

**FINANCIAL REPORTING ADVISORY BOARD REVIEW GROUP**

**REVIEW OF THE FINANCIAL REPORTING  
ADVISORY BOARD:**

**A consultation**

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October 2010

## Summary information

### Subject of the consultation

This consultation covers a review of the Financial Reporting Advisory Board (FRAB).

### Scope of the consultation

This consultation document sets out the preliminary views of the Review Group on the future role, structure and operational arrangements of the Financial Reporting Advisory Board.

### Who should read this and respond?

The Review Group would like to receive the views of all FRAB's stakeholders, on the preliminary views set out in this consultation document.

### Duration

The consultation period for this document runs from 11 October to 10 January 2011.

### Responses and enquiries

Responses and enquiries should be e-mailed to:

[frabreview@hmtreasury.gsi.gov.uk](mailto:frabreview@hmtreasury.gsi.gov.uk)

Telephone enquiries: 020 7270 4585 (FRAB Review Group Secretary)

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# 1 Introduction

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## **Background to the Financial Reporting Advisory Board (FRAB)**

1. The FRAB 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. The FRAB’s terms of reference are attached at Annex A, and details of the Board’s membership are at Annex B.

2. The FRAB’s main focus is on examining proposals for amending current, or implementing new, accounting policies in the accounting guidance for various branches of government<sup>1</sup>. The FRAB also advises the Treasury on the implementation of accounting standards specific to Whole of Government Accounts.

3. The FRAB 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 FRAB ensures that any adaptations of, or departures from, generally accepted accounting practice in the public sector context, are justifiable and appropriate.

4. Further information on the FRAB, including access to its annual reports to Parliament can be accessed at [http://www.hm-treasury.gov.uk/psr\\_frab\\_index.htm](http://www.hm-treasury.gov.uk/psr_frab_index.htm).

## **Why the Review is being undertaken**

5. Since its inception in 1996, the FRAB’s remit has expanded incrementally with a corresponding increase in the Board’s membership. Whilst the Review Group is not aware of any concerns about the effectiveness or efficiency of the FRAB, there are several reasons why it is now considered desirable and timely for a review to take place:

- The FRAB has been operating for 14 years without a formal review;
- The FRAB role and responsibilities have been added to at various points during its existence so that its role has expanded, but with little consideration of the overall impact of such changes;

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<sup>1</sup> The precise list of the government bodies upon which accounting the FRAB advises, and how that advice is framed for each, is detailed in the FRAB’s current Terms of Reference, which is laid out in Annex A. Generally, where “government” is referred to in this paper, it is a reference to these bodies.

- A new FRAB Chairman has been appointed, with Kathryn Cearnis recently replacing Elwyn Eilledge; and
- Recent and significant change may impact on the FRAB's future role and work, e.g. the new coalition government has prompted a drive for further accountability and transparency linked to financial reporting.

### **FRAB Review Group: aim and scope of the Review**

6. The Review of the FRAB is being led by the FRAB Review Group. The terms of reference of the Review Group, including details of its members, are at Annex C.

#### *Aim of the Review*

7. The aim of the Review is to ensure that the FRAB is fit for purpose for the future, in order to fulfil its role.

#### *Scope of the Review*

8. The Review considers the future role, structure and operational arrangements of the FRAB. It will not cover the financial reporting framework that is used to develop the standards on which the FRAB advises.

# 2 FRAB's current role and determining its future role

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## **Legislative basis for the FRAB**

1. Although the FRAB has operated since 1996, its role was not placed onto a legislative basis until 2000, under the Government Resources and Accounts Act 2000<sup>2</sup> (The Act). The relevant section of the Act is at Annex D.

## **Role of the FRAB**

2. The FRAB's role under the Act is to advise on financial reporting principles and standards. The Board does not assume an advocacy role, and reports only to Parliament. In the context of the FRAB Review, there is no presumption that its role should change, although the results of the Review will help inform this.

## **Role of the FRAB Chairman**

3. The role of the FRAB Chairman is to ensure the overall success and effective and efficient operation of the Board by:

- Chairing and leading the Board, ensuring its effectiveness, and encouraging a full contribution from its members;
- Ensuring the FRAB fulfils its remit in accordance with its terms of reference;
- Ensuring that the FRAB encourages the highest possible standards in financial reporting by government;
- Maintaining and building the FRAB's credibility in its provision of independent advice on financial reporting principles and standards to the relevant authorities, in its reporting to Parliament, and in its dealings with its stakeholders more widely;
- Ensuring the strength and calibre of the FRAB through the effective review of its performance and by succession planning; and by
- Ensuring that the FRAB maintains excellent relationships with the UK Accounting Standards Board, the International Accounting Standards

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<sup>2</sup> Government Resources and Accounts Act 2000, section 24

Board, the International Public Sector Accounting Standards Board and other relevant organisations.

## **FRAB's current role – what's happening**

### *Mainstream work – financial reporting*

4. The FRAB's work programme reflects its primary role, which is the provision of advice to the relevant authorities<sup>3</sup> on the application of financial reporting principles and standards in the public sector context. This is evidenced from the agendas and Minutes of the FRAB's meetings, available at [www.hm-treasury.gov.uk/psr\\_frab\\_meetings\\_index.htm](http://www.hm-treasury.gov.uk/psr_frab_meetings_index.htm).

5. The provision of advice by the FRAB is usually, but not exclusively, restricted to FRAB meetings, taking place five or six times per year. The relevant authorities may:

- Submit a paper to the FRAB, seeking the Board's advice on a proposed change to accounting standards<sup>4</sup>. The paper details the rationale for the proposed accounting change. It indicates whether the proposed change is compliant with international financial reporting standards, or proposes an interpretation or adaptation of the relevant standard, and summarises the results of any prior consultation that has taken place more widely in the public sector prior to its submission to the FRAB; or
- Submit a paper to the FRAB, detailing a particular accounting issue or scenario, seeking the Board's preliminary views on possible courses of action under consideration. In these circumstances, it is usual that a formal paper is later submitted to the FRAB, once proposals are confirmed, and following relevant due process e.g. consultation with the relevant public sector entities; or
- Provide a verbal update to the FRAB on a particular accounting issue or scenario, seeking the Board's preliminary views, which may, or may not; be followed by the submission of a paper detailing proposals for the Board's consideration.

