

# Financial Reporting Advisory Board

## Annual Report 2019-20



HC 984  
SG/2020/252



# Financial Reporting Advisory Board:

## Annual Report 2019-20

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# Foreword

## Foreword from Lynn Pamment

I was honoured to be appointed as the Chair of FRAB from May 2019. I took over from Ian Mackintosh and would again record my thanks to him for all the work he has undertaken as the Chairman of FRAB.

The 2019-20 work of FRAB continued to be busy. A major focus during 2019 was on making changes to the Financial Reporting Manual as a result of the Government Financial Reporting Review. The changes made will result in an enhancement to performance reporting by government and should result in annual reports that are clearer for users to understand.

FRAB oversaw the enhancement of arrangements to engage with a wide range of stakeholders in its work during 2019-20 and to ensure consistency in financial reporting, where appropriate, between different parts of the public sector. Two new groups have been established that will support the work of FRAB – a User/Preparer Advisory Group and a Relevant Authorities Working Group (RAWG) – and the Board is keen to work closely with both groups.

The end of the 2019-20 financial year was dominated by consideration of the impact of Covid 19 on the financial reporting requirements and landscape. Our March meeting considered carefully what measures were appropriate to support the government and public sector finance profession whilst maintaining excellence in financial reporting. FRAB took considered decisions to reduce certain reporting requirements, extend deadlines for reporting and defer the implementation of IFRS16 for a further year.

Since the year end, there have been a number of changes to the membership of the Board. I would like to record my personal thanks and the thanks of FRAB to David Aldous, Anthony Appleton, Chris Young and Andrew Buchanan for their outstanding contribution to FRAB over recent years.

FRAB will continue to reflect on its future work programme during 2020/21 and will undertake a review of its effectiveness as well as its objectives and focus going forwards.

Lynn Pamment

# 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 independent 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 Financial Reporting Advisory Board is an independent body with the broad aim to advise on public sector financial reporting principles and standards. FRAB's work is enacted in multiple forms:



#### Standard Setting

Oversee implementation of accounting standards in the public sector

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#### Promoting Excellence

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

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#### 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.

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#### Advising

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

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#### Self-Governing

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

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## 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 direct to the Public Accounts Committee and the Treasury Select Committee of the UK Parliament, to the Welsh Government, the Scottish Ministers and 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 five 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/LASAAC<sup>1</sup> from their own membership.

### Auditor Members:

Consisting of one member nominated by the Comptroller & Auditor General and two members nominated by other public sector audit bodies.

### 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 the Chartered Institute of Public Finance and Accountancy (CIPFA).

### Parliamentary Observers

Consisting of a member nominated by the Government Chief Whip.

