

22nd Report of the Financial Reporting Advisory Board

**Report for the period
April 2018 to March 2019**

HC 2446

SG/2019/104

22nd Report of the Financial Reporting Advisory Board: April 2018 to March 2019

Presented to the House of Commons pursuant to Section 24(4) of the
Government Resources and Accounts Act 2000

Laid before the Northern Ireland Assembly under Section 20(3) of the
Government Resources and Accounts Act (Northern Ireland) 2001 by the
Department of Finance

The report is laid before the Scottish Parliament and presented to the
Audit and Finance Committees of the Scottish Parliament by agreement
with the Scottish Ministers

The report is submitted to the Public Accounts Committee of the National
Assembly for Wales by the Welsh Assembly Government

Ordered by the House of Commons to be printed on 11 July 2019

HC 2446

SG/2019/104



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ISBN978-1-5286-1493-1

CCS0619531692

07/19

Printed on paper containing 75% recycled fibre content minimum

Printed in the UK by the APS Group on behalf of the Controller of Her Majesty's Stationery Office

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Foreword

Foreword from Ian Mackintosh (Chair to May 2019)

This is my final Foreword as Chair as after three years I have retired. The Board's April meeting was my last. I have taken this decision to retire due to my move to Australia and it is no longer practical for me to continue as Chair of the Board.

We have achieved many things during my term as Chair. In particular, we have dealt with the introduction of a number of important IFRS standards including IFRS 9 *Financial Instruments*, IFRS 15 *Revenue from Contracts with Customers* and IFRS 16 *Leases*. We also resolved a difficult situation in relation to discount rates, and one which has seen a move to the application of nominal rates in the discounting of general provisions in the public sector. These issues have been challenging and the Board has played a critical role in providing advice to the Relevant Authorities in their application in the public sector.

We are moving to closer working with Local Government and CIPFA/LASAAC. This will lead to better consideration and resolution of Local Government issues and greater alignment with central government reporting and the rest of the public sector.

I have been impressed by the work done and presented to the Board on using financial statements for better financial management and balance sheet management, particularly in respect of HM Treasury's project on the Balance Sheet Review and Contingent Liabilities approval framework. These will lead to greater efficiencies in the running of government finances and are world leading initiatives. I am confident that the UK remains an exemplar in public sector financial reporting and management.

The staff of HM Treasury who work with, and assist me, have continued to impress. They are helpful and cooperative and have fine knowledge of the issues the Board consider and provide advice on.

The Board is a large, diverse, and an interesting group of people. They have worked wonderfully together over the last three years and it has been a pleasure to be Chair of the Board. Their skills and expertise are impressive and have brought critical challenge and discussion to the issues we have faced. New members to the Board this year have brought invaluable skills and expertise. I have no doubt that the Board have contributed to significant improvements in the quality of financial reporting in the UK public sector. I am sure that they will work in the same manner with the new Chair.

I would like to thank HM Treasury for giving me the honour and pleasure of being Chair of the Financial Reporting Advisory Board. I am sad that circumstances have

forced me to retire from the position. It has been challenging, stimulating and, sometimes, fun. I wish the new Chair and the Board all the best in the future.

Ian Mackintosh

Foreword from Lynn Pamment (Chair from May 2019)

I am honoured to have been appointed as the Chair of FRAB from May 2019. My first task is to thank Ian Mackintosh for all the work he has undertaken as the Chair of FRAB over the past three years. He has led the Board capably through an extremely busy phase with the implementation of major new standards into public sector reporting in the UK. His skill and expertise will be missed by the Board and, on behalf of the Board I offer thanks and best wishes for his move back to Australia.

The forward work programme of the Board continues to be busy. Our programme will include post implementation reviews of IFRS 9 *Financial Instruments* and IFRS 15 *Revenue from Contracts with Customers* and we will continue to monitor and challenge the implementation of IFRS16 *Leases* and IFRS 17 *Insurance Contracts*. We will continue to monitor closely the developments in the wider reporting landscape, including the work of IFRS IC, IASB, IPSASB and the FRC, and will work with HM Treasury and the other relevant authorities in considering the impact of these developments on the UK public sector reporting requirements.

HM Treasury has undertaken an extensive review of the quality of financial reporting during 2019. A review of the FReM is now being undertaken as a result of this work and I look forward to working with the Board to challenge HM Treasury as it seeks to make improvements to the government financial reporting landscape.

A key aspect of the work of the Board in the forthcoming year will be continuing to monitor the implementation of the government financial reporting review resulting from HM Treasury's response to the PACAC report on government financial reporting. The Board is supportive of plans to improve the usability of government financial reporting and I look forward to engaging with a wide range of stakeholders on this important work.

From my limited work with the Board and the relevant authorities so far, I have been extremely impressed with their skills, expertise and commitment to excellence in financial reporting. I am looking forward to leading the work of the Board in 2019 and beyond.

Lynn Pamment

Chapter 1

Introduction

Role of 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 2000.¹
- 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.²

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 Northern Ireland Executive.
- 1.7 HM Treasury, the Scottish Ministers, and the Northern Ireland Executive formally lay the Board's report before (respectively) the House of Commons, the Scottish Parliament, and the Northern Ireland Assembly. The Welsh

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

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

Government submits the report to the Public Accounts Committee of the National Assembly for Wales.

