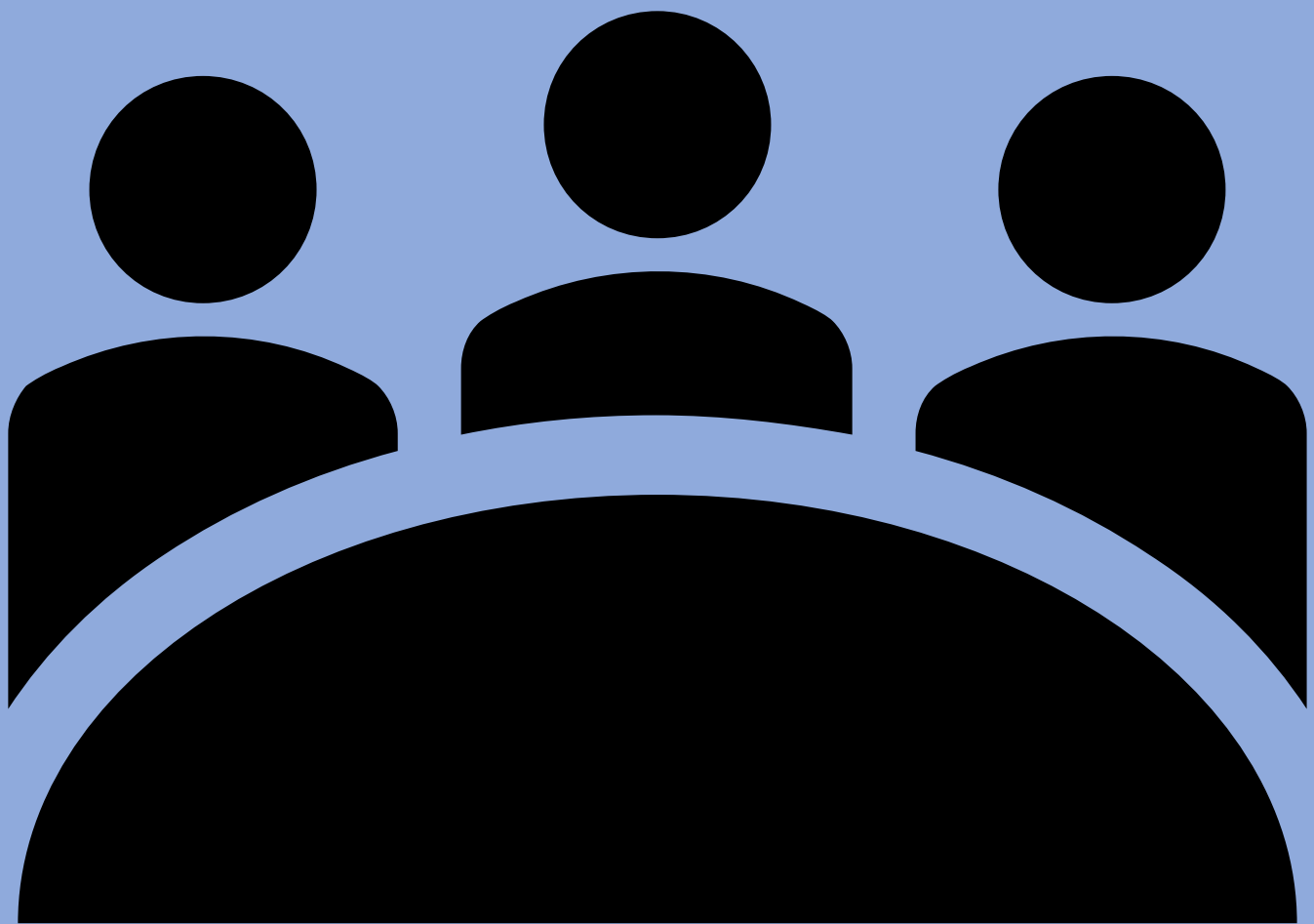


Financial Reporting Advisory Board

Annual Report 2020-21



Financial Reporting Advisory Board:

Annual Report 2020-21

Presented to the House of Commons pursuant to Section 24(4) of the
Government Resources and Accounts Act 2000

Laid before the Northern Ireland Assembly under Section 20(3) of the
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Department of Finance

The report is laid before the Scottish Parliament and presented to the Audit
and Finance Committees of the Scottish Parliament by agreement with the
Scottish Ministers

The report is submitted to the Public Accounts Committee of the National
Assembly for Wales by the Welsh Assembly Government

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Foreword

Foreword from Lynn Pamment - Chair

The 2020-21 financial year was dominated by consideration of the impact of the COVID-19 pandemic as the government has sought to save lives and protect health and livelihoods. During a time of emergency response, the principles of good governance and accountability remain. FRAB has inevitably concentrated much of its agenda during 2020-21 on considering the impact of the COVID-19 pandemic on the financial reporting requirements and landscape.

At the end of 2019-20 FRAB had taken considered decisions to reduce certain reporting requirements, extend deadlines for reporting and defer the implementation of IFRS16. During 2020-21 FRAB has worked closely with HM Treasury and the other relevant authorities to consider the ongoing impact of the pandemic on entities producing annual reports and accounts and the effectiveness of the support measures put in place for the 2019-20 reporting cycle. As a consequence of this work, FRAB has again taken a number of considered decisions to continue to extend deadlines for reporting for 2020-21 and to agree to a further deferral in the implementation of IFRS16 to 1 April 2022. In doing so, FRAB encouraged HM Treasury to consider allowing extended early adoption of IFRS16 on 1 April 2021 for entities capable to do so. It was agreed that this would be available for entities where approval has been received from the relevant authority.

Overall, FRAB has been sympathetic to the impact COVID-19 has had on the reporting cycle and considers that both 2020-21 and 2021-22 will act as a transition period to return to a pre-recess timetable. The Board will continue to work alongside the NAO to support the end of delays to the production timetable for Annual Report and Accounts.

During the year FRAB commissioned an external review from the NAO into the effectiveness of its operations. The overall assessment is that there is good evidence that shows the Board has met its terms of reference and has carried out an in-depth analysis of accounting issues and provided clear, independent and timely advice on the application of financial reporting standards and principles. The Board has accepted all of the recommendations put forward by the NAO for further improvements to the effectiveness of the Board operations. FRAB has published a forward strategy for its work as a consequence of the NAO review and it is contained in Annex A to this report.

