



HM Treasury

The future of the Financial Reporting Advisory Board

Issue:	Board members to discuss the future direction of the Board, and to review the Terms of Reference.
Impact on guidance:	N/A
IAS/IFRS adaptation?	N/A
Impact on WGA?	N/A
IPSAS compliant?	N/A
Interpretation for the public sector context?	N/A
Impact on budgetary and Estimates regimes?	N/A
Alignment with National Accounts	N/A
Recommendation:	Board members are asked to consider where the Financial Reporting Advisory Board should be five years from now. In that context, board members are further asked to review and propose any relevant changes to the Terms of Reference.
Timing:	Ongoing.

DETAIL

Background

1. The Terms of Reference for the Financial Reporting Advisory Board, included in full as Annex A to this report, were originally set out in 2008 and most recently updated in 2018. They state that they should be regularly reviewed and updated, at least every five years.
2. Although it has not been five years since the last update, there are several reasons to review the Terms of Reference now, including debates since 2018 on the purpose of government financial reporting and how it can be improved to better meet user needs.

The future of government financial reporting

3. The Public Administration and Constitutional Affairs Committee (PACAC) highlighted the concerns of many users of government financial reporting in their 'Accounting for Democracy' reports. HM Treasury's Government Financial Reporting Review drew on those insights and built more connections, leading to new perspectives that have fundamentally reshaped the Government Financial Reporting Manual (FReM).
4. These developments are informed by changes and challenges seen in the public sector, the new emphasis on sustainability, better risk reporting, and integrated reporting more generally, and the new emphasis on a wider range of stakeholders. Ultimately many changes are influenced by new technology which increases opportunities for transparency and accountability and also increases expectations.

The future of FRAB

5. The Terms of Reference consist of three main sections: Context, the Terms of Reference themselves, and Membership.
6. Traditionally FRAB's remit has been the implementation of International Financial Reporting Standards (IFRSs) and Companies Act requirements, reflecting the emphasis of the Treasury's work. There are however many examples of FRAB taking on a much wider role, most recently in 2019 when the FRAB were the steering group for a more comprehensive review of the FReM, providing oversight for substantial changes to performance reporting. For context, the attached slide pack showcases some of the achievements supported by FRAB over the past decade, and some of the thinking behind recent innovations that FRAB has led on in the UK public sector.
- 7.
8. It is highly likely that the Terms of Reference would benefit from a review. Before considering the existing document, however, Board members are asked to consider a wider question: where do they think FRAB should be in five years' time? What is their vision for the future?

Board members are asked to share and discuss their visions for the future of FRAB.

9. In the light of this vision for the future, it feels like an opportune time to review the Terms of Reference of the Board. Potential areas of the Terms of Reference that the Board could consider reviewing are as follows:
 - The purposes of financial reporting and whether this is line with the new FReM wording.
 - The responsibilities of the Board and whether this remit is broad enough, particularly in terms of non-financial reporting
 - The Board's membership, particularly around user involvement
 - Board governance and whether this is in line with best practice elsewhere, including when and how a board effectiveness review will be undertaken

Board members are asked to review the Terms of Reference and propose any changes necessary to support their goals for the future of FRAB.

HM Treasury
19th of March 2020

Annex A: The Terms of Reference for the Financial Reporting Advisory Board

1. Context

- 1.1 The primary aims of financial reporting by public sector bodies are to demonstrate to the public and their representatives:
 - An accurate record of a body's financial performance,
 - Details of the body's aims, objectives and responsibilities, and how accountability is exercised
 - Sufficient and reliable information to enable consideration of the body's performance, value for money and efficacy of spending incurred
 - Evidence that public monies and other resources have been used for the purposes intended when the funds were authorised.
- 1.2 Financial reporting is also intended to underpin the UK Government's planning, monitoring and management of public expenditure and provides management with a tool to improve performance.
- 1.3 The authority to develop financial reporting requirements rests with:
 - for the central government and health sectors, the Treasury, the Welsh Assembly Government, the Scottish Ministers and the Executive Committee of the Northern Ireland Assembly in respect of accounts meeting the criteria set out in paragraph 2.1.b. below; and
 - for local government, the Secretary of State for Housing, Communities and Local Government, the Welsh Assembly Government, the Scottish Ministers, and the Department for Communities, Northern Ireland.
- 1.4 Public sector financial reporting should be based on 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.
- 1.5 Under section 24 of the Government Resources and Accounts Act 2000, the Treasury is required to consult an advisory group on financial reporting principles and standards for resource accounts (in practice, for England and Wales) and Whole of Government Accounts. Under section 20 of the Government Resources and Accounts Act (Northern Ireland) 2001, the Department of Finance, Northern Ireland is also required to consult with and take account of the recommendations made by this advisory group before issuing directions on resource accounts or determining the form and content of Whole of Government Accounts (Northern Ireland). The Scottish Ministers, with the agreement of the Audit Committee of the Scottish Parliament, have determined that they should be similarly advised on such matters. The Financial Reporting Advisory Board will be the advisory group.