1.8 This is the Board's 22nd 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 2018-19

Chair: Ian Mackintosh, Independent member

Independent/ External members:

Anthony Appleton
Andrew Buchanan

Richard Barker (from June 18)
Andrea Pryde (from June 18)

Preparers/ Users:

Pam Beadman (from June 18)
Iain King (from June 18)
Bob Richards

Gareth Caller
Joseph McLachlan
Ian Webber

Auditors:

David Aldous
Fiona Kordiak

Karl Havers

Relevant Authorities:

Ian Bulmer (until June 18)
Ian Ratcliffe (from June 18)
Sarah Sheen (from June 18)
Stuart Stevenson (from June 18)

Gawain Evans
Vicky Rock (from Nov 18)
Aileen Wright
Christopher Young

Parliamentary Observer:

Craig Mackinlay MP

Larry Honeysett

The following members have joined the Board post March 2019:

Lynn Pamment

Chapter 3

Summary of Board activities in 2018-19

The Board's activities to promote the highest possible standards in financial reporting by government in 2018-19 are summarised below.



Accounting Standards

Continuing to oversee the implementation of IFRS 9 and IFRS 15

Scrutinising the IFRS 16 *Leases* implementation plan and proposed adaptations across the public sector

Agreeing to a one year deferral for the implementation of IFRS 16 across the public sector to April 2020

Supporting a consistent public sector approach to the implementation of IFRS 16

Analysing the implications of the new Standard, IFRS 17 *Insurance contracts*



Public Sector Reporting Landscape

Receiving updates from IFRS IC, EFRAG, the FRC and IASB

Analysing the implications on public sector financial reporting of the updates received

Discussing the impact on the endorsement process of new accounting standards post Brexit

Agreeing no changes are needed to public sector accounting guidance following the IASB's annual improvement cycle updates



Developments from HM Treasury

Advising on the discount rate project and agreeing the new discount rate methodology for discounting general provisions, with application from 2018-19

Discussing the outcome of the Government financial reporting review

Making recommendations on the form and content of the Whole of Government Accounts 2016-17

Agreeing both the 2018-19 and 2019-20 FReM



Other Relevant Authorities

Approving relevant financial reporting guidance

Monitoring and advising on the importance of consistency across the public sector

Following the CIPFA/LASAAC strategic and forward look plan

Agreeing the governance arrangements of the Relevant Authority Working Group and noting the updates received from the first meeting



National Audit Office

Appraising feedback received from the NAO on the 2017-18 accounts preparation cycle

Understanding the usefulness of the NAO's first report summarising the results of auditors' reporting on audits of local public bodies

Recognising the value of the role the NAO plays in the quality and improvement of financial reporting



Governance and Future Work

Agreeing a forward agenda to ensure future developments are tracked

Overseeing and advising on the implementation and post implementation plans for IFRS 9, IFRS 15, IFRS 16 and IFRS 17

Monitoring changes in the relevant national and international financial reporting environments

Overseeing proposed changes due to the government financial reporting review and strategy for further developments in financial reporting

Chapter 4

Board activities in 2018-19

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 2018-19. Papers and minutes from those meetings are available on the gov.uk website.¹
- 4.2 In addition to continuing work on 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 Interpretations Committee (IFRS IC) and the International Public Sector Accounting Standards Board (IPSASB).
- 4.3 This chapter also highlights the key work HM Treasury and other Relevant Authorities² have undertaken in their role as the financial reporting standard setters for central government and the rest of the public sector.
- 4.4 Finally, the chapter sets out the Board's future work on accounting standards, including considering the public sector implications of new standards on 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 in the UK. 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 played a pivotal role in the ongoing implementation process for IFRS 16 *Leases* and have had discussions over the implementation plans for IFRS 17 *Insurance Contracts*. The Board will

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

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

also closely monitor the post implementation review of IFRS 9 *Financial Instruments* and IFRS 15 *Revenue from Contracts with Customers* which will commence in the next financial year.

IFRS 9, *Financial Instruments* and IFRS 15, *Revenue from Contracts with Customers*

- 4.7 IFRS 9 and IFRS 15 both had an implementation date in the Public Sector of 1st April 2018. Both of these Standards have gone through a four year implementation programme overseen by the Board. The Board has worked with the Relevant Authorities to ensure any adaptations were necessary, robust and fit for purpose.
- 4.8 The implementation of the new standards should not be under estimated and progress was closely monitored and challenged. Reporting entities had a considerable amount of work to do to meet the new requirements of IFRS 9 and IFRS 15, both in terms of scale and complexity. Throughout implementation, it has been important to stress the need for early engagement with reporting entities and to use this as a lesson to plan early for the implementation of IFRS 16.
- 4.9 An initial post implementation review of IFRS 9 and 15 in central government is planned in summer 2019 and the Board looks on with interest to see the results and lessons learnt from the review.