There were a number of changes to the membership of the Board during 2020-21. I would like to record my personal thanks and the thanks of FRAB to David Aldous, Anthony Appleton, Chris Young, Andrew Buchanan and Richard Barker for their outstanding contribution to FRAB over recent years. I would also like to record my appreciation to Larry Honeysett for his outstanding contribution to FRAB over recent years as Parliamentary observer.

Chapter 1 - Introduction

Who we are

The Financial Reporting Advisory Board (FRAB) is an advisory Board formed of relevant experts in the finance profession and representatives of the relevant authorities and acts independently of government. Section 24 of the Government Resource and Accounts 2000 (GRAA) sets out the legal requirement for the formation of FRAB. FRAB's own [Terms of Reference](#) available on Gov.uk gives a full breakdown of the FRAB's governance.

Our work (as per the Terms of Reference)

The role of the Financial Reporting Advisory Board, or FRAB, is to provide advice on financial reporting policy and standards and in doing so, ensure that 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:



Advising

Provide independent advice to HM Treasury, therefore fulfilling the obligation to consult an advisory group on financial reporting principles and standards.



Oversight of Standard Setting

Oversee implementation of accounting standards in the public sector.



Promoting Excellence

FRAB exists to promote the highest possible standards in financial reporting by government.



Examining Proposals

Examine the proposals for changes to accounting policies in order to ensure any deviation from the generally accepted accounting practices are justifiable and appropriate.



Self-Governing

FRAB is required to form its own rules for reaching conclusions as well as producing its own report.

Background to the FRAB report

In accordance with its Terms of Reference and the GRAA, FRAB has a responsibility to prepare an annual report of its activities, including its views on the changes made to accounting guidance within the Board's remit.

FRAB is required to send a copy of its report directly to the Public Accounts Committee and the Treasury Select Committee of the UK Parliament, to the Welsh Government, the Scottish Ministers and the Northern Ireland Executive.

Representatives include the following organisations who are members or observers to the Board:

The graphic above showcases the logos of organisations that send representatives/observers to FRAB.

Chapter 2 – Financial Reporting Advisory Board Membership

The Financial Reporting Advisory Board members are categorised into six core groups as per the [FRAB Terms of Reference](#).

Independent Members:

Consisting of an independent chair, a professional academic with relevant accounting/economics experience, one member nominated by the Financial Reporting Council and two other independent members.

Preparers/Users Members:

Consisting of three members nominated by finance directors of UK government departments, one member nominated by the national statistician, one member nominated by the Ministry of Housing Communities and Local Government and one member nominated by CIPFA.

Auditor Members:

Consisting of one member nominated by the Comptroller & Auditor General and two members from audit institutions from devolved administrations on a rotational basis.

Relevant Authorities Members:

Consisting of one member nominated from each of the following HM Treasury, Scottish Ministers, the Executive Committee of Northern Ireland Assembly, the Welsh Assembly Government, the Department for Health and Social Care, NHS Improvement and CIPFA.

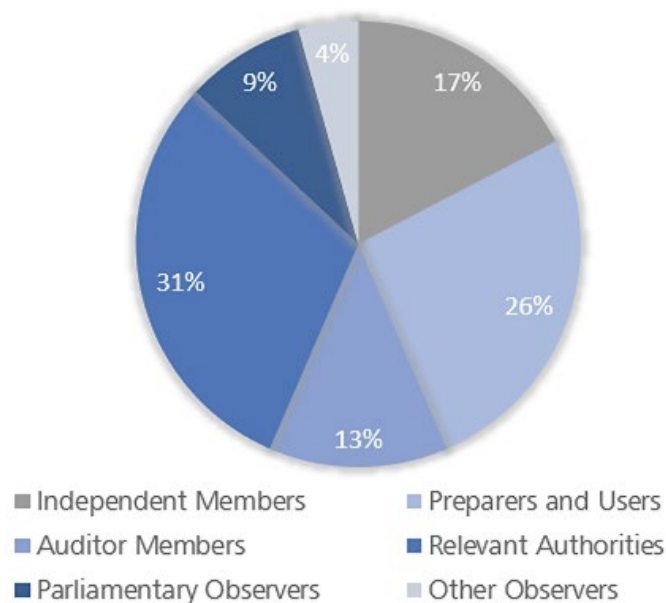
Parliamentary Observers:

Consisting of a member nominated by the Government Chief Whip and the Head of the Parliamentary Scrutiny Unit.

Other Observers:

Consisting of the CIPFA/LASAAC¹Chair.

Board members



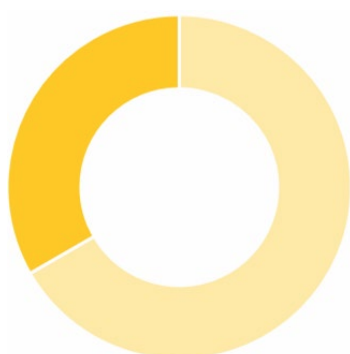
¹ CIPFA/LASAAC is the board responsible for preparing, maintaining, developing and issuing the Code of Practice on Local Authority Accounting for the United Kingdom. The board is a partnership between CIPFA (England, Northern Ireland and Wales) and the Local Authority (Scotland) Accounts Advisory Committee (LASAAC)

Diversity of Board members

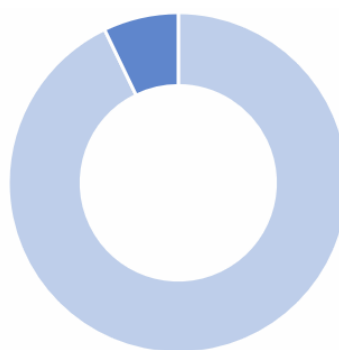
The importance of diversity aligns with FRABs strategy, and the need to have improved succession planning. It has been agreed that the Nominations Committee will consider succession planning and the diversity of background and expertise of the Board to ensure it can fully meet its role and responsibilities.