**Please see the [FRAB Terms of Reference](#) for more information on FRAB membership.**

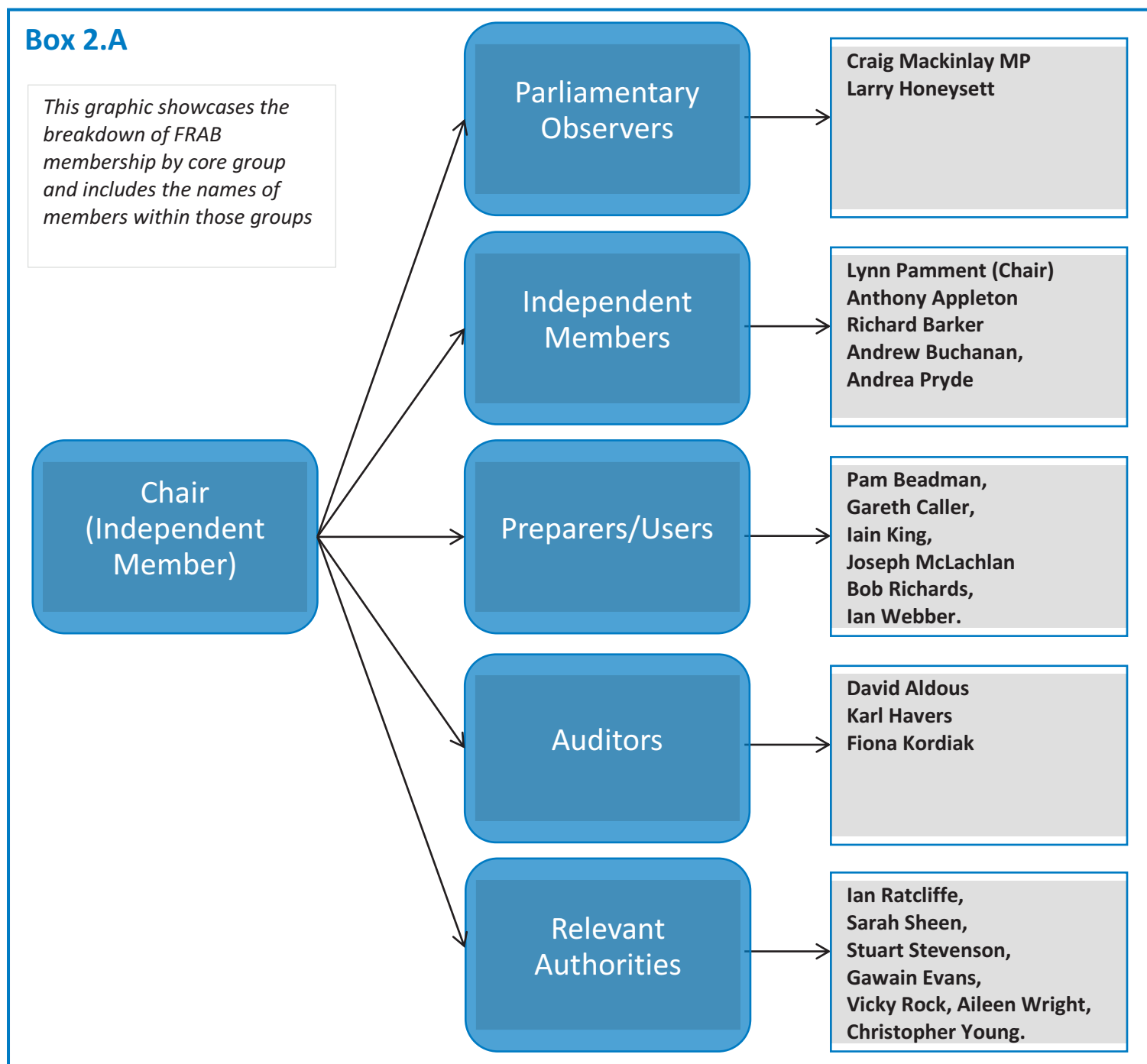


*The pie chart above details the breakdown of FRAB membership into core groups.*

<sup>1</sup> 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)

## Membership

The following table outlines the FRAB members during 2019-20.



Since April 2020 the following changes have been made;

**David Aldous'** membership expired in April 2020

**Andrew Buchanan's** membership expired in June 2020

**Conrad Hall** (Chairman of CIPFA/LASAAC) became a member of FRAB to secure strong links with the operations of CIPFA/LASAAC

**Christopher Young's** membership expired in June 2020

## Board Attendance

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

### Box 2.B

Board Attendance						
Meeting Date	Jun-19	Sep-19	Nov-19	Mar-20	Overall	
1	Lynn Pamment	Y	Y	Y	Y	100%
2	Anthony Appleton	Y	Y	Y	Y	100%
3	Richard Barker	Y	Y	Y	N	75%
4	Andrew Buchanan	Y	Y	Y	Y	100%
5	Andrea Pryde	Y	Y	Y	Y	100%
6	Pam Beadman	Y	Y	Y	N	75%
7	Gareth Caller	Y	Y	Y	Y	100%
8	Iain King	Y	Y	Y	N	75%
9	Joseph McLachlan	Y	Y	Y	Y	100%
10	Bob Richards	Y	Y	Y	Y	100%
11	Ian Webber	Y	Y	Y	Y	100%
12	David Aldous	Y	Y	Y	Y	100%
13	Karl Havers	N	Y	Y	Y	75%
14	Fiona Kordiak	Y	Y	Y	Y	100%
15	Craig Mackinlay	N	N	N	N	0%
16	Larry Honeysett	Y	Y	Y	Y	100%
17	Ian Ratcliffe	Y	Y	Y	Y	100%
18	Sarah Sheen	Y	Y	Y	Y	100%
19	Stuart Stevenson	Y	Y	Y	Y	100%
20	Gawain Evans	Y	Y	Y	Y	100%
21	Vicky Rock	Y	Y	Y	Y	100%
22	Aileen Wright	Y	Y	Y	Y	100%
23	Christopher Young	Y	Y	Y	Y	100%
	<b>Overall</b>	91%	96%	96%	83%	
	<b>Average</b>					<b>91%</b>

