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FRAB 36 – 11 NOVEMBER 1999 BRIEFING

Item 1 – Minutes of last meeting

We have no comments on these minutes, (except that in the heading '20 October' should be corrected to '20 September'). Your own meeting notes are attached.

Matters arising

On 4 October you wrote to [redacted] **s.40 (2)** (copy attached), to follow up on 'prejudicial provisions'. This topic is not on the agenda for this meeting. <u>What is happening about this?</u>

The discussion on adopting FRS 15 (tangible fixed assets) did not appear to reach a complete conclusion. We raised the issue of the conflict between mid year revaluations and the requirements of the FRS for year-end valuations, and the treatment of revaluation losses. <u>What is happening on this?</u>

Item 3 – Prior period adjustments – Paper FRAB (36) 1

This was discussed at the June 99 and an earlier meeting. Following my further discussions with Treasury the current proposals are, it seems to me acceptable. In summary, they mean that prior period adjustments will be treated in Schedules 2-5 exactly in accordance with FRS 3. In Schedule 1, a note included in the 'explanations for variations' notes will draw attention to the fact that there has been a prior period adjustment and point to more detail given in notes to the accounts. (The notes concerned are those in which the 'line detail' is provided to support the account figures for net resource outturn, capital expenditure and movements in working capital.) Additional line items captioned 'prior period adjustments' will be included as appropriate in each of those notes so that the detailed effects of the adjustments are disclosed, and these will be supported by appropriate narrative. In addition, the aggregate effect of the prior period adjustment will be included as a note to the statement of recognised gains and losses, as required by FRS 3.

This provides an adequate mechanism for bringing all the effects for prior period adjustments to Parliament's attention and may be accepted.

Item 4 – Cash control issues – Paper FRAB (36) 2

We were consulted on this Paper and the Treasury's proposals fully reflect results of that consultation, i.e. they accord with our views. The rationale is that, for public accountability reasons, cash balances that departments hold in relation to Consolidated Fund Extra Receipts should be included as part of cash balances on the balance sheet and disclosed as a liability to the Consolidated Fund, whether or not they pass through the operating cost statement. **We can accept the proposals.**

Item 5 – Extension of FRAB remit to NHS – Paper FRAB (36) 3

Please see [redacted] **s.40 (2)** comments filed next to the Board paper. We would be very pleased to see this expansion. We see real value in it.

On the practicalities, NHS, in the letter attached to the Paper, identifies some constraints – particularly about the 'cut off' for making amendments each year (December). More generally if the RAM (plus NHS, plus NDPB, plus Trading Fund guidance) are all to be brought into line with GAAP each year – ie to conform to any new Standards – the Board and Secretariat might have their work cut out if there are a lot of changes. <u>In any case, the initial 'take on' work to re-model all this guidance could see a return to the 'monthly meeting' scenario of FRAB's early days. Is that what Treasury envisages, and are members able and willing to cope?</u>

Item 6 - Pensions and compensations schemes – Paper FRAB (36) 4

We have had very extensive discussions with the Treasury on these paragraphs and they fully reflect those discussions. We may accept them although there are still some implementation problems ahead as regards accounting for early departure compensation. This is mainly because of the limitations in the information held by scheme administrators relating to past departures, the differing relationships between departments and scheme administrators for the various public sector schemes, and the differing treatments within those schemes of various components of 'compensation'. These are being resolved on a case by case basis.

In the Treasury's Background Note to the Chapter 15 amendments, there is a reference to a proposal from NAO (an oral one from me, rather than a formal written submission) that pensions liabilities should be included on Scheme balance sheets, instead of being confined to the Actuary's Report. Statement of Recommended Practice 1 – 'Financial Reports of Pension

Schemes' – on which the RAM accounts are modelled - provides for pensions liabilities to be disclosed only through the Actuary's Report (included in the Accounts), and that is what the RAM accounts are required to do. However, the Whole of Government Account report envisages placing the public sector pension liabilities on the WGA balance sheet. And to accord with SSAP 24, pensions liabilities which departments themselves have to meet (ie those where employees are not a member of one of the main schemes) will, under changes also now proposed (to RAM 4.5.17) be required to include such liabilities as a provision on their balance sheets. In addition, Financial Reporting Exposure Draft (FRED) 20, published last week, would seem to add weight to 'on balance sheet' treatment.

Opinion here on this is divided; [redacted] **s.40 (2)** (PCSPS) and [redacted] **s.40 (2)** (NHS pension scheme) favour on balance sheet treatment; [redacted] **s.40 (2)** (Armed Forces pension scheme) is – as yet – unconvinced. The Treasury have asked us to let them have a paper setting out our views and we will be doing so. (The accountants there see some force in the arguments for on-balance sheet treatment; others, apparently, do not.)

For the moment, and for the purposes of approving the proposed amendments, our stance should be that we accept them (with the 'off balance sheet' treatment). The key thing, in terms of parliamentary accountability, is that the liabilities **will** be disclosed through the Actuary's Report.

Treasury also asks whether the 'worked examples' of accounting treatment should be included in the Manual, or made available only on request. Although the Manual is a primarily a high level document, I would favour their inclusion. This is an area that has caused (and undoubtedly will cause) practical problems, and in this instance I think detailed guidance is in order.

Item 7 – Statement on the system of internal financial control – Paper FRAB (36) 5

We can be content with the proposed model statement. As to where it should be included in the Manual, I think it is probably best as suggested, as a separate Annex, because of the problems Treasury refer to in incorporating it in Department Yellow .

Item 8 – Development expenditure: MHCA – Paper FRAB (36) 6

Our view is that we can be content with the amendments, which make clear that (capitalised) development expenditure should be revalued.

Item 9 – Valuation of antiques – Paper FRAB (36) 7

We have been consulted by the Treasury on this and are content with the proposals. The only suggestion we might make is to paragraph 3.5.13, line 4, to insert the word "only" between 'years' and 'where'.

Item 10 – Consultation paper on comparisons between RAM, NDPBs and Trading Funds –Paper FRAB (36) 8

This is an 'information' paper only. We have contributed our comments. Nothing to add at this stage.

Item 11 – Heritage Assets - Progress Report – Paper FRAB (36) 9

An update; no comments.

Item 12 – Minor amendments – Foreign Currency translation - Paper FRAB (36) info A

This arose from a query we put to Treasury, arising from MoD's accounts. It is acceptable.

[redacted] s.40 (2)
Unit D
Financial Audit Support
9 November 1999