6. In situations where an issue is complex enough to require in depth consideration, the FRAB sometimes recommends that an ad-hoc working group be established to consider the matter in question and for it to report to the full board, for example accounting for projects under the Private Finance Initiative and the treatment of impairment of assets

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<sup>3</sup> HM Treasury, Scottish Ministers, Welsh Assembly Government, Department of Health, Northern Ireland Assembly, Monitor and The Chartered Institute of Public Finance and Accountancy/Local Authority (Scotland) Accounts Advisory Committee (CIPFA/LASAAC) Local Authority Accounting Code Board.

<sup>4</sup> Includes the Government Financial Reporting Manual, the NHS Accounting Manuals, the Foundation Trust FReM and the Code of Practice on Local Authority Accounting for the United Kingdom.

7. In certain fairly rare circumstances, usually as a result of time pressures when a proposal cannot await the next scheduled FRAB meeting, the FRAB may agree to consider a paper outside of its formal meetings. On the relatively few occasions when this has proved necessary, the FRAB Secretariat has co-ordinated the issue of the paper and the responses from individual FRAB members, and provided feedback on the outcome to the FRAB at its next meeting.

*Other relevant guidance – the context of the public sector*

8. The focus of FRAB's remit is high quality financial reporting in the public sector. In order for it to provide the most informed advice on accounting principles and standards in the public sector context, the FRAB also makes itself familiar with, and seeks to understand, the other frameworks that exist alongside the accounting framework, and that may impact on the practical implementation of financial reporting proposals. This ensures the Board advises the Government on how to achieve the highest possible standards of financial reporting in the public sector. Examples of other sources that the FRAB may consider include:

- The government's budgetary framework;
- The Alignment (Clear line of Sight) project framework and proposals – seeking to better align accounts, parliamentary Estimates and budgets;
- The departmental accounting and Whole of Government Accounts boundaries;
- Sustainability reporting;
- Auditability of data; and
- International Public Sector Accounting Standards.

*Disclosures and other reporting*

9. In the past, the FRAB has also considered and agreed amendments to accounting guidance that is not directly related to financial reporting. For example, the Government Financial Reporting Manual, available at [www-financial-reporting.gov.uk](http://www-financial-reporting.gov.uk) includes a chapter (chapter 5) on annual reports. The chapter provides guidance on the central government equivalent of the Companies Act Director's Report, and requires the completion of a remuneration report and a management commentary, the latter including disclosures that are not directly related to financial reporting, e.g. the reporting of sickness absences.

## **What's working**

10. The FRAB is viewed to be operating efficiently and effectively by the relevant authorities, which it advises. To date, no views have been expressed by other stakeholders to suggest that the FRAB is not currently fit for purpose. The prevailing view seems to be that, since its inception, the Board has provided a significant contribution in raising the standard of financial reporting by government. This consultation is part of the process of obtaining wider views on this fundamental question.

11. At this stage, the issue for the FRAB Review Group is more whether the FRAB will remain fit for purpose in the context of the future demands that may be placed on it, given its current role, structure and operational arrangements. In short, the aim is to ensure that the FRAB will remain fit for purpose over the coming years.

## **Potential areas for improvement?**

12. The FRAB Review Group has considered several potential areas for improvement. These relate to:

- The perceived independence of the FRAB (chapter 3);
- The balance and membership of the FRAB (chapter 4);
- The FRAB's future terms of reference, and its scope when providing advice (chapter 5) and
- The operational arrangements of the FRAB, including the Board's approach in agreeing proposals for the interpretation or adaptation of accounting standards (chapter 6).

### **Preliminary view 1:**

**The FRAB operates effectively and has made a significant contribution over the years in raising the standard of financial reporting by government.**

# 3 The importance of the FRAB's independence

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## **The independence of FRAB**

1. The FRAB operates independently of the relevant authorities in advising them on the application of financial reporting principles and standards, although members of the relevant authorities form part of the Board's membership.

2. Whilst the FRAB operates independently of the relevant authorities, the Secretariat support to the FRAB is provided by HM Treasury, as is the funding to cover the FRAB's administrative costs of holding its regular meetings. These administrative and funding arrangements are not viewed as impacting on the FRAB's independence in any way.

3. From the evidence available to it, the FRAB Review Group's preliminary view is that the FRAB performs the independent role expected of it. Nevertheless, given the gradual extension of the FRAB's remit over the years, and as a result of the consequential shift in the balance of the Board's membership, it is possible that some may perceive the FRAB as being less independent than it otherwise should be. The FRAB Review Group regards the issue as one of perception rather than fact, but one, which nevertheless ought to be considered.

## **Reporting**

4. In accordance with its terms of reference, the FRAB has a responsibility to prepare and publish an annual report of its activities, including its view on the changes made during the report period to financial reporting guidance that falls within the FRAB's remit.

5. The FRAB's annual report is directed to the Committee of Public Accounts and the Treasury Select Committee of the UK Parliament. It is also directed to the Welsh Assembly Government, to Scottish Ministers and the Department of Finance and Personnel, Northern Ireland. The FRAB's annual report is subsequently laid respectively before the House of Commons, the Scottish Parliament and the Northern Ireland Assembly. The Welsh Assembly Government submits the report to the Audit Committees of the National Assembly for Wales.

6. In exercising its independent role, the FRAB may draw attention in its annual report to any issue that it considers appropriate that falls within its remit, and this is an effective mechanism that helps ensure that the highest standards of financial reporting are maintained by government.

7. From time to time the FRAB may issue press releases to draw attention to its work, for example when the annual report is published. This medium could also be used to draw attention to a particular issue of concern to the Board, if it considered this an appropriate form of action; although to date it has not done so.

### **Maintaining FRAB's independence going forward**

8. Maintaining the FRAB's independence is viewed by the FRAB Review Group as a prerequisite to ensuring its future successful operation. However, merely demonstrating the FRAB's independence by its documented actions may not be sufficient. The FRAB Review Group considers it desirable to ensure the FRAB is perceived by all its stakeholders as independent of the relevant authorities in carrying out its role, in order that they may have full confidence in its effectiveness.

