



HM Treasury

The government financial reporting review



The government financial reporting review

Presented to Parliament by
the Chief Secretary to the Treasury
by Command of Her Majesty

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Contents

Executive summary		2
Chapter 1	Introduction	5
Chapter 2	Key developments in government financial reporting	8
Chapter 3	The purposes and principles of government financial reporting	11
Chapter 4	The government financial reporting landscape	16
Chapter 5	Trustworthy reporting	33
Chapter 6	Evaluating progress since 'Simplifying and streamlining'	43
Chapter 7	Improvements in government financial reporting	65
Chapter 8	Conclusions and next steps	87
Annex A	Government responses to recommendations made in 'Accounting for democracy'	92
Annex B	Government financial reporting landscape data table	119
Annex C	Government financial review actions and recommendations	126

Executive summary

Financial reporting is a way for the public and Parliament to scrutinise the governments use of public money, and hold departments accountable for the financial decisions they make.

Government financial reporting has been developing for many years, responding to the needs of users and the possibilities offered by new communication technology. In 2014, in consultation with Parliament, the [National Audit Office](#) and departments, the Treasury undertook the '[Simplifying and streamlining](#)' review to make financial reporting more targeted to the needs of users.

The [Public Administration and Constitutional Affairs Committee](#) (PACAC) published the 'Accounting for democracy' reports in [2017](#) and [2018](#), following an inquiry into government financial reporting that included a major user engagement exercise. These reports proposed four purposes for government financial reporting, and made a series of detailed recommendations to make reports more usable and understandable.

The Treasury has reviewed government financial reporting for progress since 'Simplifying and streamlining', and to respond to the recommendations in 'Accounting for democracy'. This report shares the results of that review, with detailed responses to the 'Accounting for democracy' recommendations given in Annex A.

The Treasury consulted with a wide number of stakeholders in government financial reporting, including both users and preparers of accounts. It drew insights from users and preparers of reports through an Advisory Board and a separate Departmental Sub-Group, and more informal feedback through meetings with individual stakeholders.

In this report:

- [Chapter 1](#) puts the review into context, explaining why government financial reporting is so important and giving some details on scope and user engagement. [Chapter 2](#) summarises key developments that have occurred in financial reporting in the UK, and gives a high level update on what the Treasury intends to do next.
- [Chapter 3](#) discusses the purposes and principles of government financial reporting, including how preparers can best apply the four purposes of reporting set out in 'Accounting for democracy', and what they should consider when deciding what to include in a report.

- Chapter 4 gives, for the first time, a map of the government financial reporting landscape. This overview of the different financial reporting with government, shows the context for the annual reports and accounts, and single departmental plans, and an example of tracking information from one report to the next across the landscape.
- Chapter 5 sets out what is done to build trust in reporting, to give users a better insight into the work that takes place behind the scenes to make government financial and performance reports trustworthy.
- Chapters 6 and 7 give a detailed review of best practice and areas for improvement in government financial reporting. Chapter 6 looks back to changes made since 'Simplifying and streamlining', while Chapter 7 builds on this by bringing in the 'Accounting for democracy' perspective and other feedback from report users.
- Chapter 8 brings together the actions and recommendations from chapters 2-7 to give a complete summary of the next steps for the Treasury.

The Treasury carried out this review guided by the principles behind the success of 'Simplifying and streamlining' and drawn from the user engagement of 'Accounting for democracy'. The goal is government reporting that is simple, easy to read, and reflects the unique story of each department. Reports should meet the needs of their primary users, including: the House of Commons controlling government spending; the public assessing value for money; and managers inside departments (Ministers and civil servants) needing information to run those departments effectively. Underpinning all these needs is the duty of government documents to provide an accurate record of activity and decision-making.

Actions to enhance reporting against these principles have been found throughout the review. The Treasury will:

- carry out a zero-based review of the guidance for departments producing annual reports and accounts, the Financial Reporting Manual, which will be overseen by the independent Financial Reporting Advisory Board
- establish a bank of best practice examples to support departments improving their reports which will be accessible to preparers of annual reports and accounts, and will be updated on a regular basis
- engage with departments to share the findings of the review and support continuous improvement
- publish the map of the financial reporting landscape online and look for other ways to help users navigate financial reports
- monitor the financial reporting landscape and update the map of the financial reporting landscape so it remains relevant
- carry out regular thematic reviews on specific issues in financial and performance reporting

- establish a group of external users of annual reports and accounts to meet twice a year and share feedback to help those preparing government financial reports better meet their needs

Detailed actions are listed at the end of each chapter and collected into Annex C.

Chapter 1

Introduction

- 1.1 The government is responsible for deciding how the country is run, for setting and implementing policies, for delivering projects and programmes and managing services day to day. It sets taxes, decides how best to deliver public services and chooses what to spend public money on. The government is made up of a diverse range of organisations and agencies, and they undertake a large variety of policies, programmes and projects.
- 1.2 Controlling public spending is central to running the country. In a healthy democracy, the power to spend money comes with a responsibility to be open to scrutiny about how that power is used.
- 1.3 Parliament, on behalf of the public, holds the government to account both for its performance and for how it spends money. Members of the public may also scrutinise public expenditure directly, and have an interest in understanding how effectively Parliament is holding the government to account.
- 1.4 The UK is a world leader in government financial reporting. Over the past thirty years the Treasury has worked steadily to improve one aspect of reporting after another, bringing better accountability and transparency. However, there is still scope for improvement.
- 1.5 There are also many forms of reporting available, each with their own purposes and audiences. Over time, the needs of report users change, and new communication technology gives rise to new opportunities and challenges.
- 1.6 This review is a chance to improve government financial and performance reporting now. It is also a chance for the Treasury to embed ongoing improvement into the routine of government, so that the UK can continue to lead the world in financial openness, transparency, and trust.

The benefits of good financial reporting

- 1.7 Financial reporting is how public entities account for how they have used public money. It enables Parliament to check and challenge the work of the government, and to scrutinise how effectively and efficiently it delivers against its aims.
- 1.8 Financial reporting helps its users make informed decisions. It reveals what has been done and, when linked to performance reporting, it helps those outside government see the impact of internal decisions and policies. Good financial reporting makes government spending transparent to the public and to external organisations. The discipline of preparing high quality

external reports also means that better data is available for internal decision-making. It can therefore help to improve both the performance of, and trust in, the government.

- 1.9 Sharing the right financial and performance information is important, and so is the nature of the reports themselves. Reporting against a clear set of standards and principles in a timely way gives the public confidence, and an accessible publication allows the data to be more widely used. Misunderstanding and mistrust can result when information is not clearly presented or transparent. Parliament and the public need to feel assured that the government is achieving value for the money it spends.
- 1.10 Financial reports must meet the needs of a range of users in a changing environment. It is therefore important that the government monitors and regularly reviews the reports that it produces, their content, the form they take, and keeps abreast of the changing needs of users. The Treasury and the Cabinet Office are responsible for the guidance used by departments to plan and report their spending and performance.

Context for the review

- 1.11 A brief history of key developments in government financial reporting is given in the second chapter of this report. It gives the background up to the last comprehensive review of financial reporting, 'Simplifying and streamlining' in 2014. This focused on improving annual reports and accounts by enhancing their structure and refining the information they contain. These changes were first implemented in the financial year 2015-16, and departments have now had three years to fully adapt to the new format.
- 1.12 The Public Administration and Constitutional Affairs Committee (PACAC) published the 'Accounting for Democracy' reports in 2017 and 2018 following an inquiry into government financial reporting involving a major user engagement exercise. These reports proposed four purposes for government financial reporting, and made a series of detailed recommendations to make reports more usable and understandable.
- 1.13 The Treasury is closely monitoring changes in financial reporting in the private sector, where the move to online reporting, the development of risk reporting, and the challenge of integrating other information into financial reports have all led to useful developments.
- 1.14 The questions raised by the PACAC reports make it clear that the government could do more to help users to find what they are looking for across the breadth of financial and performance information reported in the public sector. Developments in the private sector raise questions for what could be done better in public sector reports. Departments have had time to develop best practice using the new report structure introduced by 'Simplifying and streamlining'. It is time to take another look at financial and performance reporting across government.

Scope of this review

- 1.15 The Treasury led the Government financial reporting review, in close cooperation with the Cabinet Office. An Advisory Board supported this work with insight and advice and from a wide range of user perspectives.
- 1.16 Membership of the Advisory Board included senior representatives from government departments, the House of Commons [Scrutiny Unit](#), the [Financial Reporting Advisory Board](#), and from two external organisations identified by PACAC as independent representatives of public users of government reporting - the [Institute for Government](#), and [Full Fact](#). The [National Audit Office](#) were also an observer on the Board.
- 1.17 An internal Steering Group was created to provide oversight, consisting of senior Treasury and Cabinet Office representatives, and a senior member of the cross-Whitehall Finance Leadership Group. A separate Departmental Sub-Group also met to provide insights from the perspective of those preparing government financial reports.
- 1.18 The Treasury also conducted a workshop on the issues identified during the Review at the Government Finance Function Conference in January 2019, and liaised with the Finance Function throughout the course of the Review.
- 1.19 Over the course of the review, the Treasury reached out to a range of financial reporting experts from both the private and the public sector, as well as other interested stakeholders. These discussions brought in further perspectives on new developments in reporting.
- 1.20 The key findings of this outreach and engagement work is contained within this report, which:
- outlines the improvements made in government financial reporting since the late 1990s
 - discusses the principles and purposes of financial reporting
 - sets out a map of the government financial reporting landscape, to help users understand the breadth of government reporting and how it fits together
 - explores the ways in which Parliament and the public can gain confidence in financial and performance reporting
 - evaluates the government's progress since 'Simplifying and streamlining' and identifies best practice examples from departmental accounts
 - highlights current best practice as well as ways that reporting could be enhanced
 - concludes by setting out recommendations for making further improvements to government reporting, and setting out the planned next steps
- 1.21 The government response to PACAC forms [Annex A](#) to this report.

Chapter 2

Key developments in government financial reporting

- 2.1 This chapter outlines key developments in government financial reporting that form the background to the current review.

Resource accounting and budgeting

- 2.2 There has been a continuous drive to improve government financial reporting in the UK since the implementation of resource accounting and budgeting in the late 1990s. Resource accounting and budgeting introduced accruals accounting and budgeting concepts where transactions are recognised and recorded when they occur, rather than when there is a cash payment. This transparent and consistent way of reporting financial information is best practice in the public and private sectors throughout the world.

International Financial Reporting Standards

- 2.3 In 2009-10, the government started to apply International Financial Reporting Standards (IFRS) as interpreted and adapted for the public sector, for the first time. IFRS are a set of independent accounting standards stating how particular types of transactions and other events should be reported, and widely used by the private sector. The Conceptual Framework for Financial Reporting describes the basic concepts that underlie the preparation and presentation of financial statements for external users. The move to IFRS greatly improved government financial reporting, making it more consistent, credible and understandable.

Whole of Government Accounts

- 2.4 The first Whole of Government Accounts were published in 2011, consolidating financial information from across the public sector into a single report. Over 7,000 entities from across the public sector are now consolidated and the Whole of Government Accounts are published each year. The UK is among the most advanced countries in this regard and the Whole of Government Accounts are a uniquely comprehensive product as they are the only set of consolidated public sector accounts that include central government, local government and government owned corporations.

Clear Line of Sight

- 2.5 Other aspects of the reporting system in government were substantially overhauled by the Clear Line of Sight project (2010), a major alignment

exercise for budgets, Estimates, and accounts. Previously, there was significant misalignment between the different bases on which financial information was presented to Parliament. This led to a lack of understanding and trust in the information presented. From the financial year 2011-12, a simpler and more transparent system, with a single set of numbers, was implemented.

Simplifying and streamlining

- 2.6 With budgets, Estimates, and accounts in better alignment, the government focused its attention on the annual report and accounts. The Treasury carried out a review of the impact of accruals accounting and asked how these documents could better meet the needs of users. It found that reporting was difficult to navigate and often lacking a coherent narrative message. Mandatory requirements for a mass of detail were obscuring the big picture and limiting the usefulness of annual reports.
- 2.7 In 2014, the Treasury published Simplifying and streamlining statutory annual report and accounts, proposing a move to a more streamlined and integrated format and then held a public consultation on the suggested changes. Parliament, the National Audit Office, and government departments all supported the proposed improvements. The new annual reports and accounts format were first published in the financial year 2015-16.

The government financial reporting review

- 2.8 In the response to the first 'Accounting for democracy' report by PACAC, the government committed to doing a review of government financial reporting. The Treasury launched the government financial reporting review in summer 2018, with 3 overall aims:
- 1 To clearly state the purposes of government financial reporting,
 - 2 To review and better explain the current practices for government financial reporting, and
 - 3 To take steps to improve government financial reporting.
- 2.9 This report presents the findings of the review. It combines statements of principle, best practice examples to support departments looking to improve their reporting, and actions for the Treasury.

Future improvements

- 2.10 The Treasury agrees with PACAC that financial reporting is never perfected and must be continuously improved. This chapter sets out a history of major projects to roll out large-scale improvements. However, this approach is slow and not always responsive to the needs of users. In future, the Treasury intends to carry out more frequent review and engagement exercises.
- 2.11 The Treasury will begin a programme of regular thematic reviews, like the thematic reviews of private sector financial reporting carried out by the Financial Reporting Council. These short reviews will target specific areas of

concern, sharing best practice and finding opportunities to update and improve guidance.

- 2.12 To target the thematic reviews effectively, the Treasury intends to engage better with users of government financial reports through an advisory body. This group will meet twice a year to bring together representatives of both preparers and users of government financial reports.
- 2.13 The ways in which information are shared and used are constantly developing, in line with technical advancements and the changing expectations of users. Annual reports and accounts published by departments must also develop to keep in line with technological advances. Opportunities for improved financial reporting highlighted by this review will feed into government planning for digital transformation. The Treasury will ensure that the needs of the external users of government financial reports are considered as data systems are developed.

Table 2.A: Chapter 2 actions and recommendations

Paragraph	Action
2.11	The Treasury will carry out regular thematic reviews focusing on different issues in government financial reporting.
2.12	The Treasury will form a user engagement group, meeting twice a year and bringing together preparers and users of government financial reports.
2.13	Opportunities for improved financial reporting highlighted by this review will feed into government planning for digital transformation.
2.13	The Treasury will ensure that the needs of the external users of government financial reports are considered as data systems are developed.

Chapter 3

The purposes and principles of government financial reporting

- 3.1 A mechanism for reporting the performance of government is integral to allowing Parliament to hold the government accountable for its delivery of vital public services and the decisions made on how to spend public money. To be effective, that mechanism must ensure that government reports against a clear set of standards and principles in a transparent and accessible way.
- 3.2 This chapter discusses the purposes and principles of financial reporting and the potential for conflicting user needs, establishing some principles to bear in mind when considering additional reporting requirements.

Four purposes for reporting

- 3.3 In the 'Accounting for democracy' reports, PACAC set out four key purposes for government financial reporting and recommended that the Treasury adopt them as guidance:
- to maintain and ensure the House of Commons control of government spending, enabling, in particular the House of Commons to hold the Government accountable for its spending
 - to enable the public and researchers (both in civil society and Parliament) to understand and consider the value for money offered by public spending, so that they can make decisions about the effectiveness, efficiency and economy of particular policies or programmes
 - to provide a credible and accurate record which can be relied upon
 - to provide managers inside departments (including both Ministers and civil servants) with the information they require to run the departments and its agencies efficiently and effectively¹
- 3.4 The Treasury agrees that these four statements capture the purpose of government financial and performance reporting, and align with the broad principles of financial reporting. They form the foundation of this report, including the recommendations made throughout, and will be brought in to Treasury guidance.

¹ Accounting for democracy: making sure Parliament, the people and ministers know how and why public money is spent, PACAC 2017, p.5

- 3.5 There is, however, potential for conflict between the four purposes when applied to specific reports. Annual reports and accounts are laid before Parliament and are published so that the public and many other users can refer to them. A conflict could arise in balancing the different needs of users. For example, where Parliament's need for concise summarised information is difficult to balance with another user's preference for detailed transactional data, or disclosures requested by another user might take too long to prepare, so that the delay reduces the usefulness of the reports to Parliament.
- 3.6 The International Financial Reporting Standards framework states that the needs of the primary user of a report always takes precedent. Parliament is the primary user of government financial reporting, which exists to ensure that Parliament can hold the government to account. Where possible those preparing reports should seek to meet all the user needs that they are aware of, but if there is a conflict the needs of Parliament must come first.
- 3.7 In reporting financial information to Parliament, the audience is usually the select committee responsible for each department. Departments are recommended to engage early with select committees and seek feedback to ensure that the information provided to them is right for their specific needs.

Value for money

- 3.8 There is a cost associated with collecting additional financial and performance information, and then sharing it with users. This cost can take several forms. For example, data collection requires the right IT systems, and staff must be trained and invest time to capture the data. This should not be a barrier for further reform, as new technology can make it easier to produce better data, but must be objectively considered as part of any decision on additional reporting requirements.
- 3.9 Another back office activity that supports reporting is preparing guidance and frameworks for reporting. Without shared frameworks, information may be published inconsistently, making it difficult for users to compare one report to another. This can mean adapting an established framework, as the Treasury adapts International Financial Reporting Standards for use in the UK public sector. It can also mean developing guidance from scratch.
- 3.10 Even when a department has data systems in place and a reporting framework to refer to, those preparing reports must take time to consider how it can communicate clearly and meet the needs of users. It spends time selecting statistics, putting the organisation's story down in words, and drawing up diagrams or infographics.
- 3.11 If the report is subject to external review this takes longer and involves an additional cost for whoever is carrying out that review. To give an audit opinion, the auditor must have a high degree of confidence about a wide range of different pieces of information collected across time, supported by independent evidence gathering and research.
- 3.12 Publishing reports online makes the process of sharing them with users far easier than it once was. However, it also means that more users can and do

access government financial reports, creating a pressure to say more to this wider audience.

- 3.13 It is worth investing in good financial and performance reporting, but it is also important for the government to achieve value for money. The Treasury, and departments, should consider the costs for preparers and benefits for users whenever they change reporting habits or requirements. In practice this means prioritising between reports as well as prioritising between the needs of the users of each report.

Balanced reporting

- 3.14 Government financial reports are an opportunity to recognise and celebrate good performance, along with an honest appraisal of any areas of concern or opportunities for improvement. However, there is a natural tendency to dwell on achievements and overlook problems. This temptation is self-defeating, as those reading an overly positive report are likely to react with scepticism.
- 3.15 The government recognises the importance of balance in financial and performance reporting. Accounting officers must confirm, for example, that the annual reports and accounts that they are responsible for are ‘fair, balanced, and understandable’. However, the challenge of keeping reports balanced has proved to be a difficult one. Users often raise concerns about bias or spin in government financial reporting.
- 3.16 There is no objective way of measuring whether a report is fair, balanced, and understandable. Two useful questions for those preparing reports are:

- Is this report complete? That is, does it refer to all the aspects of performance that interest decision-makers inside the organisation?

One way of making sure that a report covers every part of an organisation’s activity is to align it to a list of objectives and make sure that they are all included. For example, if a report discusses performance against the targets set out in a department’s single departmental plan, it should give an update against every target whether that target has been achieved or not.

- Does this report put the information it shares into the right context?

Including a pop-out box with an impressive statistic does make a page more interesting to look at, but without background trend data the reader has no way of knowing how much that result means. For example, an unusually bad year last year might make a return to normal look like a significant improvement.

- 3.17 Because this is an area for subjective judgement, the Treasury does not plan to introduce mandatory reporting requirements. Treasury guidance already states that “the performance report must provide a fair, balanced and understandable analysis of the entity’s performance”². The principle of balanced reporting will continue to be upheld in revised guidance, and departments will be required to enhance their risk disclosures as discussed in

² [Government Financial Reporting Manual 2018-19](#), the Treasury, para 5.2.3, p.15

Chapter 4, Chapters 6 and 7 of this report share some best practice examples, and the Treasury will collect and share more over time to encourage ongoing improvement.

Making the right disclosures

- 3.18 Government financial and performance reporting has expanded throughout the improvement cycles of the last few decades. For example, the annual report has grown from a brief narrative about an organisation's activities into a detailed accountability document with sections on sustainability, governance, and performance.
- 3.19 Expanding reports can be a good thing, when more disclosures mean greater transparency and help Parliament hold government to account. However, adding too many disclosures might make reporting complex and unwieldy. If Parliamentarians and other users of reports find them difficult to navigate, or struggle to pick out the significant information from the flow of data, then longer reports can be counterproductive.
- 3.20 Those preparing government financial and performance reports should therefore avoid including any irrelevant information, while still meeting the needs of users and taking value for money into account.
- 3.21 The purpose of keeping reports short is to communicate effectively, not to avoid making useful disclosures. Preparers can make use of links to share information published in other reports. Departments can also use supplementary reporting in different formats to help make information available without adding clutter to existing reports.
- 3.22 When considering whether to add new disclosures to the annual report and accounts, preparers should consider the following questions:
- Should the information be published?
 - Is the information required by statute?
 - Is there a user need, and who is the user?
 - Is the information accurate and reliable?
 - Do the benefits of disclosure outweigh the costs and give value for money?
 - How should the information be published?
 - Is this report the right place for it?
 - Is this information already available elsewhere, or could it be?
 - How will the new disclosure affect the overall balance of the report?
- 3.23 The Treasury will use these questions to inform future reporting guidance, and will include them in the revised Financial Reporting Manual for those preparing government financial reports to refer to.

