



## Financial Reporting Advisory Board Paper

### Simplifying and Streamlining Central Government Annual Report and Accounts – Update on current status of project

<b>Issue:</b>	<p>HM Treasury is currently undertaking a project aimed at simplifying and streamlining the presentation of the statutory annual reports and accounts produced by central government entities. The aim is to better meet the needs of the users of the accounts and, where appropriate, to remove unnecessary burdens from the preparer community.</p> <p>Comments on the high-level design principles highlighted to the Board at the December 2013 meeting have now been received from Parliament and detailed design work has commenced to enable a Command Paper to be produced in late Spring 2014.</p>
<b>Impact on guidance:</b>	N/A at present
<b>IAS/IFRS adaptation?</b>	N/A at present
<b>Impact on WGA?</b>	N/A at present
<b>IPSAS compliant?</b>	N/A at present
<b>Interpretation for the public sector context?</b>	N/A at present
<b>Impact on budgetary regime?</b>	N/A at present
<b>Alignment with National Accounts</b>	N/A at present
<b>Impact on Estimates?</b>	N/A at present
<b>Recommendation:</b>	That the Board note the further work undertaken on the Simplifying and Streamlining Statutory Annual Report and Accounts project and comment on the emerging detailed design proposals for future reporting requirements.
<b>Timing:</b>	Changes are expected to be introduced in the 2015-16 FReM. More detailed proposals will be brought back to the June 2014 meeting of the Board to enable due process consultation during the summer.

## **DETAIL**

### **Background**

1. At FRAB 119 the Board was updated on the Simplifying and Streamlining Annual Reports and Accounts project. The overall purpose of the project is to simplify and streamline the presentation of the statutory annual reports and accounts produced by central government entities so as to better meet the needs of the users of the accounts and, where appropriate, to remove unnecessary burdens from the preparer community.
2. The Board was provided with an overview of the final recommendations that were provided to the Simplifying and Streamlining Accounts Steering Group in November 2013 along with a proposed implementation plan that would enable the introduction of the proposals. The first principles approach recommended by the project team is based on allowing entities to tell their own story, while maintaining certain key accountability requirements and having GAAP compliant audited financial statements in accordance with the Government Resources and Accounts Act 2000. The aim is to develop more integrated and relevant reporting that better links performance and financial information while ensuring those aspects of the current reporting structure that are useful to users are maintained.
3. This paper provides the Board with an update of progress since the December 2013 meeting and seeks views on proposals for the more detailed design of future reporting requirements.

### **Progress since the December 2013 meeting and response from the Chairs of the Liaison Committee and the Public Accounts Committee**

4. As part of the implementation plan further consultation was undertaken with the Finance Leadership Group over the Christmas period on the high level principles to ensure there was continued senior buy-in across Whitehall to the projects initial outputs. The Chief Secretary to the Treasury wrote to the Chairs of the Liaison Committee and the Public Accounts Committee in early January 2014 providing an overview of the high level principles, the aim being to ensure that these key stakeholders were content with the general direction of travel prior to more detailed design work being undertaken.
5. A positive response was recently received from both Chairs, indicating support for measures that can improve the quality and usefulness of financial reporting and which can improve scrutiny and the accountability of reporting entities to Parliament. The key areas of emphasis that they noted the Treasury needed to consider in the more detailed design were:
  - No diminution in the standards of audit applied, with a requirement for the C&AG to continue to provide full assurance over the Statement of Parliamentary Supply;
  - Parliamentary accountability to retain the same prominence in the documents as currently;
  - Reporting on remuneration to be maintained at the current levels;
  - Agreement on the inclusion of only material information;
  - A requirement to ensure that the narrative telling the story section be an objective, evidence-based account of spending and activities, free as far from possible from selectivity and clearly focussed on key risks, issues and strategies for dealing with them;

- Improvement in both the quality of presentation and a more coherent narrative, with strong support for more lively and visual presentation of trends in expenditure and performance against objectives
- The precedence of the reasonable needs of the user over those of the preparer; and
- A desire to see a similar basis and format across mid-year and annual reports.

6. HM Treasury is grateful for the positive response from the Chairs and supports the key areas of emphasis that were received. Indeed these are consistent with the overall direction of travel proposed by HM Treasury and the feedback obtained from other stakeholders throughout the project. The requirement is to now develop more detailed designs in conjunction with the Parliamentary Scrutiny Unit, the National Audit Office, and the Board so that HM Treasury is in a position to present more detailed proposals to Parliament in a Command Paper in late Spring. This will allow due process consultation and the introduction of the reporting requirements for the 2015-16 financial year.

### **Detailed design**

7. Based on the first principles approach that was presented to the Board and taking into consideration the recent feedback received from Parliament, the FLG and other stakeholders, the detailed design is being built on restructuring the current Annual Report and Account into three more integrated reporting requirements. These requirements are:

- Performance – “telling the story”
- Accountability; and
- Financial statements

8. Noted below is the purpose and expected content of each section, along with an indication of key stakeholders and work that needs to be performed in the coming months to develop the final proposals.

### ***Performance – “telling the story”***

9. The purpose of the performance section is to “tell the story” of the entities year in a way that meets user criticisms that the current annual reports and accounts lack an overall narrative and are difficult to understand. While we are expecting individual Departments to take far greater ownership in future of the content included in this section, there are a number of high-level structural elements which HM Treasury is currently exploring that would improve comparability across Departments while providing flexibility for entities to tell their own story about the key activities and outcomes during the financial year in a manner that best meets the needs of their own users.

10. HM Treasury currently envisages that the Performance – “telling the story” reporting requirement will require entities to produce two sections.