IFRS 16, *Leases*

- 4.10 A key priority for the Board has been the ongoing monitoring and evaluation of the application of IFRS 16 *Leases* and ensuring it is implemented appropriately. The important concepts, for example, Clear Line of Sight and consistency across the public sector, have been a crucial focus of this work.
- 4.11 IFRS 16 *Leases* is applicable for reporting periods beginning on or after 1 January 2019. Due to issues, which will be covered below, and after much deliberation, the Board agreed to defer its introduction across the public sector for a period of one year.
- 4.12 Alongside the decision to defer the implementation, the Board was keenly involved in the proposals of the public sector adaptations and interpretations and ensuring they were both fit for purpose and relevant.
- 4.13 The Board carefully considered the proposed adaptations and interpretations to IFRS 16 put forward by the Relevant Authorities and provided significant challenge and assessment. These areas covered many aspects of the standard;including:
- the definition of a contract and its expansion to include intra-government arrangements
 - multiple adaptations in relation to the measurement and recognition of peppercorn leases
 - the withdrawal of various transition options

- the election not to apply the requirements of the standard to short-term leases as an interpretation on the use of HM Treasury discount rates
- 4.14 Some of these adaptations and interpretations have been more straightforward. However, some areas have led the Board to assess more extensive additional analysis undertaken by the Relevant Authorities, such as the subsequent measurement of right of use assets and leases with nil consideration, an issue rarely prevalent in the private sector, before any agreement on treatment could be provided.
- 4.15 The Relevant Authorities including, HM Treasury, DHSC and CIPFA/LASAAC, worked closely together to minimise differences between their respective financial reporting guidance proposals. Nevertheless, some differences remained and the Board sought to encourage their resolution, working throughout the year to provide expert help and challenge to ensure alignment within the public sector. This was a primary focus of the Board's time, and resulted in a final set of adaptations and interpretations for the public sector being agreed at the April 2019 meeting.
- 4.16 Following extensive analysis and engagement with the Relevant Authorities, the Board agreed to defer implementation of IFRS 16 for one year to April 2020. The Board agreed the risk of misalignment between the public spending framework and financial reporting has created a unique circumstance affecting the public sector. The decision to do so was not taken lightly and representatives of CIPFA/LASAAC and the DHSC also agreed to defer implementation for local government and the health sector, to ensure consistency across the public sector.
- 4.17 A significant factor that led to the agreement to defer implementation is the importance of maintaining full alignment between different elements of the public sector spending frameworks, that being, between budgeting and financial reporting. This principle of Clear Line of Sight has been under pressure due to the divergence created with the introduction of the new standard and the existing treatment of leases in the national accounts, reflected in budgets. The nature and time to develop the public sector adaptations needed, has left the public sector with less time for preparation. The Office for National Statistics (ONS) also highlighted the difficulties it faced in agreeing the methodology for the treatment of historic leases and obtaining sufficiently high quality data.
- 4.18 The Board challenged both the ONS and HM Treasury rigorously on their proposed work plan to address the alignment issue and sought regular updates on progress. It was essential to ensure that budgeting guidance was issued with sufficient time for departments to implement it. It was reassuring to receive confirmation from HM Treasury in April that progress had been made on the agreement of the budgeting treatment.
- 4.19 Notwithstanding the extensive work already done to plan for the introduction of IFRS 16, a significant risk remained that there would be a need for entities to maintain dual reporting leading to an unnecessary pull on resources. The Board were acutely aware of this impractical implication and fully supported the Relevant Authorities drive to agree a way forward that did not result in any additional reporting burden.

- 4.20 Whilst the deferral of IFRS 16 until 1 April 2020 was agreed it became apparent that a blanket approach was not appropriate. The Board was also asked to consider whether, in a very limited set of requirements organisations would have to meet, entities could adopt IFRS 16 from 1 April 2019 in line with the private sector. The argument for this was made due to the identification of two central government departments with significant Companies Act compliant arm's length bodies which must adopt IFRS16 from 2019. As a result, failure to implement the standard at group level would lead to a material misstatement in their accounts and fail to provide the expected level of accountability to users of those accounts. CIPFA/LASAAC also advised the Board it has received an early adoption request from a local government organisation for similar reasons to the above.
- 4.21 The Board discussed at length the merits and challenges of allowing early adoption, including whether allowing early adoption could undermine the arguments made for deferral for the rest of the public sector. The Board also sought assurance that any early adopting entities would provide supplementary disclosures for Whole of Government Account purposes, and that sufficient adjustments could be made to feed into a central adjustment for the ONS. On receiving this assurance, the Board was sufficiently satisfied this proposal was in the best interests of public sector accountability. Therefore, the Board agreed that in these very limited circumstances, early adoption would be permitted. The Board will continue to monitor the implementation and impact of early adoption over the coming year.

