

Financial Reporting Advisory Board Review Group

Review of the Financial Reporting Advisory Board

response to consultation

10 January 2011

CIPFA, the Chartered Institute of Public Finance and Accountancy, is the professional body for people in public finance. Our 14,000 members work throughout the public services, in national audit agencies, in major accountancy firms, and in other bodies where public money needs to be effectively and efficiently managed.

As the world's only professional accountancy body to specialise in public services, CIPFA's portfolio of qualifications are the foundation for a career in public finance. They include the benchmark professional qualification for public sector accountants as well as a postgraduate diploma for people already working in leadership positions. They are taught by our in-house CIPFA Education and Training Centre as well as other places of learning around the world.

We also champion high performance in public services, translating our experience and insight into clear advice and practical services. They include information and guidance, courses and conferences, property and asset management solutions, consultancy and interim people for a range of public sector clients.

Globally, CIPFA shows the way in public finance by standing up for sound public financial management and good governance. We work with donors, partner governments, accountancy bodies and the public sector around the world to advance public finance and support better public services.

Peter Wyman
Independent Chairman
Financial Reporting Advisory Board Review Group

Submitted by email to frabreview@hmtreasury.gsi.gov.uk

Dear Peter

CIPFA is pleased to present its comments on this important consultation, which I have agreed with the Chair of our Accounting and Auditing Standards Panel.

CIPFA strongly agrees that the FRAB has operated effectively, and, through CIPFA/LASAAC, we have been very pleased to participate in the Board's discussions, first as observers and latterly through full membership. We have no doubt that the Board has made a significant contribution to raising the standard of financial reporting by government. We are very keen that the Board should be well served both by its structure and by high calibre membership in the future. Our detailed responses to the questions in the consultation paper are attached.

While we consider that the approaches set out in the consultation paper are improvements, they mainly build on the approaches used in the past, and may not be sufficiently flexible to address the challenges of the future. The review notes that the Board is large, and that this restricts the options for restructuring. We suggest that the options are greater than those proposed, principally because the Review has not examined whether all the stakeholders who need to be engaged in FRAB discussions must be full members of the Board. In particular, we have reservations as to whether an advisory board should include members representing the relevant authorities which it advises. Instead we believe that representatives of the relevant authorities should attend Board meetings – but as observers rather than as full members.

We believe that the Board membership should reflect a balance of preparers, auditors and users. In this latter context, we believe that a representative of Parliament should have full membership – probably from the Scrutiny Unit, since staff thereof advise Parliamentary Committees on financial matters. We agree that Board members should be appointed on an individual basis and that they should not act in the interests of their employers. Where members are appointed to represent the perspective of the part of the public sector from which they are nominated, then this will require them to consult the practitioners in the area. For example, the trading fund representative would be expected to canvass views from the finance directors of other trading funds and represent these views at Board meetings.

If the future appointment of FRAB members is to be dependent on the skills and knowledge the individuals can bring, then the selection process is key. While an understanding of the various sectors would still be required, the process for initial selection of candidates and their assessment and appointment should concentrate on their capability to fulfil the technical role expected of them.



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Past practice has been for the Board to reach its decisions by consensus. However, in the interests of transparency and to demonstrate independence, we believe that consideration should be given to the Board introducing a more formal system of voting on the proposals it considers. Not least, this would help to clearly differentiate the roles of members and observers. Implementation of the proposal would also require the Board to operate more formally in terms of quoracy and decision making. Restructuring to a smaller Board would allow these improvements to be implemented relatively easily.

I hope you find these general comments helpful.

If you have any questions about this response, please contact Steven Cain (e: steven.cain@cipfa.org.uk, t: +44(0)20 7543 5794).

Yours sincerely

Steve Freer
Chief Executive

Comments on the 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.	CIPFA agrees that the FRAB has operated effectively, and we have no doubt that the Board has made a significant contribution to 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.	<p>We agree that the FRAB has performed the independent role required of it. However, this may have been in part due to the particular members of the Board and the particular circumstances in which it has operated.</p> <p>Going forward, there are a number of areas where the Board could more transparently demonstrate its independence. These include:</p> <ul style="list-style-type: none"> ▪ The role of the Chair in the context of relationships with Ministers and the press; and ▪ Board member appointment processes (role descriptions etc). <p>We agree that the proposals in Chapter 4 would be an improvement and would enhance performance and perceptions. However, as described in the covering letter, we believe that further restructuring and rebalancing of the Board would be both possible and beneficial.</p>
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.	The FRAB includes a range of stakeholders who need to be engaged in FRAB process. However, as described in the covering letter, it is not clear that all of these parties should be fully represented as voting members 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.	Agreed. However, as noted in the covering letter, we suggest that a more fundamental restructuring of the Board should be considered.

<p>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.</p>	<p>Restructuring the Board as described in our covering letter would, in our view, eliminate the need for tenure considerations to apply to representatives of the relevant authorities. The person attending as an observer from a relevant authority would do so as part of his or her 'day job', and the length of tenure should not be relevant.</p> <p>If the Board were restructured as we propose, then we suggest that all members could be given a three year term, renewable once, unless they become Chairman.</p>
<p>6. The attendance of 'alternates' at FRAB meetings should not be permitted.</p>	<p>We agree that the attendance of 'alternates' for voting members of FRAB at meetings should not be permitted.</p> <p>If the Board were restructured as outlined in our covering letter, we suggest that it would be acceptable (and may in some cases be beneficial) to allow the attendance of alternates as observers.</p>
<p>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.</p>	<p>Agreed for voting members.</p> <p>We see this as less of an issue if relevant authority representatives attend as observers.</p>
<p>8. The FRAB should explore the availability and use of technology in conducting future meetings, such as telephone and video conferencing.</p>	<p>Agreed</p>
<p>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.</p>	<p>Agreed</p>
<p>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.</p>	<p>Agreed.</p>
<p>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.</p>	<p>We agree that the FRAB should confirm whether it is to have a secondary role as described.</p> <p>We agree that the FRAB should have such a role, provided this is focussed on commenting on those developments which are relevant to public sector reporting.</p>

<p>12. The requirement for periodic future reviews of the FRAB should be enshrined in the Board's terms of reference.</p>	<p>Agreed</p>
<p>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.</p>	<p>We agree that the process for determining whether interpretations or adaptations of accounting standards are necessary, and, if so, the development of appropriate proposals, should be documented. However we believe that this is best done through revision of the MoU between the relevant authorities in consultation with the FRAB. The Board could then consider compliance with the agreed process as part of its deliberations. We believe that the IPSASB 'Process for Reviewing and Modifying IASB Documents' which sets out their approach to standards interpretation and adaptation would provide a good model.</p>