Next steps

- 3.24 Each department has its own aims and objectives, and a unique story to tell. The reporting frameworks are flexible by design to give those preparing reports the freedom to tell that story. This review of government financial reporting has found many best practice examples, which are worked through in detail in Chapter 6 and Chapter 7 of this report.
- 3.25 The Treasury will bring together the principles discussed in this chapter with the detailed findings of the review in the zero-based review of the Financial Reporting Manual. The revised guidance will include the four purposes for financial reporting proposed by PACAC and the list of questions for preparers to consider before disclosing new financial and performance information.
- 3.26 The Treasury will support the implementation of best practice by building up a bank of best practice examples and making these available to preparers of financial reports across government.

Table 3.A: Chapter 3 actions and recommendations

Paragraph	Action
3.7	Departments are recommended to engage early with select committees and seek feedback on whether financial and performance reports are meeting their needs.
3.17	The Treasury will continue to uphold the principle of balanced reporting in revised guidance, will enhance risk reporting, and will collect and share more best practice examples over time to encourage ongoing improvement
3.23	The Treasury will use the disclosure checklist questions to inform future reporting guidance, and will include them in the revised Financial Reporting Manual for those preparing government financial reports to refer to.
3.24	The Treasury will ensure that the other principles in this chapter are reflected in the revised Financial Reporting Manual, including the four purposes for reporting set out by PACAC.
3.25	The Treasury will support the implementation of best practice by building up a bank of best practice examples and making these available to preparers of financial reports across government.

Chapter 4

The government financial reporting landscape

- 4.1 There is a wide variety of reporting of financial and related information in central government. Published reports vary in terms of their purpose, frequency and level of assurance, and whether or not they are laid in Parliament. Some reporting is carried out by all government entities, other reports combine information from across government bodies into single reports, and other reporting is specific to an individual department or body.
- 4.2 Evidence gathered in the review suggests that there is a general lack of awareness and understanding of the various reports published by central government bodies. It is not always obvious what reports exist and how to navigate them, and the government could do more to support those users referring to the reporting already in the public domain. This has led to calls from Parliament and other users for extra disclosures in annual report and accounts when the information may already be reported elsewhere.
- 4.3 The Treasury is keen to continue the approach developed in ‘Simplifying and streamlining’ and to avoid making annual reports and accounts too repetitive or complicated, or duplicating published information. Evidence from the review suggests that mapping out the financial reporting landscape in one place would help preparers keep reports simple and help users make more out of government financial reports.

The planning and performance framework

- 4.4 The government sets priorities, plans activity, allocates money and monitors its progress and performance using a collective set of processes – the government’s planning and performance framework.
- 4.5 The framework has developed and been improved over time to reflect the government’s approach to accountability, respond to the needs of new governments and Parliament (on behalf of the public) and support the government’s aim for transparency. It also forms part of the government’s approach to managing public money to ensure value for money in the short and long-term.
- 4.6 The government’s planning and performance framework comprises several processes:
- published single departmental plans set out a department’s objectives, how it will use its resources to achieve them and how its performance should be measured

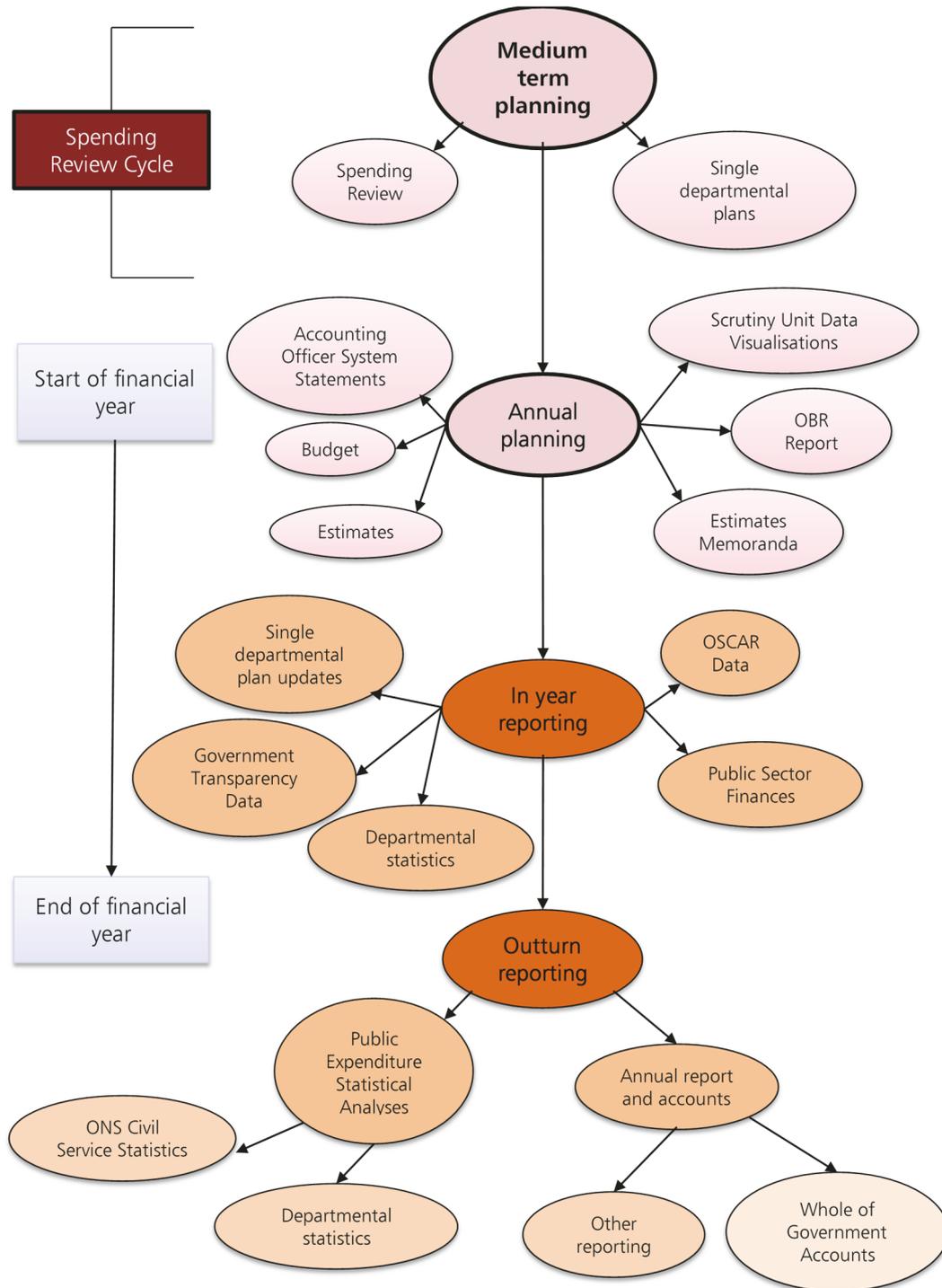
- Spending Reviews, the Budget and Supply Estimates determine and set out publicly a department's funding and how it plans to allocate its budget
 - annual reports and resource accounts present a department's performance in a financial year, what has been spent, and the outcomes it has achieved as a result of its spending and activity
 - Whole of Government Accounts and Public Expenditure Statistical Analysis set out public spending as a whole, giving a comprehensive picture of what the government receives, spends, owns and owes
- 4.7 An important aspect of each of the individual processes that are part of the framework is the reporting. Each individual process results in reports being published on gov.uk. These documents may relate to the planning of expenditure on a long term, medium term or annual basis such as Spending Reviews and Supply Estimates. There are also reports detailing the actual spending, either in-year or at outturn, such as annual reports and accounts and Public Expenditure Statistical Analysis. As well as Parliament, the National Audit Office and the House of Commons Scrutiny Unit provide independent scrutiny.
- 4.8 This chapter brings together the reports that form part of the government's planning and performance framework with other forms of central government financial reporting. It provides further detail on each of the main government reports, and sets out a visualisation of the landscape of financial reporting in government in order to help support better user engagement and understanding.

Where and how government financial information is reported

- 4.9 The table in Annex B sets out the main forms of reporting, providing information as per the following categories:
- Who produces the report
 - What time period it covers
 - How often it is produced and when
 - Whether it relates to the planning of spending or reporting of actual expenditure, or forms part of independent scrutiny
 - Whether it is laid in Parliament
 - Who the primary user is
 - Who is responsible for the guidance that governs the report
- 4.10 While the collection of reports set out in Annex B is extensive, it is not exhaustive. Other forms of reporting exist in government, particularly internally within government entities. There are also likely to be other ways that the reports can be categorised. The Treasury will monitor the financial reporting landscape to make sure that it remains relevant and accurate and will continue to seek views from a wide variety of stakeholders and users.

- 4.11 The main forms of government financial reporting, as outlined in Annex B, are set out in the visualisation of the financial reporting landscape at Chart 4.A.
- 4.12 The rest of this chapter gives further details on each of the reports and how they work together to make up the government financial reporting landscape.

Chart 4.A: The government financial reporting landscape



Reporting on the planning of government expenditure

- 4.13 The government undertakes a wide range of extensive planning to determine how to spend money. In the medium term this is centred around the Spending Review cycle, where the overall financial envelope for the government is determined and set in the form of departmental settlements. Single departmental plans set out a departments' objectives for the duration of the Parliament.
- 4.14 Departmental settlements are translated into budgets through the annual planning process. This starts with the Budget, where the government considers what changes are needed to public spending to respond to changes in the wider economic context. The Budget also includes forecasts for the economy by the Office for Budget Responsibility (OBR).
- 4.15 Following the Budget, detailed spending limits for all government organisations are then reported and approved as part of the Supply Estimates process.

Medium term planning

Spending Reviews

- 4.16 The Treasury carries out Spending Reviews to determine how to spend public money, usually over a multi-year period, in line with the government's priorities. The overall amount of spending available is informed by the wider fiscal position.
- 4.17 The money the government spends is reviewed to ensure future funding continues to be efficient and cost-effective. The Treasury then sets the maximum amount each government department can spend in the years specified under the Spending Review; these are known as departmental settlements.
- 4.18 The Treasury uses information and evidence from government departments and bodies, such as the Office for Budget Responsibility during the Spending Review process.
- 4.19 Spending Reviews cover the whole of the UK including the devolved administrations in areas where spending responsibility is devolved, such as for education or health. The Barnett formula applies at Spending Reviews. Fiscal events and allocations to each of the devolved administrations are calculated by the Treasury on the basis of the settlements reached with UK government departments as set out in the Statement of Funding Policy. The devolved administrations also have their own revenue-raising powers. The devolved administrations then prioritise this funding themselves across policy areas for which they have responsibility.
- 4.20 Spending Reviews provide certainty to departments for several years and encourage consideration of long-term value for money when making spending decisions. Such decisions might include near-term spending on a service such as day to day NHS spending or investing in decades-long programmes such as High Speed Rail to prepare for the future needs of the

country. Departments are responsible for organising, allocating and managing their resources. The budgeting system is set up to make sure that departments have good incentives to manage their business well, prioritise across programmes, and deliver value for money.

Single departmental plans

- 4.21 Single departmental plans cover the whole of a Spending Review period and are live documents which are updated throughout the period the Spending Review covers. The government introduced single departmental plans in 2015 to improve the quality of planning across government. They set out a department's objectives for the duration of the Parliament, how it will use its resources to achieve them, and how its performance can be measured.
- 4.22 Single departmental plans are revised annually, in line with departments' own internal planning, to reflect new priorities or changes in responsibilities. They are linked to the Spending Review and the Budget processes, as part of the planning and performance framework, so that a department can show how it will use its resources (the funding set in its departmental settlement and any adjustments to spending plans made at fiscal events, such as the Budget) to achieve the outputs and outcomes it will deliver. They include indicators, so it can be seen how the department is performing on each objective during the year. Links are provided to more detailed sources of data and information, such as official statistics and other public data releases.
- 4.23 For areas that involve more than one department, the single departmental plans show what each department is responsible for and where there is joint responsibility between departments.
- 4.24 Departments also produce more detailed internal versions of their single departmental plans, which are used by ministers and officials to manage a department's activity. These medium-term business plans are based on the department's own planning process to consider any changes in context, set priorities and allocate resources to achieve the outputs and outcomes it will deliver. They are agreed with Cabinet Office and the Treasury to ensure they reflect the whole of the government's priorities and can be achieved within the departmental settlements agreed at the Spending Review.
- 4.25 The government uses regular reporting to monitor progress against the outputs and outcomes set out in single departmental plans. Departments report how they have performed against the objectives in their single departmental plan at the end of the financial year, in their annual report and accounts.

Annual planning

The Budget

- 4.26 The Budget is a statement the Chancellor of the Exchequer makes to the House of Commons on the nation's finances and the government's proposals for changes to taxation and spending. The Budget also includes forecasts for the economy by the Office for Budget Responsibility.

- 4.27 The Chancellor uses the Budget to set out his or her objectives for the government's finances. The Budget document contains the following information:
- details on the wider economic context facing the UK,
 - the outlook for the public finances, and
 - a summary of the fiscal impact of all the decisions announced in the Budget statement
- 4.28 Elements of the government's spending plans may change as a result of decisions announced in the Budget. The Budget is an opportunity to consider what changes may be needed to public spending to respond to changes in the wider economic context.
- 4.29 Parliament scrutinises the Budget. The Budget is usually followed by four days of debate on the 'Budget Resolutions' - these are the tax measures announced in the Budget. Each day of debate covers a different policy area such as health, education and defence.
- 4.30 The Commons Treasury Select Committee, a cross-party committee of MPs, also holds an inquiry into the government's proposals. The Committee gathers evidence from expert witnesses and publishes a report with its conclusions and recommendations.
- 4.31 At the Budget, the Treasury sometimes adjusts the departmental spending limits of some departments set in the Spending Review to reflect changes in the government's priorities. Single departmental plans are revised annually to reflect such policy decisions and spending adjustments.
- 4.32 The Budget (and the Spring Statement) are accompanied by detailed five-year forecasts for the economy and public finances, produced by the Office for Budget Responsibility.

Office for Budget Responsibility reports

- 4.33 The Office for Budget Responsibility was created in 2010 to provide independent and authoritative analysis of the UK's public finances.
- 4.34 The Office for Budget Responsibility's detailed five-year forecasts incorporate the impact of any tax and spending measures announced in those statements by the Chancellor. The details of the forecasts are set out in the Economic and Fiscal Outlook. The annual Forecast Evaluation Report, published each autumn, examines how they compare to subsequent outturns and draws lessons for future forecasts.
- 4.35 The Fiscal Sustainability Report sets out long-term projections for different categories of spending, revenue and financial transactions, and assesses whether they imply a sustainable path for public sector debt. The Fiscal Sustainability Report also analyses the public sector's balance sheet, using both conventional National Accounts measures and the Whole of Government Accounts, prepared using International Financial Reporting Standards. From 2016, the Fiscal Sustainability Report has been published once every two years, reflecting the frequency with which the Office for National Statistics updates its population projections.

Supply Estimates

- 4.36 The departmental settlements, set at the Spending Review and amended in the Budget, shape the detailed budgets that are approved and scrutinised by Parliament through the Supply Estimates process.
- 4.37 Ahead of the beginning of the financial year, Parliament approves an advance of funding, known as the Vote on Account, to cover government spending for the first few months of the year.
- 4.38 More detailed information on government spending plans is provided in Main Estimates, published soon after the start of the financial year. The Main Estimates contain proposed spending limits for all government organisations. These spending limits include Departmental Expenditure Limits (DEL) and budgets for Annually Management Expenditure (AME).
- 4.39 There are processes in place for Parliament to scrutinise the spending plans set out in Main Estimates. Departmental select committees may question departments, in writing or at evidence sessions. The Backbench Business Committee will recommend, on the basis of bids from backbenchers, particular Estimates to be chosen for debate on chosen days on the floor of the House of Commons. Parliament must approve the amounts included in the Estimates before government organisations can access the remaining funds for the full year. After the year has ended, the National Audit Office draws attention to any instances where departments have exceeded the limits voted by Parliament (such circumstances are known as “excess votes”), and the Public Accounts Committee considers and scrutinises departments where this occurs.
- 4.40 Later in the year, Supplementary Estimates give the government a last chance to seek approval from Parliament to adjust the in year spending limits set in the Main Estimates before the end of the financial year. Changes may arise for a number of reasons including Machinery of Government changes, underspends, unforeseen pressures and changes in priorities. Supplementary Estimates are published in February and are subject to the same approval and scrutiny processes as Main Estimates. Departments publish their final spending against these limits in their annual report and accounts.

Estimates Memoranda

- 4.41 Government departments are required to produce an Estimates Memorandum for the relevant select committee to explain what is proposed in their Main or Supplementary Estimate in more detail and how proposals compare to past spending plans. The memoranda must include explanations of what is driving the changes, how spending is broken down and further information such as trends in spending over time, details of major spending announcements by ministers and how spending relates to single departmental plan objectives.
- 4.42 The House of Commons’ Scrutiny Unit, which provides specialist help to select committees to assist them in their scrutiny of the Government’s financial and performance reporting, provides guidance and advice to government departments on the contents and format of Estimates Memoranda. These memoranda are used both by MPs directly, and by the

Scrutiny unit to identify issues and brief MPs. Following a report by the House of Commons Procedure committee in 2017, the Scrutiny Unit has recently completely reviewed its guidance on the preparation of Estimates Memoranda and has been providing advice and feedback to departments to improve the quality of the information which they provide.

- 4.43 Estimates Memoranda are published by the relevant select committees, and collated on the Scrutiny Unit's website.

House of Commons Scrutiny Unit reporting – data visualisations

- 4.44 The Scrutiny Unit also produce data visualisations of the spending plans contained in the Main Estimates for each major government department. These visualisations show spending trends, changes from the previous year and how current spending plans compare to original proposals put forward in the Spending Review, together with some context.
- 4.45 An interactive spending chart showing all government spend is also published online, along with a briefing paper that brings together the information from individual departments together in one place. The material produced by the Scrutiny Unit is based on the memoranda provided by departments, and the Estimates and supporting data provided by the Treasury.

Accounting Officer System Statements

- 4.46 Since 2011, government departments have been required to incorporate into the Governance Statement section of their annual report and accounts a summary account of how they achieve accountability for the grants they distribute to local government organisations, schools and the NHS. This part of the governance statement should be backed up by a fuller accountability system statement on the department's website.
- 4.47 Accounting Officer System Statements were introduced in 2017, at the request of the Public Accounts Committee. They are produced by all central government departments and cover all of the accountability relationships and processes within that department, making clear who is accountable for what at all levels of the system from the accounting officer down, including relationships with arm's length bodies and third party delivery partners. Accounting Officer System Statements form an important part of an accounting officer's personal responsibility to account to Parliament for the public resources under his or her control.

Reporting actual government expenditure

In-year financial reporting

- 4.48 Government organisations publish a range of financial and related reporting throughout the year. This is important in terms of providing timely information to enable effective monitoring and control of the public finances, as well as providing transparency information for the user. Further information on the various in-year financial reporting is provided below.

Government transparency data

- 4.49 As set out in the Prime Minister's 2017 letter on open data and transparency, [a wide range of transparency data](#) is published by individual departments. This includes all spending over £25k, monthly payment card data over £500, information on contracts over £10k and Gender Pay Gap information. The Cabinet Office also produce cross-government data on Civil Service sickness and absence data, ministers' interest declarations, ministers' salary data, senior civil servants' names, grades, job titles and annual pay rates, special advisers' names, grades and annual pay.
- 4.50 [Gov.uk Registers](#) provides structured datasets of government information to help users build services on a high quality data infrastructure. Each register only contains data on a specific subject and is kept up-to-date by a subject matter expert from the relevant government organisation.

OSCAR data

- 4.51 The [Online System for Central Accounting and Reporting](#) (OSCAR) is a cross government public spending database managed by Treasury. This system provides key management information and data for public reporting. Individual departments regularly upload financial information to the system and this underpins many areas of financial reporting such as Public Sector Finances, Supply Estimates and Whole of Government Accounts. In addition, another dataset is published on a quarterly basis on the same day as the Office for National Statistics' monthly Public Sector Finances National Statistics release.
- 4.52 The dataset provides quarterly updates to monthly outturn data and the public are able to see monthly patterns in spend by government departments in a spreadsheet format. At the same time, users are able to drill down beneath previously released high-level aggregates to interrogate detailed spend by individual departments. For example, a department's numbers can be viewed split by thirty Economic Groups and over one hundred Economic Categories, or analysed by Economic Budget (i.e. Recourse of Capital expenditure).

Public Sector Finances

- 4.53 The [public sector finances statistical bulletin](#) is published jointly by the Office for National Statistics and the Treasury on a monthly basis and provides the latest available estimates for key public sector finance statistics, such as public sector net borrowing, public sector net debt and public sector current budget deficit/surplus.
- 4.54 The bulletin is structured with the latest headline figures, revisions and information on recent events and/or methodological changes which impact on the statistics, located at the front of the bulletin. Following this there is some contextual information for users and then more detailed information on each of the key aggregates. Historic data on public sector net debt and public sector net borrowing is included to put the latest figures in context.