*The graphic above showcases the attendance of each member of the board alongside the overall attendance at each meeting and the average attendance for the year.*

# Chapter 3

## Board Activities in 2019-20

### Performance Highlights for 19-20

 <p>Oversaw the enhancement of performance reporting</p>	<p>Oversaw the publication of reporting guidance</p> 	 <p>Ensured public sector alignment with private sector</p>
 <p>Ensured an up to date knowledge of financial reporting</p>	<p>Responded to the COVID-19 pandemic</p> 	 <p>Worked alongside HM Treasury to carry out thematic reviews</p>
 <p>Supported HM Treasury in their response to a parliamentary enquiry</p>	<p>Oversaw the creation of two new consultation groups</p> 	 <p>Continued work on IFRS 16 and IFRS 17 implementation</p>

The graphic above showcases key activities carried out by FRAB for this year. Further details are provided on the subsequent pages

## Overview

Most of the Board's activities in this financial year focused on making improvements to government financial reporting. However, this year will most likely be remembered for the advice FRAB gave in response to the COVID-19 outbreak. 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 initial response to the COVID-19 pandemic

2

### **Government Financial Reporting Manual (FReM)**

Updates on the government financial reporting review, the FReM public consultation and other changes to the FReM

3

### **Accounting standards**

Updates on the implementation of IFRS 9, IFRS 15, IFRS 16 and IFRS 17

4

### **Public sector financial reporting landscape**

Ensuring an up to date knowledge of the reporting landscape including updates from WGA

5

### **Working with relevant authorities**

Oversaw the establishment of the Relevant Authorities Working Group (RAWG) and the User/Preparer Advisory Group (UPAG)

6

### **Governance and future work**

Looking forward to ensure effective governance of the Board and formulating a forward work plan

# 1. COVID 19 Response

The COVID-19 outbreak had an impact on all of the UK and the government finance function was no exception. FRAB led the way in supporting timely adjustments to the financial reporting landscape in order to ease the additional burden facing preparers during this unprecedented time. The actions supported by FRAB throughout the year include but are not limited to,

- reducing government financial reporting requirements for 19-20 in the form of agreement to the [FReM Addendum](#)
- supporting the extension to the administrative deadline for laying annual report and accounts in the House of Commons to 30<sup>th</sup> September 2020
- deferring the implementation of IFRS 16 Leases to the next financial year (2021-22)
- assisting relevant authorities with their own changes to respective financial reporting guidance as a result of the COVID-19 outbreak.

FRAB's decisions in response to the COVID-19 outbreak although timely were given careful consideration in the March FRAB meeting and since. Feedback from key stakeholders has indicated that the decisions FRAB took during this time and the speed that these decisions were made have been well received and significantly reduced the burden facing departments whilst maintaining the quality of financial reports.

FRAB continued its work on the COVID-19 response throughout 2020 and will continue to monitor the impact on financial reporting and respond appropriately to any additional issues that arise.

## 2. Government Financial Reporting Manual

Much of the work carried out by FRAB in 2019-20 focused on making changes to the Government Financial Reporting Manual (FReM) as a result of the [Government Financial Reporting Review](#) (GFR Review). HM Treasury agreed several actions with the FRAB as a result of the GFR Review, including:

- running a [public consultation on the FReM](#) as part of a zero-based review of the FReM,
- carrying out [Thematic Reviews](#) of the Statement Of Parliamentary Supply (SOPS) and the implementation of IFRS 9 Financial Instruments and IFRS 15 Revenue from Contracts with Customers. These reviews were carried out for the first time and form a key part of the treasury's and FRAB's continual drive for improvement, and

- producing a [bank of best practice examples](#) from current government financial reporting showcasing the highest standard in financial reporting in order to support the drive for continuous improvement.

