



HM Treasury

## Financial Reporting Advisory Board

### FRAB Governance Matters

<b>Issue:</b>	Following the Board's effectiveness review in November 2020, several actions relating to the governance of the Board was agreed to be developed. It was agreed that a draft Board strategy would be developed and brought to the Board for consideration. The Board provided comments in March 2021, in which the strategy, risk register and action plan has been updated accordingly. Further matters in relation to board governance are also being brought for consideration including the forward plan, induction pack, training opportunity, the Nominations Committee and use of Board Intelligence.
<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 and Estimates regimes?</b>	N/A
<b>Alignment with National Accounts</b>	N/A
<b>Recommendation:</b>	The Board is invited to approve the updated strategy and risk register, which has been amended following comments from members in the March 2021 meeting. The Board to provide further comments on the FRAB forward plan, FRAB induction pack and on the nominations committee set up.
<b>Timing:</b>	Ongoing.

#### Detail

1. In response to the Board effectiveness review in November 2020, a strategy, action plan and risk register were developed and shared at the March Board meeting for discussion.

2. The strategy and action plan picked up on the recommendations from the independent review. Following further discussion, they are being reshared with the Board for further consideration.
3. The Board forward plan has been updated in light of the action plan discussion and other matters arising and is shared with the Board.
4. Recommendations from the review also included the development of a board induction pack which is being represented to the Board for further comment.
5. To aid new member induction, two training sessions on central government and local government reporting frameworks are being offered to members.
6. The creation of a standing Nominations Committee was agreed at the previous meeting and details of its formation are set out below.
7. Finally, members were advised of the use of a new portal for sharing board papers which is set to go live this month.

### FRAB Strategy, action plan and risk register

8. The Board held its first effectiveness review in November 2020 and as part of the review several actions relating to the governance of the Board was agreed to be developed.
9. Following the meeting in March 2021, the FRAB Strategy, action plan and risk register have been updated taking on board comments from members. It has now been re-circulated for members to provide further comments where necessary.
10. It was agreed that the effectiveness review report by the NAO would be published along with the Board's response in the form of the strategy and high-level risk register. The FRAB Annual Report will also incorporate these documents. The review is due to be published once the strategy and risk register has been agreed.
11. The Board agreed that an annual high-level effectiveness review would be undertaken with the next scheduled review to be in November 2021.

#### Questions for FRAB:

- Are there any further updates you would like added to the strategy, action plan and risk register?
- Do you agree that the effectiveness review and board response (strategy and high-level risk register) may be published.
- Would members like to be given sight of the action plan at every meeting in conjunction with matters arising?

### FRAB Forward plan

12. The FRAB forward plan is the provisional work programme for the next three FRAB meetings.
13. The forward plan has been updated in light of discussions at the March board meeting and taking into consideration items from the board action plan (Appendix 2).
14. There may be additional items added to the agendas, and some agenda items may be deferred or deleted as required.
15. Board members are invited to advise the secretariat at any point ahead of meetings of items to add or update to the agenda.
16. Members are also invited to comment on the attached forward plan.

#### Question for FRAB:

- Are there any comments members may have in relation to the forward work plan?

### Member induction pack

17. Following the meeting in March 2021, the FRAB member induction pack has been updated taking on board comments from members.
18. Members were invited to provide a short biography and role profile and those received have now been incorporated.
19. It has now been re-circulated for members to provide further comments where necessary.
20. The intention is for the induction pack to be a useful source of internal information and guidance for new members and will be regularly reviewed but not published.

#### **Actions for FRAB:**

- Further contribution required in relation to members providing a short biography and perspective on their specific role.