Outturn reporting

4.55 Other financial and related reporting in government is carried out at the end of the financial year ending 31st March, in relation to expenditure over the previous 12 months. Outturn reporting is generally either in the form of annual reports and accounts and associated reports or statistical publications, such as the Public Expenditure Statistical Analyses and specific departmental statistics. Further detail is provided below.

Annual reports and accounts

4.56 An annual report and accounts provides an overview of what a government organisation has spent, received, owns and owes. Organisations prepare annual reports and accounts at the end of each financial year to report their financial results to Parliament. Each includes:

- A **performance report** setting out the structure, aims and objectives of the organisation and a review of how it has performed against these during the year. Central government departments report against the strategic objectives and the performance indicators set out in their single departmental plans.
- An **accountability report** which sets out how the organisation ensures good governance, and the systems and controls in place to manage risks. This section also includes a reconciliation of how the organisation has spent the resources allocated to them by Parliament through the Supply Estimates process and is supported by separately published Common Core Tables which show core financial data in a generic format in Excel across central government.
- **Financial statements** that cover the previous financial year and represent the organisation's financial position in accordance with International Financial Reporting Standards as adapted and interpreted by the Financial Reporting Manual.

4.57 The financial statements are independently audited to ensure both Parliament and the public can be confident about the figures presented. The audit report includes an opinion on whether the financial statements give a true and fair view and an opinion on whether income and expenditure has been incurred in accordance with Parliamentary and other relevant authorities (the regularity opinion). If an audit opinion is qualified, the accounting officer could be called to the Public Accounts Committee or other relevant Parliamentary select committee to explain the circumstances that led to the qualification, helping Parliament hold departments and other public bodies to account for their spending.

4.58 All government organisations covered in the Supply Estimates process are required to lay annual reports and accounts in Parliament each year, and are expected to do this within 3 months of the end of the financial year. Departments' annual reports and accounts consolidate information from the ALBs that the department is responsible for, as well as including information relating to the core department. ALBs' own accounts contain more granular information than is available in consolidated accounts. Independent bodies, such as regulators, also produce and lay annual reports and accounts.

4.59 The Treasury annually reviews the requirements for preparing annual reports and accounts, to accommodate changes in accounting policy and corporate reporting requirements. The Financial Reporting Advisory Board, an independent body of experts, provides advice and challenge to Treasury proposals including scrutinising and reviewing any changes prior to adoption to ensure they are justifiable and appropriate. The Board publishes an annual report to Parliament which includes its views on changes to the accounting framework. This process provides independent assurance that the reporting framework is appropriate and reflects international standards.

Whole of Government Accounts

4.60 The Whole of Government Accounts have been produced since 2009-10 and provide an overview of what the government receives, spends, owns and owes. They also include other information, such as staff numbers across the public sector, and future spending that the government is committed to.

4.61 The Whole of Government Accounts are the only place that show the financial performance and position of the entire public sector. The UK is one of few countries in the world to publish such a document covering the whole public sector. They are written in plain English, independently audited and supported by analysis to show how the public finances have changed over time.

4.62 The Whole of Government Accounts are increasingly important to the ongoing management of the public finances and to manage risks more effectively. For example, the Office for Budget Responsibility independently reports on the future sustainability of the public finances in its annual Fiscal Sustainability Report, drawing on the data published in the Whole of Government Accounts.

4.63 The Treasury also uses Whole of Government Accounts data to monitor contingent liabilities and potential future events that may have an effect on the value of what the government owns or owes, known as balance sheet risks. They complement other spending analysis such as the National Accounts that the Office for National Statistics publish, and provides additional information to provide insight into the public finances. They also include information on long term liabilities that are not included in the National Accounts. This information is available in the published accounts of individual government bodies, but the Whole of Government Accounts brings it together to provide a complete picture of the government's total long term liabilities.

4.64 Publishing the Whole of Government Accounts is another way the government fulfils its promise to make more data available to the public. The National Audit Office independently audits them, giving both Parliament and other users greater confidence in the figures. They are also scrutinised by Parliament through the Public Accounts Committee.

Public Expenditure Statistical Analyses

4.65 Public Expenditure Statistical Analyses is the yearly publication of information on government spending. It brings together recent outturn data, estimates

for the latest year, and spending plans for the rest of the current spending review period. It also shows spending by region.

- 4.66 Public Expenditure Statistical Analysis includes a range of information on public spending statistics including:
- **Departmental budgets** - the key central government departmental budgets that the Government uses to control spending. Departments have separate resource and capital Departmental Expenditure Limit (DEL) budgets
 - **By function** – public spending is shown against ten functions (e.g. education, health, defence) that are then further divided into more detailed sub-functions (education is split into categories such as primary and secondary).
 - **By economic category** – this shows spending against categories such as pay, procurement and grants. Statistics in most tables cover five years of outturn and any years that the Spending Review spans.
- 4.67 The Treasury also publish in-year statistical data on a similar basis. Public Spending Statistics provide a range of information about public spending, showing central government spending by department on a budgetary basis over 5 years, public sector spending by service over 5 years, and public sector spending by function and economic category over 21 years.

Office for National Statistics Civil Service statistics

- 4.68 The Office for National Statistics publish employment statistics for the Civil Service population, providing regional analyses, diversity and earnings data based on the Annual Civil Service Employment Survey. Civil Service statistics are used across government and feed into a number of wider publications and outputs. Some government departments use the total figures to facilitate policy making whereas others use specific components of the data collection.
- 4.69 Civil Service statistics on a headcount and full-time equivalent basis are used by Cabinet Office to monitor changes in Civil Service numbers and form the basis for briefing the Cabinet Secretary. The statistics are also used to monitor equality and diversity issues across the Civil Service. Civil Service Learning use Annual Civil Service Employment Survey data to gain a better understanding of the numbers and grades of each professional group in each government department and location and to monitor changes from year to year.

Departmental statistics

- 4.70 Government organisations publish a wide variety of specific financial and non-financial statistics, beyond the official statistics published by the Office for National Statistics, on a dedicated gov.uk landing page. These are produced in relation to 12 month outturn data as well as a large volume of weekly, monthly and quarterly and biannual reporting.
- 4.71 Statistics are produced impartially and free from political influence. The webpage uses filters on key words, topics, departments and dates so that to

enable users to find the publications that match their interests and requirements.

- 4.72 Statistical reporting is carried out by departments, arms-length bodies and independent bodies on specific policy areas, or across government where information is brought together in a single report. For example, the Department for International Development publish annual statistical publications that provide provisional and outturn data on the amount of Official Development Assistance the UK has provided as a proportion of Gross National Income.
- 4.73 An example of specific departmental reporting is the Ministry of Defence report, UK Defence in Numbers. This shows a breakdown of total UK defence spend and how it meets a NATO target and compares with other countries' defence spend. Information in the report is taken from the Ministry of Defence annual report and accounts, NATO publications and the Office for National Statistics Annual Mid-Year Population Estimates.

Other government reporting

- 4.74 A range of other financial reports are published that use outturn information. These usually focus on a specific policy area and often collate information from across government. The Infrastructure and Projects Authority produce a report on the projects that form part of the Government Major Projects Portfolio. This comprises the most complex and strategically significant projects and programmes across government, based on figures from their Business Cases. The report contains a range of information on these projects, including projected whole life cycle costs.
- 4.75 The Infrastructure and Projects Authority also report on PFI and PF2 projects across government. These Public Private Partnerships (PPPs) can involve a variety of strategic partnering arrangements with the private sector. Information reported includes the contract duration, capital value, key dates and forecast annual payments for each project. The underlying data used in the report can be found in Excel documents published on the gov.uk website alongside the report.
- 4.76 Government organisation answer a large volume of Freedom of Information (FOI) requests and Parliamentary Questions (PQs) throughout the year, and these regularly contain financial and related information. The government publishes responses to FOI requests on gov.uk and responses to PQs are published on Parliament's own website.

Ad hoc statements and announcements on spending

- 4.77 Throughout the year, ministers and departments make a variety of announcements through a variety of outlets and platforms, in publications, speeches, interviews, press releases, social media and statements to the House. Party manifestos and the Queen's speech may make further promises or commitments. Some of these announcements give financial commitments, with varying degrees of specific detail.
- 4.78 Tracking these commitments, and the degree to which they have been honoured and delivered, can be difficult. Sometimes the degree of

information provided in the first place- the precise amounts for each year, whether the money is additional or reallocated from existing funds, who will spend the money, and whether the funds are capital or current contribute to this difficulty. The money may be split up, relabelled, or underspent. The degree to which the spending is material to the department may influence whether it is visible in documents such as the annual reports and accounts.

Independent scrutiny

- 4.79 A high degree of independent scrutiny is provided across government financial reporting. Parliament's job is to look closely at the government's plans and performance and to monitor the way it is running things. Select committees and the House of Commons Scrutiny Unit both play a vital role in independent scrutiny.
- 4.80 Select committees examine policies, expenditure, administration and service delivery in defined areas, and one of their core tasks is "to examine the expenditure plans, outturn and performance of the department and its arms length bodies and the relationship between spending and the delivery of outcomes".¹
- 4.81 Other select committees such as PACAC or the Public Accounts Committee have a role that crosses departmental boundaries. The Public Accounts Committee examines annual reports and accounts, scrutinises value for money and generally holds the government and its public servants to account for their performance.
- 4.82 The House of Commons Scrutiny Unit provides a wide range of financial expertise, support and advice to departmental select committees. It undertakes systematic reviews of Main and Supplementary Estimates, departmental annual reports and account, Spending Review settlements, and Budget Statements as well as providing further briefing and support.
- 4.83 The Scrutiny Unit also aims to improve the quality of financial scrutiny through working with select committees in pressing Departments to improve the quality of the financial information they provide, preparing guidance notes, giving presentations and training to Members and their staff, and identifying examples of best practice.

The National Audit Office

- 4.84 The National Audit Office scrutinise public spending for Parliament. Their public audit perspective helps Parliament hold government to account and improve public services. They audit the financial statements of all central government departments, agencies and other public bodies, and report the results to Parliament.
- 4.85 The work of the National Audit Office includes value-for-money studies, local audit, investigations, support to Parliament and international activities. They also share cross-government insight through guides setting out good practice and the questions asked when assessing value for money.

¹ Liaison Committee, Second Report of Session 2012-13, '[Select committee effectiveness, resources and powers](#)', HC 697, p 11

- 4.86 The Comptroller and Auditor General leads the National Audit Office and is an officer of the House of Commons. They and the staff of the National Audit Office (about 800 people) are independent of government. They are not civil servants and do not report to a minister.
- 4.87 The Comptroller and Auditor General certifies the accounts of all government departments and many other public sector bodies. They have statutory authority to examine and report to Parliament on whether departments and the bodies they fund have used their resources efficiently, effectively and with economy.

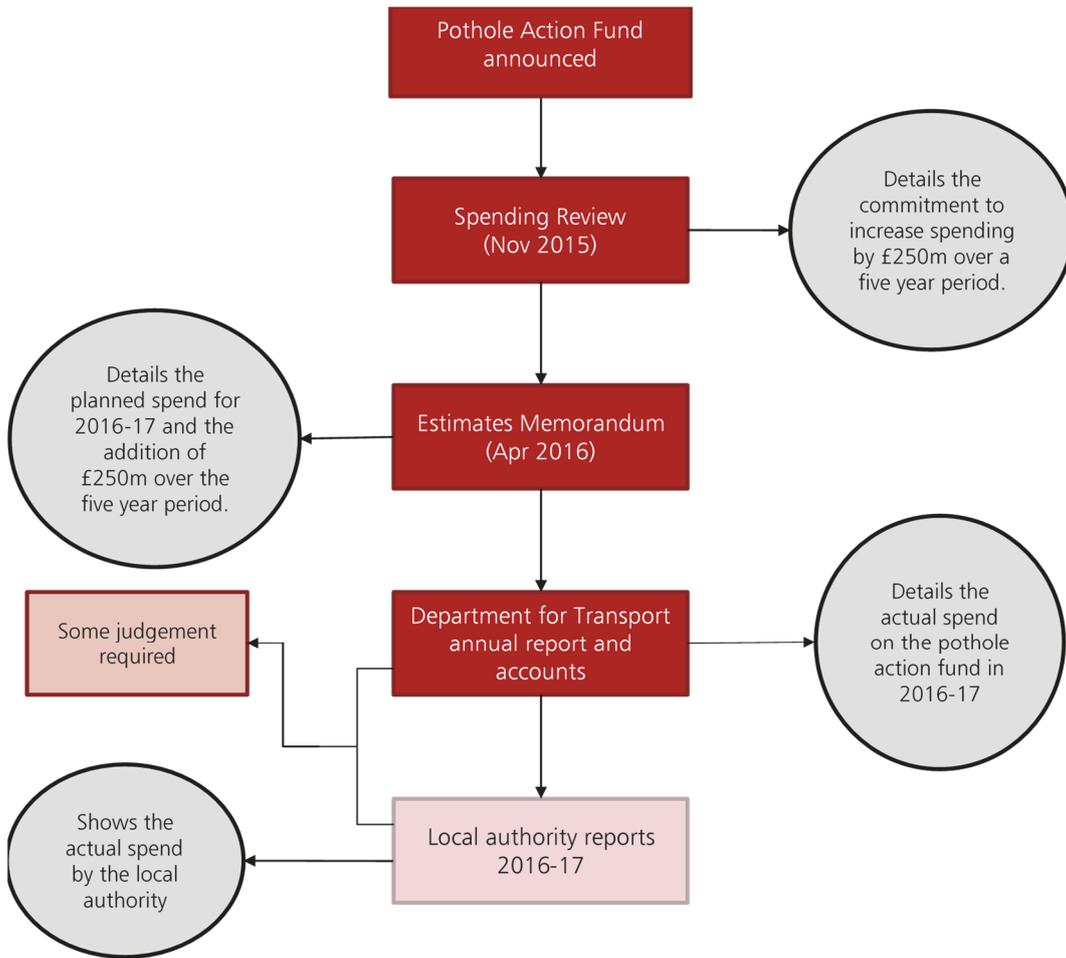
Tracking spend across the reporting landscape

Case study: tracking an announcement

- The 2015 Spending Review included a pledge to increase expenditure on potholes by £250m over 5 years. This Pothole Action Fund would be passed to local authorities over the period. Chart 4.B shows how the spend appeared in different financial reports.
- The planned expenditure for 2016-17 is included in the 2016-17 Main Estimates under Local Authority Transport, but it is part of a larger allocation and is not disclosed separately. However, the Department for Transport's 2016-17 Main Estimates Memorandum provides further detail on this announcement.
- The actual expenditure by Department for Transport on potholes in 2016-17 is included in their 2016-17 annual reports and accounts. Some judgement is required to identify the figure as, while the Pothole Action Fund is mentioned in the Accountability Report, the amount of the funding passed to local government in 2016-17 is not.
- The Department for Transport group operating expenditure totalled nearly £17bn in 2016-17 and the Pothole Action Fund forms a very small part of this. However, many local authority reports include further detail on the Pothole Action Fund and it can be seen in their annual reports and accounts and in specific reports on potholes and road maintenance.

- 4.88 This case study shows how spend relating to a specific announcement moves across various government financial reports from planning to implementation. It also shows the challenges involved in tracking that spend. Spend on individual programmes will often be grouped together when reported in Estimates and annual reports and accounts, and may be spent by a number of organisations across several years.
- 4.89 No government financial reports exist primarily for tracking expenditure against Ministerial, or other, announcements. However, making some allowances for the way that expenditure is grouped and controlled, it is possible to bring together references in a range of different reports to follow specific items through the financial cycle.

Chart 4.B: using the financial reporting landscape to track reporting



Next steps

- 4.90 The financial reporting landscape contains a number of different documents and sources of information. The differences between these documents is not always clear to users and the Treasury appreciates the hindrance this can cause to the usability of financial reporting.
- 4.91 The Treasury put together this overview of financial and related performance reporting across government to help users access the information they need. This map, and the supporting data table in [Annex B](#), will be published on gov.uk, and kept updated.
- 4.92 Providing a map of the financial reporting landscape, and showing how an activity appears in different reports from planning to expenditure, is a first step in helping users track information across government reports.
- 4.93 The Treasury will consider what more can be done to signpost the connections between documents such as Estimates, Estimates Memoranda, single departmental plans, and annual reports and accounts to enable users to track significant or formal commitments which have been made to spend public money.

Table 4.A: Chapter 4 actions and recommendations

Paragraph	Action
4.10	The Treasury will monitor the financial reporting landscape to make sure that it remains relevant and accurate and will continue to seek feedback on the landscape from a wide variety of stakeholders and users.
4.91	This map of the financial reporting landscape, and the supporting data table in Appendix 2, will be published on gov.uk, and kept updated.
4.93	The Treasury will consider what more can be done to signpost the connections between documents such as Estimates, Estimates Memoranda, single departmental plans, and annual reports and accounts to enable users to track significant or formal commitments which have been made to spend public money.

Chapter 5

Trustworthy reporting

- 5.1 Financial reporting loses value when it is not trusted. If the users of government financial reports have concerns about their trustworthiness, it becomes much harder for those users to make decisions based on the information in the reports. A lack of trust is also a problem for those preparing the report, as it presents a risk to the government's reputation and can make it hard to connect to stakeholders.
- 5.2 The government has drawn on best practice from the private and the public sectors and developed an accountability system that guards against financial and non-financial risks, as set out in Managing Public Money and The Orange Book: Management of risk – Principles and Concepts.
- 5.3 This chapter discusses the elements of risk management that relate to the risk of poor quality or misleading financial reports, and the work that goes into ensuring that government financial reporting is trustworthy. Some of this work, such as the internal and external audit, is referenced and summarised for users within government financial reports. More detailed elements are used by management of the entity and are less visible to external users.
- 5.4 By bringing together the various elements that build trust, this report aims to increase transparency. Explaining aspects of quality control that might be less obvious should help users have confidence in government financial reporting. The Treasury will also consider how further transparency and trust can be enhanced in future reporting cycles.

Building trust in annual reports and accounts

- 5.5 At the centre of the accountability system for annual reports and accounts is the role of the accounting officer. The responsibilities of the accounting officer, and the high standards expected of them, are set out in Chapter 3 of Managing Public Money. These include taking personal responsibility for ensuring that the annual reports and accounts, taken as a whole, are fair, balanced and understandable.
- 5.6 The accounting officer must sign and date the Performance Report and the Accountability Report, and must not approve the financial statements unless they are satisfied that the accounts give a true and fair view of the assets liabilities, financial position and net income or expenditure of that organisation.
- 5.7 These two phrases, 'true and fair' in respect of the financial statements and 'fair, balanced, and understandable' in respect of the whole of the annual

report and accounts, are important because they define the goals for financial reporting. They are different because they relate to different kinds of information. It makes sense to ask whether a set of numbers prepared according to strict criteria are true or false; with opinions and subjective description it is more useful to think about whether they are fair and balanced.

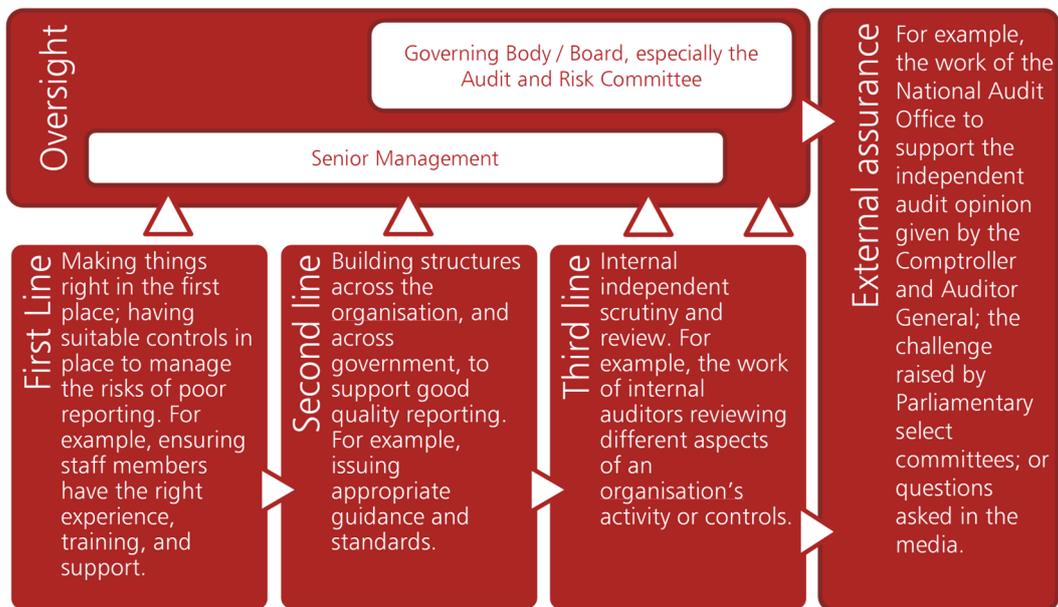
- 5.8 The Accountability Report groups together the disclosures which relate to trust in the annual reports and accounts, consisting of:
- the Corporate Governance Report, including the directors' report, the statement of accounting officer's responsibilities, and the governance statement,
 - the Remuneration and Staff Report, including disclosures on directors' remuneration, pension entitlements, and other compensation, and the staff report, including diversity information, and
 - the Parliamentary Accountability and Audit Report, including disclosures on regularity and parliamentary accountability, and the external auditor's report.
- 5.9 Between them, these reports give an overview of the elements of accountability over different parts of the annual report and accounts. The Corporate Governance Report helps users understand how the management of the organisation is structured to support good governance, and sets out the responsibilities of the key people within that structure. The Remuneration and Staff Report gives essential transparency on who those people are and how they are compensated for their contributions. The Audit Report, and the Parliamentary Accountability Report it sits within, then show how the organisation as a whole has fulfilled its responsibilities to Parliament, and provides the independent external auditor's report to give further assurance on those responsibilities.
- 5.10 The Financial Reporting Manual includes model statements of accounting officer responsibilities for a range of government organisations. While these statements include the essential statutory disclosures, they do not give any further context. As model statements, they are couched in general terms to be used by many different entities. This allows for consistency across government, but does not encourage entities to add narrative specific to the individual organisation. The Treasury will review its approach to guidance on these disclosures and to support departments to share more effectively how they build trust in reporting.
- 5.11 Part of this change will be to raise the profile of the Accounting Officer System Statements which the principal accounting officer of every central government department prepares separately from their annual report and accounts, following Treasury guidance. These statements set out the accountability relationships and processes within the department, giving Parliament an insight into the sources of assurance which give the accounting officer the confidence to sign off the annual report and accounts. They can help users see the unique structure and approach taken by each department to the problem of building trust.

