeared to have been greater and later than planned, even though this had been a period of relative stability in the financial reporting landscape. The NAO emphasised that a period of greater change in accounting requirements is ahead, which will lead to greater challenges for preparers and auditors. Earlier engagement between finance and audit teams, and better critical path management, will be needed to take pressure off the period immediately before the Parliamentary Recess when most accounts are laid.

- 4.66 The Board responded to the NAO by reiterating how valued both the NAO's perspective on the quality of financial reporting is, as well as the efforts of the NAO to support entities to improve their financial reporting.

## Governance and future work

### FRAB terms of reference

- 4.67 The Board reviewed its terms of reference and agreed to review board effectiveness every three years. Other minor updates to its terms of reference were also agreed.<sup>10</sup>

### FRAB forward agenda

- 4.68 As highlighted by the Board throughout this report, the Board has an important role in maintaining its awareness of changes in the public sector reporting landscape, in both the national and international arena. The Board recognises that the public sector reporting landscape will continue to develop over the coming years and understands that it plays a pivotal role in ensuring public sector financial reporting quality is maintained. Therefore, the Board regularly considers the forward agenda for discussion in future Board meetings. A summary of those areas which the Board will be prioritising for next year is below.
- 4.69 The Board highlighted the importance of ensuring that the agenda tracks potential future changes as a result of the IFRIC work and other changes to financial reporting including the application of the revised Conceptual Framework which will come into effect in 2020.
- 4.70 The Board will continue to monitor the implementation of IFRS 9 and IFRS 15. The Board will also continue to be actively involved in the implementation of IFRS 16, including receiving updates from the Relevant Authorities and agreeing the detailed public sector application guidance.
- 4.71 The Board will receive updates on other new accounting standards, specifically IFRS 17 *Insurance Contracts* to ensure the Board has early input into the implementation plan, exposure draft and application guidance across the public sector.
- 4.72 The Board intends to carry out active monitoring of IPSAS exposure drafts and consider the impact on UK public sector reporting.

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<sup>10</sup> <https://www.gov.uk/government/publications/financial-reporting-advisory-board-terms-of-reference>

- 4.73 The Chair has invited a representative from the European Financial Reporting Advisory Group to present at a future Board meeting to ensure the Board is aware of developments in the international financial reporting environment.
- 4.74 The Board requested regular updates from HM Treasury on the response to the PACAC report on government accounts as the Board will need oversight of any proposed changes in financial reporting.
- 4.75 The Board will continue to review the technical guidance published by Relevant Authorities in their accounting Manuals and Codes.

# Annex A

## Board meeting and topic of discussion

Accounting standard or reporting issue	Board meeting and topic of discussion		
	June 2017	November 2017	March 2018
<b>IFRS</b>			
IFRS 9, <i>Financial instruments</i>	✓		
IFRS 15, <i>Revenue from Contracts with Customers</i>	✓		
IFRS 16, <i>Leases</i>	✓	✓	✓
<b>Other issues</b>			
<i>Discount rates</i>	✓	✓	
<i>Whole of Government Accounts (WGA)</i>	✓		
<i>Local government Update/ CIPFA/LASAAC Code</i>	✓	✓	✓
<i>FReM 2017-18 and 2018-19</i>		✓	
<i>FRAB Terms of Reference</i>			✓
<i>International Update</i>	✓		
<i>Conceptual Framework</i>			✓
<i>Balance sheet review and contingent liabilities</i>			✓
<i>IFRIC Update</i>			✓
<i>Health Manual</i>		✓	
<i>IPSAS Board Update</i>			✓
<i>Public sector financial reporting landscape</i>			✓

Accounting standard or reporting issue	Board meeting and topic of discussion		
	June 2017	November 2017	March 2018
<i>NAO Update</i>			✓
<i>Forward Work Programme</i>	✓	✓	✓
<i>Parliamentary hearings on accounts</i>	✓		
<i>FRAB Annual Report 2016-17</i>		✓	



## Annex B

# Board attendance and future meetings

Name	Jun 2017	Nov 2017	Mar 2018
<b>Chair</b>			
Ian Mackintosh	✓	✓	✓
<b>Independent / external members</b>			
Andrew Buchanan	✓	✓	✓
Anthony Appleton	✓	✓	✓
Ron Hodges (until Mar 18)	✓	✓	✓
Veronica Poole (until Mar 18)	✓		✓
<b>Preparers / users</b>			
Gareth Caller	✓	✓	✓
David Hobbs (until Nov 17)	✓	✓	N/A
Bob Richards (from Nov 17)	N/A	✓	✓
Bob Branson (until Mar 18)		✓	✓
Ruth Elliot (until Feb 18)	✓	✓	N/A
Ian Webber	✓	✓	✓
Joseph McLachlan	✓	✓	✓
<b>Auditors</b>			
David Aldous	✓	✓	✓
Russel Frith (until Nov 17)	✓	✓	N/A

Fiona Kordiak (from Mar 18)	N/A	N/A	
Karl Havers	N/A	✓	✓
<b>Relevant authorities</b>			
Aileen Wright	✓	✓	✓
Andrew Baigent (until June 17)	✓	N/A	N/A
Christopher Young (from Nov 17)	N/A	✓	
Alison Scott (until Dec 17)	✓	✓	N/A
Joanne McBurney	✓		✓
Gawain Evans	✓	✓	
Vicky Rock (until June 17)	✓	N/A	N/A
Ian Bulmer (from Nov 17)	N/A		✓
<b>Parliamentary Observer</b>			
Craig Mackinlay MP			

### Future FRAB meetings

- 18 June 2018
- 22 November 2018
- 21 March 2019

All meetings take place at HM Treasury, 1 Horse Guards Road, London, SW1A 2HQ



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