### FRAB Nominations Committee

21. There were a number of membership terms of board members that have recently come up for renewal and consideration along with the nomination of the Northern Ireland Audit Office representative to join the Board following the rotation of the audit institutions membership.
22. A temporary Nominations Committee was convened, and a meeting held on 14<sup>th</sup> June to discuss these memberships which were agreed. Members have been advised accordingly.
23. The Committee discussed the need for succession planning particularly for representatives from organisations that have a standing position on the Board. It was agreed that the new standing Nominations Committee would consider this further.
24. Following discussion at the March 2021 meeting, the Board agreed to form a standing Nominations Committee. Membership of the Committee is made up from a representative from each of the Board membership categories.
25. At the March meeting, volunteers were asked to advise the Chair if they would be willing to join the Committee and two members came forward. With thanks to Andrea Pryde (an independent member) and Gawain Evans (a relevant authority member) for putting their names forward. James Osborne as the nomination from the C&AG will also be a member and the Committee will be chaired by Lynn Pamment.
26. A volunteer from the user/preparer group of FRAB members is still being sought and any member wishing to volunteer should put their name forward to the Chair.
27. The draft terms of reference for the Nominations Committee have now been updated as part of the regular review cycle, (Appendix 5). The terms now include:
  - Addition of the standing membership from a representative of the relevant authorities;
  - details of appointment of chair; and
  - the Committee will consider the Board's diversity including that of background and expertise when considering membership.

**Questions for FRAB:**

- Do members agree with the updated terms of reference or would members prefer to delegate this to the nominations committee for further consideration?

**Actions for FRAB:**

- Another volunteer is required from the user/preparer group to join the standing committee.

**FRAB member training**

28. The Board has previously discussed the benefits for members to undertake regular training particularly as part of the induction process where they may be new to the Board and unfamiliar with the public sector specific spending, control and reporting frameworks.
29. To this end, the Treasury and CIPFA will each arrange a virtual training session over the summer which will be open to all members to attend. This includes:
  - HMT to run a session on the central government spending control and reporting framework; and
  - CIPFA to host a local government framework session.
30. All members will be invited to attend, and dates and meeting invites will be circulated after the meeting.

**Board Intelligence software**

31. Access to use the Board Intelligence application as a portal to access all board papers has now been arranged. The portal should allow members easier and quicker access to papers with a library of papers and comments being built over time to improve reference.
32. The intention is for meeting papers and out of meeting papers to be made available via the portal which also offers members and observers the opportunity to comment, share discussion, and question papers ahead of meetings.
33. BI is a secure application and login details may not be shared.
34. Where deputies may on occasion need to attend meetings and other observers may need access to papers, these will be made available separately.
35. The intention is for papers for the June 2021 and beyond to be made available on the portal but separate copies for the June meeting will be shared to aid transition.
36. Copies of agreed papers and minutes from meetings will still be made available on gov.uk after meetings.

## Appendix 1 - FRAB strategy (updated) and risk register

### Introduction

The role of the Financial Reporting Advisory Board, or FRAB, is to provide advice on reporting policies and standards to apply to government financial reporting. In doing so it plays a key part in ensuring government financial reporting meets the best possible standards of financial reporting by following Generally Accepted Accounting Practice (GAAP) as far as possible.

FRAB is an independent body whose work is enacted in multiple forms:

<b>Advising</b> Provide independent advice to HM Treasury, therefore fulfilling the obligation to consult an advisory group on financial reporting principles and standards.
<b>Oversight of standard Setting</b> Oversee implementation of accounting standards in the public sector
<b>Promoting Excellence</b> FRAB exists to promote the highest possible standards in financial reporting by government.
<b>Examining Proposals</b> Examine the proposals for changes to accounting policies in order to ensure any deviation from the generally accepted accounting practices are justifiable and appropriate.
<b>Self-Governing</b> FRAB is required to form its own rules for reaching conclusions as well as producing its own report.

## FRAB's strategic objective and strategic themes 2021-2024

### Advising

FRAB will provide clear and independent advice at all times. Minutes and papers from FRAB will be available promptly and publicly and will provide a clear record of the advice given. FRAB will provide an annual report to Parliament on its activities each year.

### Standard setting

FRAB plays a key role in the oversight of the implementation of accounting standards in the public sector in the UK. Its work in this respect is influenced by the agenda and work plans of international and UK standard setting bodies including the International Accounting Standards Board (IASB), the International Financial Reporting Interpretations Committee (IFRIC), the International Public Sector Accounting Standards Board (IPSASB) and the Financial Reporting Council (FRC).