- 5.12 Feedback from those who have accessed Accounting Officer System Statements suggests that they meet a real need and have been well received. However, feedback from other users of annual reports and accounts suggests that Accounting Officer System Statements have a relatively low profile and that many users have not been able to take assurance from them. Future Treasury guidance will support departments to bring suitable references and links to their Accounting Officer System Statements into their annual report and accounts, where they do not already do so.

Lines of defence

- 5.13 The challenge of making reporting relevant is unique to each organisation, with its own structures, environment, and risks. However, some aspects are universal. The three lines of defence model, set out in Chart 5.A, is a widely used way of describing stages of managing risk.

Chart 5.A: The three lines of defence



- 5.14 The three lines of defence model takes an internal perspective. It shows a range of ongoing, periodic, and ad-hoc monitoring and review mechanisms that give assurance to those in charge of an organisation. This includes governance forums, such as the Audit and Risk Committee, and the rest of senior management such as the board or governing body. For financial reporting, the key internal person taking assurance from the three lines of defence is the accounting officer.
- 5.15 External users of government financial reports have their own assurance needs. They need to be confident that they can trust the information and use it to support analysis and decision-making. From an external perspective, it is important that the three lines of defence are working effectively and that the accounting officer has robust grounds for confidence. External users can take assurance, via the accounting office and their Corporate Governance Report, from the requirements directing and supporting those operating

across the three internal lines of defence. They can also take direct comfort from external assurance, such as the important work of the National Audit Office.

- 5.16 There are many ways to guard against the risk of sharing or relying on bad information. However, any assurance activity has an associated cost, both in resources and in time.
- 5.17 Targeting assurance activity is part of managing a department effectively, and helps keep government financial reporting timely, efficient, and useful.

Assurance in central government annual reports and accounts

The first line of defence

- 5.18 Assurance over financial and performance reporting at the first line of defence is ensuring that the foundation of day-to-day reporting activity is sound. What that means can vary from one organisation to the next, as departments collect the information they will share in their financial reports and develop the narrative that ties that information together into a single story.
- 5.19 Sources of assurance at this level include:
 - The responsibility of managers for defining what needs to be done and making sure it happens at every level of the organisation,
 - The framework of policies, procedure, and guidance, including the principles of financial reporting set out in the International Financial Reporting Standards and interpreted by the Financial Reporting Manual for use across the public sector,
 - The controls in place to ensure the right kind of oversight and supervision at each level, and to ensure compliance with policies, procedure, and guidance,
 - The role of finance business partners, financial professionals who are embedded across government to share their expertise. They can highlight limitations and raise concerns about non-compliance as appropriate,
 - The quality of recruitment into finance roles across the civil service,
 - The training, continuing professional development, and other support provided to those finance professionals, and
 - The expertise, skill-sharing, and support network of the Finance Function across government.

The second line of defence

- 5.20 The second line of defence consists of functions that oversee and support the basic good practice in place that forms the first line. Managers who form part of the first line of defence rely on these functions to make their work possible, and to help them achieve efficient and effective results. Activity at the second line of defence can provide insights on how well work is being

carried out in line with standards, expectations, policy and/or regulatory considerations.

5.21 Sources of assurance at this level include:

- the work of teams in the Cabinet Office and the Treasury to support those preparing financial reports throughout the year
- technical guidance developed and shared in the Financial Reporting Manual, and in other official and informal communications
- the work of the Financial Reporting Advisory Board, an independent body which brings together reporting experts and representatives from departments to challenge and enhance the technical work carried out by the Treasury
- cross-government resources and initiatives such as the Technical Accounting Centre of Excellence which supports departments with high quality advice on financial reporting
- networks such as the Resource Accounts Special Interest Group which bring together accounting experts from across the public sector to share best practice and support developing guidance

The third line of defence

5.22 The third line of defence includes the independent review provided by internal audit, which operates to public sector standards. Internal auditors may work differently in different departments, but they share the responsibility to bring a systematic, disciplined approach to assess and improve risk management, control, and governance processes.

5.23 Internal auditors assess whether controls are well-designed and working effectively, whether information produced and shared across the organisation is reliable and useful, and whether regulations, policies, and procedures have been followed. Their work allows the accounting officer and senior management to take assurance over the way that risks are managed, including the effectiveness of the first and second lines of defence.

5.24 As the work of internal audit is risk based, the amount of it that focuses directly on financial reporting will depend on the significance of the associated risks in each organisation. Internal audit and external audit work together to avoid unnecessary duplication of efforts, while assuring that all significant risks are addressed appropriately for the maximum benefit of the organisation and in line with international and public sector standards.

Oversight

5.25 The accounting officer, or the principal accounting officer if there are several, is the individual responsible for making sure that an organisation produces balanced and understandable financial reports. Senior management across the organisation shares a responsibility for supporting the accounting officer and the rest of the board or governing body as they fulfil that responsibility.

- 5.26 As set out in the Corporate Governance in central government departments: code of good practice guidance, the board and accounting officers of all departments, executive agencies, non-departmental public bodies and other arm's length bodies, should be supported by an Audit and Risk Committee. Each of the three lines of defence inform and support senior management, but internal audit has a separate, independent route to raise concerns with the board via that Committee.
- 5.27 The Audit and Risk Committee has an essential role in providing board-level internal independent scrutiny and review. It must be chaired by an experienced non-executive board member, and will review governance, risk management, the control environment, and the integrity of the financial statements. The Treasury sets out the principles and expected activity for these committees in the Audit and risk committee handbook.
- 5.28 These internal oversight bodies and individuals take assurance from the three lines of defence. In turn, external users can take assurance from their willingness to confirm that, for example, the annual report and accounts are as a whole, fair, balanced, and understandable. Parliamentary select committees can hold accounting officers to account, and the knowledge that they might be called upon to defend their confidence at, for example, a Public Accounts Committee hearing creates a strong incentive for diligence.

External assurance

- 5.29 External review and scrutiny for departmental annual reports and accounts comes chiefly from the National Audit Office, whose Comptroller and Auditor General is responsible for providing independent external audits. Other external users also scrutinise departmental annual reports and accounts and provide further challenge.
- 5.30 External sources of assurance include:
- the external auditor's opinion on:
 - whether the financial statements are "true and fair", and whether they have been properly prepared
 - whether the Statement of Parliamentary Supply properly presents the outturn against voted Parliamentary controls totals for the year, and shows that those totals have not been exceeded,
 - the regularity of income and expenditure (i.e. has money been spent in accordance with the intentions of Parliament)
 - whether specified parts of the Accountability Report have been properly prepared
 - whether, based on information gathered during the course of the audit, any misstatements have been identified in the rest of the Accountability Report or in the Performance Report
 - whether the information for the financial year given in the Performance Report and Accountability Report is consistent with the information in the financial statements

- the scrutiny provided by Parliament in the form of select committee hearings, and in particular Public Accounts Committee hearings
- scrutiny from other external bodies and individuals, whether think tanks, academics, journalists, interest groups, or members of the public

5.31 The responsibility of the accounting officer to ensure that the annual report and accounts as a whole are fair, balanced, and understandable holds the entirety of the document to that standard. The work of the external auditor applies differently to different sections.

Table 5.A: assurance over elements of the annual report and accounts

	Kind of assurance	Opinion	Responsibility
Performance Report	Internal assurance, drawing on all three lines of defence.	Is the report (as part of the whole annual report and accounts) fair, balanced, and understandable?	The accounting officer
	External assurance, from consistency checks carried out during the audit of the financial statements.	Is the performance report consistent with the financial statements? Have any misstatements been identified during the external audit of the financial statements?	The external auditor
Accountability Report	Internal assurance, drawing on all three lines of defence.	Is the report (as part of the whole annual report and accounts) fair, balanced, and understandable?	The accounting officer
	External assurance.	Are the specified disclosures true and fair? Does the Statement of Parliamentary Supply present outcomes against voted controls totals, and show that they have not been exceeded?	The external auditor
	External assurance, from consistency checks carried out during the audit of the financial statements.	Is the performance report consistent with the financial statements? Have any misstatements been identified during the external audit of the financial statements?	The external auditor
Financial Statements	Internal assurance, drawing on all three lines of defence.	Is the report (as part of the whole annual report and accounts) fair, balanced, and understandable?	The accounting officer
	External assurance.	Are the financial statements properly prepared? Are they true and fair?	The external auditor

5.32 The responsibilities of the external auditor, including details on which elements of the annual report and accounts have been audited, are set out in every audit report. Table 5.A shows the assurance opinion(s) in place over the sections of the annual report and accounts. The specified disclosures from the Accountability Report that are subject to audit are:

- for departments financed through the Westminster or Northern Ireland Assembly Estimates process, the Statement of Parliamentary Supply and supporting notes, including any notes reported in an annex to the financial statements
- the regularity of expenditure

- disclosures on parliamentary accountability
- the single total figure of remuneration for each minister and director
- pension cash equivalent transfer value (CETV) disclosures for each minister and director
- payments to past directors, if relevant
- payments for loss of office, if relevant
- fair pay disclosures
- exit packages (if relevant)
- analysis of staff numbers and costs

5.33 The Financial Reporting Manual instructs departments to indicate clearly that this information has been audited.

Next steps for assurance

5.34 Transparency builds trust. As discussed, the Treasury will update the requirements to support better disclosures of accounting officer responsibilities, and to raise the profile of Accounting Officer System Statements so that more users can benefit from the insights they share.

5.35 Another aspect of transparency is risk disclosure. The Financial Reporting Manual states that part of the purpose of the Performance Report is to provide information on the principal risks an entity faces. However, there is little guidance provided to departments on how to report risks. The Financial Reporting Council (FRC) has studied best practice on [risk reporting in the private sector](#), and the Treasury will draw on this work to update guidance and improve risk reporting in the public sector. This means introducing new requirements to improve the level of risk reporting, including:

- identification of risks
- management of risks
- how those risks have changed through the period
- the impact of those changes and management's response

5.36 These expanded risk disclosures should provide users with a deeper level of understanding of the entity, and with more assurance over the quality of reporting and management of the entity. They will also help to make annual reports and accounts more balanced.

5.37 There are good historical reasons why annual reports and accounts include both audited and unaudited information. However, this mixture of different kinds of assurance can create confusion. Users sometimes think that the audit of the financial statements covers the whole document. When they see that only some elements are marked as audited, this can give the impression that information not subject to an external audit is published without any scrutiny. There is no simple answer. The Treasury will continue to challenge departments to be clear about what element of their reports is audited, and to work on enhancing clarity through risk disclosure, better statements of

accounting officer responsibilities, and raising the profile of Accounting Officer System Statements.

Table 5.B: Chapter 5 actions and recommendations

Paragraph	Action
5.4	The Treasury will consider how further transparency and trust can be enhanced in future reporting cycles
5.10	The Treasury will review its approach to guidance on accounting officer statements of responsibility and support departments to share more effectively with users how they make reports trustworthy.
5.12	Future Treasury guidance will support departments to bring suitable references and links to their Accounting Officer System Statements into their annual report and accounts, where they do not already do so.
5.34	The Treasury will update the requirements to support better disclosures of accounting officer responsibilities, and to raise the profile of Accounting Officer System Statements.
5.35	The Treasury will introduce new requirements for risk disclosure including the identification and managements of risks, and how those risks have changed during the period, the impact of those changes, and management's response.
5.37	The Treasury will continue to challenge departments to be clear about what elements of their reports are audited.

Chapter 6

Evaluating progress since 'Simplifying and streamlining'

'Simplifying and streamlining' focused on improving annual reports and accounts by enhancing their structure and refining the information they contain. Departments have been reporting against the revised framework since the 2015-16 financial year.

- 6.1 This chapter revisits the high-level recommendations made in 'Simplifying and streamlining' and assesses government's progress since publication, comparing departmental annual reports and accounts produced before 'Simplifying and streamlining' to the latest versions.
- 6.2 This analysis shows improvements in financial reporting since 'Simplifying and streamlining', but also shows that the impact varies across the different departments. There are some recommendations made in 'Simplifying and streamlining' that have not become business as usual, while others have.

Overall structure of annual reports and accounts

- 6.3 A key finding from 'Simplifying and streamlining' was that user needs were not being sufficiently met by the previous reporting arrangements. Users found it hard to link the performance narrative to the figures in the accounts. The recommendations developed in the report included restructuring the traditional 'front-half' annual report and 'back-half' financial statements into the 3 more integrated reporting requirements used in modern reports.
- 6.4 All departments now organise their annual reports and accounts according to this revised structure, and as a result they are more understandable. A good example of this is the Home Office 2017-18 annual report and accounts shown in Figure 1, which clearly sets out the three separate sections in a logical and straightforward way, as well as showing the main components.

Figure 1: Annual report and accounts structure, [Home Office 2017-18 annual reports and accounts](#), p.5

		
		CONTENTS
Contents		
1	THE PERFORMANCE REPORT	
	Overview	
	Home Secretary – Introduction	6
	Permanent Secretary – Foreword	7
	Purpose and activities of the Home Office	9
	Performance Analysis	
	Performance overview	13
	Sustainability Report	28
	Better Regulation	35
2	THE ACCOUNTABILITY REPORT	
	Corporate Governance Report	
	Directors' Report	37
	Statement of Accounting Officer's Responsibilities	44
	Governance Statement	45
	Remuneration and Staff Report	
	Staffing	65
	Remuneration Policy	79
	Remuneration and Pension entitlements	81
	Parliamentary accountability and audit report	
	Statement of Parliamentary Supply	90
	Notes to the Departmental Resource Accounts (Statement of Parliamentary Supply)	91
	Losses and Special Payments	96
	Fees and charges	98
	Remote contingent liabilities	100
	Certificate and Report of the Comptroller and Auditor General	103
3	THE FINANCIAL STATEMENTS	
	Consolidated Statement of Comprehensive Net Expenditure	107
	Consolidated Statement of Financial Position	108
	Consolidated Statement of Cash Flows	109
	Consolidated Statement of Changes in Taxpayers' Equity	110
	Notes to the Departmental accounts	113
	Glossary	151

Telling the story

- 6.5 The “telling the story” reporting requirement was proposed to meet user criticisms that annual reports and accounts lacked an overall narrative and were difficult to understand. User feedback has strongly supported the benefits of this approach. For example, in the ‘Accounting for democracy’ reports PACAC recommend that this approach should not be lost as other ongoing improvements are made. This change also made reports less confusing by grouping together the essential governance reporting in the separate accountability report.
- 6.6 The purpose of the performance report is to give the user a 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. It should complement, supplement and provide context for the financial statements, with the intention that the information in the overall annual report and account is integrated to provide a cohesive document.
- 6.7 The performance section must include a clear statement of the purpose and activities of the organisation. All departments currently include this statement, usually in a concise and clear manner at the start of the performance report. A visualisation can help share this information effectively.
- 6.8 A good example is the Department for Work and Pensions (DWP) 2017-18 annual report and accounts, shown in Figure 2. Near the start of the performance report there are brief statements on their overall purpose and vision, as well as the department’s 5 strategic objectives. The use of icons and a range of colours increases usability and makes the section more visually appealing.

Figure 2: Performance overview, [Department for Work and Pensions 2017-18 annual reports and accounts, p.14](#)

12 | Performance report

About the Department for Work and Pensions

Performance overview

Who we are

We are the UK's largest public service department. We develop policy and deliver essential services on work, welfare, pensions and child maintenance.

Our vision

An affordable and sustainable welfare system that provides financial security and supports economic growth and improved productivity through the extension of opportunity and promotion of personal responsibility to help people transform their lives.

What we are aiming to achieve

Our ministers set out 5 overarching strategic objectives for the department in 2017-18.

Icon	Overarching strategic objective
	Support economic growth and improved productivity by ensuring work always pays and people are supported to find and progress in work
	Help reduce the disadvantages faced by disabled people and people with health conditions through the welfare system and labour market
	Increase saving for, and security in, later life
	Maximise the number of children benefiting from an effective child maintenance arrangement, encouraging family based arrangements where appropriate, and reduce parental conflict in families
	Transform the way we deliver our services to improve quality and reduce costs

Department for Work and Pensions Annual Report and Accounts 2017-18

- 6.9 Another recommendation for the performance report was to include financial information with cross reference to the audited accounts. This was seen as a key way of integrating information throughout the report and providing assurance over the performance report.
- 6.10 The review of accounts showed that all departments are including some financial information within the performance report of their annual reports and accounts. However, the extent of reporting varies and in some cases, there is no cross reference to the financial statements. Departments should include enough graphics to inform the reader, but not so many as to confuse, and should look to present financial information in a clear and accessible way, using diagrams and graphs where appropriate.
- 6.11 The extracts from the Ministry of Justice 2017-18 annual report and accounts shown in Figures 3, 4, and 5 are a good example of this recommendation being met. A range of financial information is presented in a variety of ways, using graphs and charts. There is also a clear reference to the financial statements.

Figures 3, 4, and 5: high level financial information, Ministry of Justice annual report and accounts 2017-18, pp.13-14

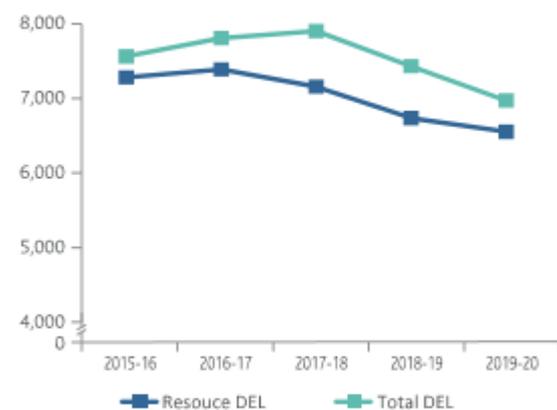
Table 1: Performance against Parliamentary control totals

	Supplementary Estimate provision £m	Outturn £m	Variance £m
Resource DEL	7,753	7,627	126
Of which administration	491	450	41
Capital	425	414	11
Resource AME	482	45	437*
Net Cash	7,870	7,586	284

*AME spending is inherently volatile and dependent upon a number of factors outside the control of the Department resulting in the variance between outturn and estimate.

We know that going forward the Department faces a challenge to set a financial strategy that allows us to maintain a continued tight grip on our finances. This is demonstrated by the Department's Resource and Capital budgets over the spending review period to 2019-20, shown in Table 2.

Table 2: Spending Review Funding to 2019-20 (£m)

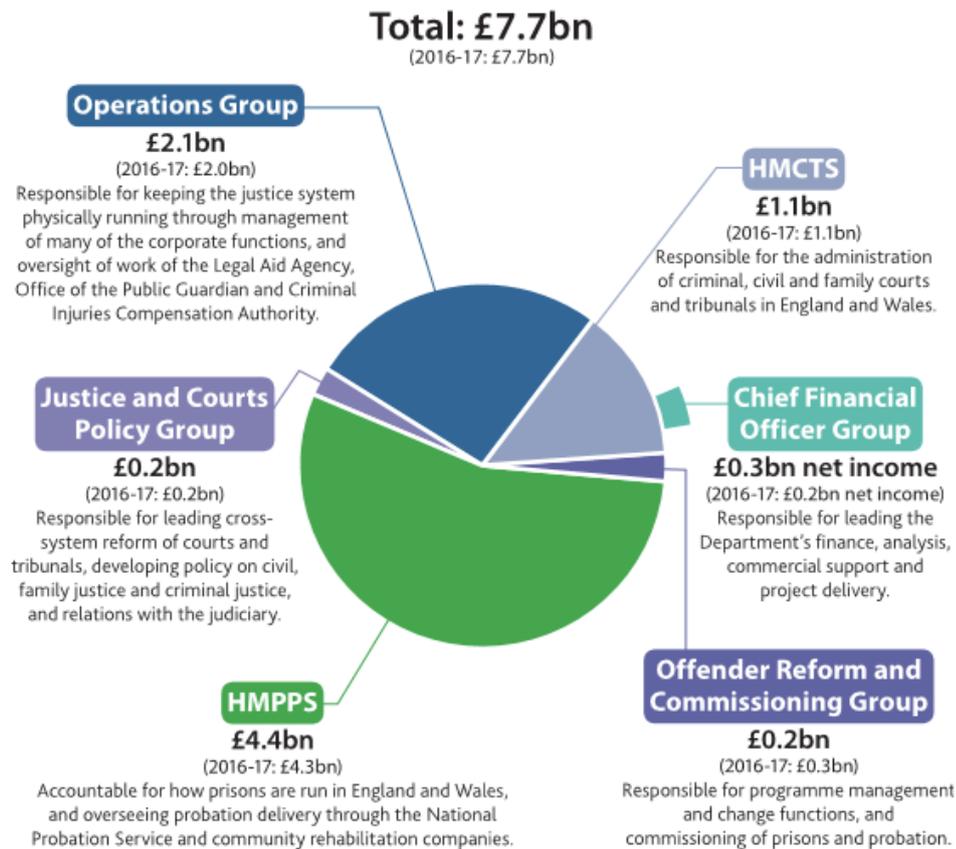


This shows the overall downward funding trend within which the Department has had to manage its service delivery. The Department is looking to actively manage the funding reductions over the final two years of the spending review period. This is against a backdrop of increasing demand, and continuing challenges such as prison safety.