#### ***(i) “Overview”***

11. The purpose of the “Overview” is to give the user a short summary that provides them with sufficient information to understand the organisation, its purpose, the key risks to the achievement of its objectives and how it has performed during the year.

12. Although the detailed contents are still to be agreed and further developed, HM Treasury currently proposes that this will be a short focussed section that will in no more than 10 to 15 pages provide the user with:

- A high level summary of the year – one page snapshot of key performance and financial information in a visual and accessible manner
- Minister/Chief Executive statement
- Clear statement of the purpose and activities of the organisation
- Key issues that affect the entity in delivering its objectives
- Performance summary

13. Effectively this summary document should be enough for the lay user to not need to look further into the rest of the annual report and accounts unless they were interested in further detail or had specific accountability or decision making needs to be met. We will work in particular with the Parliamentary Scrutiny Unit on this section to ensure that it meets the requirements of Parliamentarians.

***(ii) “Performance analysis”***

14. This will be a more detailed performance summary which would provide a clear indication of how the entity measures its performance, thus allowing for the presentation of a more detailed integrated performance analysis. Effectively therefore we would expect this section to provide information on:

- How the entity measures its performance
- A detailed performance analysis against those measures, utilising a wide source of data including key financial information from the financial statements section of the accounts.

15. The key internal government stakeholders for the Performance – “telling the story” reporting requirement are the Cabinet Office and other central government entities that currently mandate the inclusion of “performance information” in the Annual Report via the FReM or annual PES paper. Alongside our work with the Parliamentary Scrutiny Unit and National Audit Office we will work with these entities over the coming months to ensure that their requirements continue to be met where appropriate either via the new reporting framework or through alternative mechanisms.

16. If improvements are to be made, however, then the current discrete standalone requirements that require entities to report on sustainability, rural proofing and adaptation to climate change, the Common Core Tables, Business Plan Indicators, Quarterly Data Summary information, and Reporting on Better Regulation must end. In the future if they are necessary to understanding how the entity measures its own performance these must form

part of an integrated performance analysis and be integral to how the entity does actually measure its own performance.

17. The detailed design will also ensure that the contents of the Performance – “telling the story” reporting requirement will meet FReM requirements for the production of a strategic report in accordance with the Companies Act. HM Treasury will, however, further examine the relevance of those current requirements to central government entities and may propose further amendments or interpretations.

### **Accountability**

18. “Accountability” builds on the fact that the primary user of the annual report and accounts is Parliament and that there are a number of key accountability requirements resulting from this that must be met. It also recognises the importance of good governance and the need for entities to formally report on that.

19. HM Treasury currently envisages that the Accountability reporting requirement will include:

- A directors report – as with the strategic report HM Treasury is examining the relevance of current requirements and may propose further amendments or interpretations
- Non-Executive Board Members Report
- The Statement of Accounting Officers responsibilities
- Governance statement
- Remuneration report and associated staff disclosure notes
- The Statement of Parliamentary Supply
- Other required Parliamentary accountability notes including losses and special payments, complaints to the Parliamentary Ombudsman, etc
- Report by the Comptroller and Auditor General

20. Key stakeholders that HM Treasury will be engaged with over the coming months on this reporting requirement include the Treasury Officer of Accounts particularly with respect to the Statement of Accounting Officers responsibilities and the Governance Statement, and the Parliamentary Scrutiny Unit and National Audit Office with respect to the position of the SoPS, other accountability notes, and the report by the C&AG.

21. HM Treasury is actively examining the extent to which some of these standalone requirements could be amalgamated to reduce the number of required disclosures and whether the SoPS and associated notes can be streamlined in the manner of the other financial statement disclosures.

### **Financial statements**

22. Finally “Financial Statements” builds on the evidence gathered during the project that a set of accounts audited by the NAO remains important to users, but that the concept of materiality is poorly understood and inconsistently applied. HM Treasury’s current proposal is that financial statements would include:

- Whole of Government Accounts format financial statements; and
- Notes for material balances only.

23. The move to the Whole of Government Accounts format is seen as a way of improving consistency between entity and macro level financial reporting, reducing burdens on preparers, and will be crucial in enabling the timelier publication of WGA in future.

24. As part of the suggested move to the Whole of Government Accounts format, HM Treasury will also examine with the Parliamentary Scrutiny Unit and National Audit Office the possibility of moving from the current 3 column approach of core Department, Department and Agencies and Departmental Group to a 2 column approach of Department and Agencies and Departmental group. Indication from users and preparers is that the current format is confusing, does not reflect the reality of how entities are financially managed, and provides unnecessary detail.

25. HM Treasury is also looking to develop guidance on how accounting policies will be disclosed under the new format, with current preference being to include only material policies and have those disclosed by the appropriate note.

### **Progress with red-pen approach and improvements for 2013-14 and 2014-15**

26. In their response to the letter from the Chief Secretary to the Treasury, the Chairs also welcomed the Treasury’s proposals to assist Departments in improving the quality, content and presentation of Annual Reports and Accounts within the current framework.

27. A significant amount of work has been undertaken by the Treasury and the National Audit Office to support entities in taking a red pen approach for 2013-14. A number of events have been held to explain what the purpose of the approach is and how best to make progress and HM Treasury is encouraged by the greater ownership that is being taken by Departments of their annual report and accounts and the cross-Departmental sharing of best practice that is occurring.

28. As part of the detailed design for the new reporting requirements we hope to make progress which will further improve the quality of annual report and accounts for 2014-15 and make them as focussed as possible on user needs within the current requirements.

### **Summary and recommendation**

29. That the Board note the further work undertaken to date on the Simplifying and Streamlining Statutory Annual Report and Accounts project and comment on the on the emerging detailed design proposals for future reporting requirements

**HM Treasury**  
**3 April 2014**