IFRS 17, *Insurance Contracts*

- 4.22 Although IFRS 17 *Insurance contracts* was issued in May 2017 and is not yet effective, the International Accounting Standards Board (IASB) is currently consulting on targeted amendments to IFRS 17, including a proposed deferral of the effective date. However, the Board is mindful of the importance of ensuring a long implementation plan, as has been the case with other recently implemented financial standards. The Board has therefore discussed the potential impact of IFRS 17, on public sector reporting, and has requested regular updates from the Relevant Authorities on their respective implementation plans for IFRS 17.
- 4.23 The uncertainty of the implementation date and amendments to the standard have been a concern as has the impact this uncertainty could have on public sector implementation. The implications of the standard go beyond the typical identification of insurance and significant consideration must also be given to the potential impact this standard could have on contracts and other financial instruments. It will be up to the Relevant Authorities to ensure consistency across the public sector is maintained.
- 4.24 Early planning for the implementation of IFRS 17 is essential and the Board will continue in its role in monitoring and evaluating the Relevant Authorities work plan and proposals. Indeed, it is reassuring that these plans are already underway nevertheless, organisations should already be actively considering the implications of the standard on their business.
- 4.25 The Board will continue to keep a close eye on the outcomes of the IASB consultation on the standard, and the implications of Brexit on the adoption

of any new standards going forward, which is discussed in point 4.33. The Board requested IFRS 17 to remain on its forward plan.

Public sector reporting landscape

4.26 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 2018-19 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.

IFRS IC update

4.27 During the year, the Board considered various updates on the outcomes of the meetings of the International Financial Reporting Standards Interpretations Committee (IFRS IC) and is grateful that a member of the Committee is also a member of the Board. These updates included an overview of the ongoing work of IFRS IC in respect of recently adopted standards, such as some recently made decisions in respect of IFRS 15 and discussions on the IFRS 9 expected credit loss. The Board recognises the importance of keeping aware of the development and monitored other areas in respect of IFRS 16 and the implications for corporate entities and deferred tax.

4.28 The Board assessed the potential impact on the public sector financial reporting landscape of these updates, and agreed that for now, there did not seem to be a need to amend any previously agreed adaptations or interpretations. However, the Board is mindful of the importance of continuing to be aware of the discussions had by IFRS IC, as future decisions could impact the public sector interpretation and adaptation of accounting standards.

4.29 The Board appreciated the regular updates from IFRS IC and agreed the updates received were very helpful in assisting the Board in keeping up to date with changes occurring in the international financial reporting landscape.

EFRAG update

4.30 The Board kept abreast of updates from the European Financial Reporting Advisory Group (EFRAG) and was very grateful to welcome the Chair and CEO of EFRAG, Andrew Watchman at the November 2018 meeting. EFRAG is an advisory body to the EU, and has the aim of pulling together a European wide view of accounting standards to allow for a consistent application of IFRS. The Board was very appreciative of the insights provided by Andrew, a summary of which are below.

4.31 Andrew presented developments within EFRAG and highlighted the role EFRAG played in the development of IFRS and gave a brief summary to the Board of the continuing discussions around IFRS 9, IFRS 15 and IFRS 16. The

Board discussed the potential implications of any decisions made by EFRAG in relation to these standards.

- 4.32 Andrew also updated the Board on a discussion paper that EFRAG would be publishing for consultation around research and development and non-exchange transactions.
- 4.33 The Board agreed these updates had provided an opportunity for the Board to consider the implication of a deferral of IFRS 17 and on the adoption process of this standard. The UK may have to endorse this standard independently on exit of the UK from the EU and it would be the first standard to be done so under onshoring arrangements.

FRC update

- 4.34 The Board includes a member as a representative from the Financial Reporting Council (FRC) and the Board is very appreciative of the additional insight into financial reporting developments this gives. The update by the Board member considered decisions that have been made previously, and the impact this would have on the future work and structure of the FRC.
- 4.35 The Board discussed the updates given, including the outcomes of the independent review of the Financial Reporting Council³ and the practicalities of the new process for endorsement of accounting standards in the UK, and the implications this could have on financial reporting.
- 4.36 These regular updates play a useful role to help ensure the Board retains insight of the on-going changes to the FRC whilst it remains, and its proposed successor entity, the Audit, Reporting and Governance Authority.

IASB's update

- 4.37 The Relevant Authorities are standard setters for public sector financial reporting and it is a helpful exercise to reflect and hear from other standard setters. In this way, the Board was pleased to receive a presentation from IFRS Foundation staff about the IASB, as a standard setter in the private sector, on their work plan and current areas of focus.
- 4.38 It was an insightful exercise to assess how particular items on the IASB's agenda could impact financial reporting in the public sector, for example, post implementation reviews of different standards and the rationale and timescale for doing so. This provided an excellent opportunity to examine and compare post implementation practice in the public sector and prompt further consideration to identify objectives and how best to achieve them.

IASB's annual improvement cycle

- 4.39 The Board discussed the narrow scope amendments the IASB has issued as part of their annual improvements process. The Board recognised that the majority of these were currently under consideration for adoption by the European Union and at the time of discussion had not yet been endorsed.

³ <https://www.gov.uk/government/publications/financial-reporting-council-review-2018>

- 4.40 The Board followed the amendments closely and reminded the Relevant Authorities that all entities should ensure they are compliant. However, the Board agreed with HM Treasury that currently, there was no need for any adaptations to the FReM to reflect these proposed amendments.