Departmental spend overview

Table 3 shows the significant areas of spend within the Department's six business groups, with a comparison to 2016-17. This section provides commentary to support the Financial Statements and our performance during the past year. The Financial Statements are set out from pages 96 to 100. Note 2 on the Financial Statements on pages 113 to 114 details the net expenditure for the Department by operating segment, and notes 3-12 set out expenditure and income in detail.

Table 3: Departmental Net Expenditure



Figures are taken from Note 2. Statement of Operating Expenditure by Operating Segment on pages 113 to 114. The total net expenditure figure reflects the net expenditure reported in the Consolidated Statement of Comprehensive Net Expenditure on page 96. The difference between the Resource expenditure reporting in Table 1 and the net expenditure reported in Table 3 is explained in the SoPS 2 Reconciliation of outturn to net operating expenditure on page 84.

6.12 Departments should include trend data when they share information in their performance reports. Progress against this recommendation is mixed, with some departments reporting a range of trend information while others do not include any. A good example of this recommendation being met is in the Home Office's 2017-18 annual report and accounts in Figure 6.

Figure 6: trend data, Home Office annual report and accounts 2017-18, p.30

1 PERFORMANCE REPORT		2 ACCOUNTABILITY REPORT		3 FINANCIAL STATEMENTS		
HOME OFFICE Annual Report and Accounts 2017-18						
Greenhouse gases 						
	Greenhouse Gas Emissions	2009-10	2014-15	2015-16	2016-17	2017-18
Non-Financial Indicators (tonnes CO2e)	Scope 1 (Direct) GHG emissions	22,088	15,057	16,573	15,225	14,309
	Scope 2 (Energy indirect) GHG emissions	49,533	38,198	33,043	28,385	24,694
	Scope 3 (Official business travel) GHG emissions	9,811	5,852	5,253	8,439	8,518
	Total GHG Emissions - Scope 1, 2 & 3	81,432	59,107	54,869	52,049	47,521
Related Energy Consumption (MWh)	Electricity: Non-Renewable	49,214	28,026	26,299	24,431	22,098
	Electricity: Renewable	51,094	49,258	45,000	44,457	45,169
	Gas	71,394	51,721	51,807	51,460	49,013
	Gas Oil	11,940	2,114	4,742	1,754	1,215
	LPG	1,482	521	171	4,887	4,409
	Burning oil	4,047	26	49	5,762*	5,450
	Total Energy Consumption	189,172	131,665	128,067	132,752	127,353
Financial Indicators (£'000)	Expenditure on Energy	10,190	8,134	8,126	13,726	11,982
	CRC Licence Expenditure	2.2	1.3	1.3	1.3	1.3
	Expenditure on accredited offsets (e.g. Government Carbon Offsetting Fund)	57	7	0**	0**	0**
	Expenditure on official business travel	13,277	15,692	12,921	16,111	26,568
	Expenditure on domestic air travel	1,329	1,363	760	1,215	5,275
	Total Expenditure on energy and business travel***	23,467	23,826	21,047	29,837	43,825
* Refers to fuel used at two Immigration Removal Centres						
**No expenditure made						
***IRC financial data not included in previous years.						
<p>The Home Office has achieved a 42% reduction in carbon emissions from buildings and business-related travel through its Smarter Working programme, building consolidations and investment in energy efficiency measures.</p> <p>Central Government achieved its 2016-20 carbon reduction targets during 2017-18, and as such will set new more challenging ones for 2018-20.</p>						
<p>The Home Office has achieved a 42% reduction in carbon emissions from buildings and business-related travel</p>						

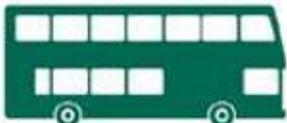
6.13 This table shows 5 years of trend data on greenhouse gases with a variety of financial and non-financial management information. There is also a good narrative alongside this table in the performance report.

- 6.14 'Simplifying and streamlining' also recommended that departments include a commentary against trends and performance against policy. This narrative is important in giving context to the information presented and explaining how a department has performed. This recommendation is generally being met, and there are a variety of ways that the information is presented.
- 6.15 During the zero-based review of the Financial Reporting Manual, the Treasury will encourage departments to include multiple years' worth of comparative data as standard when figures are shared in the Performance or Accountability Reports, with narrative to explain the changes, which could be presented in a table or visually as a graph.
- 6.16 The Department for Transport 2017-18 annual reports and accounts include good examples of sharing performance highlights in an engaging way (Figures 7 and 8). The use of pictures, bolded text and alternating colours enables a large volume of information to be presented clearly and accessibly.

Figures 7 and 8: performance highlights, [Department for Transport annual report and accounts 2017-18](#), pp.19-20

Our performance at-a-glance

We're working to improve journeys by making transport services better, faster and more reliable today and in the future. During 2017-18 we have:

<p>Worked with Highways England to complete a public consultation on the proposed priorities for the next Road Investment Strategy, RIS2 – receiving 3,150 responses, which will inform the decision-making process during 2018 to 2019.</p> 	 <p>Introduced new protections to strengthen the penalty fares appeals process for rail passengers.</p>	<p>Published a call for evidence and next steps document on the new Aviation Strategy – outlining our proposals to build on the aviation industry's work to improve the flying experience for passengers at every stage of their journey.</p> 
<p>Changed legislation to protect free off-peak bus travel for 10 million older and disabled people.</p> 	 <p>Published a new rail strategy setting out our vision to deliver a more reliable, more competitive, growing railway which offers a better deal for passengers.</p>	<p>Completed a consultation on our draft Accessibility Action Plan, which set out our proposals to improve the travel experience for people with disabilities across modes: rail, aviation, buses and taxis.</p> 
<p>Continued to roll-out the Delay Repay 15 (DR15) scheme across DfT franchised train operators – paying passengers compensation for delays starting from 15 minutes.</p>  <p>£73.6 million was paid in compensation in 2016-17.</p>	 <p>Introduced new legislation to give holidaymakers booking package holidays online more protection under the ATOL scheme.</p>	<p>Agreed contracts with 11 train operators to deliver an £80 million smart-ticketing programme across almost all of the rail network by the end of 2018.</p> 

Our performance at-a-glance

We're building a **One Nation Britain** by ensuring that every part benefits from a growing economy and that everyone who works hard gets the opportunities they need to succeed. During 2017-18 we have:



- 6.17 Another best practice example of performance reporting can be seen in the extracts from HMRC's 2017-18 annual reports and accounts included as Figures 9 and 10. These tables, showing performance against a range of departmental commitments, provide users with a simple red/amber/green indicator to show where there are risks to delivery. To expand this transparency, HMRC give explanations for each amber or red score. By taking a balanced approach, the reporting here gives users real insight into HMRC's performance.

Progress against our commitments

We are committed to delivering further improvements to how we maximise revenues, improve customer service, make sustainable cost efficiencies and include and involve our people. Our main external commitments are covered in our 2017-18 Single Departmental Plan, covering key areas such as generating payments and tackling fraud and error. Where there is a risk to delivery or a commitment is not on track, we provide an explanation below.

Figure 13: Single Departmental Plan commitments

Maximise revenues due and bear down on avoidance and evasion	
We will build on our success in collecting £574.9 billion in total revenues over 2016-17 and the overall downward trend in the tax gap over the past decade.	
We will deliver compliance revenues of £28 billion in 2017-18 through our compliance and enforcement activity.	
We will continue to identify and prevent losses in the tax credits system so that error and fraud is no more than 5% as we support the transition to Universal Credit. The early termination of the Concentrix contract, which provided additional capacity and, to a lesser extent, the strengthened self-employment test (C&P) means we forecast not to achieve the 5% error and fraud target in 2017-18. We continue to pursue opportunities to address error and fraud and we have embedded changes to our compliance processes and implemented education and reminder campaigns to guide customers to claim correctly.	
We will invest £800 million into additional work to tackle evasion and non-compliance in the tax system, with a further £155 million of investment announced at Autumn Budget 2017 for future years up to 2019-20.	
We will raise an additional £5 billion a year by 2019-20 by tackling tax avoidance and aggressive tax planning, evasion and compliance, and by addressing imbalances in the tax system. This includes the following commitments:	
– extending our model for the wealthiest individuals to a further 2,000 individuals with net wealth between £10 million and £20 million	
– strengthening our work around identifying those who seek to operate in the hidden economy	
– increasing our ability to prevent alcohol and tobacco smuggling.	
We will strengthen the sanctions and deterrents against tax avoidance.	
We will continue to tackle tax avoidance, closing schemes and collecting yield of more than £1.3 billion in 2017-18 through Accelerated Payments (AP) and collect yield of £1.1 billion in tax settlements. Issuing of AP notices was affected by a Court of Appeal decision received at the end of 2017 and many judicial review claims could not be progressed while the effects of the judgment were considered. This delayed the issue and payment of AP Notices bringing in £0.8 billion against a target of £1.3 billion. Settlement yield for marketed avoidance cases was on target of £1.1 billion.	

Key:

- Commitment on track or complete
- Risk to delivery or slightly off track
- Commitment not on track

Continued

Our performance	
We will increase the number of criminal investigations that we undertake into serious and complex tax crime, focusing particularly on wealthy individuals and corporates, with the aim of increasing prosecutions in this area to 100 a year by the end of the Parliament.	● ○ ○
We will support the government in making it a crime when companies fail to put in place measures to stop tax evasion in their organisation, making sure that penalties are large enough to punish and deter such behaviour.	● ○ ○
We will ensure global companies pay their fair share in tax by supporting the government's leading role in the reform of international tax rules.	● ○ ○
We will review the country by country tax reporting rules and consider the case for making this information publicly available on a multilateral basis.	● ○ ○
We will further strengthen our ability to police the National Minimum Wage, with new teams to undertake proactive reviews of those employers considered most at risk of non-compliance.	● ○ ○
We will ensure developing countries have full access to global automatic tax information exchange systems and continue to build the capacity of tax authorities in developing countries.	● ○ ○
Transform tax and payments for our customers	
We will invest £1.3 billion to transform HMRC into one of the most digitally advanced administrations in the world, finishing the delivery of our multi-channel digital services so we become a 'digital-by-default' organisation. We have prioritised our transformation portfolio to support additional projects generated by EU exit. In order to release project capacity, we have actively managed our transformation portfolio. In our assessment, the new portfolio is ambitious but deliverable. We will keep our priorities and capacity under review.	○ ● ○
We will accelerate channel shift, and continue to encourage customers to use digital services.	● ○ ○
We will continue to roll out and develop digital tax accounts, enabling customers and their authorised agents to see all their tax affairs in one place, and be able to check at any time that their details are complete and correct.	● ○ ○
We will work with HM Treasury and the Department for Work and Pensions (DWP) on the transition to Universal Credit, making this as smooth as possible for staff and claimants, in line with the migration plan led by DWP.	● ○ ○
We will support the government's pensions and savings reforms by continuing to design and deliver the new Lifetime ISA and support the delivery of the new 'Help to Save' initiative.	● ○ ○
We will gradually roll-out Tax-Free Childcare support to eligible households to help with the cost of childcare, enabling more parents to go out to work or work more, to provide greater security for their families.	● ○ ○
We will continue to monitor Annually Managed Expenditure risks and work with HMT officials to develop operational and policy ideas to minimise fraud, error and debt.	● ○ ○
Continued	

6.18 HMRC have fully integrated their major commitments into their financial reporting cycle, tracking performance through their single departmental plan and reporting against that progress in their annual report and accounts. The commitments are set out clearly, grouped under headings that reflect departmental goals, and described in just enough detail to allow a user to understand why they are important.

- 6.19 The final recommendation for the performance report was to include expected future policy changes. The focus of annual report and accounts should be the previous year's performance, but most departments do include some forward-looking information, though the quantity and quality of narrative varies.
- 6.20 Future plans are discussed throughout the Ministry of Defence annual report and accounts, particularly in the performance report. The Financial Performance Summary integrates financial and performance information and includes a section on next steps (Figure 11).

Figure 11: future plans, Ministry of Defence annual report and accounts 2017-18, pp18-19

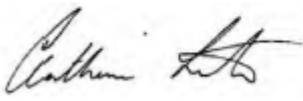
Next Steps

The Secretary of State has established the Modernising Defence Programme and we are introducing Functional Leadership across the Department, with finance being one of the first areas to adopt this approach. This is consistent with developments in other Government Departments. Functional leadership will ensure a consistent operating model is in place along with simplified and standardised processes, coherent and consistent policies to enable collaborative working both across functions and Government Departments, building the capability of the finance staff and talent management. We are also putting in place a financial management improvement plan which will include for example a review of the approvals process to ensure it is proportionate and risk based; improve the accuracy of forecasting including the identification and management of financial risk; implement a revised operating model for the management of raw material and consumables.

We continue to improve and enhance financial management and recognise that we are on a journey of continuous improvement. Key priorities for the next twelve months are to establish the operating model and identify transactional activities that can be transferred to the in-house shared service centre; produce a systems strategy and pilot robotics; produce a skills and talent management strategy and undertake a skills audit of the finance function.

The Department continues to work on the Modernising Defence Programme, which aims to strengthen our world-leading Armed Forces against the harder threats that we and our allies now face, and to put UK Defence on an enduring and affordable footing, so that our contribution to national security and prosperity is sustainable over the long term.

We have committed to publish the Equipment Plan Summary 2018 in the autumn, to better align with the reported financial period. It will include an assessment of the affordability of the Plan, based on a clear account of the forecast costs, the budget allocated (including all contingency), and risks to affordability.



Accountability

- 6.21 A key principle of 'Simplifying and streamlining' was the emphasis on reporting being tailored to the individual entity with less focus on generic reporting requirements. However, there are still some key reporting requirements that the Treasury require departments to meet. These are mostly related to key accountability and governance disclosures, and a minimum required level of sustainability reporting, where statutory requirements or centrally determined practices and codes are in place.
- 6.22 The accountability reporting requirement was proposed because the primary user of the annual reports and accounts is Parliament, and there are a number of key accountability requirements resulting from this that must be met and be seen to be met. A key requirement was for the inclusion of a distinct accountability section in the annual report and accounts containing the Governance Statement including strategic risks, the remuneration report and information on Parliamentary accountability.
- 6.23 All departments include a Governance Statement in their annual reports and accounts, though in some cases some elements, such as complaints to the Parliamentary Ombudsmen, feature elsewhere in the report. Departments should consider where information is best placed in order to tell their story. Where accountability disclosures appear in another section of the report, this should be cross referred to in the accountability report.
- 6.24 There are several ways that strategic risks are reported. Many departments refer to risk throughout their annual reports and accounts, while others have a separate section in the performance report. All departments outline their arrangements for monitoring and managing risks in their Governance Statement. A good example of strategic risk reporting, from the Department for International Development annual report and accounts 2017-18, can be seen in Figure 12.
- 6.25 Thorough risk disclosures are a good way of ensuring that reports are balanced. As discussed in chapter 5, the Treasury plans to enhance mandatory risk reporting.

Figure 12: strategic risk disclosures, [Department for International Development annual report and accounts 2017-18, p.70](#)

Risks to our performance: what they are and how we deal with them

In DFID we strive for the highest standards of integrity and accountability in all our work. We deliver aid and development in diverse, fragile and conflict-affected environments. We must manage risk effectively to maximise value for money and development impact, whilst protecting our staff, assets, vulnerable people and the environment.

To achieve a consistent, high quality approach to risk management across the organisation, we have developed a risk policy and risk management framework. Tools, guidance and a range of training offers are available. To increase the level of confidence we have in our implementing partners, we continue to enhance our due diligence process, raise standards on safeguarding and fraud risk assurance and have introduced mandatory delivery chain risk mapping to improve visibility and management of risk throughout delivery chains.

Robust fraud risk management is important across all DFID's work, as we recognise the delivery and reputational damage that fraud and aid diversion cause. We have strengthened fraud risk management through guidance, access to case learning materials, and links to specialist support on fraud. Case studies are used to improve fraud awareness and help with its detection, control and management. Professional development courses help build staff skills and confidence in risk management. This year we introduced risk standards into the Programme Delivery Capability Framework (PDCF) to ensure our training reaches all who require it.

We have continued to enhance the way that we use management information and data through improving our programme management system. This now provides the platform for teams to create and load risk registers onto the system allowing them analyse data on the spread and level of risk in the programmes, and assist in oversight and better understanding of programme and portfolio risks and their mitigation.

The Departmental Board and Management Board identify and manage risks to the delivery of DFID's overall objectives through the Strategic Risk Register. Risks reflect the objectives of the Single Departmental Plan and are assessed against DFID's risk appetite.

We closely monitored a number of strategic risks in 2017-18. We took mitigating measures as the risks changed. Examples include the rising conflict and humanitarian needs, safeguarding, climate financing, and staff and cyber security. The ongoing crises in Syria, Yemen, the DRC, and the response to natural disasters, notably the Caribbean, required increased engagement with international humanitarian organisations and the use of the ODA crisis reserve.

Duty of care to our staff and contractors is paramount to DFID's ability to deliver in difficult contexts. DFID's Security Committee has actively monitored security threats to people, assets and cyber threat, ensuring appropriate pre-deployment resilience support and robust risk assessments through the 1HMG platform. The Management Board has continued to monitor duty of care and the risks to physical or electronic loss of sensitive information or data.

Other strategic risks monitored in 2017-18 relate to the UK's collaboration and spending on tax reform in poor countries and their ability to generate domestic revenue for service provision, our ability to deliver through third party organisations in active conflict situations, and the potential loss of resources through aid-diversion, including fraud.

6.26 The requirement to include a remuneration report is a key accountability measure and a matter of keen interest, and is being met by all departments. This report includes:

- the remuneration policy for directors,
- reports on how that policy has been implemented,
- the amounts awarded to directors and ministers,
- spend on Special Advisors and consultants, and
- information on the relationship between the remuneration of the highest-paid director in the organisation and the median remuneration of the organisation's workforce, known as pay multiples.

6.27 The remuneration report follows prescribed reporting requirements and is audited by the National Audit Office to ensure that information represents a true and fair view. Reporting is fairly consistent between departments. An example of some of the information provided is shown in the Department for Transport annual report and accounts in Figure 13.

Figure 13: remuneration disclosures, Department for Transport annual report and accounts 2017-18, p.175

Table 26: Ministers' remuneration¹

Ministers	2017-18 Salary (£)	Pension benefits (to nearest £1000)	Total benefits (to nearest £1000)	2016-17 Salary (£)	Pension benefits (to nearest £1000)	Total benefits (to nearest £1000)
Rt Hon Chris Grayling MP Secretary of State (from 14 July 2016) Full-year equivalent	67,505	17,000	85,000	45,003 67,505	13,000	58,000
Jo Johnson MP Minister of State (from 10 January 2018) Full year equivalent	7,154 31,680	2,000	9,000	-	-	-
Jesse Norman MP Parliamentary Under Secretary of State (from 14 June 2017) Full year equivalent	17,838 22,375	5,000	23,000	-	-	-
Baroness Sugg CBE (from 27 October 2017) ² Full-year equivalent	-	9,000	9,000	-	-	-
Nusrat Ghani MP Assistant Chief Whip and Parliamentary Under Secretary of State (from 10 January 2018) ³ Full year equivalent	-	1,000	1,000	-	-	-
Rt Hon John Hayes MP Minister of State (from 15 July 2016 to 9 January 2018) Full-year equivalent	24,526 31,680	5,000	30,000	21,120 31,680	6,000	27,000
Andrew Jones MP Parliamentary Under Secretary of State (from 12 May 2015 to 14 June 2017) Full year equivalent	4,599 22,375	6,000	10,000	22,375	6,000	28,000
Lord Ahmad of Wimbledon Parliamentary Under Secretary of State (from 12 May 2015 to 12 June 2017) Full year equivalent	14,494 72,470	4,000	18,000	72,470	18,000	90,000
Paul Maynard MP Parliamentary Under Secretary of State (from 15 July 2016 to 9 January 2018) Full year equivalent	17,323 22,375	4,000	22,000	15,879 22,375	4,000	20,000
Lord Callanan Parliamentary Under Secretary of State (from 14 June to 26 October 2017) Full year equivalent	38,575 105,076	5,000	44,000	-	-	-
Rt Hon Patrick McLoughlin MP Secretary of State (until 13 July 2016) Full year equivalent	-	-	-	19,235 67,505	8,000	27,000
Robert Goodwill MP Minister of State (until 14 July 2016) Full year equivalent	-	-	-	10,560 31,680	2,000	13,000
Claire Perry MP Parliamentary Under Secretary of State (until 15 July 2016) Full year equivalent	-	-	-	6,496 22,375	2,000	8,000

1 The value of pension benefits accrued during the year is calculated as (the real increase in pension multiplied by 20) less (the contributions made by the individual). The real increase excludes increases due to inflation or any increase or decrease due to a transfer of pension rights.