9. The perception of whether the FRAB may be viewed as independent is undoubtedly linked to the membership and balance of the Board, and the way the Board conducts its operations. Relevant factors are likely to include:

- The direction, leadership and chairing skills exercised by the FRAB Chairman;
- Whether there are sufficient 'independent' members on the Board that can provide the necessary level of challenge in the FRAB's deliberations;
- The balance and number of the types of member on the Board, e.g. the ratio of accounts preparers, accounts users (including parliament), auditors and members nominated by the relevant authorities;
- The nominating role of the relevant authorities, in the context that FRAB advises the relevant authorities;
- How promptly vacancies are filled, to ensure that the FRAB retains all input it requires, particularly in relation to 'independent' member vacancies;
- How the FRAB communicates its advice; and
- How the FRAB interacts with its stakeholders.

#### **Preliminary view 2:**

**The FRAB performs the independent role expected of it. A change in membership – for example the addition of another independent accountant member (see chapter 4) – would enhance its actual and perceived independence.**

# 4 FRAB membership and the conduct of its meetings

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## **Membership – current situation**

1. The FRAB has a large membership, comprising 20 full members, including the Chairman. The Board also includes a parliamentary observer. The membership includes a mix of ‘independent’ members, including the Chairman, members nominated by the relevant authorities, preparers of financial statements, users of financial statements and auditors.

2. Details of FRAB members and vacancies are shown at Annex B. As membership vacancies have arisen over the last few months pending the outcome of this review, the general practice has been that they have not been filled. In the interim, those organisations that would normally have nominated a replacement member, have, on a temporary basis, sent an alternate person to FRAB meetings, pending confirmation that membership will continue, and until a new member is appointed. The Review Group also notes the existing practice where ‘alternates’ regularly attend FRAB meetings on behalf of some appointed members.

## **Membership – process for approval and appointment**

3. The FRAB’s terms of reference, shown at Annex A, details which organisations nominate the full members of the Board and also states that members will be appointed for 5 year, renewable terms (paragraph 3).

4. Organisations write to HM Treasury submitting nominations for FRAB membership. HM Treasury, in accordance with the Government Resources and Accounts Act 2000 (relevant extract shown at Annex D) is required to consult the Comptroller and Auditor General before selecting and appointing the nominee.

## **Role of FRAB members**

5. FRAB members are appointed to fulfil the Board’s aim of helping to achieve the highest possible standards of financial reporting by government. FRAB members are nominated by the relevant organisation or individual in line with the Board’s terms of reference. As a FRAB member, individuals attend the FRAB in a personal capacity, and are not therefore there to represent the authority or organisation that nominated them for membership. This important distinction permits individual FRAB members to take a holistic rather than parochial view when considering a spectrum of financial reporting

issues, and facilitates the provision of the most appropriate advice from the Board.

6. The 'independent' FRAB members are particularly important to how the Board functions, in that they bring particular expertise and a wealth of experience to the Board's discussions and deliberations. Most importantly, they bring a level of challenge to the Board's debates, and help ensure that the most appropriate and correct advice is provided by the FRAB.

### **Observers**

7. The FRAB's terms of reference make no mention of observers, providing details only of those authorities or organisations that may nominate full members. In practice, the FRAB permits a parliamentary observer, nominated by the Parliamentary Scrutiny Unit, to attend FRAB meetings. However, this is an informal arrangement and does not reflect the devolved governments.

8. Parliament is an important stakeholder in the FRAB, as the recipient of resource accounts that are prepared by government departments in accordance with the FReM, which is itself completed based on advice from the FRAB. The attendance of a parliamentary observer at FRAB meetings is therefore viewed as a welcome and important part of the FRAB meeting process, providing a direct communication channel between the Board and a nominated parliamentarian. This is particularly important when the Board considers financial reporting issues relating to accountability and transparency to parliament.

### **How the FRAB operates**

9. The FRAB holds closed meetings 5 or 6 times per year, with meetings held usually, but not exclusively, at HM Treasury. The FRAB considers proposals from the relevant authorities on amending their financial reporting manuals, or responds to requests to provide advice on specific issues.

10. In practice, at its meetings, the FRAB formulates its advice by a process of consensus decision-making, influenced by the input from the 'independent' members and guided by the Chairman. This effective form of decision-making, without the need for formal voting, has worked well in the past, helped by the private nature of the meetings, where FRAB members are able to express their views openly, and in confidence. This approach ensures that the Board is able to reach the 'right' answer in providing its advice, whilst allowing adequate time in its deliberations to fully consider the practical implementation issues around the advice it provides.

### **Size and balance of the Board**

11. The Board is relatively large in membership, but in practice this has been workable. Indeed, some consider the Board to be necessarily large. The Review Group considers that the size of the Board is appropriate, but that

it should not be increased. However, the real issue is considered to be the balance of the Board.

12. The balance of the Board has changed slightly over time due to the incremental change to its membership as the Board's remit has expanded. To improve the balance of the Board, the Review Group concludes that it would be desirable to have an additional 'independent' member on the Board, which would result in the reduction by one of the remaining members. This is expected to result in increased independent challenge in the Board's deliberations, and will help improve the perception that the Board is by its nature, and by its actions, entirely independent.

### **Tenure of FRAB Chairman and members**

13. The Review Group proposes that the FRAB Chairman should be appointed for a three-year term, renewable once, that would provide a maximum tenure of six years.

14. The Review Group further proposes that 'independent'<sup>5</sup> members be appointed for a three-year term, renewable up to twice, thereby providing a maximum tenure of nine years. This is with the proviso that serving on the Board in any combination as FRAB Chairman, or as an 'independent' or appointed member, should be subject to a maximum total tenure of nine years.

15. It is further proposed that other members serve a three-year term on the Board, with the presumption that this would be renewable no more than twice, thereby providing an expected maximum tenure of nine years. However, in particular circumstances it may be appropriate for a further extension to be considered.

### **Frequency of FRAB meetings – and out of meeting arrangements**

16. The existing frequency of meetings has worked well, usually meeting each year in February, April, June, October and December. Additional ad-hoc meetings have occurred rarely outside of this timetable, but may be considered if there is sufficient demand.

17. The FRAB also considers papers outside of its formal meetings, should it be considered that there is a pressing need to do so, although in practice, this has only been necessary a couple of times in the last few years. However, it remains open to the Board to reconsider the frequency that it meets, and an influencing factor may be the determination of the future scope of the Board's remit in providing its advice in fulfilling its core role, and whether it considers it has a secondary role, as discussed in chapter 5.