Developments from HM Treasury

- 4.41 The Board has a statutory responsibility to act as an advisor to HM Treasury on financial reporting, and the Board's 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) 2018-19 and 2019-20

- 4.42 The FReM is HM Treasury's technical accounting guide for the preparation of financial statements. It provides guidance on the application of IFRS, as adapted and interpreted for the public sector context. The Board provides a valuable review of the guidance as part of the quality assurance process and confirming the appropriateness of the guide.
- 4.43 It is the Board's duty to review the manuals and ensure they maintain a high quality of content. To do so, the Board dedicates considerable time to consider any proposed amendments to the 2018-19 FReM, the 2019-20 FReM and the accompanying illustrative statements.
- 4.44 The Board reviewed HM Treasury's proposed amendments and gave further challenge on those relating to the General Data Protection Regulation (GDPR), the Conceptual Framework, IFRS 9 and IFRS 15. The Board proposed some revised wording in relation to GDPR and the Conceptual Framework, to ensure the amendments were clear and easy to understand.
- 4.45 The Board requested HM Treasury revisit the proposed amendment relating to IFRS 9 to ensure the adaptation was being applied correctly and would maintain consistency across the FReM and suggested making an adaptation to IAS 32 rather than IFRS 9 as a way to achieve this. The Board also requested HM Treasury provide greater clarity in the wording of the proposed adaptation to IFRS 15, so the adaptation would be unambiguous.
- 4.46 Once the Board was satisfied each of their recommendations to changes in the manuals had been sufficiently reflected, the Board signed off the 2018-19 FReM, the 2019-20 FReM and the accompanying illustrative statements.
- 4.47 The Board reiterated its stance on the overriding principle of maintaining consistency between the GAM, the Code and the FReM wherever possible and requested the references to the Conceptual Framework to be consistent across the three documents.
- 4.48 Following an extensive review of the quality of financial reporting by HM Treasury in 2019, a review of the FReM will be launched in the 2019-20 financial year. The Board will play an important role in ensuring any amendments to the FReM are appropriate and relevant to the government

financial reporting landscape and welcome the opportunity to participate in the improvements to financial reporting.

Discount rates

- 4.49 The application of discount rates for general provisions has been an ongoing area of attention by the Board. The Board commissioned an in-depth review into the discount rate methodology, and HM Treasury updated the Board on the outcomes of this review.
- 4.50 Proposals were considered by the Board on the aspects of HM Treasury's project on discount rates for general provisions including:
- how to inflate cash flows, and whether the nature of cash flows mean an index rate should be used.
 - the appropriateness of having a mandated rate, but allowing for bespoke discount rates if more appropriate
 - whether the application of nominal rates rather than real rates⁴ would be an accounting policy or estimate change
- 4.51 The outcome of the review was welcomed, but the Board sought to consider the extent of evidence presented and breadth of research to support the option analysis of methodological change in general provisions discount rate application. As a result, more inquiry was undertaken prior to supporting a decision to move from the application of real rates to nominal discount rates. The decision was supported as it was evidenced that the application of nominal rates would ensure negative rates were no longer issued, would ensure better alignment with private sector practices, and would allow greater flexibility to appropriately inflate provision cash flows.
- 4.52 The Board challenged HM Treasury on the appropriateness of their intended implementation date of December 2018 for the new discount rate for general provisions. Reassurance was given that departments had been made aware as early as December 2017 about the review and it was a norm for the discount rate to be issued in December. The Board was satisfied that sufficient advanced notice had been given and that there was no undue effect on preparers for the 2018-19 Supplementary Estimates preparation process.
- 4.53 The Board agreed to mandating the use of OBR / CPI forecasts but accepted there may be situations where a bespoke inflation assumption is more appropriate. The Board advised HM Treasury that clear requirements should be issued to ensure any bespoke rate is independent and objective with evidence that would satisfy auditor requirements.
- 4.54 The Board advised HM Treasury that the application of nominal rates would likely be a change in estimate rather than accounting policy.
- 4.55 HM Treasury welcomed the role of the Board, as well as that of the NAO and departments in supporting the general provisions discount rate project.

⁴ Nominal rates are measure in cash terms, whereas real rates are inflation-adjusted

The new discount rate guidance was published in December 2018 in line with the timescale agreed with the Board.

Government financial reporting review

- 4.56 An important feature of the Board's oversight role is to keep up to date with projects the Relevant Authorities are undertaking, in respect of improving the quality of financial reporting.
- 4.57 The 2017-18 FRAB report referred to the Public Administration and Constitutional Affairs Committee (PACAC) report produced following its review of departmental management accounts and financial reporting. HM Treasury had previously advised the Board of the intention to perform a review into government financial reporting as part of the government's response to this report.
- 4.58 PACAC made a number of recommendations to improve the quality of financial reporting and the Board agrees with the spirit of these recommendations and is fully committed to continually improving the quality of management information and financial reporting.
- 4.59 The Board welcomed HM Treasury's review into government financial reporting, and was pleased to contribute to the review with some Board members being part of the Advisory Board created as part of the governance arrangements. The Board was very interested in the involvement of the public sector as a whole in this review, and was advised by HM Treasury that whilst the review primarily focused on financial reporting in central government, HM Treasury had been actively seeking stakeholder engagement from across the public sector. The Board was pleased to note this engagement process had included CIPFA/LASAAC.
- 4.60 The Board also agreed proposals to use the 2017-18 annual reports and accounts to assess the changes since Simplifying and streamlining was implemented three years previously. Changes would have become embedded and would provide good historical data for appraisal.
- 4.61 The Board has an ongoing commitment to promote greater public engagement and readability of annual reports and accounts. It is keen to highlight the opportunity for the actions from this review to continue to improve the consistency in financial reporting across the public sector and seeks to encourage the Relevant Authorities' active engagement in the review of the FReM to this effect.
- 4.62 The Board has welcomed HM Treasury's commitment to publish a map of the financial reporting landscape, to enable users to understand how different central government financial documents link together. It is important for HM Treasury to set an agenda on how reporting can be improved on a continuous basis, rather than periodic reviews every four or five years, as has been the case, for example, with Simplifying and streamlining, and the Government financial reporting review.
- 4.63 The review into government financial reporting will lead to changes in the coming year. We are supportive of HM Treasury's plans to improve the