FRAB worked alongside HM Treasury to design an appropriate public consultation on the FReM and held an extraordinary meeting in September 2019 in order to ensure HM Treasury was able to meet their statutory deadline without compromising the quality of the consultation carried out. The actions FRAB took alongside HM Treasury resulted in a number of changes being proposed to both the 19-20 and 20-21 FReM. FRAB took time to consider all the proposed changes and their impact on the wider public sector financial reporting landscape before deciding to approve the respective versions of the updated FReM in the November meeting.

The new FReM has been redesigned to improve the quality of financial reporting and ease of user understanding. Changes such as the inclusion of best practice, additional guidance, more focus on trend reporting to add context and the introduction of a comply or explain approach are fundamental to the work of FRAB and HM Treasury. 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 standard of financial reporting across government.

## 3. Accounting Standards

In 2019-20 the FRAB worked collaboratively with relevant authorities to ensure they continued the ongoing implementation of IFRS 16. FRAB recognises the importance of this standard and its technically challenging nature and will continue to monitor how it is implemented by the public sector. FRAB had completed much of the technical work in previous year but in FY19/20 continued discussions for clarifications to the financial reporting guidance around IFRS 16 as the practical implementation of the Standard brought more issues to the fore.

2019-20 also represented the first year that two departments, Department for Transport and Department for Digital Culture Media and Sport adopted IFRS 16. FRAB decided to allow a very limited option for early adoption for these departments, bearing in mind that significant bodies within these departments follow IFRS in full and therefore needed to implement IFRS 16 from 2019.

At the March meeting, FRAB agreed to defer the implementation of IFRS 16 for one year to 1 April 2021. Although FRAB's ultimate aim is to support alignment with the private sector (where IFRS 16 was effective from 1 January 2019), the unprecedented pressures facing preparers as a result of the COVID-19 outbreak persuaded FRAB that deferral of IFRS 16 was an appropriate action to ease the financial reporting burden in FY20/21. FRAB supported deferral of IFRS 16 for one year only. The board recognises the importance on maintaining

pace with the private sector whilst recognising the unique challenges that faced the public sector due to the budgeting framework.

FRAB received multiple updates from HM Treasury on the work ongoing to implement IFRS 17. FRAB was informed of discussions ongoing as part of the Technical Working Group for IFRS 17 implementation including attempting to fully understand and outline the scope of IFRS 17. FRAB is keen to fully understand the scope of and impact this standard will have on the public sector especially as this will be the first standard adopted in the UK following the UK withdrawal from the EU. FRAB will therefore continue to work alongside the relevant authorities and the technical working group to ensure an effective implementation of IFRS 17.

FRAB also played a role in assisting HM Treasury with carrying out a thematic review of the implementation of IFRS 9 and 15. FRAB provided observations, challenge and comments on the findings and conclusions of that review. FRAB also spent time suggesting next steps for HM Treasury to take. Thematic reviews will be a key fixture of work for both HM Treasury and the FRAB. FRAB assisted in the publication of the thematic review which is now [available on gov.uk](#)

## 4. Public Sector Financial Reporting Landscape

The Government Financial Reporting Review was published on the 5<sup>th</sup> of April 2019. FRAB spent much of FY18/19 feeding into the work needed to produce that report. FRAB continued to express an interest in this work by overseeing the actions that HM Treasury agreed to undertake as part of the report's follow up. This included:

- assisting with the post implementation review of IFRS 9 and 15,
- assisting with the thematic review of the Statement of Parliamentary Supply,
- overseeing the creation of a new User and Preparer Advisory Group,
- overseeing the production of the Government Financial Reporting Review Best Practice Examples report,
- assisting HM Treasury with their response to the Public Administration and Constitutional Affairs Committee's enquiry into the findings of the Government Financial Reporting Review

FRAB continues to take a keen interest in the developments occurring in the wider financial reporting landscape. FRAB welcomed updates from the EPSAS Board (European Public Sector Accounting Standards) and the IPSAS Board (International Public Sector Accounting Standards) on their ongoing work at the FRAB meeting in June alongside an update from the IFRS Interpretations Committee (formally IFRIC). Full details of these updates can be found [on gov.uk](#) as part of our minutes and papers publications.

FRAB worked alongside HM Treasury to oversee the creation of the Relevant Authorities Working Group (RAWG) as a forum for representatives from the relevant authorities to



discuss common themes and issues together and promote continued alignment across the public sector in financial reporting. FRAB receives details of the actions of this group and works alongside them to improve the standard of public sector financial reporting.