Not all Board members provided diversity data, however from the **15** members who disclosed:

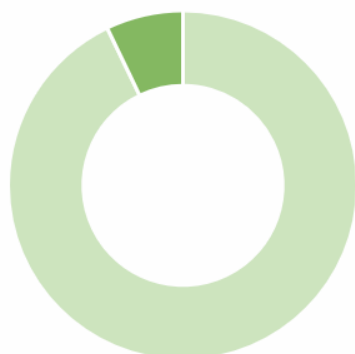
33.3% are female



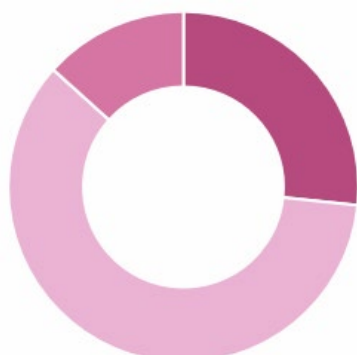
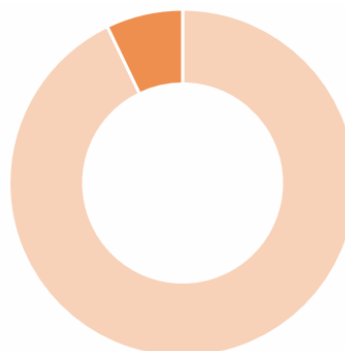
6.7% are BAME



6.7% identify as LGBT



6.7% have a disability



26.7% are aged between 35-44

60.0% are aged between 45-54

13.3% are aged between 55-64

Responsibilities of board members

FRAB provides independent advice to HM Treasury, the Scottish Ministers and the Executive of the Northern Ireland Assembly. Its focus is on examining proposals for amending current, or implementing new, accounting policies in the accounting guidance for central government departments, executive agencies, non-departmental public bodies and trading funds, and for examining the proposals for accounting guidance for local authorities. FRAB also advises HM Treasury on the implementation of accounting policies specific to Whole of Government Accounts (WGA) and for CIPFA/LASAAC which is responsible for developing the Code of Practice on Local Authority Accounting in the UK.

Board members are required to contribute to the overall success and effective and efficient operation of FRAB in the following ways:

1

By regular attendance at FRAB meetings (typically 3 meetings per year) and work together with other members to ensure the consistency of Board performance.

2

Contributing to discussions on out of meeting issues and provide views on additional papers.

3

Draw on knowledge, skill set and expertise, to play a full part in the Board's deliberations on issues of financial reporting practice and principle.

4

Be objective when considering accounting issues and points of accounting principle.

5

Ensure that for issues under debate by FRAB, express opinions clearly, supported by reasoned analysis.

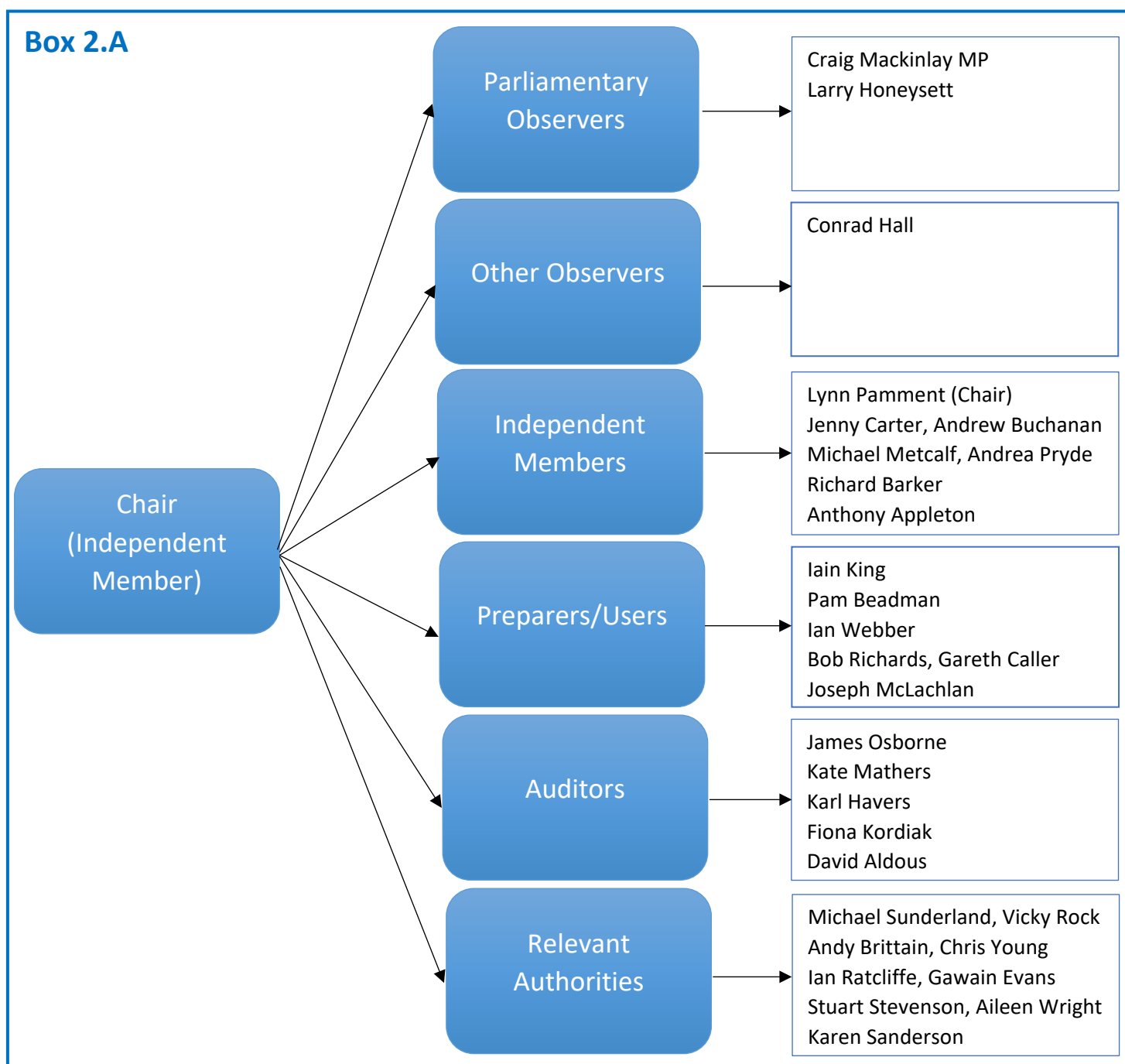
6

Adhere to the FRAB Membership Code of Conduct and declare any personal conflicts of interest related to issues being considered or subject to the provision of advice.