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<sup>5</sup> NB: Care should be taken to ensure that the end of tenure for independent members is staggered to ensure continuity of experience on the Board.

## **Attendance at meetings**

18. The use of 'alternates' at FRAB meetings has already been described above. Members of the FRAB are appointed on a personal basis because of the expertise that they bring, so to improve continuity and to ensure the appropriate level of expertise is available to the Board, it is proposed that the use of 'alternates' at FRAB meetings should no longer be permitted. Where a member is unable to attend a FRAB meeting, then the standard process should be for the member to participate in the meeting by telephone conference where this is possible, and, when not, by the submission of comments on the agenda papers in advance of the meeting to the FRAB Secretary.

19. The attendance of specialists at FRAB meetings should be permitted, at the Chairman's discretion, where this will assist the FRAB in conducting its role.

## **Reviewing membership**

20. There are currently no requirements in relation to member attendance. It is proposed that non-participation of a member at FRAB meetings should result in a review of the individual's membership status should they miss three consecutive meetings. In such circumstances it should be for the FRAB Chairman, consulting as necessary, to determine whether to seek a replacement member. The FRAB Chairman should also be able to review membership in the event of a poor attendance record of a member at FRAB meetings.

## **Use of technology at meetings**

21. FRAB meetings have been conducted in a traditional way by face-to-face meetings, without consideration of the use of technology that would permit members to participate at meetings without being physically present. Exploring the availability of relevant technology, i.e. telephone and video conferencing for future meetings may make it easier for some members to contribute, and may bring associated benefits in reduced travel costs and time savings.

## **Transparency**

22. As an independent body, it is important that the work of the FRAB is transparent, and seen to be transparent. The FRAB is listed under Schedule 1 of the Freedom of Information Act 2000, and is subject to the requirements of the Act. The Information Commissioner has approved the Board's publication scheme. The FRAB's agendas and papers, including the Minutes of each meeting are published on the FRAB website once they have been approved by the Board.

23. Meetings of the FRAB are held in closed session. The Review Group considered whether FRAB meetings should be open or remain closed and

concluded that transparency is achieved through publication of the Board's papers and Minutes of meetings, and the Review Group therefore sees no reason for the FRAB to move to open meetings.

**Preliminary view 3:**

**The size of the FRAB Board may be necessary to reflect the wide interests, but there is scope to improve the balance of the Board.**

**Preliminary view 4:**

**To improve the balance of the Board, it is desirable to add at least one further 'independent' member. If it were considered undesirable to increase the size of the board, this would result in the reduction of remaining members by one.**

**Preliminary view 5:**

**An appropriate tenure for the FRAB Chairman is three years, renewable once. For 'independent' members the appropriate tenure is three years, renewable up to twice. Similarly, for other members, a three-year tenure is appropriate, with the presumption this would be renewable no more than twice, except in particular circumstances.**

**Preliminary view 6:**

**The attendance of 'alternates' at FRAB meetings should not be permitted.**

**Preliminary view 7:**

**An individual's membership of FRAB should be reviewed should the member miss three consecutive FRAB meetings, or in the event of a poor attendance record.**

**Preliminary view 8:**

**The FRAB should explore the availability and use of technology in conducting future meetings, such as telephone and video conferencing.**

**Preliminary view 9:**

**The FRAB should continue to meet in closed session, given the transparency of its operations via the publication of its papers and Minutes of its meetings.**

# 5 The FRAB's future terms of reference

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## **Background**

1. The FRAB's existing terms of reference are shown at Annex A. Changes may be recommended as a result of this Review. The extent of change will be dependent on the specific findings and recommendations resulting from the Review, following this consultation. However, one of the major factors to be considered is the future demand placed on the FRAB by the relevant authorities, including their expectations and the relationship they desire with the FRAB going forward.

## **Future demands on the FRAB**

2. The future demands placed on the FRAB should help confirm and consolidate its core role. However, an important issue concerns where the FRAB draws the boundary of its advice in meeting its core role. A further issue emanating from this is whether the FRAB should have a secondary role in providing its support and challenge function? These issues are considered further below.

## **The FRAB's core role**

3. As an independent body, the FRAB's core role is clear from the underlying legislation that underpins its function, i.e. to advise on financial reporting principles and standards. There is not, therefore, any suggestion that the FRAB's core role should change. However, what is less clear is what the extent of the FRAB's remit should be in relation to the advice it provides in carrying out its core function, i.e. what should be the boundary of the FRAB's advice?

## **Boundary of the FRAB's advice**

4. The FRAB has sometimes been asked to advise on issues that some might not see as strictly related to financial reporting. FRAB's involvement is usually sought because the information will be included somewhere in the annual report of specified public bodies, or sometimes because the instructions to do so will be included in the relevant financial reporting manuals.

5. These tend to relate to:

- Narrative reporting (excluding corporate governance and similar disclosures) that is similar to the Companies Act requirement for companies to prepare a business review (under Section 417 CA 2006);

- Corporate governance disclosures, particularly remuneration information and the Statement on Internal Control; and
- Other disclosures, in the interests of accountability and transparency, that are mandated as a matter of public policy in terms of how the specified public sector bodies interact with parliament and the wider community, e.g. average payment times to suppliers, sustainability information etc.

6. In the past, the FRAB has sometimes agreed to consider such issues, whereas on other occasions it has questioned its remit to do so. In future, the Review Group considers that it would be helpful to lay out the broad criteria that FRAB will use to assess whether or not something is within its remit for advice. The FRAB will wish to maintain some flexibility in this area, given it is not entirely possible to predict what it will be asked to examine in future, but broadly speaking the following proposed approach would apply:

- a. Narrative reports include a management commentary on the financial statements, but also additional information on risks, policies, strategies and possible future events that are not reflected in the financial statements. These items are nevertheless vital for users of financial statements to get a full picture of the financial performance of an entity. Indeed, this is an area on which the International Accounting Standards Board (IASB) has been working and which it obviously sees as part of its remit, being an important part of the full package of financial information that users need. The FRAB will therefore treat such information as being within its area of specialism, and as such, will advise on it.
- b. Corporate governance disclosures can be very wide-ranging. To the extent they relate to transactions between key management personnel and the entity, they would be classed as related party disclosures for financial reporting purposes, and so would be included within the FRAB's remit. Again, this reflects the IASB's approach to what is, and what is not, within the IASB remit. Other disclosures relating to corporate governance, such as the Statement on Internal Control, may fall within the FRAB's area of expertise and others may not.
- c. Other disclosures that are mandated as a matter of public policy can again be very wide-ranging. The FRAB tentative view is that it should not advise on such issues unless they are included in the annual report in order to improve or expand upon reporting on the financial performance of the public sector body. This is aligned with the approach to the business review in Section 417 CA 2006, where environmental, community and employee issues must be discussed, but only to the extent necessary to report to shareholders on how the directors have met their duty to ensure the long-term success of the company. Each of these will thus be

decided on a case-by-case basis, using this broad principle (i.e. whether it relates to reporting financial performance).