During the three-year period from 2021 to 2024, the following projects from the IASB and IPSASB may result in standards available for implementation in the UK public sector:

Project	Details	FRAB role 2021-24
<b>Issued standards</b>		
<b>IFRS 16 Leases</b>	Implementation in the UK public sector was delayed due to COVID-19.	Oversee implementation in the UK public sector.
<b>IFRS 17 Insurance Contracts</b>	Due to be implemented in the UK public sector	Oversee implementation in the UK public sector.
<b>IASB projects with potential relevance to UK public sector</b>		
<b>Primary financial statements</b>	<p>The Exposure Draft <i>General Presentation and Disclosures</i>, issued in December 2019 proposed improvements to how information is communicated in the financial statements, with a focus on information in the statement of profit or loss.</p> <p>The timing of an expected pronouncement is not yet known.</p>	Understand potential implications for the UK public sector and oversee implementation of any final standard.
<b>Targeted standards level review of disclosures</b>	The publication of an Exposure Draft of amendments to the disclosure sections of IAS 19 and IFRS 13 is planned for H1 2021.	Understand potential implications for the UK public sector
<b>Management commentary</b>	An exposure draft of a revised Practice Statement is expected to be issued in April 2021.	Understand potential implications for the UK public sector
<b>Amendments to IAS 12</b>	The Board expects to issue amendments in the second quarter of 2021 relating to deferred tax assets and liabilities arising from a single transaction.	Understand potential implications for the UK public sector and oversee implementation of any final standard.
<b>Amendments to IAS 21</b>	<p>The Board tentatively decided to amend IAS 21 to address the spot exchange rate an entity uses when a currency lacks exchangeability. The proposed amendment to IAS 21 would</p> <p>(a) define exchangeability and thus a lack of exchangeability; and (b) specify how an entity determines the spot exchange rate when a currency lacks exchangeability.</p> <p>The Board plans to publish an exposure draft of proposed amendments to IAS 21 in due course.</p>	Understand potential implications for the UK public sector

Project	Details	FRAB role 2021-24
<b>Lease liability in a sale and leaseback</b>	<p>In November 2020, the International Accounting Standards Board (Board) published the Exposure Draft <i>Lease Liability in a Sale and Leaseback</i>. The Exposure Draft specifies the method a seller-lessee uses in initially measuring the right-of-use asset and lease liability arising in a sale and leaseback transaction and how the seller-lessee subsequently measures that liability.</p> <p>The deadline for submitting comments on the Exposure Draft is 29 March 2021.</p>	Understand potential implications for the UK public sector
<b>Provisions – targeted improvements</b>	<p>The Board is developing proposals for three targeted improvements to IAS 37 <i>Provisions, Contingent Liabilities and Contingent Assets</i>. These would involve:</p> <p>aligning the definition of a liability and requirements for identifying liabilities with the <i>Conceptual Framework for Financial Reporting</i>; and</p> <p>clarifying two aspects of the measurement requirements.</p>	Understand potential implications for the UK public sector
<b>IFRS taxonomy update</b>		Understand potential implications for the UK public sector
<b>Sustainability reporting</b>	<p>In March 2021 the Trustees <a href="#">issued a public statement</a> explaining their intention to publish a feedback statement that summarises the responses received to their 2020 Consultation. Together with the feedback statement, the Trustees will publish for public comment the proposed changes to the Foundation’s <i>Constitution</i> necessary to formalise establishment of a new board, including its composition.</p>	Understand potential implications for the UK public sector
<b>Agenda consultation</b>	<p>The IASB is required to undertake a public consultation on its work plan every five years. The IASB plans to publish a request for information on the agenda consultation for public comment in March 2021.</p>	Understand potential implications for the UK public sector
<b>IPSASB projects</b>		