The graphic above showcases the key responsibilities of the members of FRAB.

Membership

The following table outlines the FRAB membership for 2020-21.



Membership notes:

- **Anthony Appleton** left FRAB in May 2020, when he left the FRC
- **David Aldous** left FRAB in April 2020, when he retired from the NAO
- **Christopher Young** left FRAB in September 2020, as he moved role in DHSC
- **Andrew Buchanan's** 2nd term of office finished in August 2020
- **Vicky Rock's** membership expired in November 2020
- **Kate Mather's** temporarily covered until November 2020 after David retired

Board Attendance

The following table outlines the FRAB members attendance at meetings as per the minutes [published on Gov.uk](#).²

Board Attendance						
Meeting Date		Apr-20	Jun-20	Nov-20	Mar-21	Overall
1	Aileen Wright	Y	Y	Y	Y	100.00%
2	Andrea Pryde	Y	Y	Y	Y	100.00%
3	Andrew Buchanan	Y	Y			100.00%
4	Andy Brittain			N	N	0.00%
5	Anthony Appleton	Y				100.00%
6	Bob Richards	Y	Y	Y	Y	100.00%
7	Chris Young	N	N			0.00%
8	Conrad Hall	Y	Y	Y	Y	100.00%
9	Craig Mackinlay MP	N	N	N	N	0.00%
10	David Aldous	Y				100.00%
11	Fiona Kordiak	Y	Y	Y	Y	100.00%
12	Gareth Caller	Y	Y	Y	Y	100.00%
13	Gawain Evans	Y	Y	N	Y	75.00%
14	Iain King	N	Y	Y	Y	75.00%
15	Ian Ratcliffe	Y	Y	Y	Y	100.00%
16	Ian Webber	Y	Y	Y	Y	100.00%
17	James Osborne			Y	Y	100.00%
18	Jenny Carter		Y	Y	Y	100.00%
19	Joseph McLachlan	Y	Y	N	Y	75.00%
20	Karen Sanderson			Y	Y	100.00%
21	Karl Havers	Y	Y	Y	Y	100.00%
22	Kate Mathers	Y	Y			100.00%
23	Larry Honeysett	Y	Y	Y	Y	100.00%
24	Lynn Pamment	Y	Y	Y	Y	100.00%
25	Michael Metcalf			Y	Y	100.00%
26	Michael Sunderland			Y	Y	100.00%
27	Pam Beadman	N	Y	Y	Y	75.00%
28	Richard Barker	N	N	Y	Y	50.00%
39	Stuart Stevenson	Y	Y	Y	Y	100.00%
30	Vicky Rock	Y	Y	Y		100.00%
	Overall	79.00%	87.00%	84.00%	92.00%	
	Average					85.00%

² If a member was unable to attend a meeting, a deputy would be sent with agreement from the Chair.

Chapter 3 – Board Activities in 2020-21

Year highlights for 2020-21



**Received key updates
from external
stakeholders**

**Oversaw the publication
of reporting guidance**



**Ensured public sector
alignment with private
sector where
appropriate**



**Ensured members have
up to date knowledge of
financial reporting**

**Supported the public
sector financial
reporting response to
the COVID-19 pandemic**

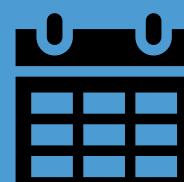
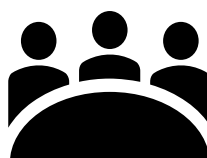


**Undertook a review of
Board effectiveness**



**Reviewed financial
reporting requirements
for 2019-20 and 2020-21**

**Received updates from
the Relevant Authority
Working Group and User
Preparer and Advisory
Group**



**Continued work on IFRS
16 and IFRS 17
implementation**

Overview

The Board's key activities for this year are summarised below and expanded upon in the following pages.

1

COVID-19 Response

The Board's continued response to the impact of the COVID-19 pandemic. Strategic objective: *Advising*

2

Financial reporting guidance

Updates on the Government Financial Reporting Manual (FReM) and the addendum, CIPFA Code of Practice and Group Accounting Manual (GAM). Strategic objective: *Standard setting*

3

Accounting standards

Monitoring and evaluating the financial reporting landscape and oversight of the implementation of new standards in the public sector. Strategic objective: *Standard setting*

4

Relevant Authorities

Received updates from the Relevant Authorities Working Group (RAWG) and the User/Preparer Advisory Group (UPAG) and devolved administrations. Strategic objective: *Examining proposals*

5

Public sector financial reporting

Received updates from the Whole of Government Accounts (WGA) and Sir Tony Redmond. Strategic objective: *Promoting excellence*

6

Governance and future work

Undergoing the FRAB effectiveness review and developing a Board strategy and action plan. Strategic objective: *Self-governing*

1. COVID-19 Response

The impact of the COVID-19 pandemic continued to dominate the agenda in 2020-21, in which FRAB strived to ensure that financial reporting guidance was set at an appropriate and achievable level for preparers. FRAB spent the majority of the first half of the year focusing on maintaining the balance of high-quality financial reporting and transparency, against the need to support account preparers in reducing the reporting burden where possible. The result of a national lockdown meant that several challenges for entities became immediately apparent, including:

- Reduced availability of resources to prepare annual reports and accounts (ARAs) as staff members fell sick, self-isolated, had caring responsibilities or were redeployed to meet urgent needs;
- The shift to home working put a strain on equipment and technology;
- Disruptions and a lack of operational capacity from outsourced contractors;
- Difficulties in determining the valuation of physical assets and Expected Credit Losses (ECLs);
- Auditors being unable to perform fieldwork visits to obtain appropriate evidence;
- Managing the financial reporting impacts of COVID-19 and the associated increase in work from post balance sheet events, obligations arising pre-year end, contingent liabilities and increased uncertainty on asset valuation.