2 Baroness Sugg's DfT role is unpaid.

3 Nusrat Ghani is not paid a ministerial salary by DfT.

6.28 All departments' annual report and accounts include a section on Parliamentary accountability, including the Statement of Parliamentary Supply which is audited for regularity. An example of this from the Department for Work and Pensions, which also includes explanations of variances between outturn and the budget limits voted in the Estimate, is shown in Figure 14.

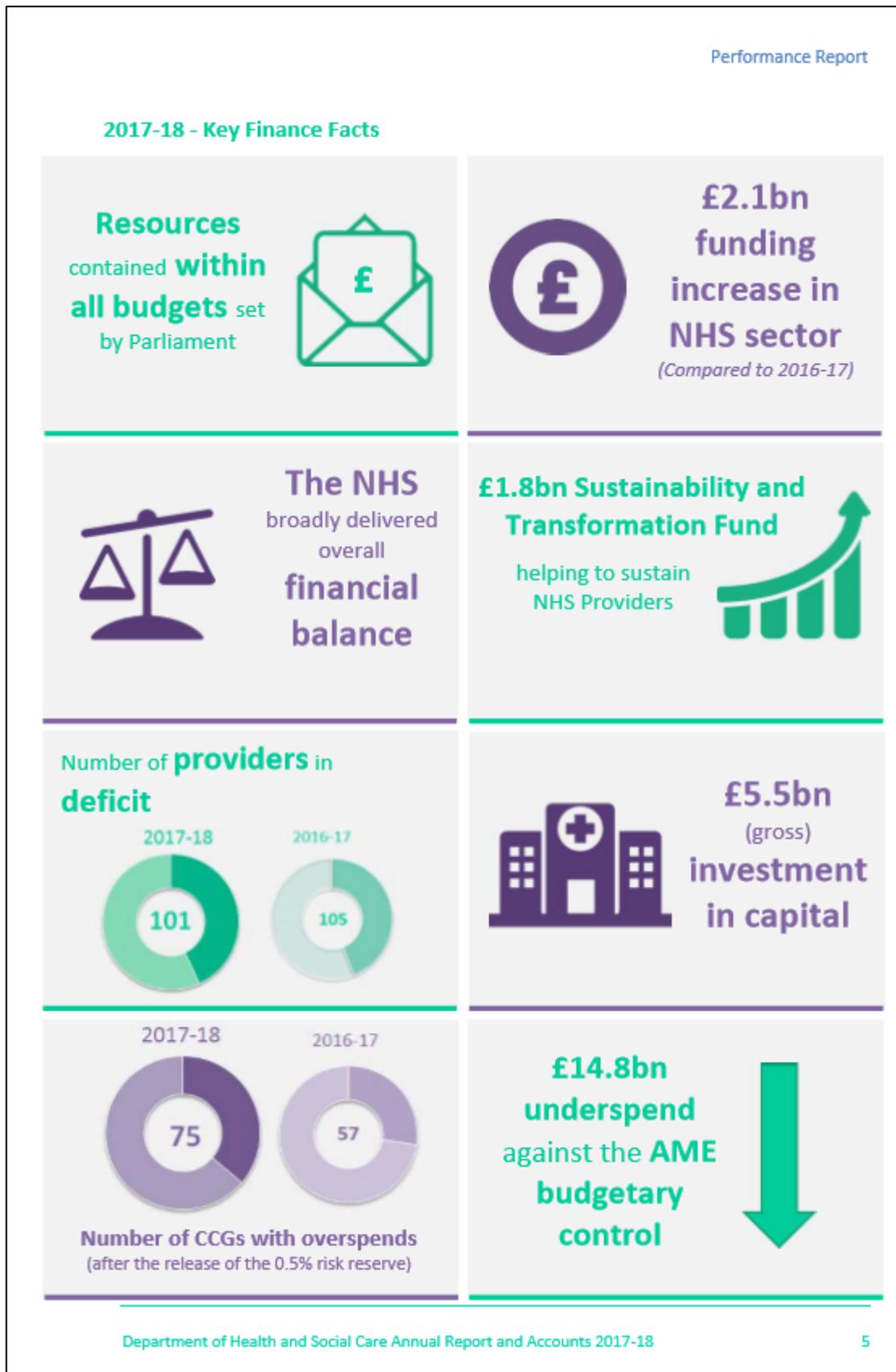
Figure 14: variance analysis, [Department for Work and Pensions annual report and accounts 2017-18, p.193](#)

Accountability report 151				
Variances				
At the start of each year we estimate our costs for each budget type and we monitor these throughout the year. The size and complexity of our budget, along with economic, environmental and social changes, means there will inevitably be some variances for our Estimates. Significant variances are:				
	Limit	Outturn	Variance (Over)/ Under	Explanation of variance
Estimate Line	£000	£000	£000	
Voted Expenditure DEL				
Executive arm's length bodies (Net) - Resource	134,809	91,342	43,467	This variance is due to an error in the production of the Supplementary Estimate where ALB income was not recorded against this Estimate category.
Other Programmes - Capital	126,304	83,600	42,704	NEST Loan requirements have reduced due to achieving a higher than forecast revenue from NEST pension scheme members. Efficiencies have also been achieved by increased use of online services for employers and members. In addition DWP has maintained its full SR15 funding limit against this category at the Supplementary Estimate in recognition of uncertainty over Capital outturn during 2017-18.
Voted Expenditure AME				
Financial Assistance Scheme - Resource	1,121,350	494,726	626,624	The reasons for the decrease to cash flows is due to a higher mortality rate resulting in a decrease in the estimated total FAS population.
Other Expenditure - Outside the Welfare Cap - Resource	(5,206)	(83,885)	78,679	This is a result of reductions to the Remploy pension scheme deficit amounting to £78m.
Universal Credit - Inside the Welfare Cap - Capital	101,393	39,879	61,514	Funding agreed at the Supplementary Estimate included a margin to reflect the uncertainty in outturn due to change in policy for Universal Credit Advances implemented in January 2018 which saw the maximum award double from 50% of indicative assessment period to 100% and repayment period increase from six to twelve months. The impact of these changes could not be fully predicted at the time of Supplementary Estimate production.
Universal Credit - Outside the Welfare Cap - Capital	70,491	25,495	44,996	
Non Voted Expenditure AME				
Expenditure incurred by the Social Fund - Resource	2,564,493	2,157,352	407,141	The main reason is due to the expenditure on Cold Weather payments being lower than provision. The weather is inherently difficult to predict therefore provision always includes a margin.
Expenditure incurred by the Social Fund - Capital	(36,000)	(101,937)	65,937	Recoveries of Social Fund loans higher than anticipated.
Other Contributory Benefits - Resource	124,511	(53,987)	178,498	The variance represents an adjustment to the impairment for Tax Credits transferred in 2016-17. Debt was transferred at a higher rate of impairment than the rate we impair at, which is representative of better rates of recovery for our benefit overpayment receivables. This adjustment was not agreed at the time of the Supplementary Estimate.
Voted Expenditure Non-budget				
Cash paid in to the Social Fund - Resource	2,550,435	2,121,907	428,528	Cold Weather payments were lower than anticipated at the time the funding was finalised in the Supplementary Estimate and loan recoveries were higher than expected. Consequently there was a reduced cash requirement to be paid into the fund.

Financial statements

- 6.29 Evidence gathered during ‘Simplifying and streamlining’ affirmed that users greatly valued receiving a set of financial statements and disclosure notes that the National Audit Office has audited to international standards of audit. The project also highlighted, however, significant evidence that the concept of materiality was poorly understood and inconsistently applied, with a checklist approach being taken for the inclusion of information rather than a proper consideration of user needs. While materiality is a broad concept encompassing the nature and context of items and economic events as well as monetary value, this checklist approach meant that information was included in the annual reports and accounts that had little or no value to the user.
- 6.30 The Treasury therefore emphasised that annual report and accounts only need to include those parts of the audited financial statements and disclosure notes where the amounts or balances are material. In response to this reminder, all departments removed many elements which are not required.
- 6.31 A key recommendation of ‘Simplifying and streamlining’ was that financial information should be better integrated with other reporting throughout the annual reports and accounts to make a more holistic and coherent document. This requirement remains relevant, and is in line with developments in private sector such as the work of the International Integrated Reporting Council.
- 6.32 Departments generally do this well, for example reporting against financial performance in the performance report and making use of infographics. Figures 3, 4 and 5 from the Ministry of Justice’s annual report and accounts and Figure 15 from the Department of Health and Social Care 2017-18 annual report and accounts are examples of this.

Figure 18: infographic, Department of Health and Social Care annual report and accounts 2017-18, p.8



Next steps

- 6.33 Departments have made substantial progress in reflecting the recommendations of ‘Simplifying and streamlining’ in their annual reports and accounts. They now organise their annual report and accounts according to the revised structure including a performance report, accountability section and the financial statements. However, variations in financial reporting were found across departments, particularly in the quality of narrative reporting on expected future policy changes.
- 6.34 Departments should ensure their performance report includes a balanced reflection on progress against the goals shared in single departmental plans. They should also review the discussion of anticipated future changes in their annual reports and accounts to make sure that it gives users enough context.
- 6.35 The narrative in reports has improved, integrating financial and non-financial information so that departments can tell their story. The common use of infographics has enhanced the look and feel of annual reports and accounts, and departments should continue to use visuals to enhance user understandability.
- 6.36 Departments should improve reports further by making more use of trend data over a number of years, and should consider where information is best placed in order to tell their story.
- 6.37 At its heart, the concept of materiality is about what matters to those using the report. Departments should avoid taking a checklist approach to materiality, and should consider the needs of users when judging what is material.
- 6.38 Departments should continue to provide the key accountability and governance disclosures and, where accountability disclosures appear in another section of the report, references and links should be provided in the accountability report.
- 6.39 The Treasury will engage with each department to share the findings of this review, and will promote continuous improvement through updates to the Financial Reporting Manual, future thematic reviews, and the planned bank of best practice examples.

Table 6.A: Chapter 6 actions and recommendations

Paragraph	Action
6.16	During the zero-based review of the Financial Reporting Manual, the Treasury will encourage departments to include multiple years’ worth of comparative data as standard when figures are shared in the Performance or Accountability Reports, with narrative to explain the changes, which could be presented in a table or visually as a graph.
6.26	As discussed in chapter 5, the Treasury plans to enhance mandatory risk reporting.
6.35	Departments should ensure their performance report includes a balanced reflection on progress against the goals shared in single departmental plans.

-
- 6.35 Departments should also review the discussion of anticipated future changes in their annual reports and accounts to make sure that it gives users enough context.
-
- 6.36 Departments should continue to use visuals to enhance user understandability.
-
- 6.37 Departments should improve reports further by making more use of trend data over a number of years, and should consider where information is best placed in order to tell their story. This should include short commentary on notable trend changes or oddities.
-
- 6.39 Departments should continue to provide the key accountability and governance disclosures and, where accountability disclosures appear in another section of the report, references and links should be provided in the accountability report.
-
- 6.40 The Treasury will engage with departments to share the findings of this review, and will promote continuous improvement through updates to the Financial Reporting Manual, future thematic reviews, and the planned bank of best practice examples.
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Chapter 7

Improvements in government financial reporting

- 7.1 Every set of annual reports and accounts includes extra information to put the financial statements in context, and to share the full story of what has been done each year. At one time this might have consisted solely of a foreword and a handful of pieces of statutory housekeeping such as the auditor's report. Over time, in response to Parliament and other users, departments have added more context and additional information to turn the annual reports and accounts into a much fuller report.
- 7.2 The content and presentation of the financial statements and, to a large extent, the Accountability Report, are structured at a detailed level by reporting standards and regulatory requirements set out in the Financial Reporting Manual. In contrast, the Performance Report is flexible and allows each organisation to tell their unique story, though the Financial Reporting Manual sets out a level of mandatory reporting to ensure consistency and comparability on key data. When reviewing departmental annual reports and accounts for this report, the Treasury found many examples of good practice developed by departments, enabled by the flexibility of the framework.
- 7.3 This chapter analyses the best practice examples found during the review, to support departments' ongoing efforts to improve their annual reports and accounts, with a focus on performance reporting. The examples are grouped into four sections for readability:
- context
 - content
 - presentation
 - user engagement
- 7.4 Each section also includes a discussion on general areas for improvement, as well as actions that the Treasury will take to build on best practice in future.
- 7.5 Feedback from evidence to PACAC in the course of its enquiry and from other users of government financial reporting suggests that there may be areas where it would be helpful to mandate further disclosures. However, to maintain the flexibility for departments to tell their own stories, and to avoid reporting becoming a tick box exercise, the Treasury intends to keep these additional mandatory elements of performance and accountability reporting to a minimum.

- 7.6 To support continuous improvement, and to recognise good reporting, the Treasury will use all of the best practice examples shared in this report as the basis for its bank of best practice examples. This will be updated regularly and made available to all those preparing government financial reports.

Context

- 7.7 As discussed in [Chapter 6](#), performance reporting in annual reports and accounts should track progress against the goals given in single departmental plans. Single departmental plans cover the whole of a Spending Review period and are live documents which will be updated throughout that time. Single departmental plans can therefore act as a thread that connects business plans with the actual activity reported in annual reports and accounts.
- 7.8 Figure 16 gives a best practice example of reporting against a single departmental plan from the Department for Transport annual report and accounts 2017-18. The Department for Transport set out their performance against a range of indicators from their single departmental plan. By including prior year figures, the Department for Transport give a sense of the overall progress against their chosen indicators, with enough detail for the user to see where the information has come from and when it relates to.

Figure 16: reporting against single departmental plan indicators, Department for Transport annual reports and accounts 2017-18, pp.96-8

Single Departmental Plan indicators

1.160 Tables 2 to 5 set out, under the 4 SDP objectives, the latest year-end position for each of our SDP indicators. The years (current and previous) used vary between indicators. The precise year used is referred to in the indicator description, for all tables.

Table 2: Boosting economic growth and opportunity

SDP indicator	Current	Previous
Value for money		
DfT's appraised project spend assessed to be high or very high value for money (current data = 2017, previous = 2016)	71%	95%
Boosting Infrastructure: number of transport infrastructure projects and programmes in construction and completed		
(i) Number of transport schemes from the National Infrastructure and Construction Pipeline (NICP) that are currently in construction in England (current data = December 2017, previous = December 2016) ¹	30 projects and 77 programmes	40 projects and 94 programmes
(ii) Number of Highways England and local major transport schemes from the NICP that have been completed in England since June 2015 (current data = June 2017, previous = June 2016) ²	73	8
Boosting skills		
We have set an ambition to deliver 30,000 apprenticeships in road and rail by 2022. The <i>'Transport Infrastructure Skills Strategy'</i> , sets out how we will monitor and report on progress (current data = end June 2018, previous data = end June 2017 ³).	2,784	2,282
Savings to business as a result of deregulation		
Annual saving since the beginning of the reporting period ⁴ (current data = 7 June 2017, previous = 31 March 2017)	£4.5 million	£5.7 million

1 Data is not comparable due to differences in the way the data is captured and recorded over time.

2 This indicator is based on administrative data. Updates on rail schemes are available via Network Rail's website: www.networkrail.co.uk

3 Reporting adjusted from 2,000.

4 Figures represent the cumulative total measured against the Business Impact Target (BIT). The BIT is a target for savings to business as a result of better government regulation. The target reporting period lasts for the duration of a Parliament. The figures reflect the cumulative progress against the BIT up to June 2017 (the end of the previous Parliament). A new BIT was announced for the current Parliament in June 2018, this has been set at a £9 billion saving to business. Although DfT does not have a specific departmental target, as per the last Parliament, we remain committed to minimising the costs associated with burdensome regulation on the transport sector, while also recognising the important role of good regulation in protecting public safety.

- 7.9 If information is available in a different report, there is no need to repeat it in the annual report and accounts, though signposts may be helpful. For example, before 'Simplifying and streamlining', departmental reporting contained common core tables that set out departmental spending by country and region; per head by country and region; and by function and programme, by country and region. However, some of the same information is available in the Treasury Public Expenditure Statistical Analysis.
- 7.10 The effect of 'Simplifying and streamlining' on departmental accounts can be found by comparing the annual reports and accounts of the Department for Culture, Media, and Sport from 2013-14 to those published for 2017-18.
- 7.11 In 2013-14 the Department for Culture, Media, and Sport published fifteen pages of Common Core Tables, consisting of eight tables required at the time with a brief narrative introduction and only three clarifying footnotes. Most of the information was therefore shared without context.
- 7.12 In 2017-18, the Department for Culture, Media, and Sport published only seven pages of Common Core Tables, consisting of the two tables now required, supplemented by a full 43 footnotes to add context and explanations for the figures disclosed.
- 7.13 Figures 17 and 18 show the first table included by the Department for Culture, Media, and Sport in 2013-14 and 2017-18 respectively, and give a sense of how clearer formatting and the use of footnotes has put this information in context.

Figure 17: public spending, Department for Culture, Media, and Sport annual report and accounts 2013-14, p.200

Department for Culture, Media and Sport		Annual Report and Accounts 2013-14								
Table 1 – Public Spending										
Resource DEL (£'000s)	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	
	Outturn	Outturn	Outturn	Outturn	Outturn	Outturn	Outturn	Plans	Plans	
Support for the Museums and Galleries sector	12,619	4,230	4,170	3,831	13,336	12,664	16,267	17,478	17,367	
Museums and Galleries sponsored ALBs (net)	334,044	278,988	357,425	361,853	306,816	359,754	354,959	412,336	388,803	
Libraries sponsored ALBs (net)	99,452	104,277	103,587	106,243	113,172	110,753	101,374	112,196	109,378	
Museums, libraries and archives council (net)	59,804	61,838	58,376	64,474	43,741	8,632	-	-	-	
Support for the Arts sector	3,088	(1,273)	(3,821)	(1,737)	2,373	(53,218)	(67,219)	(61,175)	421	
Arts and culture ALBs (net)	402,293	413,791	420,612	420,204	380,835	446,545	442,838	434,221	358,336	
Support for the Sports sector	8,525	2,203	8,801	1,098	5,394	6,847	21,147	16,874	14,374	
Sport sponsored ALBs (net)	141,744	161,154	151,945	148,362	136,077	144,942	114,967	120,269	108,121	
Ceremonial and support for the Heritage sector	19,064	20,633	18,555	22,200	13,946	22,161	16,690	30,607	29,281	
Heritage sponsored ALBs (net)	141,608	151,149	151,825	144,270	130,737	97,567	92,975	97,311	84,024	
The Royal Parks	18,999	20,092	18,487	15,759	17,162	16,955	13,637	14,767	13,730	
Support for the Tourism sector	1,985	2,230	127	2,362	16	70	10	-	-	
Tourism sponsored ALBs (net)	53,848	52,985	50,455	39,479	45,494	47,824	48,200	27,591	28,006	
Support for the Broadcasting and Media sector	4,417	2,722	2,624	1,561	3,218	15,161	12,063	10,190	13,946	
Broadcasting and Media sponsored ALBs (net)	118,109	129,542	136,260	138,139	170,893	183,597	93,543	91,042	95,979	
Administration and Research	53,309	56,476	56,448	53,406	58,429	51,679	34,863	37,630	39,949	
Support for Horseracing and the Gambling sector	(11,518)	(5,121)	(3,732)	(4,020)	2,700	(1,560)	(1,603)	(2,817)	-	
Gambling Commission(net)	16,610	7,927	5,801	4,107	4,722	1,959	3,097	3,765	1,234	
Olympics - legacy programmes	459	(67)	524	13,022	65,868	501,628	(18,083)	178	-	
London 2012(net)	24,130	(2,703)	(35,363)	(18,700)	45,399	1,575,240	(29,477)	100	-	
Government Equalities Office	5,969	10,333	13,998	11,611	7,080	15,283	7,298	18,900	11,000	
Equality and Human Rights Commission (net)	74,129	59,395	55,700	52,800	42,982	26,683	19,230	24,785	23,317	
Spectrum Management Receipts	-	-	-	-	-	(60,142)	(54,535)	(62,600)	(61,800)	
Total resource DEL	1,582,687	1,530,801	1,572,799	1,580,324	1,610,390	3,531,024	1,222,241	1,343,648	1,275,466	

Figure 18: public spending, Department for Culture, Media and Sport annual report and accounts 2017-18, p.233

Table 1 – Public spending

Resource DEL (£'000s)	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
	Outturn	Outturn	Outturn	Outturn	Outturn	Plans	Plans
Support for the Museums and Galleries sector	16,267	16,003	20,314	16,198	24,745	30,167	26,887
Museums and Galleries sponsored ALBs (net)	351,059	326,032	339,528	362,966	363,201	403,029	409,240
Libraries sponsored ALBs (net)	101,374	98,369	113,571	115,172	117,386	124,209	126,201
Support for the Arts sector ²⁰³	(67,219)	(58,465)	(79,113)	(76,979)	(77,566)	(78,341)	18,583
Arts and culture ALBs (net)	448,788	433,475	439,548	442,231	432,551	447,908	369,211
Support for the Sports sector	21,147	18,075	11,159	7,585	11,520	7,124	7,124
Sport sponsored ALBs (net)	112,767	111,006	106,112	128,683	146,677	133,976	130,452
Ceremonial and support for the Heritage sector ²⁰⁴	16,690	29,456	53,141	48,451	67,739	33,067	30,173
Heritage sponsored ALBs (net) ²⁰⁵	105,685	115,478	84,350	99,814	76,762	83,889	75,691
The Royal Parks ²⁰⁶	13,637	14,600	12,320	6,022	-	-	-
Support for the Tourism sector	10	(200)	-	-	-	-	-
Tourism sponsored ALBs (net) ²⁰⁷	48,200	46,502	66,374	57,095	59,835	57,332	33,732
Support for the Broadcasting and Media sector	15,862	42,315	19,498	28,346	41,100	34,835	19,302
Broadcasting and Media sponsored ALBs (net) ²⁰⁸	101,810	88,099	95,600	82,204	65,330	43,185	42,111
Administration and Research	36,554	41,748	54,081	57,898	64,333	65,243	64,566
Support for Horseracing and the Gambling sector ²⁰⁹	(1,603)	(843)	(2,858)	(2,539)	(3,714)	(2,880)	-
Gambling Commission (net) ²⁰⁹	3,097	1,449	365	1,197	3,222	3,223	310
Olympics - legacy programmes ²¹⁰	(18,083)	(33,823)	(55,210)	(30,408)	(26)	-	-
London 2012 (net) ²¹⁰	(29,477)	55,715	-	-	-	-	-
Office for Civil Society ²¹¹	163,530	219,954	162,582	255,511	224,460	293,999	317,273
Spectrum Management Receipts ²¹²	(54,535)	(52,594)	(52,139)	(49,645)	(33,299)	-	-
Total Resource DEL	1,385,560	1,512,351	1,389,223	1,549,802	1,584,256	1,679,965	1,670,856

²⁰³ Support for the Arts Sector. The income relates to contributions from the Department for Education towards the cost of Music Hubs and other programmes managed by the Arts Council England. The funding profile is agreed on a year by year basis, therefore no income is yet shown in 19-20 plans. The contra expenditure budget in Arts Sponsored Bodies is also not shown in 19-20 plans.

