



HM Treasury

## Financial Reporting Advisory Board Paper

### FRAB Effectiveness Review and Terms of Reference update

<b>Issue:</b>	The FRAB Effectiveness Review and terms of reference review are due as part of their review cycles.
<b>Impact on guidance:</b>	N/A
<b>IAS/IFRS adaptation?</b>	N/A
<b>Impact on WGA?</b>	N/A
<b>IPSAS compliant?</b>	N/A
<b>Interpretation for the public sector context?</b>	N/A
<b>Impact on budgetary regime and Estimates?</b>	N/A
<b>Alignment with National Accounts:</b>	N/A
<b>Recommendation:</b>	The Board considers the terms of reference and provides feedback as necessary and participate in the Effectiveness Review over the summer.
<b>Timing:</b>	HM Treasury are planning to finalise the outcome of both reviews by the November 2023 FRAB meeting

#### Background

1. The next Effectiveness Review is due to take place in 2023, following the last [report](#) in October 2020, in accordance with the Board terms of reference.
2. The FRAB terms of reference are also due for a review by the Board following the last review in November 2018.
3. The existing terms of reference require a review at least every 5 years. A copy of the terms of reference are attached ([Annex A](#)).

## Effectiveness Review

4. Board members will be invited to give feedback on the effectiveness and direction of FRAB during the summer, with the aim of having the review completed by October 2023. This work will be carried out by the NAO.
5. In preparation, the Board are invited to consider the previous [recommendations](#) made during the Effectiveness Review.
6. The October 2020 report focussed on summarising the performance of the Board and making recommendations for change, as agreed by the Board. It concluded that:

*“Our overall assessment is that there is good evidence that shows the Board has generally met its terms of reference and has carried out in-depth analysis of accounting issues and provided clear, independent and timely advice on the application of financial reporting standards and principles.”*

7. The review will involve an evaluation by the NAO of the Board terms of reference, minutes and whether the recommendations coming out of the previous Effectiveness Review have been addressed.
8. Board members will then be invited to comment on and complete a questionnaire prepared by the NAO.
9. Due to timing constraints, the October 2020 review did not involve meetings with board members or stakeholders but utilised the responses to the self-assessment questionnaire only. With the Board’s collaboration, meetings with Board members and stakeholders will be possible for the 2023 review following the questionnaire stage.
10. The results of the Effectiveness Review will be presented to the Board in November 2023.
11. More information will be provided on timelines and expectations for Board members following the June FRAB meeting.

## Terms of reference

12. As set out in the background section, the Board also needs to review the terms of reference in 2023. The Board are also invited to consider the terms of reference provided in [Annex A](#) and provide any feedback.
13. HM Treasury will seek to make initial changes to the Terms of Reference based on the Board’s initial feedback in this meeting. This will also be reviewed as part of the Effectiveness Review.
14. HM Treasury will present the updated Terms of Reference at the November meeting, along with an overall summary of conclusions and next steps from the Effectiveness Review.

15. The Board are asked to consider whether any changes are needed to the Terms of Reference at this time.
16. Per the FRAB Action plan (FRAB 150 (17)), one suggestion for consideration is to update the terms of reference with defined roles for each category of member along with guiding principles for ways of working.

**Question for the board:** Are there any changes needed to the FRAB Terms of Reference?

## Annex A

# The Terms of Reference for the Financial Reporting Advisory Board

## 1. Context

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

Scottish Ministers, with the agreement of the Audit Committee of the Scottish Parliament, have determined that they should be similarly advised on such matters. The Financial Reporting Advisory Board will be the advisory group.

## 2. Terms of Reference

1. Responsibilities of the Board:
  - a. The Board will provide independent advice to the Treasury, the Scottish Ministers, and the Executive Committee of the Northern Ireland Assembly.
  - b. The Board will advise the Treasury, the Scottish Ministers, the Executive Committee of the Northern Ireland Assembly and the Welsh Assembly Government on the application of financial reporting standards and principles:
    - (i) where the Treasury, the Executive Committee of the Northern Ireland Assembly and the Welsh Assembly Government are responsible for issuing reporting requirements in respect of:
      - Departmental resource accounts
      - Supply financed executive agencies
      - Non-departmental public bodies
      - Trading funds
      - Whole of Government Accounts
      - NHS trusts in England and Wales, and HSC trusts in Northern Ireland
      - NHS Foundation Trusts in England
    - (ii) where the Scottish Ministers are responsible for issuing reporting requirements in respect of:
      - accounts falling under sections 19 and 20 of the Public Finance and Accountability (Scotland) Act 2000<sup>1</sup>.
      - accounts of executive non-departmental public bodies where the Scottish Ministers have the power of direction
  - c. The Board will advise CIPFA/LASAAC<sup>2</sup>, which is responsible for developing the Code of Practice on Local Authority Accounting in the United Kingdom (the Code). The Code constitutes a 'proper accounting practice' under section 12 of the Local Government in Scotland Act 2003 and in England and Wales under section 21(2) of the Local Government Act 2003. In Northern Ireland, the Code's status and authority derive from accounts directions under article 24 of the Local Government (Northern Ireland) Order 2005.
  - d. The Board will decide how it reaches its conclusions.
  - e. The Board's advice to the Scottish Ministers will be restricted to the technical rules of accounting and to minimum disclosure requirements. It will not extend to the format of accounts or to disclosures beyond the minimum requirements.
  - f. The Board's advice to the Executive Committee of the Northern Ireland Assembly will incorporate accounting, formatting and minimum disclosure requirements.
  - g. The Board will examine all amendments to the guidance in respect of the bodies listed in (b) and (c) above, with the aim of ensuring that they comply with GAAP, and that departures or modifications from GAAP, due to public sector and spending control contexts, are fully explained and justified. The Board will also examine, with the same aim, amendments to accounts directions referred to the Board, issued by the Treasury, the Welsh Assembly