7. Nevertheless, the FRAB will expect to be consulted on all material that is proposed to be inserted into the FReM and/or the equivalent for other relevant authorities, in order to decide whether it should advise on each issue of change. This approach may also help the FRAB advise on whether the annual report is actually the best place for certain types of information that do not relate directly to financial performance. It may be that some information that is required to be disclosed for good public policy reasons may be better delivered through alternative and better reporting channels (for example, via publication on websites), rather than cluttering up financial reporting information, which is designed for a different purpose. This may also aid the development of alternative assurance over such information, outside the scope of the financial audit.

8. On a separate but related point, the FRAB is aware that financial reporting as driven through the relevant manuals (the FReM etc) may not always encompass sufficient guidance for some bodies, particularly Non Departmental Public Bodies, which may lead to different interpretations of the reporting requirement. The FRAB will therefore advise on interpretation issues where its views are sought.

### **A secondary role?**

9. In the past, the FRAB has responded occasionally, via the FRAB Secretary, to selective financial reporting Exposure Drafts issued by the standard setters, including the UK Accounting Standards Board, the International Accounting Standards Board and the International Public Sector Accounting Standards Board. Responses were developed on proposals that were believed to have an important impact on the public sector. All FRAB responses were subsequently published and are available on the FRAB's website.

10. In the future, the FRAB may wish to confirm whether it is to have a secondary and complementary role to its core function, by contributing to the development of financial reporting standards by responding as matter of routine, or selectively, to financial reporting standards in development issued by the international accounting standard setters. Such a function, if desired, could be formalised in the FRAB's future terms of reference. However, in that event, the Board would need to confirm it has appropriate resources available to support this secondary role or function, given the relatively small size of the existing FRAB Secretariat.

### **Future reviews**

11. In the interests of good governance, and following the conclusion of this review, the FRAB should in future be subject to periodic review, to ensure it remains fit for purpose going forward, and to ensure it is carrying out its role

effectively and efficiently. The requirement for future reviews should be enshrined in the Board's terms of reference.

### **Impact on the FRAB's operational arrangements, and for developing financial reporting guidance**

12. It is acknowledged that the findings and recommendations emanating from this review may have implications for both the FRAB's future operational arrangements, and for developing financial reporting guidance for the UK public sector, as agreed by the relevant authorities and detailed in their Memorandum of Understanding. This is considered in Chapter 6.

#### **Preliminary view 10:**

**The broad criteria that FRAB should apply in assessing whether or not something is within its remit for advice is detailed in Chapter 5, paragraph 6.**

#### **Preliminary view 11:**

**The FRAB should confirm whether it is to have a secondary role to its core function, by contributing to the development of financial reporting standards by responding as a matter of routine, or selectively, to financial reporting standards in development issued by the international accounting standard setters.**

#### **Preliminary view 12:**

**The requirement for periodic future reviews of the FRAB should be enshrined in the Board's terms of reference.**

# 6 The operational arrangements of the FRAB

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## **Background**

1. The conduct of FRAB meetings is considered in chapter 4. This chapter considers the due process followed by the FRAB in considering proposed interpretations and adaptations of accounting standards, alongside the development work undertaken by the relevant authorities. This is partly covered by the Memorandum of Understanding between the relevant authorities, which was agreed by the FRAB, which sets out the operational arrangements for developing financial reporting guidance in the public sector. This is distinct from, but linked to, how the FRAB itself operates.

## **FRAB consideration of proposed interpretations and adaptations of accounting standards**

2. The FRAB has agreed a number of interpretations of international financial reporting standards, but very few adaptations, always following the principle that there should be full compliance with the standards unless there is a good public sector policy reason why an adaptation should be followed. In other words, there must be convincing circumstances that makes the full application of the relevant accounting standard unworkable or undesirable in the public sector context.

3. Whilst the FRAB has not taken decisions lightly when considering proposals for adaptation of accounting standards, having always fully debated the issues before formulating its advice, it has not found it necessary to formally document the principles and process it follows in deciding whether to support a proposal to interpret or adapt an accounting standard. The Review Group proposes that the Board considers formalising and documenting the process it follows in considering proposed interpretations and adaptations, in the interests of achieving consistency and transparency in its approach.

## **Memorandum of Understanding between the relevant authorities**

4. The Memorandum of Understanding agreed between the relevant authorities (the Memorandum) is shown at Annex E. This details the operational arrangements for developing financial reporting guidance. The financial reporting guidance for the public sector is based on EU-adopted International Financial Reporting Standards (IFRS), interpreted and adapted as necessary for the public sector context. The financial reporting guidance for the UK public sector is set out in:

- The Government Financial Reporting Manual (FReM) for government departments and their arms length bodies;
- The NHS Accounting Manuals for the NHS;
- The FT FReM for Foundation Trusts; and
- The Code of Practice on Local Authority Accounting in the United Kingdom (the Code).

### ***Due process***

5. The due process laid down in the Memorandum requires that a FRAB working group, chaired by the FRAB Secretary, shall consider proposed amendments to the FReM, other manuals or the Code for consistency across the public sector before a public consultation takes place by the relevant authority submitting the proposals. Once the consultation is complete a paper detailing the proposals is submitted to the FRAB, accompanied by a summary of the result of the consultation.

### ***Hierarchy***

6. The Memorandum requires that the manuals and the Code be prepared using the following hierarchy:

- EU-adopted IFRS<sup>6</sup>;
- International Public Sector Accounting Standards;
- UK accounting standards issued by the Accounting Standards Board.