²⁰⁴ Ceremonial and Support for the Heritage sector included funding for World War One commemorations in 2013-14 through to 2017-18 including the Battle of Jutland and the Somme.

²⁰⁵ The Heritage Sponsored Bodies line illustrates a reduction in 2015-16 following the Spending Review 2013. This is partially offset by funding for Church Roof repairs, announced in the 2014 Autumn Statement, via the National Heritage Memorial fund which commenced in 2015-16.

²⁰⁶ On 15 March 2017 The Royal Parks Limited took over the role of managing the parks from The Royal Parks Agency. The charity manages the parks on behalf of the government, however it now receives less exchequer funding than it raises in commercial income, consequently it has been reclassified as outside of central government and removed from the DCMS Supply Estimate. As a result The Royal Parks Agency has no planned expenditure after 2016-17.

²⁰⁷ Tourism sponsored ALBs line shows a drop in expenditure in 2019-20 which reflects the end of the current Discover England funding stream.

²⁰⁸ Broadcasting and Media sponsored ALBs includes the clearance and auction of the 800MHz band, with additional funding in 2014-15 for Superfast Broadband. The reduction in expenditure between 2016-17 and 2017-18 is due to Ofcom becoming self-funding from October 2017 and so does not need funding from the Exchequer from this point.

²⁰⁹ Support for the Horse Racing and Gambling Sector, and the Gambling Commission. The National Lottery Commission and the subsequent income it receives is recorded on a year by year basis.

²¹⁰ Olympics legacy and London 2012 relate to the staging of the Olympic and Paralympic games 2012. This includes income from the sale of the Olympic Village, residual costs and final settlements with the Greater London Authority (GLA) and Olympic Lottery Distribution Fund (OLDF), most of which concluded by 2016-17.

²¹¹ On 15 July 2016 the Office for Civil Society moved from the Cabinet Office to the Department for Digital, Culture Media and Sport via a Machinery of Government transfer. The National Citizens Service participation levels are forecast to increase from 2018-19 onwards.

²¹² Spectrum Management receipts which partially offset Broadcasting Administration expenditure, will, from 2018-19, be treated as income by Ofcom.

Context: next steps

- 7.14 Removing some of the Common Core tables has allowed departments to use space freed up to add further narrative for context. However, it may not be immediately clear to users that the information was removed because it was duplicated elsewhere.
- 7.15 Best practice is therefore for departments to take opportunities to remove reporting from their annual reports and accounts if it is duplicated, while ensuring that the change is disclosed. Links and references can then be made available in subsequent years to support users to navigate the financial reporting landscape.
- 7.16 When reporting against single departmental plans, departments should consider how they can use these disclosures to help users understand the department's story from business plan to outcome. Best practice is therefore for departments to use their aims and achievements against single departmental plans as the guiding principle for performance reporting in their annual reports and accounts, rather than seeing it simply as another set of necessary disclosures to slot in. Users should be able to join the dots between the various financial and performance reports published by each department.
- 7.17 The Treasury will encourage departments to consider how the map of the landscape developed for this review can be used by those preparing annual reports and accounts to help their users find the information they need.

Content

- 7.18 One of the most effective ways to tell the story of an organisation is to share information along the lines used for making decisions.
- 7.19 This principle applies differently to different organisations. For example, the Ministry of Defence delivers many major projects, and this is reflected in the details provided on major projects in the Ministry of Defence annual report and accounts from 2017-18.
- 7.20 The Ministry of Defence report links in year expenditure to longer term planning to 2026-27, and provides some detail on the nature and progress of each project. The visualisation provided in Figure 19 gives the user a sense of the various categories of spend planned, and helps draw attention to the scale of the figures cited throughout.
- 7.21 Figure 20 discusses how these projects and programmes are internally prioritised in the Defence Major Programmes Portfolio. A reference to the Government Major Programmes Portfolio provides a reference to help users understand the significance of this expenditure to the government as a whole.

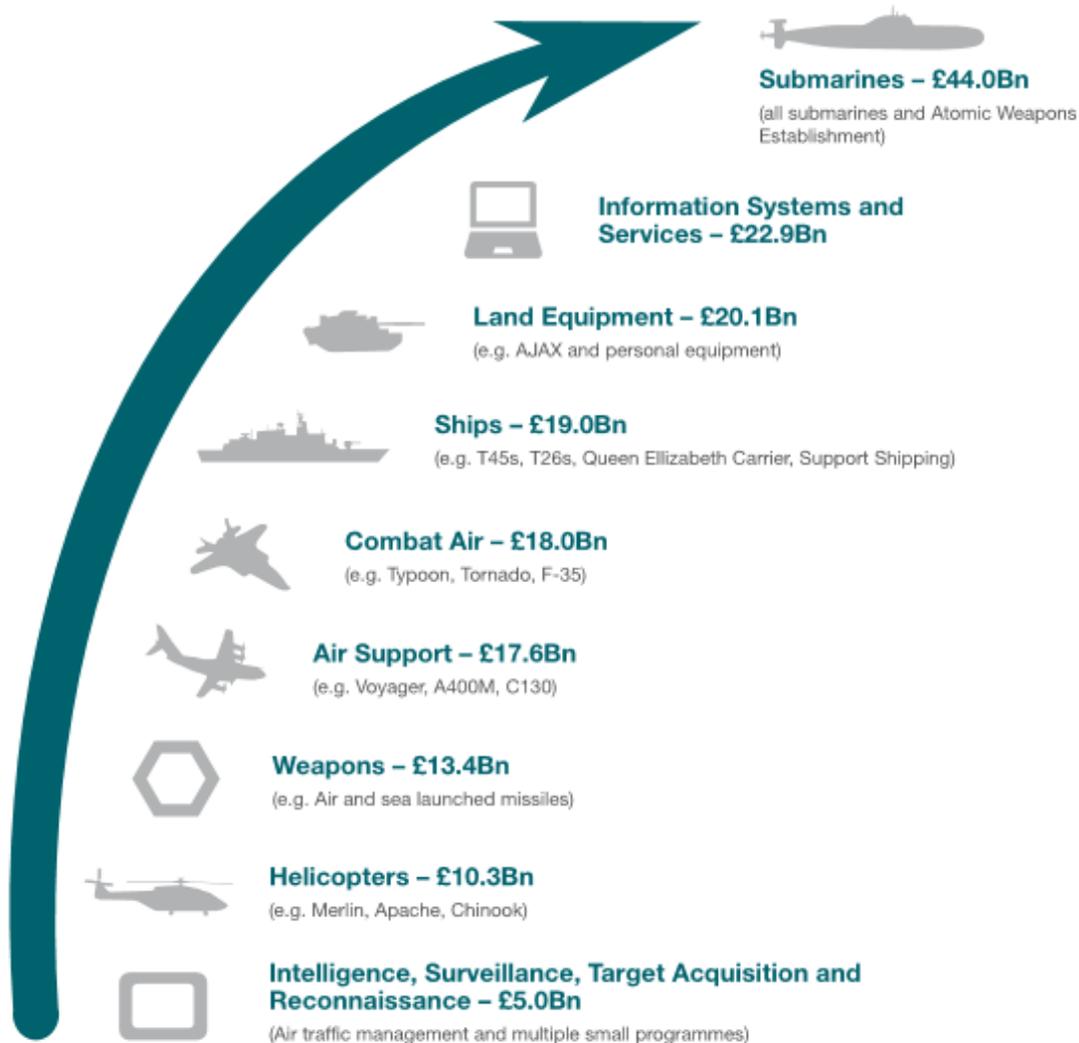
Figure 19: reporting activity planning by projects, Ministry of Defence annual report and accounts 2017-18, p.80

Joint Force 2025 – Delivery of Major Projects

We are committed to delivering Joint Force 2025 as outlined in SDSR 2015 and the National Security Capability Review in March 2018. The Joint Force will need to be versatile and agile; and effective in a range of environments, operating with our Allies and partners. The major elements of the Force are:

- a maritime task force centred on a Queen Elizabeth Class aircraft carrier with F35 Lightning combat aircraft;
- a land division with three brigades, including a new Strike force;
- an air group of combat, transport and surveillance aircraft; and
- a Special Forces task group.

Planned spend on Equipment and Support between 2017-18 and 2026-27 includes:



Source: MOD Equipment Plan 2017

Figure 20: reporting activity planning by projects, Ministry of Defence annual report and accounts 2017-18, p.80

In line with the SDSR we have spent £15.3Bn this year on defence equipment and support. This year has seen:

- HMS QUEEN ELIZABETH completing her sea trials and being commissioned into service. The HMS PRINCE OF WALES was floated for the first time and moved to her fitting out berth in Rosyth.
- The launch of the 4th new attack submarine Audacious
- The first of the Army's new £4.5Bn family of Ajax armoured vehicles going through their final acceptance process
- The delivery of a further 12 F35B aircraft bringing the total to 15
- The securing of a deal to provide nine P8 Maritime Patrol Aircraft and 50 Apache helicopters through a Foreign Military Sales agreement with the US.

These programmes form part of the Defence Major Programmes Portfolio (DMPP) which consists of 41 of the largest programmes across the Ministry of Defence, of which 37 are in the Government Major Programmes Portfolio. In this financial year, performance over the portfolio has been generally stable, however, there has been a slight reduction in overall delivery confidence, which the Department is seeking to address with advice from the Infrastructure and Projects Authority. Delivery highlights across the breadth of the DMPP in this financial year include:

Army Basing Programme (ABP) – The programme is to coordinate and deliver infrastructure and non-infrastructure requirements to enable the Army 2020 organisational structure and UK laydown to be achieved, withdrawing MOD Staff and dependants from Germany and delivering reduced costs. Salisbury Plain Training Area (SPTA) Service Family Accommodation (SFA) is a critical enabler to the successful drawdown of remaining personnel from Germany. The contract for SFA was signed on 27 November 2017 and the programme remains on track to deliver in summer 2019.

Maritime Sustainment Programme – The Military Afloat Reach and Sustainability (MARS) Tanker Project makes up the acquisition element of the Maritime Sustainment Programme. The four vessels will replace the single hulled tankers operated by the Royal Fleet Auxiliary with an efficient and cost-effective solution. The programme is continuing to deliver well within the approved value of £596M against predicted costs of circa £550M. RFA TIDESPRING (Ship1) was accepted into service in December 2017. TIDERACE (Ship 2) is undergoing Capability Assessment Trials and Support (CATS), which commenced in April 2018. TIDESURGE (Ship 3) was Accepted Off Contract (AOC) in November 2017, she arrived in Falmouth on 27 March 2018 and is undergoing UK Customisation. TIDEFORCE (Ship 4) achieved AOC late May 2018 and is due to arrive at Falmouth and commence UK Customisation (UKC) in mid-August 2018. Alongside the environmental benefits which will be realised by this programme it is also a key enabler for the RN elements of JF2025 through the provision of fuelling and at sea support out to the 2040's.

7.22 An element of good practice is the realism shown in Figure 20 by including a reference to a slight reduction in overall delivery confidence, and plans to address it. Providing a balanced view is essential to building trust in information.

7.23 Users, whether Parliamentarians or others, approach reports with an awareness of a wider context which includes a range of relevant commitments made by government. Good reporting helps users understand how those commitments are being delivered, putting the department's financial activity in the context of the ways it is meeting the needs of its stakeholders.

7.24 Information that can help a user understand how an organisation has made decisions is unit cost data. Assessing unit costs can be a valuable way of

understanding efficiency. However, there are good reasons for departments to calculate and share unit costs carefully.

- 7.25 As a concept, unit costs work best when costs can be allocated to a series of discrete outputs in manufacturing, for example how much it costs to make and sell a single car. Even in a manufacturing context however, calculating unit costs takes judgement to decide which costs should be included and how they should be allocated.
- 7.26 When the unit is the delivery of a service, as is often the case in the public sector, an organisation must use further judgement to decide how to define that unit. For example, costs can be calculated by customer, by separate customer interactions, or by number of hours spent with a customer.
- 7.27 Different calculations give rise to different costs. If the goal is to reduce unit costs, one way of achieving that is to measure costs by customer and then reduce the hours spent with each customer. If, on the other hand, the goal is to maintain the number of customer-facing hours while reducing costs, then it would be better to measure the cost per hour.
- 7.28 A good example of unit cost information from HMRC's annual report and accounts is given in Figure 21. This table shows administrative costs per pound spent on a list of HMRC's core activities. The basis for the calculation is given as part of the disclosure, and the same measure is used between the different indicators for comparison and transparency not just about efficiency over time, but about how one tax compares to another.

Figure 21: unit cost information, HMRC annual report and accounts 2017-18, p.48

The image shows a screenshot of the HMRC website's 'Our key statistics' section. It features a table with three columns: a description of the activity, the year 2016-17, and the year 2017-18. The table lists various administrative activities and their unit costs in pence per £ collected/paid out, along with cumulative cost savings and customer cost reductions.

Our key statistics		
Design and deliver a professional, efficient and engaged organisation	2016-17	2017-18
Unit costs (pence per £ collected/paid out)		
Collecting income tax (Self Assessment and Pay As You Earn)	0.83	0.79
Collecting Corporation Tax	0.68	0.61
Collecting National Insurance Contributions	0.22	0.20
Collecting VAT	0.59	0.57
Administering tax credits	1.65	1.43
Administering Child Benefit	0.50	0.53
Sustainable cost savings	£181m	£229m
Cumulative customer cost reduction	£28.2m	£45.7m

- 7.29 Central government bodies that levy fees and charges must disclose the relevant full costs and unit costs. In these cases, an analysis of the costs incurred in delivering the service is relevant to setting the level of the fee or charge.

- 7.30 In other situations, departments must use their judgement to determine whether to publish unit cost data. This should support the general purpose of the performance report: to tell the department's story.
- 7.31 In general, sharing unit cost data will improve transparency if:
- the unit costs shown are those used within the organisation to support decisions
 - the basis for calculation, and any areas of significant judgement, are published with the unit costs
 - the accompanying narrative gives enough context that users can understand the relationship between cost and quality
 - unit costs are prepared on a consistent basis over time
 - comparisons are made with prior years' data as this becomes available
- 7.32 Recent feedback from Parliament and other users of reports suggests that, like unit costs, staff turnover figures are of widespread interest.
- 7.33 It is not currently a mandatory requirement to publish staff turnover figures, but some departments do so on a voluntary basis. A good example can be seen from the extract from the Treasury's annual report and accounts in Figure 22.
- 7.34 An earlier section of the Treasury's annual report and accounts discusses staff turnover and states that the board regularly monitors staff turnover rates and reasons. The report therefore makes clear why this metric is important to telling the story of the Treasury, and then gives the disclosure.

Figure 22: staff turnover disclosures: The Treasury annual report and accounts 2017-18, p.81

Staff Report²⁷
Workforce dynamics
Core Treasury workforce breakdown

		31 March 2018	31 March 2017
Staff Numbers		1,328	1,228
Workforce Dynamics	Recruitment Exemptions (number)	88	136
	Annual Turnover rate %	21.2	24.3
Workforce Diversity (%)	Black and Minority Ethnic	15.9	18.4
	Women	46.5	48.2
	Disabled	6.8	6.8
Diversity of Senior Civil Servants only (%)	Black and Minority Ethnic	5.8	6.0
	Women	45.2	43.0
	Women (Top Management Posts)	50.0	35.7
	Disabled	2.9	3.0
	Part time	17.3	20.0
Attendance (AWDL)²⁸	Actual (days)	2.4	2.6

²⁷ This part of the Remuneration and Staffing Report provides details of staff numbers and costs, including pension costs and exit packages for the Treasury Group in 2017-18. With the exception of the table on page 81 which details average staff numbers, all numbers are presented on an actual basis as at the reporting date.

²⁸ AWDL: Average working days lost

Content: next steps

- 7.35** There are several fundamental principles that should be promoted to departments to support improvements in reporting. These include:
- performance reporting should be organised according to the activity of an organisation, reflecting the information used by internal decision-makers
 - this should be consistent with, and build from, the business planning that has taken place through the single departmental plan
- 7.36** While the Treasury intends to preserve the flexibility of the approach to reporting developed in 'Simplifying and streamlining', with its emphasis on departments telling their stories in their performance reports, it is clear that there are a handful of places where additional mandatory reporting requirements will meet the needs of users. The Treasury will look to revise guidance to support further disclosures in these areas:
- unit cost data should be shared if it is used for decision-making, with transparency around the basis of calculation and narrative to support user understanding
 - staff turnover data and staff engagement scores should be published, on a consistent basis, across central government

- 7.37 The principle of balance, and showing openness to build trust, will continue to be important for the ongoing improvement of government financial reporting. The Treasury will bring these concepts in to the guidance provided by departments, encouraging:
- the use of simple indicators such as the red/amber/green model followed by HMRC to discuss outcomes against aims
 - a 'comply or explain' approach to the disclosures in the performance report - departments should prioritise telling their story, but if they choose not to follow best practice to do so they must explain why not
- 7.38 The Treasury will also enhance transparency by strengthening financial reporting requirements to better reflect the reporting of risks, how they change over time and how they are managed.
- 7.39 These changes will be considered and developed as part of a zero-based review of the Financial Reporting Manual which the Treasury plan to start in 2019. The changes are expected in the draft 2020-21 Financial Reporting Manual.