usability of government financial reporting and the Board will lend its expertise where it can.

Whole of Government Accounts (WGA)

- 4.64 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 accounts and issues arising. Enabling transparency and accountability of public sector financial reporting is of great importance, and the Board supports the role the WGA plays in this. WGA is a very comprehensive document which takes extensive resource to produce.
- 4.65 The Board received an overview from HM Treasury of the 2016-17 WGA.⁵ This was a challenging and interactive session with an opportunity to discuss the detail of disclosures within WGA and the future of the product.
- 4.66 Further to feedback the Board gave after the presentation of the 2015-16 WGA, the Board was pleased to note HM Treasury had placed particular emphasis on “telling the story” with significant areas, for example provisions, being highlighted to show how they had been changed and managed in the 2016-17 WGA.
- 4.67 The Board welcomed the news that there have been significant improvements in the WGA internal preparation and data collection processes but that significant challenges remain on the horizon, including the introduction of major new financial reporting standards. The Board commended HM Treasury for the continuing improvement in the WGA and look forward to being advised of further improvements planned in the next financial year.
- 4.68 Key highlights included that income and expenditure have remained largely stable for 2016-17 and also that an audit qualification remains in respect of the valuation of Local Authority Highways Infrastructure assets. Some of the challenges around disaggregation of expenditure were discussed, as well as the use of Public Expenditure Statistical Analysis (PESA) data as a way of providing further transparency of information.
- 4.69 The Board strongly supports the importance of WGA for understanding the financial position across the public sector, and the resultant benefit of greater transparency. For example, using WGA, the Board was able to challenge HM Treasury on the movement in valuation of the liabilities from the 2015-16 to the 2016-17 WGA due to changes in the discount rate.
- 4.70 The Board also discussed how future events could impact on WGA. The conversations focused on the likely future impact of the adoption of IFRS 16, as a significant number of leases would be coming onto the balance sheet, and the impact of Brexit on disclosures in the accounts.

⁵ HM Treasury published the WGA on 28 June 2018

https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/720178/WGA_2016-17_web.pdf

Other Relevant Authorities

- 4.71 In its advisory role, the Board requests updates from 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) 2019-20 (Department of Health and Social Care)

- 4.72 The Department of Health and Social Care's (DHSC) Group Accounting Manual (GAM) meets the requirements of the FReM and provides technical guidance to DHSC group bodies.
- 4.73 As part of the annual review cycle of financial reporting guidance in the public sector, the Board considered the first draft of the 2019-20 GAM presented by DHSC. This included a summary of the changes that has been made to the GAM, the majority of which seeking to allow greater consistency between the FReM and the GAM.
- 4.74 The Board discussed the implication of the agreed one year deferral of IFRS 16 on the GAM. The Board agreed with the DHSC that references to IFRS 16 would be removed from the GAM, but recommended that DHSC continue to engage with preparers on IFRS 16. The Board encouraged DHSC to share draft requirements and guidance on the implementation of IFRS 16 as early as possible, to allow the sector to be ready for implementation in 2020.
- 4.75 After some further challenge from Board members, and some minor amendments to reflect additional updates made to the FReM, the GAM was approved by the Board for publication.

CIPFA/ LASAAC 2019-20 Code

- 4.76 The Board noted that the CIPFA/LASAAAC IFRS 16 consultation paper had been issued in May and reflected the comments made by the Board in previous meetings on closer alignment with the FReM. CIPFA highlighted the practical implications further IFRS 16 amendments could have on local authorities.
- 4.77 The Board considered and agreed the CIPFA/LASAAAC Code of Practice on Local Authority Accounting in the United Kingdom (the Code) for 2019-20 which had been updated to reflect some minor amendments.
- 4.78 The Board also discussed the proposed amendments to the Code in respect of IFRS 16 but acknowledged these would not be reflected in the 2019-20 version of the Code due to the agreed one year deferral of IFRS 16.
- 4.79 The Board assessed proposed adaptations that would have caused a divergence between the FReM and the Code. For example, CIPFA/LASAAAC was intending to use a different method for subsequent measurements of right-of-use assets and was intending to have different transitional arrangements.
- 4.80 The Board expressed concern over the implications this could have for the WGA, and whether this could lead to a potential audit qualification. The Board recommended that CIPFA/LASAAAC work with HM Treasury on aligning this treatment and CIPFA/LASAAAC also agreed to reword their definition of a peppercorn lease to align with the FReM.