### **Review of the Memorandum**

7. It is noted by the Review Group that the Memorandum is due to be revisited, as it is required to be reviewed every 2 years, and this time has lapsed. Whilst the Memorandum falls within the scope of this review of FRAB, due to its links to how the FRAB operates, the view of the Review group is that it is for the relevant authorities to consider any conclusions or recommendations emanating from this review concerning the Memorandum, and take them forward as a separate and discrete piece of work.

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<sup>6</sup> Taken to include IASs and interpretations of IFRSs and IASs issued by IFRIC or SIC

**Preliminary view 13:**

**In the interests of transparency and consistency, the FRAB should consider formalising and documenting the process it follows when considering proposals for the interpretation or adaptation of accounting standards.**

# 7 Summary of preliminary views and questions

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## **Preliminary views**

1. The FRAB operates effectively and has made a significant contribution over the years in raising the standard of financial reporting by government.
2. The FRAB performs the independent role expected of it. A change in membership – for example the addition of another independent accountant member (see chapter 4) – would enhance its actual and perceived independence.
3. The size of the FRAB Board may be necessary to reflect the wide interests, but there is scope to improve the balance of the Board.
4. To improve the balance of the Board, it is desirable to add at least one further ‘independent’ member. If it were considered undesirable to increase the size of the board, this would result in the reduction of remaining members by one.
5. An appropriate tenure for the FRAB Chairman is three years, renewable once. For ‘independent’ members the appropriate tenure is three years, renewable up to twice. Similarly, for appointed members, a three-year tenure is appropriate, with the presumption this would be renewable no more than twice, except in particular circumstances.
6. The attendance of ‘alternates’ at FRAB meetings should not be permitted.
7. An individual’s membership of FRAB should be reviewed should the member miss three consecutive FRAB meetings, or in the event of a poor attendance record.
8. The FRAB should explore the availability and use of technology in conducting future meetings, such as telephone and video conferencing.
9. The FRAB should continue to meet in closed session, given the transparency of its operations via the publication of its papers and Minutes of its meetings.
10. The broad criteria that FRAB should apply in assessing whether or not something is within its remit for advice is detailed in Chapter 5, paragraph 6.

11. The FRAB should confirm whether it is to have a secondary role to its core function, by contributing to the development of financial reporting standards by responding as a matter of routine, or selectively, to financial reporting standards in development issued by the international accounting standard setters.

12. The requirement for periodic future reviews of the FRAB should be enshrined in the Board's terms of reference.

13. In the interests of transparency and consistency, the FRAB should consider formalising and documenting the process it follows when considering proposals for the interpretation or adaptation of accounting standards.

### **Questions**

1. Do you agree with the Review Group's preliminary views? If not, please explain why in each case.

2. Are there any matters not covered by the Review Group's preliminary views on which you wish to comment?

# 8 Next steps

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1. Following the completion of this consultation, the responses will be considered, and in accordance with its terms of reference, the FRAB Review Group will submit its findings and recommendations for improvement to the FRAB by 31 January 2011. The report will then be submitted to the relevant authorities, for their consideration. Agreed recommendations will then be cleared with Ministers as appropriate.

## Annexes:

A: FRAB terms of reference;

B: FRAB membership;

C: FRAB Review Group terms of reference;

D: Extract from the Government Resources and Accounts Act 2000,  
Section 24;

E. Memorandum of Understanding between the relevant authorities.

## **THE TERMS OF REFERENCE OF 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:

- the financial performance of the bodies;
- their accountability for public funds and assets; and
- that, where appropriate, public monies and other resources have been used for the purposes intended when the funds were authorised; and to provide to elected representatives information which is reliable and sufficient as a basis for:
  - their consideration and approval of the levels of resources and cash voted to services; and
  - their examination of performance in carrying out policies, functions, programmes and projects.

1.2 Financial reporting is also intended to underpin the UK Government's planning, monitoring and management of public expenditure.

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 Department of Finance and Personnel, Northern Ireland in respect of accounts meeting the criteria set out in paragraph 2.1.b. below; and
- for local government, the Secretary of State for Communities and Local Government, the Welsh Assembly Government, the Scottish Ministers, and the Department of the Environment, Northern Ireland.

1.4 Public sector financial reporting should be based on generally accepted accounting practice (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 and Personnel, 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 Department of Finance and Personnel, Northern Ireland.
- (b) The Board will advise the Treasury, the Scottish Ministers, the Department of Finance and Personnel, Northern Ireland and the Welsh Assembly Government on the application of financial reporting standards and principles:
  - (i) where the Treasury, the Department of Finance and Personnel, Northern Ireland 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 HSS 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>7</sup>.

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<sup>7</sup> 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](http://www.legislation.hmso.gov.uk)

- accounts of executive non departmental public bodies where the Scottish Ministers have the power of direction

- (c) The Board will advise CIPFA/LASAAC<sup>8</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 Department of Finance and Personnel, Northern Ireland 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 Department of Finance and Personnel, Northern Ireland.
- (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 Department of Finance and Personnel, Northern Ireland 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 Department of Finance and Personnel, Northern Ireland.

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<sup>8</sup> 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).

- 2.2 The Treasury, (in conjunction with the Department of Health 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 Department of Finance and Personnel, Northern Ireland 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. In particular, 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 Department of Finance and Personnel, Northern Ireland, 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 Treasury will provide the secretariat to the Board.

### **3 Membership**

#### **3.1 The Board will comprise:**

An independent Chairman, nominated by the Chief Accountancy Adviser to the Treasury, and in respect of future appointments, in agreement with the Scottish Ministers, the Department of Finance and Personnel, Northern Ireland and the Department for Communities and Local Government.

1 member nominated by the Treasury (a Treasury Official)

1 member nominated by the Scottish Ministers

1 member nominated by the Department of Finance and Personnel, Northern Ireland

1 member nominated by the Welsh Assembly Government

1 member nominated by the Comptroller and Auditor General

1 member nominated by the Auditor General for Scotland

1 member nominated by the Audit Commission

3 members nominated by the Finance Directors of UK government departments to represent respectively departments, trading funds, and non-departmental public bodies.

1 member nominated by the Department of Health

1 member nominated by the Executive Chair of Monitor, the Independent Regulator of NHS Foundation Trusts

1 member nominated by the National Statistician

1 member nominated by the Accounting Standards Board

1 member, an independent economist, nominated by the Head of the Government Economic Service.