- Government, the Scottish Ministers and the Executive Committee of the Northern Ireland Assembly.
- h. The Board will prepare an annual report of its activities, including its views on the changes made during the period to the accounting guidance, or, as appropriate, accounts directions, issued by the Treasury, the National Assembly for Wales, the Scottish Ministers and the Executive Committee of the Northern Ireland Assembly. in respect of bodies listed in 2.1 (b) above and the Code, and will send a copy of its report direct to the Committee of Public Accounts and the Treasury Select Committee of the UK Parliament, the Welsh Assembly Government, the Scottish Ministers, the Executive Committee of the Northern Ireland Assembly.
2. The Treasury, (in conjunction with the Department of Health and Social Care in respect of NHS trusts in England and the Independent Regulator of NHS Foundation Trusts in respect of NHS Foundation Trusts in England), the Welsh Assembly Government, the Scottish Ministers, the Executive Committee of the Northern Ireland Assembly and CIPFA/LASAAC in respect of local authorities in England, Wales, Scotland and Northern Ireland:
    - a. will ensure that all relevant matters, including proposed changes to the guidance or, as appropriate, accounts directions, in respect of accounts meeting the criteria in 2.1 (b) above and the Code, are brought to the Board's attention within a reasonable time. Changes to International Financial Reporting Standards and other elements of GAAP that affect such guidance or accounts directions will, as far as possible, be brought to attention in sufficient time to enable their implementation, as appropriate, within the same timescale as changes are to be made generally;
    - b. will examine all issues raised by the Board within its terms of reference;
    - c. will consider all advice received from the Board.
  3. The Treasury, the Scottish Ministers, and the Executive Committee of the Northern Ireland Assembly, will formally lay the Board's report before the House of Commons, the Scottish Parliament and the Northern Ireland Assembly respectively. The Welsh Assembly Government submits the report to the Audit Committee of the National Assembly for Wales.
  4. The Board will undertake a review of its effectiveness at least once every three years.
  5. The Treasury will provide the secretariat to the Board.

### 3. Membership

1. The Board, analysed into four membership groupings will comprise:

#### Independent members

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

#### Preparers/Users members

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

#### Auditor members

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

#### Relevant Authorities members

- One member nominated by the Treasury;
  - One member nominated by the Scottish Ministers;
  - One member nominated by the Executive Committee of the Northern Ireland Assembly;
  - One member nominated by the Welsh Assembly Government;
  - One member nominated by the Department of Health and Social Care;
  - One member nominated by NHS Improvement the Independent Regulator of NHS Foundation Trusts; and
- One member nominated by the Chartered Institute of Public Finance and Accountancy.
2. Nominations for FRAB membership will be considered by the FRAB Nominations Committee, in accordance with its terms of reference.
  3. There will be one parliamentary observer, nominated by the Government Chief Whip.
  4. The FRAB Chairman will be appointed for three years, renewable once.
  5. Members will normally be appointed for three years, with a rebuttable presumption that membership is renewable only once.
  6. Temporary FRAB membership is permitted at the discretion of the FRAB Chair to cover the long-term absence of a FRAB member.
  7. Alternates/ deputies are permitted to attend FRAB meetings at the Chair's discretion.
  8. Other participants from the Relevant Authorities are permitted to participate in meetings if Relevant Authority members are unable to do so, purely to provide a Relevant Authority perspective and at the Chair's discretion.
  9. Observers at FRAB meetings may be permitted, at the discretion of the FRAB Chair.
  10. The FRAB membership will be subject to regular review by the FRAB Nominations Committee, covering succession planning.
  11. The Board will meet as required each year in closed session to discuss matters relating to financial reporting as they arise.

## 4. Review of Terms of Reference

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