Project	Details	FRAB role 2021-24
Revenue	Standard expected to be published by the end of 2021.	Understand potential implications for the UK public sector
Transfer expenses	Standard expected to be published by the end of 2021.	Understand potential implications for the UK public sector
Conceptual framework update	Revised chapters expected to be published in 2022 and 2023.	Understand potential implications for the UK public sector
Measurement	Standard expected to be published during 2022.	Understand potential implications for the UK public sector
Property, plant and equipment	Revised standard expected to be published during 2022.	Understand potential implications for the UK public sector
Non-current assets held of sale and discontinued operations	Standard expected to be published during 2022.	Understand potential implications for the UK public sector
Public sector specific leases	Standard expected to be published during 2023.	Understand potential implications for the UK public sector
Natural resources	Exposure draft expected to be published during 2023.	Understand potential implications for the UK public sector
Work plan consultation	Mid period work plan consultation expected during 2022 and new work plan expected to be in place from 2024.	Understand potential implications for the UK public sector

### Promoting Excellence

FRAB exists to promote the highest possible standards in financial reporting by government. During the three-year period of this strategy, FRAB will promote excellence by:

- Understanding and challenging the action being taken to address thematic audit qualifications in public sector accounts;
- Tracking the action being taken in the Government Financial Reporting Review to implement Parliamentary recommendations on improving annual reports;
- Overseeing a series of post implementation reviews of standards that have been implemented;



- Considering recommendations for change put forward by the User Preparer Working Group; and
- Considering relevant audit findings and recommendations.

## Examining Proposals

FRAB will work closely with HM Treasury and the Relevant Authorities Working Group to examine any proposals for changes to accounting policies adopted in the UK public sector. In doing so, FRAB will act to ensure any deviation from the generally accepted accounting practices are justifiable and appropriate.

## Self-Governing

During the three-year period of this strategy FRAB will:

- Implement the recommendations of the NAO review of Board effectiveness;
- Develop and maintain a risk register;
- Undertake regular reviews of progress being made in implementing this strategy; and
- Undertake a further review of its effectiveness in 2023.

## Risk Register

Risk	Mitigation	Further mitigation proposed
The scale of the standard setting agenda creates a significant burden on FRAB, preparers and users of annual reports	Sufficient lead in time is built into the introduction of new requirements.	More agenda time at an earlier stage for emerging standards and potential issues to provide the relevant authorities with appropriate input at the right time.
Standards are poorly or inappropriately implemented due to insufficient consideration of public sector specific impact	Sufficient lead in and agenda time is built into the of implementation of new requirements to allow for full consideration of public sector impact.	More agenda time at an earlier stage for emerging standards and potential issues.
Implementation of new standards results in further audit qualifications	Sufficient lead in time is built into the introduction of new requirements.	FRAB to consider audit challenges as it is providing advice on the timing and nature of implementation.
Changes in the external environment creates new transaction types to consider ensuring financial reporting	Regular review of the external environment and reporting landscape to identify emerging issues and relevant response.	Regular updates from sector representatives and pronouncements by standard setters allowing sufficient time on the agenda to fully consider impact on public sector.

<p><b>maintains the best standards.</b></p>		
<p><b>Implementation of changes results in additional complexity and reduced understandability of annual reports and accounts</b></p>	<p>The Government Financial Reporting Review seeks to improve the understandability of annual reports.</p>	<p>FRAB to monitor specifically this risk as part of the advice it gives and decisions it makes.</p>
<p><b>FRAB has insufficient time, resources and balance of expertise to discharge responsibilities</b></p>	<p>FRAB has a full membership and its work is supported by the relevant authorities working group and the user preparer group.</p>	<p>The Nominations Committee to consider succession planning and diversity of background and expertise of the Board to ensure it can fully meet its role and responsibilities.</p> <p>Additional Board meetings or out of meeting correspondence utilised if needed.</p>