1 independent member nominated by the Chief Accountancy Adviser to the Treasury and approved by the Chairman.

1 member, a representative of the secretariat to the CIPFA/LASAAC Local Authority SORP Board, nominated by the Chartered Institute of Public Finance and Accountancy.

1 member nominated by the Department for Communities and Local Government.

1 local authority accounts preparer, nominated by CIPFA/LASAAC from its membership.

3.1 Members will normally be appointed for five year, renewable, terms.

The Board will meet as required in each year to discuss matters relating to financial reporting as they arise

**CURRENT FRAB MEMBERSHIP / VACANCIES**

Kathryn Cearns	Chairman
Alyson Stafford	Scottish Ministers nominee
Beth Russell	HM Treasury nominee
Vacant - alternate Fiona Hamill	Department of Finance and Personnel Northern Ireland nominee
Vacant – alternate Martin Sollis	Welsh Assembly Government nominee
Andrew Baigent	Comptroller & Auditor General nominee
Russell Frith	Auditor General for Scotland nominee
Martin Evans	Audit Commission nominee
Jon Thompson - department (MOD) Ieuan Griffiths - trading fund (DVLA) Vacant - agency - alternate Bob Branson	3 x Finance Director nominees for department, trading fund, NDPB.
Janet Perry	Department of Health nominee
Miranda Carter	Monitor nominee
Martin Kellaway	ONS nominee
Ian Macintosh	ASB nominee
Vacant – economist/academic post	Government Economic Service nominee
Andrew Buchanan	Independent Chief Accountancy Adviser (Head of Government Accountancy Service) to HMT nominee
Ian Carruthers	CIPFA/LASAAC Secretariat nominee
Janet Dougharty	DCLG nominee
Peter Davies	Local Authority preparer nominee

*Vacant - alternate Andrew Gravener (Scrutiny Unit) - Parliamentary observer*

## **Financial Reporting Advisory Board Review Group**

### **Terms of Reference**

#### **Objective**

1. The FRAB Review Group is to conduct a time limited inclusive review of the future role, structure and operational arrangements of the Financial Reporting Advisory Board (FRAB).

#### **FRAB Review Group members**

2. The Review Group will comprise:

- Peter Wyman Independent Chairman;
- Ken Beeton Representing the Head of the Government's Finance Profession;
- Chris Wobschall HM Treasury;
- Kathryn Cearns FRAB Chairman;
- Andrew Baigent Representing the Comptroller & Auditor General;
- Ian Carruthers CIPFA/LASAAC;
- Alyson Stafford Scottish Government; and
- Janet Perry Department of Health.

#### **Scope of the Review**

3. The FRAB Review Group in conducting its task is to consider, but is not limited to the following issues:

- Defining the future primary role of the FRAB having regard to the statutory framework in which the FRAB operates<sup>9</sup>, taking into account the future requirements of the relevant authorities<sup>10</sup> in England and Wales, Scotland and Northern Ireland.
- What flexibilities are open to the FRAB when carrying out its primary role?

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<sup>9</sup> The Government Resources and Accounts Act 2000, section 24.

<sup>10</sup> The relevant authorities are HM Treasury, the Welsh Assembly Government, the Scottish Ministers, the Northern Ireland Assembly, the Department of Health, Monitor and CIPFA.

- The future membership, balance and actual/perceived ‘independence’ of the FRAB;
- The role of individual FRAB members;
- The length of tenure for the FRAB Chairman and members;
- The use of alternate members at FRAB meetings and when FRAB membership may be reviewed;
- Whether the FRAB should have a documented principled process to assist it in advising on proposed departures from accounting standards, in the context of public sector adaptations or interpretations;
- The operational arrangements of the FRAB;
- A review and update of the FRAB’s terms of reference;
- A review and update of ‘*Developing financial reporting guidance for the public sector: Memorandum of Understanding between the relevant authorities*’; and
- Future secretariat/general support for the FRAB.

#### **Review process, output and subsequent clearance**

4. The Review Group will implement a consultation with FRAB’s stakeholders, including with the relevant authorities as a primary group, and will:

- Conduct an inclusive review process;
- Consider issues in a balanced and holistic way;
- Produce draft recommendations for improvement, to be submitted to the FRAB and to the relevant authorities for their consideration; to be followed by
- Production of a final report to the FRAB, detailing agreed recommendations, and copied to the relevant authorities.

5. Following the production of the final report, the relevant authorities will seek clearance from their respective jurisdictions to the report recommendations. Agreed recommendations will then be cleared with Ministers, as appropriate.

6. The Review Group will consult the Head of the Government’s Finance Profession, as required. HM Treasury will consult the Comptroller & Auditor General on proposed changes to the FRAB’s membership, as necessary.

### **Review timeframe**

7. The Review is to be completed by 10 January 2011, with a final report of the Review Group's findings and recommendations to be submitted to the FRAB by 31 January 2011.

### **Meetings and correspondence**

8. The FRAB Review Group will meet as necessary, and also conduct business by telephone and e-mail. Meetings with relevant stakeholders may be necessary.

### **Implementation of changes**

9. Agreed changes to the FRAB's role, structure or operational processes resulting from the Review are to be implemented from 1 April 2011.

### **Secretariat Support**

10 Secretariat support for the Review Group will be provided by HM Treasury. Larry Pinkney, the FRAB Secretary, will be the FRAB Review Group Secretary.

**Extract from the Government Resources and Accounts Act, 2000**  
**(Section 24)**

**24 Advisory board**

(1) Before—

(a) issuing directions under section 5(2), or

(b) determining the form and content of accounts under section 9,

the Treasury shall consult a group of persons who appear to the Treasury to be appropriate to advise on financial reporting principles and standards.

(2) Before selecting a group for the purpose of subsection (1) the Treasury shall consult the Comptroller and Auditor General.

(3) Where a group is consulted under subsection (1) in a particular year, the Treasury shall arrange for the group to prepare a report for that year—

(a) summarising the activities of the group for the purpose of the consultation, and

(b) dealing with such other matters as the group consider appropriate.

(4) Where a report is prepared under subsection (3), the Treasury shall arrange for it to be laid before the House of Commons.

