



HM Treasury

Central government annual reports and accounts:

consultation on simplifying and streamlining the presentation of annual reports and accounts



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Consultation process

1.1 HM Treasury is consulting on the need to simplify and streamline the presentation of all central government annual report and accounts (hereafter referred to as the “accounts”). This refers to the statutory accounts which all entities within central government are required to produce and are laid before Parliament. This includes departmental accounts, the accounts of arms length bodies (for example agencies) and Whole of Government Accounts (WGA). These accounts are prepared using accrual accounting rules and are equivalent to private sector financial statements.

Structure of this consultation

1.2 The remainder of this document is set out as follows:

Chapter 2 – Introduction

Chapter 3 – Request for views

Chapter 4 – Questions to be considered by users and preparers

Who should read this

1.3 This consultation looks to understand who is currently using public sector accounts, the purpose to which the information in the accounts is put, what information users and potential users would get most value from but isn't currently reported, and what requirements are most burdensome. The project is focused on improving the accounts so as to better meet the needs of users of the accounts, based on a clear understanding of the purpose of those accounts. It also seeks to remove unnecessary burdens from the preparer community.

1.4 This consultation invites views from all users and preparers of central government accounts. This includes users of public services, Parliament, think tanks, media agencies, academics, the wider accounting community and any interested private sector entities.

How to respond

1.5 The Treasury invites responses on the specific questions raised and any other views respondents may have on this issue. The questions can be found in chapter four of this document.

1.6 This consultation will run from Friday 7 June 2013 to Friday 30 August 2013.

1.7 Please send responses to:

Government Financial Reporting
Floor 2, Red
HM Treasury,
1 Horse Guards Road,
London
SW1A 2HQ

Email: accountsconsultation@hmtreasury.gsi.gov.uk

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Introduction

2.1 Resource accounting based on UK Generally Accepted Accounting Principles (GAAP) was introduced into central government in 2000, following recommendations from a number of key stakeholders including HM Treasury and Parliament. Resource accounts have been prepared since 2000-2001, and were combined into an annual report and accounts in 2010-11. Prior to this point, departments produced a separate annual report, and combining with the accounts was an option that only a few departments took up.

2.2 With the change in the basis of accounting standards in the UK to embrace international accounting standards, the decision was subsequently taken to implement EU adopted International Financial Reporting Standards (IFRS) in central government. Since 2009-10 central government has applied EU adopted IFRS as adapted and interpreted for the UK public sector context.

2.3 IFRS have been developed to meet the needs of private sector organisations, with many of the disclosures designed specifically to meet the needs of investors who are seen as the primary users of financial statements. Using IFRS has a distinct advantage in that it ensures that the public sector is measured on the same basis as the private sector, with all parts of the economy preparing accounts on a comparable basis. It is not clear, however, whether these disclosures are best suited to users of public sector accounts.

2.4 The move to resource accounting and away from cash accounting provided an opportunity to view public sector financial performance on the basis of when the economic benefits from spending occur, rather than just the year in which it was financed. The public sector is benefitting from the use of accrual based information in its financial decision making, particularly following reforms to align the reporting of transactions for accounting, budgeting and appropriation purposes; i.e. the Clear Line of Sight Initiative, which have now been fully implemented. Reforms mean that we can present all public sector spending [as defined by ONS/EU] and properly see the public sector's assets, liabilities, longer-term risks and current performance on a fully-audited basis. The reporting is also aligned between the budgeting framework, reporting to the public and Parliament.

2.5 In recent years, government financial reporting has gained more attention and growing importance as a result of these changes. Focus from, and discussions with, the Public Accounts Committee on the Whole of Government Accounts (WGA) have prompted questions about how individual entity accounts are used. This is adding to growing concerns that departmental accounts are not well used, are difficult to understand and are getting longer.

2.6 As noted above, the disclosure requirements of IFRS are primarily focused on the needs of investors of private sector entities and these are a significant factor in driving the length of accounts. Concerns also exist about the length of private sector accounts, and there is work currently taking place to move towards "cutting clutter" in private sector accounts with projects currently being undertaken by the Accounting Council in the UK and the International Accounting Standards Board. Now is therefore an opportune time to question whether IFRS disclosures best meet the needs of users of public sector accounts.

2.7 Since the introduction of accruals based accounts in central government there has not been a review of what users of central government accounts require and the extent to which current financial reporting meets these needs. While the recent focus has been on the way in which the

accounts of individual government entities have been prepared under IFRS, what has been questioned less often is the extent to which use is actually made of accounts, whether they serve users' needs, and indeed understanding who the key users actually are.

2.8 At a time when resources are constrained and Government is committed to being more transparent and providing clearer/better information to help external challenge, it is essential that accounts are meeting the needs of users and are not unnecessarily burdening the preparer community. This consultation is part of a wider project that seeks to examine this subject.

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Request for views

3.1 HM Treasury is consulting on the simplification and streamlining of the presentation of central government annual report and accounts, to better meet the needs of users of the accounts, based on a clear understanding of the purpose of those accounts, and to remove unnecessary burdens from the preparer community.

3.2 The scope of this consultation includes all information contained in statutory report and accounts, including departmental annual report and accounts, those of arms length bodies and Whole of Government Accounts (WGA).

3.3 As part of this consultation we wish to understand who is using public sector accounts, the purpose for which information in the accounts is used, and what information users and potential users would find to be of greater value. This consultation also seeks to understand what requirements are most burdensome for the preparer community.

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Questions to be considered by users and preparers

Users

4.1 Users are asked to respond to the following questions:

Question 1: Do you read and use any annual report and accounts produced by central government (including departmental accounts and those of arms length bodies, e.g. agencies and Whole of Government Accounts)? If so, which ones and for what purpose?

Question 2: Do you find them easy to use? Are there sections that you find are particularly useful? Are there areas that you find unhelpful or difficult to use?

Question 3: Have you found all the information that you would expect and require from public accounts? If not, is there any information that you would find of greater value to be included?

Question 4: Does the timeliness of publication impact the usability of the information within the accounts from your perspective? If so, please provide examples.

Question 5: Do you find the length or format prohibits you from using the accounts as you would wish and in an efficient and effective manner? Do you have any suggestions for improvements, including any format changes that you would find useful?

Preparers

4.2 Preparers are asked to also respond to the following questions:

Question 6: As a preparer are there specific sections that are particularly burdensome to prepare? How could these be modified to improve the issues you have identified?

Question 7: Does the format of the report and accounts allow completion in a manner that is suitably tailored to your body? If not, what sections in particular do you believe are less relevant and how would you propose to amend these?

Question 8: Do you review the report and accounts as a whole document? And if so do you think that this accurately and cohesively conveys the performance of the body over the year?

HM Treasury contacts

This document can be downloaded from
www.gov.uk

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