## Appendix 2 – Action Plan

*See separate Excel document*

Appendix 3 - FRAB forward plan

<b>FRAB 2021/22 WORK PROGRAMME - PROVISIONAL AGENDA ITEMS</b>		
<b>FRAB 145 November 2021</b>	<b>FRAB 146 March 2022</b>	<b>FRAB 147 June 2022</b>
FReM 2021-22 in year update & FReM 2022-23	Department of Health and Social Care Group Accounting Manual 2022-23 post consultation version & health sector update	WGA 2020-21 progress update
CIPFA/LASAAC Code	IFRS Interpretations Committee summary of announcements	FRAB Annual Report
DHSC Manual – notice of pre consultation version for consideration & health sector update	2022-23 CIPFA/LASAAC Code – if needed	IFRS 17 implementation update
2020-21 ARAs cycle update from each of the relevant authorities, the NAO and DA audit institutions	IFRS17 Implementation update	NAO – reflections of the 2021-22 audit process
IFRS17 Implementation update	Government's response to the Redmond Review update	IPSASB update
FRAB annual reflections on effectiveness and further strategy discussion if needed including forward work plan	FRAB forward strategy – <i>if needed</i>	Member and sector updates including from the Devolved Administrations on the 21-22 reporting cycle
WGA 19-20 review	Narrow scope amendments	Relevant authorities working group update
Sustainability working group feedback	Thematic reviews – topics and update	User preparer group update
Non-financial reporting landscape	Member and sector updates as needed	Sustainability working group update – if needed
Discount rates	Relevant authority working group updates	IFRS 16 post implementation review

Relevant authorities working group update	User preparer advisory group update	CIPFA/LASAAC Code and local government update
Member and sector updates on any other issues not already covered– as needed	Consultation of corporate governance and audit reform - update	
Update on mainstream working areas following Government Financial Reporting Review		
IFRS Interpretations Committee summary of announcements		
User Preparer Advisory Group update		
PPP arrangements and interaction with IFRS16		

## Appendix 4 - FRAB member induction pack

*See separate word document*

## Appendix 5 – Nominations Committee Terms of Reference – DRAFT (updated areas in red)

### Financial Reporting Advisory Board NOMINATIONS COMMITTEE TERMS OF REFERENCE

#### Objective

1. The Financial Reporting Advisory Board (FRAB) Nominations Committee aims to ensure that the FRAB operates with a full complement of members in accordance with its Terms of Reference (Appendix A).

#### Nominations Committee members

2. The Nominations Committee will comprise of:
  - The FRAB Chairman, who will chair the committee;
  - An additional member from the 'independent/external' group of FRAB members;
  - A member from the 'preparers/users' group of FRAB members;
  - A member from the relevant authorities group of FRAB members; and
  - The FRAB member nominated by the Comptroller & Auditor General.
3. The FRAB member Code of Conduct will apply.
4. Length of appointment of members will be as agreed with the Committee Chairman.

#### Role of the Nominations Committee

5. The Nominations Committee will receive nominations for FRAB membership as detailed within the FRAB's Terms of Reference, ratifying nominations based on compliance with the FRAB member role specification.
6. Vacancies for the two independent member posts and the academic post on FRAB will be subject to open advertisement, with consideration of applications for membership by the Nominations Committee.
7. When considering multiple nominations or applications for FRAB membership, the Nominations Committee will filter applications and conduct interviews as necessary to determine the most suitable candidate.
8. The Treasury will consult the Comptroller & Auditor General, as required by the Government Resources and Accounts Act 2000.

#### Appointment of FRAB members

9. FRAB members will receive letters of appointment from the FRAB Chair, indicating the term of appointment in line with the FRAB terms of reference.

#### Appointment of FRAB Chair

10. As per the FRAB terms of reference, the independent Chair will be appointed following open advertisement, by the Head of the Government Finance Function, with the consent of the Relevant Authorities.
11. For the purposes of the appointment of the FRAB Chair, the Nominations Committee will also be made up of an additional member being the Head of the Government Finance Function or nominated representative.
12. The Nominations Committee representative from the relevant authorities will consult with the other relevant authorities FRAB members before the appointment of the Chair.
13. The FRAB Chair will receive a letter of appointment from the Head of the Government Finance Function.

#### **FRAB membership succession planning**

14. The Nominations Committee will monitor membership end dates to ensure appropriate succession planning is in place to replace members in a timely manner.
15. The Nominations Committee will consider the Board's diversity of background and expertise when considering membership and succession planning of the Board.

#### **Meetings and correspondence**

16. The FRAB Nominations Committee will meet as **necessary (either in person or virtually as agreed by members)** and also conduct its business by telephone and e-mail.

#### **Secretariat Support**

17. Secretariat support for the FRAB Nominations Committee will be provided by the FRAB Secretary.