## **Developing financial reporting guidance for the public sector: Memorandum of Understanding between the relevant authorities**

1. The Financial Reporting Advisory Board (FRAB) is responsible for providing independent advice to the relevant authorities on financial reporting principles and standards. The “relevant authorities” for this purpose are HM Treasury in respect of central government, the Scottish Government, the Northern Ireland Assembly and the Welsh Assembly Government in respect of central government and the health sector in their territories, the Department of Health and Monitor in respect of the health sector in England, and CIPFA/LASAAC<sup>11</sup> in respect of local authority accounts across England, Wales, Scotland and Northern Ireland.
2. This Memorandum of Understanding sets out the operational arrangements for developing financial reporting guidance for the public sector.

### **Financial reporting guidance for the public sector**

3. Financial reporting guidance for the public sector is based on EU-adopted International Financial Reporting Standards (IFRS), adapted as necessary for the public sector context. Financial reporting guidance for the UK public sector is set out in:
  - the Financial Reporting Manual (FReM) for government departments and their arms length bodies;
  - the NHS Accounting Manuals for the NHS;
  - the FT FReM for Foundation Trusts; and
  - the Code of Practice on Local Authority Accounting in the United Kingdom (the Code).

### **Due Process**

#### *The FRAB Working Group*

4. The relevant authorities ensure that the financial reporting guidance set out in the manuals and the Code is kept up to date.
5. The relevant authorities shall establish a FRAB Working Group whose membership shall comprise:
  - the Secretaries of the FRAB and CIPFA/LASAAC; and
  - representatives from each of the other relevant authorities.

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<sup>11</sup> The Chartered Institute of Public Finance and Accountancy/Local Authority (Scotland) Accounts Advisory Committee Local Authority SORP Board

The Group shall be chaired by the FRAB Secretary, and its members shall be approved by the FRAB.

6. When proposing amendments to the FReM or, for the Code and other manuals, adoption of a divergence from IFRS and/or the FReM, the relevant authority shall discuss those proposals with the FRAB Working Group.
7. The Working Group shall consider the proposals for consistency across the public sector, or seek reasons for sector-specific differences being proposed.
8. The representatives from CIPFA/LASAAC and the devolved administrations shall advise of any impacts the proposals might have on Council Tax and whether there are acceptable alternative treatments.

#### *Public consultation*

9. Once discussed by the Working Group, the relevant authority shall consult publicly on the proposal. Where the proposal will be considered by the FRAB without deliberation by any other body, the proposal shall be published by the FRAB Secretariat in a FReM Exposure Draft (FED). Each FED shall be numbered and the FRAB secretariat shall be responsible for maintaining a FED register.
10. Where the proposal will instead be considered by another body as part of its Due Process (for example, CIPFA/LASAAC), the proposal shall be published in a suitable document for the purpose.
11. The public consultation shall comprise placement on the relevant authority's website and by targeted circulation or consultation as appropriate. The public consultation period shall be eight weeks.
12. The relevant authority shall, except where respondents have requested confidentiality, place responses on their websites.

#### *Papers considered by the FRAB or other bodies*

13. The relevant authorities shall analyse and summarise the responses in the paper that is taken either to the FRAB for approval or, where a separate body (for example, CIPFA/LASAAC) deliberates, to that body. Only where the responses to the consultation do not support the proposal should the FRAB Working Group be consulted again.
14. The FRAB secretariat shall aim to distribute papers to FRAB members at least one week prior to the meeting date. Other bodies (for example, CIPFA/LASAAC) need to build into their Due Process arrangements an allowance for adherence to this timetable.
15. Papers for meetings of the FRAB and the other bodies shall be published on the relevant authority's website together with the minutes for those meetings, once these have been agreed at the next meeting.
16. Where a separate body considers the responses to its consultation, that body shall be responsible for agreeing the content of the manuals or Code. That separate body shall present for approval to the FRAB:

- the full and final text of the manuals or Code prior to its being issued for the first time; and, thereafter
  - a list of differences between the manual or Code and the FReM.
17. Where requested, the FRAB Chairman shall provide a letter to the separate body summarising the results of FRAB's considerations of the proposals under paragraph 16.

### **Implementation dates**

18. The version of the FReM for financial years starting on 1 April shall be available by the preceding 1 January and shall incorporate all IFRS effective as at that date – that is, 15 months before the end of the financial year to which the FReM relates. The relevant versions of the other manuals and the Code shall be available by 1 April for the financial year starting on that day and ending on the following 31 March. Exceptions in respect of the NHS Accounting Manuals, the FT FReM and the Code may be made to this general rule, with the agreement of the FRAB, where additional time is needed to change charging regimes or regulations in order to mitigate the potential impact of guidance changes on Council Tax.

### **Hierarchy**

19. The manuals and the Code shall be prepared using the following hierarchy:
- EU-adopted IFRS<sup>12</sup>;
  - International Public Sector Accounting Standards;
  - UK accounting standards issued by the Accounting Standards Board.

### **Influencing the development of accounting standards**

20. The secretariats of the FRAB and CIPFA/LASAAC shall monitor the activities of the International Accounting Standards Board (IASB) and the International Public Sector Accounting Standards Board (IPSASB). The two secretariats shall, working together, prepare analyses of relevant Discussion Papers and Exposure Drafts issued by either standard setter, for discussion with the FRAB Working Group. The Working Group shall determine whether or not to recommend that the FRAB submit a response to the IASB or IPSASB. In the event that a response is required, the Working Group shall also discuss the draft of the response before it is considered by the FRAB.

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<sup>12</sup> Taken to include IASs and interpretations of IFRSs and IASs issued by IFRIC or SIC.

## **Review**

21. This Memorandum of Understanding shall be reviewed every two years or at the request of one of the relevant authorities.

## Signatures

22. Signed on behalf of the relevant authorities:

Ken Beeton  
Director, Financial Management and Reporting  
HM Treasury

Alyson Stafford  
Finance Director  
Scottish Government

Dr Christine Daws  
Finance Director  
Welsh Assembly Government

Jeff Tomlinson  
Deputy Director of Group Financial Accounting  
Department of Health

David Thomson  
Treasury Officer of Accounts  
Department of Finance and Personnel  
Northern Ireland Assembly

Stacey George  
Finance and Procurement Manager  
MONITOR

Ian Carruthers  
Policy and Technical Director  
CIPFA