- 4.81 The Board was pleased to note that this advice was taken on board by both HM Treasury and CIPFA/LASAAC who worked together to propose a joined up solution for the subsequent measurements of right-of-use assets, which was approved by the Board.

CIPFA/ LASAAC forward plan

- 4.82 CIPFA also provided the Board with regular updates on any issues arising, or relevant information on local government financial reporting.
- 4.83 CIPFA/LASAAC gave the Board an overview of its' strategic plan, including the intention to review the contents in the Code over the next few years. The Board advised that HM Treasury and CIPFA/LASAAC should ensure the reviews of their respective financial manuals / codes, considers changes proposed by the other Relevant Authority.
- 4.84 The Board very much appreciates CIPFA providing these regular updates, and the opportunity for the Board to advise over financial reporting in local government.

Relevant Authority working group

- 4.85 The Relevant Authorities have created a forum to enhance and greater align their respective work plans across the public sector financial reporting landscape. The group will work together closely to ensure that potential misalignments between frameworks are addressed and resolved promptly by the Relevant Authorities, although it will refer proposals to the Board.
- 4.86 The Board welcomed the creation of this working group, and the focus on enhancing consistency across the public sector. Although the Board does not have a direct governance role, it will have sight of the minutes and keep updated on discussions and proposals. The Board decided to review the effectiveness of this governance arrangement in 12 months' time.

National Audit Office (NAO)

- 4.87 The NAO scrutinises public spending, including the audit of financial statements of all central government departments, agencies and other public bodies, and then reports the results of audits to Parliament. The NAO also maintains the Code of Audit Practice and supporting guidance applicable to auditors of local public bodies in England. A representative of the NAO is a welcome member of the Board and regularly provides feedback on the Office's audit findings and issues arising through the year.
- 4.88 The Board was pleased to note highlights reported by the NAO from the audits of the 2017-18 accounts, including:
- the achievement of preparers of central government and other public bodies' annual accounts, and of audit teams, in ensuring most accounts were finalised, audited and laid in Parliament before the summer recess
 - the publication of the consolidated annual report and accounts for the academy schools sector in England

- the achievement of the local government sector in England in bringing forward the timetable for publishing their accounts by two months.
- no increase in the number of qualifications of the true and fair opinion across the public sector

4.89 However, the NAO reminded the Board that challenges remain on the audit completion timetable. Some central government accounts are still finalised too close to the end of the audit and reporting period, which creates significant challenges for preparers of accounts and auditors. The NAO advised the Board that it is working closely with departments and the Relevant Authorities to continually improve collaborative efforts to project manage the accounts end of year accounts production and audit process and will keep the Board updated on progress.

4.90 The NAO also highlighted the publication of its first report summarising the results of auditor's reporting on audits of local public bodies across the local government and health sectors in England. While this showed, at the time of the report, that there had not been any qualifications of the true and fair opinion across the sector it also highlighted that the number of qualifications of auditors' conclusions on local bodies' arrangements to secure economy, efficiency and effectiveness in the use of their resources was increasing.

4.91 The Board recognised the value of both the NAO's perspective on the quality of financial reporting, as well as the efforts of the NAO to support entities to improve their financial reporting. The Board looks forward to seeing further developments in the coming years.

Governance and future work

Governance

4.92 Ian Mackintosh announced in the 2018-19 financial year that he would be retiring as Chair of the Board. His retirement from the role is due to personal reasons and his leadership will be missed. Ian's last meeting as Chair of the Board was the 4th April 2019. A recruitment process to appoint his successor was initiated with a high quality of candidates being considered. The Head of the Government Finance Function has appointed Lynn Pamment who will take up the role from the June 2019 meeting. This appointment was agreed by the Comptroller and Auditor General.

4.93 The Board has agreed to review its terms of reference as part of the Government financial reporting review that has been undertaken by HM Treasury. This will include setting the strategic direction of the Board going forward and how the role of the Board should be developed further to include financial and non-financial reporting in annual reports and accounts more broadly.

The Board's forward agenda

4.94 The Board's attention this year has been focused on the complex nature of the financial reporting standards and the drive to ensure a consistent application

across the public sector, as a whole. This has had many challenges and is by no means complete. Significant work is still to be done and the Board will remain very active in seeing it through providing support to the resolution of remaining issues.