In response to the continuing pressures faced by departments and other government entities due to the impact of the pandemic, FRAB supported the extension of reporting adjustments into the 2020-21 financial year. Similar measures were introduced in the private sector. Like the actions implemented within the 2019-20 reporting period, FRAB has supported:

- Reducing government financial reporting requirements for 2020-21 in the form of an approved [FReM Addendum](#), due to continuing pressures that were evident in 2019-20;
- Supporting the administrative deadline for laying annual reports and accounts in the House of Commons to revert back to 30th June 2021, with extensions to 30th September 2021 being requested on an individual basis;
- Deferring the implementation of IFRS 16 Leases to 1 April 2022 with an option for certain eligible and authorised entities to early adopt from 1 April 2021;
- Assisting the relevant authorities by reviewing the Department of Health and Social Care Group Accounting Manual (GAM) publication and the CIPFA Code of Practice.

Due to the impact of COVID-19, FRAB has increased communication throughout the 2020-21 financial year, by holding additional meetings and circulating more out of meeting papers.

FRAB convened an additional meeting in April 2020 to focus on the guidance and options available to preparers. The meeting explored several options proposed by HM Treasury and other relevant authorities, to determine what would provide the best support to preparers in the end of year accounts reporting process. FRAB challenged some of the proposals outlined and concluded that the most suitable way forward was offering flexibility on reducing the level of narrative reporting in the performance report where feasible. The financial statements would remain unchanged.

As well as this, there were more out of meeting papers circulated throughout the year, due to the need for FRAB to press ahead with active responses to the impact of COVID-19 as it evolved. In April 2020, HM Treasury issued an out of meeting paper to members confirming the approach to setting minimum requirements for central government financial reporting in 2019-20. This including the proposed streamlining to annual reports and accounts requirements and the next steps HM Treasury would be taking. This involved a revised accounts direction, further discussions with Parliament, the NAO and the Cabinet Office and producing guidance on the financial reporting impacts of COVID-19.

COVID-19 impact review

FRAB has worked closely with HM Treasury and the other relevant authorities to consider the ongoing impact of the pandemic on entities producing annual reports and accounts and the effectiveness of the support measures put in place for the 2019-20 reporting cycle.

A thematic review was executed by HM Treasury to understand and evaluate the success of the suite of agreed measures put in place to ease the reporting burden whilst maintaining high-quality financial reporting. This was accomplished by gathering feedback via a survey to the Resource Accounts Special Interest Group (RASIG)³, qualitative feedback from departments and laying date data. Overall, feedback from key stakeholders has shown that the rapid decisions FRAB took during this time were effective at reducing the financial reporting burden for preparers 2019-20 annual report and account preparation, without diluting the quality of financial information. The thematic review was a key influence in FRAB's decision to support extension to the reduced reporting requirements in 2020-21. A copy of the review is [available on Gov.uk](#).

FRAB discussed the key findings from the review including the approach to laying dates, supplementary guidance, IFRS 16, and long term and very long-term discount rates. It was discovered that preparers experienced direct resourcing constraints from the pandemic; as well as delays outside of their control, indirectly through their local component auditors, audit capacity and reporting logistics.

Annual Report and Accounts audit cycle

FRAB heard in year updates from the NAO including reflections on the 2019-20 audit cycle and the outlook for the 2020-21 audit cycle. FRAB was informed of the key issues arising and

³ The RASIG network involves a group of government bodies who have a keen interest in the annual reports and accounts process.

the approach the NAO is taking to return to a normal reporting timetable of finalisation before the summer parliamentary recess. Audit Scotland also provided views on similar issues to those outlined by the NAO, including delays that would potentially affect the Whole of Government Accounts consolidation process.

FRAB has been sympathetic to the impact COVID-19 has had on the reporting cycle and agreed that due to the degree of inter-dependency on other issues as a result of the pandemic, both 2020-21 and 2021-22 will act as a transition period to return to a pre-recess timetable. FRAB will continue to advise the NAO to support the end of delays to the ARAs production timetable.

Grantor accounting application guidance

As a result of the pandemic, FRAB has explored the need for public sector specific accounting guidance for the giving of grants to third parties. FRAB engaged with HM Treasury in drafting this guidance, to ensure that it is understandable and fulfils the needs of users. The guidance is grounded on the application of IAS 37 in respect of grantor accounting in the public sector, with an endeavour to address the wider issues through the forward programme of work throughout 2021-22. A copy of the guidance is [available on Gov.uk](#).

Next steps

FRAB will continue to monitor the impact on financial reporting and respond appropriately to any additional issues that arise. The expected implementation of IFRS 17 follows closely after departments hope to recover back to the normal laying schedule, in which FRAB will be keeping this under close review.

2. Financial reporting guidance

Government Financial Reporting Manual (FReM)

The FReM is HM Treasury's technical accounting guide for the preparation of financial statements. It guides on the application of IFRS, as adapted and interpreted for the public sector context. FRAB provides a valuable review of the guidance as part of the quality assurance process and confirming the appropriateness of the guide.

It is FRAB's duty to review the manuals and ensure they maintain a high quality of content. To do so, FRAB dedicates considerable time to consider any proposed amendments to both the 2020-21 FReM and the 2021-22 FReM.

Changes to the FReM

Due to the ongoing pressures facing entities, FRAB agreed that the reduced reporting requirements that were initiated in 2019-20, should be carried into 2020-21. This has been

published in the form of a [FReM addendum](#) and provides flexibility to reduce requirements from both the performance and accountability report. Notwithstanding, entities were encouraged to go beyond the minimum requirements where possible.

FRAB reviewed the more significant of the proposed changes, including: new best practice diversity and inclusion reporting (change from 2020-21), changes made to more closely align public sector remuneration reporting with the Companies Act (changes from 2021-22) and some changes made to the wording around an IFRS 9 adaptation (change from 2020-21).

FRAB supports HM Treasury by providing constructive criticism, in order for the FReM to be most effective, for example, FRAB requested that the language on the revised IFRS 9 adaptation be changed to be more conclusive and improve clarity. FRAB also queried whether the FReM should represent EU adopted IFRS rather than UK adopted IFRS in 2020-21 based on the guidance issued by BEIS and the FRC.

DHSC Group Accounting Manual (GAM)

FRAB supported health sector colleagues in the publication of the 2021-22 GAM. FRAB was presented with updates throughout the year on both the GAM and the health sector position, where FRAB questioned and sought clarity on certain elements of the manual. Out of meeting papers were shared with FRAB, setting out additional technical analysis on the key discussion points that had arisen within meetings. From this, FRAB provided expert advice and constructive challenge to ensure that the guidance was re-drafted more comprehensive.