2. Terms of Reference

2.1 Responsibilities of the Board:

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

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

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

- g. The Board will examine all amendments to the guidance in respect of the bodies listed in (b) and (c) above, with the aim of ensuring that they comply with GAAP, and that departures or modifications from GAAP, due to public sector and spending control contexts, are fully explained and justified. The Board will also examine, with the same aim, amendments to accounts directions referred to the Board, issued by the Treasury, the Welsh Assembly Government, the Scottish Ministers and the Executive Committee of the Northern Ireland Assembly.
 - h. The Board will prepare an annual report of its activities, including its views on the changes made during the period to the accounting guidance, or, as appropriate, accounts directions, issued by the Treasury, the National Assembly for Wales, the Scottish Ministers and the Executive Committee of the Northern Ireland Assembly. in respect of bodies listed in 2.1 (b) above and the Code, and will send a copy of its report direct to the Committee of Public Accounts and the Treasury Select Committee of the UK Parliament, the Welsh Assembly Government, the Scottish Ministers, the Executive Committee of the Northern Ireland Assembly.
- 2.2 The Treasury, (in conjunction with the Department of Health and Social Care in respect of NHS trusts in England and 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.
- 2.3 The Treasury, the Scottish Ministers, and the Executive Committee of the Northern Ireland Assembly, will formally lay the Board's report before the House of Commons, the Scottish Parliament and the Northern Ireland Assembly respectively. The Welsh Assembly Government submits the report to the Audit Committee of the National Assembly for Wales.
- 2.4 The Board will undertake a review of its effectiveness at least once every three years.
- 2.5 The Treasury will provide the secretariat to the Board.

3. Membership

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

Independent members

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

Preparers/Users members

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

Auditor members

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

Relevant Authorities members

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

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

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

4. Review of Terms of Reference

- 4.1 These Terms of Reference should be subject to regular review and at least every five years.³

³ Last updated March 2018

Annex B: Excerpts from the revised 20-21 FReM

2.4.1 The four main purposes of government financial reporting, as outlined by the Public

Accounts and Constitutional Affairs Committee and considered as part of the Government Financial Reporting Review, are:

1. to maintain and ensure Parliamentary control of government spending, enabling, in particular, Parliament to hold the Government accountable for its spending.
2. to enable the public and researchers (both in civil society and Parliament) to understand and consider the value for money offered by public spending, so that they can make decisions about the effectiveness, efficiency and economy of particular policies or programmes.
3. to provide a credible and accurate record which can be relied upon.
4. to provide managers inside departments (including both ministers and civil servants) with the information they require to run the departments and their agencies efficiently and effectively.

2.4.2 All government financial reports should meet one or more of these purposes. Public sector annual reports and accounts should meet all of them. Enabling Parliament to hold the government to account (Parliamentary accountability) is, however, the key purpose of government annual reports and accounts. If there is any conflict between meeting different purposes, then the needs of Parliament take precedence. The application of EU endorsed IFRS Standards, as adapted and interpreted for the public sector context (see Chapter 8) with additional disclosure where necessary, is presumed to result in financial statements that meet the needs of Parliament and other users, and to give a true and fair view.

2.4.3 Parliament in the context of the FReM is defined as:

- The UK Parliament;
- the Scottish Parliament;
- the National Assembly for Wales; and
- the Northern Ireland Assembly.

2.4.4 The application of EU-endorsed IFRS Standards, as adapted and interpreted for the public sector context (see Chapter 8) with additional disclosure when necessary, is presumed to result in financial statements that that meet the needs of Parliament and other users, and to give a true and fair view (see Chapter 4).