- 4.95 As highlighted throughout this report, the Board has an important role in maintaining its awareness of changes in the public sector reporting landscape, which will continue to develop over the coming years. The Board plays a pivotal role in ensuring financial reporting quality and consistency is maintained across the public sector. Therefore, the Board regularly considers the forward agenda for discussion at future Board meetings. A summary of those areas which the Board will be prioritising in the future is below.
- 4.96 The Board will oversee any proposed changes in government financial reporting that occur as a result of HM Treasury's response to the PACAC report on government financial reporting. The Board will also look to review its terms of reference, as set out by HM Treasury, in the response to the PACAC recommendations, including recognition that the scope of the Board may need to be amended to ensure that good quality financial and non-financial reporting is a more prominent part of the Board's remit.
- 4.97 The Board will continue to be actively involved in the implementation of IFRS 16 *Leases*, ensuring any further proposed adaptations and interpretations are fit for the public sector, and that this standard remains on the agenda until successfully implemented.
- 4.98 The Board will review the outcome of the post implementation review into IFRS 9 *Financial Instruments* and IFRS 15 *Revenue from Contracts with Customers* and will discuss the lessons learned that can be used for the implementation of any new standards.
- 4.99 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.
- 4.100 The Board highlighted the importance of ensuring that the agenda tracks potential future changes as a result of the findings of IFRS IC, IPSASB exposure drafts, and other changes to financial reporting including the application of the revised Conceptual Framework which will come into effect in 2020.
- 4.101 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 2018	November 2018	April 2019 ¹
IFRS			
IFRS 16, <i>Leases</i>	✓	✓	✓
IFRS 17, <i>Insurance Contracts</i>		✓	✓
Other issues			
<i>Discount rates</i>	✓	✓	
<i>Whole of Government Accounts (WGA)</i>	✓		
<i>Local government Update/ CIPFA/LASAAC Code</i>	✓	✓	✓
<i>FReM 2018-19 and 2019-20</i>		✓	
<i>Health Manual (GAM)</i>		✓	
<i>Government Financial Reporting Review</i>	✓	✓	✓
<i>NAO Update</i>	✓	✓	✓
<i>Relevant Authority Working Group</i>			✓
<i>International Update (EFRAG)</i>		✓	
<i>IFRS IC Update</i>		✓	✓
<i>FRC Update</i>			✓
<i>IASB Update</i>			✓

¹ The March 2019 meeting was delayed until 4th April 2019. Therefore, the April 2019 meeting forms part of the 2018-19 Board Report.

Accounting standard or reporting issue	Board meeting and topic of discussion		
	June 2018	November 2018	April 2019 ¹
<i>Annual Improvement cycle and Narrow Scope Amendments</i>	✓		✓
<i>FRAB Annual Report 2017-18</i>	✓	✓	
<i>FRAB Annual Report 2018-19</i>			✓
<i>Forward Work Programme</i>	✓	✓	

Annex B

Board attendance and future meetings

Name	Jun 2018	Nov 2018	Apr 2019
Chair			
Ian Mackintosh (to Apr 2019)	✓	✓	✓
Independent / external members			
Anthony Appleton (to Apr 2022)		✓	✓
Richard Barker (to Jun 2021)	✓	✓	
Andrew Buchanan (to Aug 2020)		✓	
Andrea Pryde (to Jun 2021)	✓	✓	✓
Preparers / users			
Pam Beadman (to Jun 2021)	✓	✓	✓
Gareth Caller (to Feb 2021)	✓	✓	✓
Iain King (to Jun 2021)	✓	✓	✓
Joseph McLachlan (to Nov 2019)	✓	✓	✓
Bob Richards (to Nov 2020)		✓	✓
Ian Webber (to Feb 2021)	✓	✓	✓
Auditors			
David Aldous (to Jun 2020)	✓	✓	✓
Karl Havers (to Nov 2021)	✓	✓	✓
Fiona Kordiak (to Mar 2021)	✓	✓	✓

Relevant authorities¹			
Gawain Evans (to Feb 2020)	✓	✓	✓
Ian Ratcliffe (to Jun 2021)		✓	✓
Ian Bulmer (until Jun 2018)	✓	N/A	N/A
Vicky Rock (from Nov 2018, until Feb 2021)	N/A	✓	✓
Sarah Sheen (to Jun 2021)	✓	✓	
Gareth Davies (on behalf of Sarah Sheen)	N/A	N/A	✓
Stuart Stevenson (to Jun 2021)	✓	✓	✓
Aileen Wright (to Jan 2021)	✓		✓
Christopher Young (to Nov 2020)	✓	✓	
Parliamentary Observer			
Craig Mackinlay MP	✓		
Larry Honeysett	✓	✓	✓

Future FRAB meetings

- 13 June 2019
- 21 November 2019

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

¹ Relevant Authority tenure is on-going, renewable every 3 years

Annex C

Glossary of acronyms

CIPFA/LASAAC	The Chartered Institute of Public Finance & Accountancy / Local Authority (Scotland) Accounts Advisory Committee
DHSC	Department of Health and Social Care
EFRAG	European Financial Reporting Advisory Group
FRAB	Financial Reporting Advisory Board
FRC	Financial Reporting Council
FRem	Financial Reporting Manual
GAAP	Generally Accepted Accounting Practice
GAM	Group Accounting Manual (NHS)
GDPR	General Data Protection Regulation
IASB	International Accounting Standards Board
IFRS IC	International Financial Reporting Standards Interpretations Committee
IFRS	International Financial Reporting Standards
IPSAS	International Public Sector Accounting Standards
IPSASB	International Public Sector Accounting Standards Board
NAO	National Audit Office
ONS	Office for National Statistics
PACAC	Public Administration and Constitutional Affairs Committee
PESA	Public Expenditure Statistical Analysis
The Code	Code of Practice on Local Authority Accounting in the United Kingdom
WGA	Whole of Government Accounts

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978-1-5286-1493-1