CIPFA/LASAAC Code 2021-22

FRAB assisted CIPFA/LASAAC colleagues on the publication of the CIPFA Code of Practice. FRAB continued its ongoing support to CIPFA/LASAAC providing technical advice on the implementation of IFRS 16, for example on housing tenancies.

FRAB was provided with regular updates by CIPFA/LASAAC representatives on the Housing Revenue Account (HRA) consultation and was also informed of an amendment to the 2020-21 Code for Transport for London, concerning transactional arrangements.

Summary

Both copies of the FReM are [available on Gov.uk](#). The FRAB will continue to work alongside HM Treasury and other relevant authorities to continue to improve the quality of financial reporting across government. The impact of COVID-19 on reporting against the FReM will be reviewed and monitored for the 2020-21 financial year.

FRAB oversaw the publication of the [2019-20 best practice examples report](#), which includes examples taken from public sector annual reports and accounts against different FReM requirements. Additional examples have been included relating to the impact COVID-19 has had on entities' performance, risks and financial statements.

3. Accounting Standards

IFRS 16 Leases

In 2020-21 the FRAB worked collaboratively with relevant authorities regarding the implementation of IFRS 16. With the situation of the pandemic very much in mind, the FRAB chose to revise the effective date for the implementation of IFRS 16 to 1st April 2022. Nevertheless, it was a challenging decision that has been taken primarily to help relieve the pressures on entities resulting from the effects of the pandemic.

FRAB recognised both the positive and negative effects of deferring the implementation of IFRS 16 for another year. FRAB acknowledged that the previous commitment made at the April 2020 meeting was to only defer by 1 year, however, recognised that many entities (the health sector and local government in particular) were under a significant amount of pressure as a result of the pandemic. FRAB discussed the potential costs that could arise as a result of implementing IFRS 16 badly in an attempt to rush to meet a challenging timeline, whilst considering that an extension would deepen the misalignment with the private sector and potentially reduce the quality of financial reporting in the public sector. This also introduces issues for entities who report under both IFRS and the FReM. FRAB also contemplated how the Standard provides improved information about lease accounting, and the risk of a third deferral of IFRS 16 could show a lack of commitment to pursue implementation. Despite the benefits that the Standard would bring for 2020-21, the resources were simply not available.

After careful consideration, FRAB agreed that support for mandatory implementation of IFRS 16 on 1 April 2021 as originally anticipated was not feasible, and that the effective date should be deferred to April 2022. FRAB have laid down a marker that there will not be any further deferral of the standard. FRAB encouraged HM Treasury to consider allowing extended early adoption on 1 April 2021 for entities capable to do so. It was agreed that this would be available for entities where approval has been received from the relevant authority. A copy of the guidance issued by HM Treasury is [available on Gov.uk](#).

IFRS 17 Insurance Contracts

Implementation of IFRS 17 follows a multi-year implementation plan with an anticipated effective date in the public sector of 1st April 2023 to align with the private sector. FRAB continues to play a key role in ensuring that the plan remains on target and the scope and potential adaptations are effectively determined. During 2020-21, FRAB received multiple updates from HM Treasury on the work ongoing to implement the Standard, including feedback on discussions by the Technical Working Group on a wide range of issues with a key focus on the scope of the Standard in the public sector. FRABs consensus remains that the most appropriate route would be a principles-based approach and will continue to work

alongside the Technical Working Group and relevant authorities, in 2021-22 keeping the timing of the implementation under close review.

International Public Sector Accounting Standards Board (IPSASB) Update

FRAB received updates on the ongoing work by the IPSAS Board and is keen to be kept informed about the strategy and work plan including on revenue and non-exchange transactions. Full details of these updates can be found on [Gov.uk](https://www.gov.uk) as part of our minutes and papers publications.

4. Relevant Authorities

Devolved Administrations

FRAB was presented with updates from the Devolved Administrations (Scottish Government, Welsh Government and Northern Ireland Government) throughout 2020-21. FRAB heard about the challenges each has faced throughout the year, including adjusting to remote working at pace, challenges of technology to support immediate home working and the redeployment of staff to meet urgent COVID-19 related issues. Despite this, feedback given reiterated how the measures and guidance introduced by FRAB and HM Treasury reduced the pressures preparers were facing, and the involvement in the decision-making process from an early stage also eased the burden. FRAB appreciated the updates given by the devolved administrations and welcome them for 2021-22.

Working Groups

In 2020-21, FRAB continued to receive updates and sight of the minutes of discussions and proposals from both UPAG and RAWG. FRAB expressed a key interest in a forward work plan developed by UPAG and sees the Group as an important route to develop a greater level of direct user engagement. Going forward, increasing engagement with users forms part of FRAB's action plan.

5. Public sector financial reporting

Whole of Government Accounts (WGA)

As per FRAB's [Terms of Reference](#) which sets out FRAB's statutory role in the Whole of Government Accounts, FRAB receives regular updates from the WGA team from HM Treasury.

FRAB heard updates on the position of the WGA and the timing of the annual report and account publications for both 2018-19 and 2019-20. HM Treasury advised that publication for the 2019-20 accounts in the autumn has been agreed with the Public accounts committee (PAC) in a meeting with members. FRAB was informed that there are still issues with local government data, a tight window in September due to recess and continuing discussions with the NAO, meaning an autumn deadline is the most realistic timeframe for the publication. FRAB also learnt of the introduction of a new database, Oscar II, with implementation currently underway.

Independent Review into the oversight of local audit and the transparency of local authority financial reporting

At the November 2020 meeting, FRAB welcomed Sir Tony Redmond to share his reflections on the findings of his [independent review](#) into the effectiveness of external audit and the transparency of financial reporting in local authorities. The review took on a broad consideration of the current accounting and auditing framework.

The FRAB was enlightened on the recommendations and conclusions being made as a result of the review, including the recommendation to create an Office for Local Audit Regulation to oversee local audit as well as the creation of a closely linked Liaison Committee chaired by the Ministry of Housing, Communities and Local Government. FRAB was very appreciative of the additional insight they received on this and look forward to being presented with further updates in the future.

Next steps

FRAB will continue to receive updates from stakeholders within the wider public sector financial reporting landscape, to ensure alignment, comparability and up to date knowledge.