As per FRAB's [Terms of Reference Document](#) which sets out FRAB's statutory role in the Whole of Government Accounts FRAB receives regular updates from the Whole of Government Accounts (WGA) team from HM Treasury. FRAB welcomes these updates and will continue to work alongside the WGA team providing suggestions and comments to ensure the continuous improvement of this project. A full breakdown of the updates FRAB received from the WGA team is [available on gov.uk](#)

FRAB heard in year updates from the NAO including a presentation reflecting on the 18-19 audit cycle that also went to the FLG (Finance Leadership Group). FRAB will continue to work alongside the NAO.

FRAB continues to promote excellence through all of its interactions amongst the public sector financial reporting landscape and will continue its work in line with the theme of continuous improvement which will pay a key part in the FRAB's strategic direction.

## 5. Relevant Authorities

Alongside the Board's role in providing oversight to the newly formed Relevant Authorities Working Group, FRAB plays a vital role in the approving the publication of technical guidance from the relevant authorities.

The FRAB also spent time working alongside representatives from CIPFA/LASAAC on the publication of the [CIPFA Code](#). FRAB worked alongside CIPFA/LASAAC to assist with key issues facing CIPFA/LASAAC including providing technical advice on implementation of IFRS 16 and discussing any potential divergencies from the standard within the code.

In a similar way, FRAB supported health sector colleagues in the publication of the [Group Accounting Manual \(GAM\)](#). FRAB heard updates from health sector colleagues on the progress with the GAM and also key issues facing the health service allowing FRAB to better understand policy application. FRAB is proud to have played a key role in the formation of this guidance and the Code by providing expert advice and constructive challenge.

## 6. Governance and Future Work

FRAB continues to look forward, as such FRAB maintains a "Forward Look Agenda" in which it examines the work it will need to complete in the coming year. This is available [on gov.uk](#). The FRAB is looking forward to taking steps to review its own role in guidance surrounding non-financial performance reporting as this has become an area of key consideration for

users of annual reports and accounts including Parliament and other key stakeholders of government financial reporting. This horizon scanning is not static and members of the Board have an ongoing responsibility to utilise their expertise and knowledge to ensure that FRAB keeps abreast of all relevant issues in the sector and how it applies to the public sector.

The FRAB is governed by a [Terms of Reference Document](#), the FRAB has committed to regularly reviews of these Terms with a minimum requirement to review it at least every 5 years. They were last reviewed at the [March meeting in 2018](#). The next review is therefore required in March 2023, however, the FRAB will review the Terms of Reference as needed and plan to consider them again at the Board effectiveness review later this year.

FRAB agreed to have an extra meeting in the autumn in order to carry out an effectiveness review of the Board. This will be carried out and results published once finalised.

## Future Meetings

The FRAB aims to meet at least 3 times a year, due to the COVID-19 outbreak the coming year consists of additional FRAB meetings.

- 8<sup>th</sup> April 2020
- 18<sup>th</sup> June 2020
- 19<sup>th</sup> November 2020
- March 2021 date tbc

# Annex A

## Glossary of Terms

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

# Annex B

## Key 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-reporting-advisory-Board-terms-of-reference>

FRAB minutes and papers - <https://www.gov.uk/government/collections/hmt-financial-reporting-advisory-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/government-financial-reporting-manual-frem>

Government Financial Reporting Manual Addendum for 2019-20 - <https://www.gov.uk/government/publications/financial-reporting-manual-addendum-2019-20>

CIPFA Code - <https://www.cipfa.org/policy-and-guidance/publications?tab=&filters=%7B0F14D9FB-449F-4157-A2FB-F5AAFCC25DC7%7D#filters>

GAM - <https://www.gov.uk/government/collections/department-of-health-group-accounting-guidance>

WGA - <https://www.gov.uk/government/collections/whole-of-government-accounts>

FRC - <https://www.frc.org.uk/>

NAO - <https://www.nao.org.uk/>

GRAA - <https://www.legislation.gov.uk/ukpga/2000/20/contents>

Government Financial Reporting Review and Best practice examples report - <https://www.gov.uk/government/publications/the-government-financial-reporting-review>

HMT Thematic Reviews - <https://www.gov.uk/government/collections/thematic-reviews-government-financial-reporting>







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