6. Governance and Future Work

Overview

The role of FRAB is to provide high-quality advice to the relevant authorities in financial reporting in the public sector and to do so, ensures that it keeps fully abreast of the financial reporting landscape both domestically and internationally. FRAB maintains a “Forward Look Agenda” in which it regularly examines the programme for the coming year and beyond to proactively keep up to date on issues.

FRAB decided to commission an external review into the effectiveness of its operations and approached the NAO to carry out this review. This was conducted on the 6th November 2020.

In 2020-21 FRAB evaluated the current approach to the structure and frequency of the meetings held across the year, considering whether there should be increased meetings with shorter durations or the potential for meetings to be held across the whole day, with more breaks embodied.

FRAB will share this report with the Public Accounts Committee and the Public Administration and Constitutional Affairs Committee once laid in Parliament.

FRAB effectiveness review

In accordance with requirements set out in the updated March 2018 terms of reference, FRAB decided to commission an external review into the effectiveness of its operations and approached the UK National Audit Office (NAO) to carry out the review.

This was an opportunity to take a critical look at FRAB’s capabilities and readiness to meet its current role and responsibilities and identify those needed for its forward look agenda.

The NAO assessed the effectiveness of FRAB against its legislative remit ⁴ and section 2 of the terms of reference as well as analysing the meeting minutes over the previous 4 years. A self-assessment questionnaire for members and observers was also designed as part of the process. With a response rate of 61%, although lower than anticipated, the findings from the self-evaluation were then used to facilitate a discussion between members at a separate meeting in November 2020.

The topical findings of the review related to:

- Strategic planning and ambition, and risk management;
- Functioning of the Board;
- Composition of the Board;
- Stakeholder consultation and feedback;

⁴ Government Resources and Accounts Act 2000

- Evaluation of the Board;
- Support for Board members.

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

The NAO put forward recommendations for further improvements to the effectiveness of the Board operations. A full list of the recommendations from the effectiveness review and Board response may be found in Annex D to this report.

Whilst a forward look agenda is already in place, the report recommended a more formal strategic planning process and a documented strategy to provide a more structured and systematic framework for discussions and decision-making. This would also provide a collectively agreed focus and strategic direction for FRABs work and allow FRAB to evaluate how effectively it has performed in terms of meeting its strategic objectives.

FRAB has accepted this recommendation and a strategy has already been developed and published. It may be found in Annex A to this Annual Report. It will continue to be evaluated and be updated as needed.

[FRAB board members induction pack](#)

HM Treasury has designed a 'FRAB induction pack', following a recommendation from the FRAB effectiveness review. Within the March 2021 meeting, FRAB provided suggestions on what else should be included in the pack, to make it as effective as possible. This is an internal document and the aim is to provide new members of FRAB with essential information that will support them in their new role. Some of the contents included are the remit of the Board, the role of the member, terms of reference and code of conduct. A short series of public sector training events for members is also planned for 2021-22.

[Future Meetings](#)

The FRAB aims to meet at least 3 times a year, below is the planned meeting dates for 2021-22:

- 18th November 2021
- March 2022 date TBC



Annex A – FRAB strategy

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:

Advising
Provide independent advice to HM Treasury, therefore fulfilling the obligation to consult an advisory group on financial reporting principles and standards.
Oversight of Standard Setting
Oversee implementation of accounting standards in the UK government sector
Promoting Excellence
FRAB exists to promote the highest possible standards in financial reporting by government.
Examining Proposals
Examine the proposals for changes to accounting policies in order to ensure any deviation from the generally accepted accounting practices are justifiable and appropriate.
Self-Governing
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:

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.



Annex B – IASB and IPSASB projects

Project	Details	FRAB role 2021-24
Issued standards		
IFRS 16 Leases	Implementation in the UK public sector was delayed due to COVID-19.	Oversee implementation in the UK public sector.
IFRS 17 Insurance Contracts	Due to be implemented in the UK public sector	Oversee implementation in the UK public sector.
IASB projects with potential relevance to UK public sector		
Primary financial statements	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. The timing of an expected pronouncement is not yet known.	Understand potential implications for the UK public sector and oversee implementation of any final standard.
Targeted standards level review of disclosures	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
Management commentary	An exposure draft of a revised Practice Statement is expected to be issued in April 2021.	Understand potential implications for the UK public sector
Amendments to IAS 12	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.
Amendments to IAS 21	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 (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.	Understand potential implications for the UK public sector

Project	Details	FRAB role 2021-24
	The Board plans to publish an exposure draft of proposed amendments to IAS 21 in due course.	
Lease liability in a sale and leaseback	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. The deadline for submitting comments on the Exposure Draft is 29 March 2021.	Understand potential implications for the UK public sector
Provisions – targeted improvements	The Board is developing proposals for three targeted improvements to IAS 37 <i>Provisions, Contingent Liabilities and Contingent Assets</i>. These would involve: aligning the definition of a liability and requirements for identifying liabilities with the <i>Conceptual Framework for Financial Reporting</i>; and clarifying two aspects of the measurement requirements.	Understand potential implications for the UK public sector
IFRS Taxonomy update		Understand potential implications for the UK public sector
Sustainability reporting	In March 2021 the Trustees issued a public statement 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 the establishment of a new board, including its composition.	Understand potential implications for the UK public sector
Agenda consultation	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.	Understand potential implications for the UK public sector

Project	Details	FRAB role 2021-24
IPSASB projects		
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 a new work plan expected to be in place from 2024.	Understand potential implications for the UK public sector



Annex C - 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 create new transaction types to consider ensuring financial reporting maintains the best standards.	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.
Implementation of changes results in additional complexity and reduced understandability of annual reports and accounts	The Government Financial Reporting Review seeks to improve the understandability of annual reports.	FRAB to monitor specifically this risk as part of the advice it gives and decisions it makes.
FRAB has insufficient time, resources and balance of expertise to discharge responsibilities	FRAB has a full membership and its work is supported by the relevant authorities working group and the user preparer group.	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. Additional Board meetings or out of meeting correspondence utilised if needed.



Annex D – Recommendations from the Board effectiveness review

	Recommendations	Board Response
	Strategic planning and ambition, and risk management	
a)	The Board should consider the introduction of a more formal strategic planning process including a documented strategy.	The Board accepted this recommendation and has developed a three-year strategy for 2021-24.
b)	The Board should consider the introduction of a risk register based system of risk management.	The Board accepted this recommendation and is developing a risk register and system of risk management. <i>(please refer to Annex C)</i>
	Functioning of the Board	
c)	Consider holding a session to agree on ways of working in a virtual context, asking people to express their preferences and concerns and considering ways to ensure inclusivity.	The Board accepted this recommendation and has held discussions on the best way of working in a virtual context. The Board will regularly revisit this discussion including the potential transition to a hybrid way of working with a mixture of both in person and virtual meetings.
d)	Explore its appetite for setting up either ad-hoc or permanent working groups. Working groups might improve efficiency, while maintaining a sufficient level of engagement with issues by the main Board.	The Board accepted this recommendation and will set up ad hoc working groups as needed.
e)	Consider increasing the level of detail of discussions that are provided in meeting minutes and scheduling catch-up meetings between absent members and the Chair when the absent member was unable to send a deputy.	The Board accepted this recommendation and has asked the secretariat to provide a greater level of detail in the minutes of meetings reflecting more in-depth discussion. The Chair will be available to meet with members that were absent from meetings as needed.
	Composition of the Board	
f)	The Board should consider whether it would benefit from introducing a senior independent member role with a job description based on appropriately adapted best practice.	The Board discussed this recommendation but did not consider the introduction of a senior independent member role to be needed at this time but will keep it under review going forward.
g)	The Board should consider collecting self-reported diversity data on members to allow them to assess their success against their commitment to “providing equal opportunities for all, irrespective of race, age, disability, gender, marital status, religion, sexual orientation and transgender.”	The Board accepted this recommendation and is looking to collect diversity data.

h)	The Board should consider whether a light touch succession plan would be useful to ensure the relevant balance of skills and to help improve diversity.	The Board accepted this recommendation and proposes that the terms of reference for the Nominations Committee will be updated to consider the diversity of the Board as part of succession planning.
Stakeholder consultation and feedback		
i)	The Board should consider introducing more structured processes for gathering and using feedback from external stakeholders	The Board accepted this recommendation and will consider introducing a more structured process for gathering feedback.
j)	The Board should consider systematically surveying wider end-user opinions for the purpose of discussing issues such as new potential disclosure requirements. This could include a review of its relationship with the UPAG.	The Board accepted this recommendation and will consider introducing more structured processes for gathering feedback and incorporating it into its work plan. The Board's continues its commitment to transparency through the publication of its discussions and decisions at meetings and in its Annual Report presented to Parliament.
Evaluation of the Board		
k)	The Board should consider using the questionnaire developed for this review as a framework for group discussion on the operation of the Board and its performance on an annual basis and arranging for an external evaluation of its performance every three years in line with its terms of reference.	The Board accepted this recommendation and plans on undertaking regular reviews of its effectiveness.
l)	The Board should consider formalising a framework for learning lessons that looks at different perspectives to summarise successes and lessons to learn.	The Board accepted this recommendation and will look to formalise a review framework.
Support for Board members		
m)	The Board should consider putting in place an induction for all new members, covering the remit of the Board, the role of the member and an opportunity to talk with the Chair prior to the member's first board meeting.	The Board accepted this recommendation and a board member induction pack has been developed. The Chair has already initiated introduction meetings with all new members of the Board.
n)	The Board should consider whether there is merit in putting in place structured, ongoing development for board members, including both technical understanding and support to enable all members to fully discharge their role effectively.	The Board accepted this recommendation and will incorporate ongoing training and updates as part of its forward agenda.



Annex E -Glossary of common terms

ARA	Annual Report and Accounts
CIPFA/LASAAC	The Chartered Institute of Public Finance & Accountancy / Local Authority (Scotland) Accounts Advisory Committee
DHSC	Department of Health and Social Care
FRC	Financial Reporting Council
FRAB	Financial Reporting Advisory Board
FRm	Financial Reporting Manual
GAAP	Generally Accepted Accounting Practice
GAM	Group Accounting Manual
GRAA	Government Resource and Accounts 2000
IASB	International Accounting Standards Board
IFRS	International Financial Reporting Standards
IFRS IC	International Financial Reporting Standards Interpretations Committee
IPSAS	International Public Sector Accounting Standards
IPSASB	International Public Sector Accounting Standards Board
MHCLG	Ministry of House Communities and Local Government
NAO	National Audit Office
PACAC	Public Administration and Constitutional Affairs Committee
RAWG	Relevant Authority Working Group
The Code	Code of Practice on Local Authority Accounting in the United Kingdom
UPAG	User Preparer Advisory Group
WGA	Whole of Government Accounts

Annex F - Useful links

FRAB Page	https://www.gov.uk/government/groups/financial-reporting-advisory-board-frab
FRAB Terms of Reference	https://www.gov.uk/government/publications/financial-reportingadvisory-board-terms-of-reference
FRAB minutes and papers	https://www.gov.uk/government/collections/hmt-financial-reportingadvisory-board-minutes
FRAB news and publications	https://www.gov.uk/government/collections/financial-reporting-advisory-board-frab-annual-report
Government Financial Reporting Manual	https://www.gov.uk/government/collections/governmentfinancial-reporting-manual-frem
Government Financial Reporting Manual Addendum 2020-21	https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/946952/2020-21_Addendum_to_the_FReM.pdf
Government Financial Reporting Review	https://www.gov.uk/government/publications/the-government-financial-reporting-review
Best practice examples report 2019-20	https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/973097/Final_Best_Practice_Report_2019-2020.pdf
HMT Thematic Reviews	https://www.gov.uk/government/collections/thematic-reviewsgovernment-financial-reporting
Grantor accounting application guidance	IAS 37 and Grantor Accounting Application Guidance.pdf (publishing.service.gov.uk)
User Preparer and Advisory Group	https://www.gov.uk/government/collections/user-and-preparer-advisory-group
DHSC GAM 2020-21	https://www.gov.uk/government/publications/dhsc-group-accounting-manual-2020-to-2021
CIPFA Code	https://www.cipfa.org/policy-and-guidance/publications?tab=&filters=%7B0F14D9FB-449F-4157-A2FB-F5AAFFCC25DC7%7D#filters
Redmond Review	https://www.gov.uk/government/publications/local-authority-financial-reporting-and-external-audit-independent-review
NAO	https://www.nao.org.uk/
WGA	https://www.gov.uk/government/collections/whole-of-government-accounts