Presentation

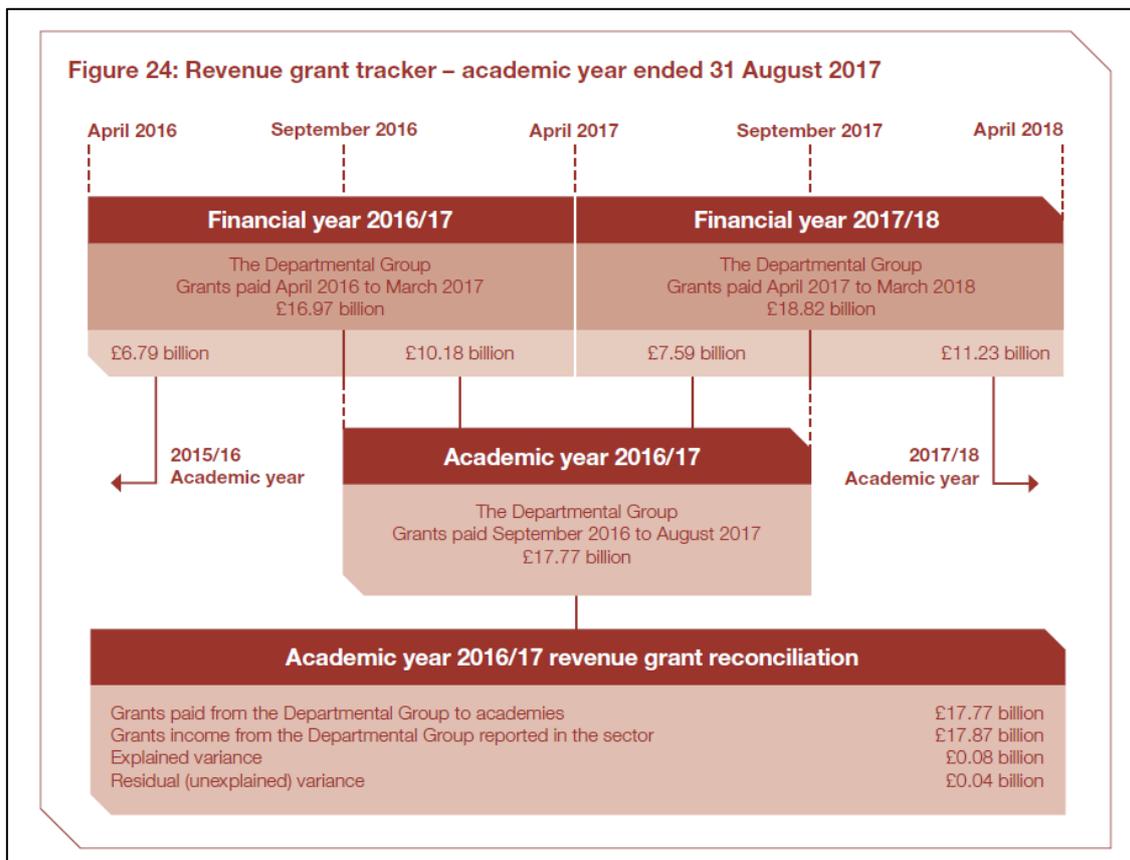
- 7.40 Annual reports and accounts are large documents that share significant amounts of information in text, numbers, and images. Some users will read the whole of the report, but many will have one question or interest and be seeking specific answers. Reports therefore need to be both readable as a whole and easy to navigate in sections.
- 7.41 Reports are easier to read when they are written in plain English. It can be a challenge to explain complicated or difficult subjects in clear and concise language, but many departments have done so. A good example is the discussion of nuclear decommissioning from the annual report and accounts of the department for Business, Energy, and Industrial Strategy shown in Figure 23.

Figure 23: plain English, Department for Business, Energy, and Industrial Strategy annual report and accounts 2017-18, p.48

<p>(b) Nuclear Decommissioning Authority provisions</p> <p>NDA is responsible for 17 nuclear licensed sites across the country, with a range of facilities including former nuclear power stations, research facilities and nuclear fuel fabrication and reprocessing facilities. Some of these sites date from the earliest days of nuclear power. Unlike modern nuclear facilities, decommissioning of these sites was not built into plans or designs.</p> <p>Decommissioning of sites will take many decades. In part, this is because plans often include periods of 'care and maintenance', where sites are made safe and put into an interim state, allowing residual amounts of radioactive material to decay over time. By doing this, the final stages of decommissioning will be easier and safer to complete.</p> <p>NDA's best estimate of the future costs of the estate over the next 100+ years on an undiscounted basis is £120.2 billion.</p>	<p>This figure is based on dealing with an assumed inventory of materials with varied radiological characteristics, and using the extant strategy for retrieval and disposal of the resulting materials over several decades. Each of these elements is uncertain in its own right – the cost of developing the necessary technology and plants to deal with these activities is also uncertain. The quality of the forecast becomes less certain the longer the projection.</p> <p>NDA has reviewed the methodologies used in the calculation, taking into account HM Treasury Green Book guidance and the need to remove optimism bias. Projects like these could typically have a range of estimates from -50% to +300%. In light of uncertainties in the estimate, NDA considers it prudent to present a credible range of outcomes. The range presented for the current year is for undiscounted costs of £97 billion to £222 billion.</p>
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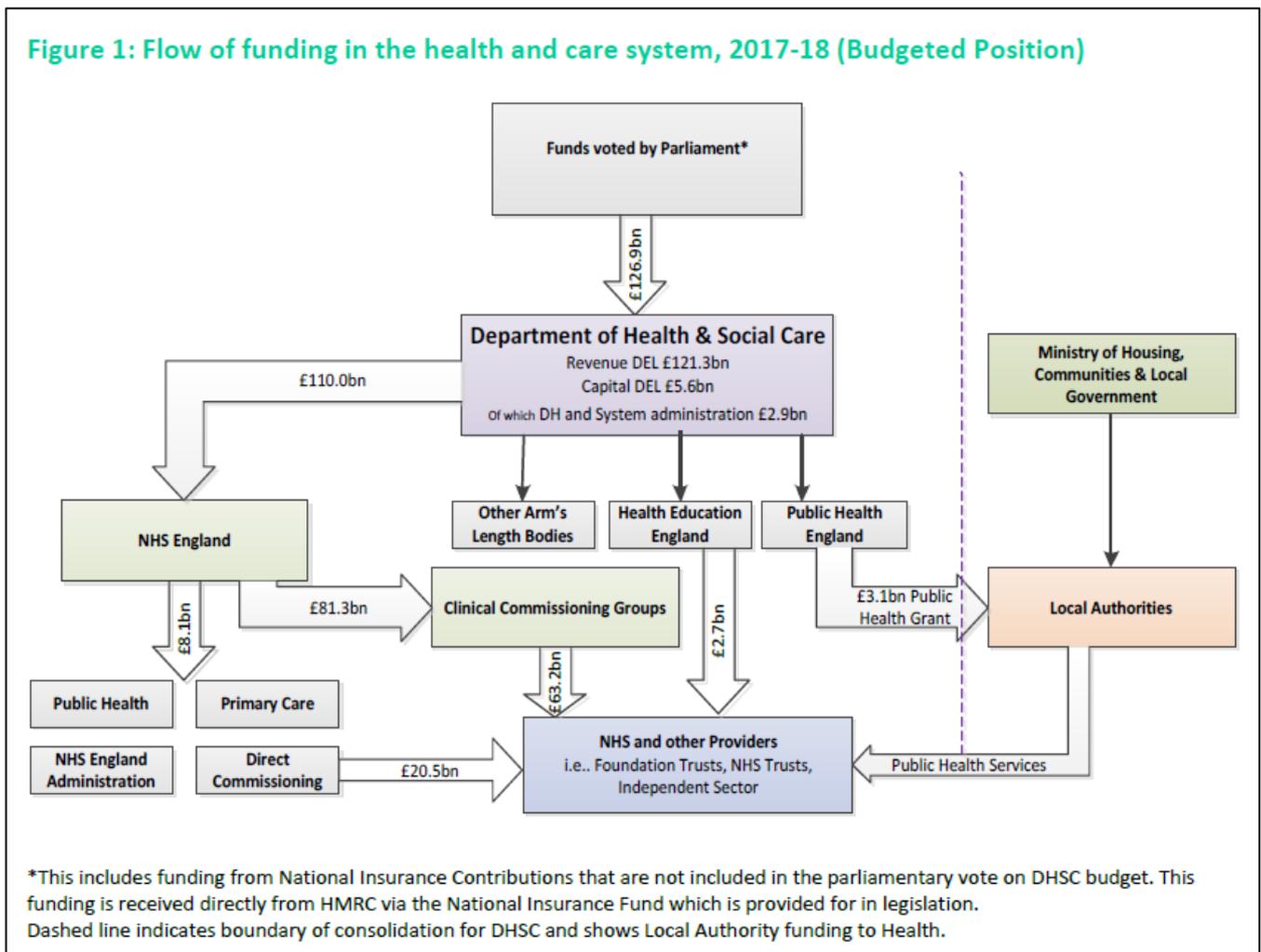
- 7.42 Infographics, when used well, are an effective way of communicating complicated information. Feedback from users in Parliament and elsewhere encourages departments in their use of graphics to break up narrative reporting into more manageable sections and to help users understand how different elements of their financial reports fit together.
- 7.43 A good example of an illustrative infographic, from the Department for Education's Academies Sector Annual Report and Accounts 2016-17, is given in Figure 24. This simple diagram shows details of the revenue grant programme for Academy Trusts, broken down both by financial year and by academic year. By showing the overlapping time periods as separate blocks on the page, the report helps the user understand how spend reconciles between different reporting years.

Figure 24: infographic, Department for Education academies sector annual report and accounts 2016-17, p.59



- 7.44 Figure 24 also gives another best practice example of balanced reporting, as the Department for Education identify both explained and unexplained variances in the reconciliation.
- 7.45 Public sector organisations often have unique structures or activities, and it can be challenging for external users to see how the full story comes together. Some of the most useful graphics in government reporting are those which make this more accessible by setting out the big picture, such as the flow chart in Figure 25 which illustrates the movement of money through the health care sector.

Figure 25: infographic, Department of Health and Social Care annual report and accounts 2017-18, p.3



- 7.46 This chart shows the range of different bodies involved in health care and how resources move between them. The use of budgeted figures helps a user understand the scale of the transfers within the system.
- 7.47 The trend of using infographics to convey complicated information is a positive one, but it is important that the images used are designed for clarity and accessibility. For example, Figures 24 and 25 are good examples of accessibility because they do not rely on contrasts between colours to communicate any information.
- 7.48 Embedded hyperlinks can also make a report more usable. For example, the Ministry of Justice added links to the contents page of their 2017-18 annual report and accounts so that readers can click through to the part of the document that interests them.

Presentation: next steps

- 7.49 Modern technology has helped drive improvements in financial reporting around the world. Better internal networks and systems make it easier for preparers to share more information. New tools for graphic design and

online publication have created new possibilities for report presentation, and these are reflected in the best practice examples emerging from this review.

- 7.50 The Treasury will take steps to ensure that the transparency and accountability provided by good financial reporting is enhanced as new reporting tools become available over time:
- opportunities for improved financial reporting highlighted by this review will feed into government planning for digital transformation
 - the Treasury will promote changes that support future digital reporting, such as the effective tagging of data and the use of a modular report structure
- 7.51 The Treasury will promote best practice on presentation when revising financial reporting guidance, for example:
- how graphics can be made accessible to those with different perception needs, such as different colour vision
 - the use of links to connect parts of the same report so that a long document is easier to navigate
 - the use of formatting in text, tables, and graphics to make financial reporting more readable

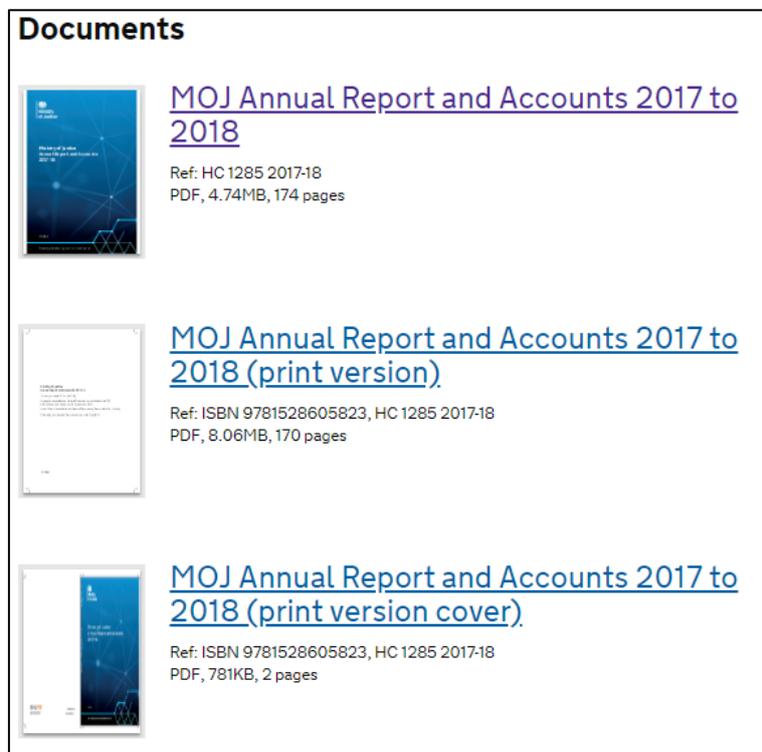
Parliamentary engagement with government financial reports

- 7.52 Departmental annual reports and accounts are produced in paper format to be laid before Parliament. Parliament exercises its responsibility to hold government to account primarily through select committee hearings on annual reports and accounts. The Public Accounts Committee, informed by the independent audit work carried out by the National Audit Office, may also choose to hold hearings on individual sets of annual reports and accounts.
- 7.53 The House of Commons Scrutiny Unit supports Parliamentary scrutiny of financial reporting. The Scrutiny Unit undertakes systematic reviews of departmental Annual reports and Accounts, and provides financial expertise to departmental select committees. The Treasury will continue to work with the Scrutiny Unit to support both departments and select committees as this process evolves.
- 7.54 The government financial year ends on 31 March, and departments aim to lay their accounts before Parliament before Summer Recess, with an administrative deadline of 30th June. The Treasury provide additional guidance and support to help departments meet these timescales, and most government annual reports and accounts are laid before Parliament and published online by July.
- 7.55 In the 3 months before a set of annual reports and accounts is laid before Parliament, a full consolidation exercise must take place to produce the consolidated departmental accounts. The National Audit Office must also

carry out all necessary audit work to support the signature of the Comptroller and Auditor General on the audit certificate.

- 7.56 By making annual reports and accounts available for select committees to scrutinise before Summer Recess, the government ensures that the financial information is timely and relevant when seen by Parliament. This also ensures that annual reports and accounts are available for public access usually within 3 months of the end of the financial year they relate to, supporting timely scrutiny by other users.
- 7.57 Different users have different accessibility requirements. Best practice is to provide both print and web-friendly reports online to enable accessibility, as can be seen in the example taken from the landing page for the Ministry of Justice annual report and accounts 2017-18 given in Figure 26.

Chart 7.A: Figure 26: landing page, Ministry of Justice annual report and accounts 2017-18



- 7.58 Other users may be less interested in the full narrative of the report and more concerned about extracting and analysing data. All departments must publish the data from their core tables in Excel or an equivalent format to make it easier to collect and compare. Best practice for accessibility is to extend this principle to other data sets included in the annual report and accounts. Figure 27 shows an excerpt from the transparency data published by the Cabinet Office in 2017-18.
- 7.59 The data sets published by the Cabinet Office were published in July 2018, making them promptly available to users. They are labelled with reference to the relevant pages of the annual report and accounts, and are provided both to view online and to download in an accessible CSV format.

Figure 27: [transparency data accompanying Cabinet Office annual report and accounts 2017-18](#)

Transparency data

Cabinet Office data sets: annual report and accounts 2017 to 2018

Downloadable files relating to each of the tables included in the Cabinet Office Annual Report and Accounts 2017-18. This enables proper analysis of the information by Parliamentary select committees, the Parliamentary Scrutiny Unit and the media.

Published 27 July 2018
From: [Cabinet Office](#)

Documents



Page 35 Remuneration salary benefits in kind and pensions of ministers

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Page 36 Remuneration salary benefits in kind and pensions of official board members

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Page 37 Fair pay disclosure

[View online](#) [Download CSV 186Bytes](#)

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7.60 Another example of the effective use of links can be seen in Figure 28, which shows the landing page for the Treasury's annual reports and accounts 2017-18. This page gives users links both to other Treasury annual reports and accounts, and to the department's single departmental plan. A user referring to these documents for the first time would find it easy to make comparisons to prior year activity, and to refer back to the single departmental plan to understand the Treasury's performance in the context of the departments aims and business planning.

Figure 28: [landing page](#), The Treasury annual report and accounts 2017-18

Documents



[HM Treasury annual report and accounts 2017-18 \(web\)](#)
Ref: ISBN 978-1-5286-0448-2, 2183, HC 1109 2018-19
PDF, 2.58MB, 204 pages



[HM Treasury annual report and accounts 2017-18 \(print\)](#)
Ref: ISBN 978-1-5286-0448-2, 2183, HC 1109 2018-19
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Details

The document provides a comprehensive account of the Treasury Group's use of resources and information about the Treasury's core activities. It also describes the Treasury's performance and achievements against the Treasury's [single departmental plan](#).

- 7.61 The Treasury is committed to supporting the work of the Scrutiny Unit, and to keep engaging with Parliament to improve annual reports and accounts. Departments are strongly encouraged to engage with their respective select committees on the content of reporting and how they can improve their individual reports.
- 7.62 The Treasury welcomes every opportunity to engage with Parliamentary users of government financial reporting, and to make use of Parliamentary feedback to make reports more usable.
- 7.63 Modern communication technology makes it possible for a wide range of external users to join Parliament in accessing and scrutinising government financial information. The Treasury is committed to building on existing best practice to make reports more accessible, and to use every opportunity to help users navigate the financial reporting landscape. Drawing on established best practice, this will include:
- promoting the publication of all data sets included in the annual report and accounts in formats such as Excel or CSV

- promoting the approach of providing an opportunity for those who need to request a more accessible format
- promoting best practice in setting up the landing page for each set of annual reports and accounts, to include narrative, links to the relevant single departmental plan and Accounting Officer System Statements, and links to prior year reports

Next steps

7.64 The needs of users change, the activities of the reporting organisation change, and the preferred communication technology changes too. Continuous improvement is therefore essential to maintain high standards of reporting.

- the Treasury will share detailed findings from this review with each department, to support accounting officers to learn from good practice and to address any areas for improvement in their own financial reporting
- the Treasury will set up a database of best practice examples, beginning with those found during this review and regularly updated, which will be made available to all those preparing government financial reports
- during its planned review of the Financial Reporting Manual, the Treasury will update the guidance to reflect best practice found during this review, and to reflect feedback from users in Parliament and elsewhere
- the Treasury will carry out thematic reviews on a regular basis, each time targeting a specific theme in financial reporting which could indicate an area for improvement
- the Treasury will support the Financial Reporting Advisory Board as it undertakes a review of its terms of reference

7.65 The Treasury has identified a number of best practice examples from departmental annual reports and accounts which demonstrate improvements in financial reporting. However, the fact that these are best practice rather than universal examples shows the scale of the improvements that could be made to government financial reporting.

Table 7.A: Chapter 7 actions and recommendations

Paragraph	Action
7.6	The Treasury will use all of the best practice examples shared in this report as the basis for its bank of best practice examples. This will be updated regularly and made available to all those preparing government financial reports.
7.17	The Treasury will encourage departments to consider how the map of the landscape developed for this review can be used by those preparing annual reports and accounts to help their users find the information they need.
7.30-31	Departments should use their judgement, guided by the unit cost checklist provided in paragraph 7.31, to determine whether to publish unit cost data. This should support the general purpose of the performance report: to tell the department's story.

7.35	<p>During the zero-based review of the Financial Reporting Manual, the Treasury will promote fundamental principles including:</p> <ul style="list-style-type: none"> • performance reporting should be organised according to the activity of an organisation, reflecting the information used by internal decision-makers • this should be consistent with, and build from, the business planning that has taken place through the single departmental plan
7.36	<p>During the zero-based review of the Financial Reporting Manual, the Treasury will look to revise guidance to support further disclosures in these areas:</p> <ul style="list-style-type: none"> • unit cost data should be shared if it is used for decision-making, with transparency around the basis of calculation and narrative to support user understanding • staff turnover data and staff engagement scores should be published, on a consistent basis, across central government
7.37	<p>During the zero-based review of the Financial Reporting Manual, the Treasury will revise guidance provided by departments, encouraging:</p> <ul style="list-style-type: none"> • the use of simple indicators such as the red/amber/green model followed by HMRC to discuss outcomes against aims • a 'comply or explain' approach to the disclosures in the performance report - departments should prioritise telling their story, but if they choose not to follow best practice to do so they must explain why not
7.38	<p>During the zero-based review of the Financial Reporting Manual, the Treasury will also enhance transparency by strengthening financial reporting requirements to better reflect the reporting of risks, how they change over time and how they are managed.</p>
7.50	<p>The Treasury will take steps to ensure that the transparency and accountability provided by good financial reporting is enhanced as new reporting tools become available over time:</p> <ul style="list-style-type: none"> • opportunities for improved financial reporting highlighted by this review will feed into government planning for digital transformation • the Treasury will promote changes that support future digital reporting, such as the effective tagging of data and the use of a modular report structure
7.51	<p>The Treasury will promote best practice on presentation when revising financial reporting guidance, for example:</p> <ul style="list-style-type: none"> • how graphics can be made accessible to those with different perception needs, such as different colour vision • the use of links to connect different parts of the same report so that a long document is easier to navigate • the use of formatting in text, tables, and graphics to make financial reporting more readable
7.61	<p>The Treasury is committed to supporting the work of the Scrutiny Unit, and to keep engaging with Parliament to improve annual reports and accounts.</p>

7.61	Departments are strongly encouraged to engage with their respective select committees on the content of reporting and how they can improve their individual reports.
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7.63	<p>The Treasury is committed to building on existing best practice to make reports more accessible, and to use every opportunity to help users navigate the financial reporting landscape. Drawing on established best practice, this will include:</p> <ul style="list-style-type: none"> • promoting the publication of all data sets included in the annual report and accounts in formats such as Excel or CSV • promoting the approach of providing an opportunity for those who need to request a more accessible format • promoting best practice in setting up the landing page for each set of annual reports and accounts, to include narrative, links to the relevant single departmental plan and Accounting Officer System Statements, and links to prior year reports
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7.64	<ul style="list-style-type: none"> • the Treasury will share detailed findings from this review with departments, to support accounting officers to learn from good practice and to address any areas for improvement in their own financial reporting • the Treasury will set up a database of best practice examples, beginning with those found during this review and regularly updated, which will be made available to all those preparing government financial reports • during its planned review of the Financial Reporting Manual, the Treasury will update the guidance to reflect best practice found during this review, and to reflect feedback from users in Parliament and elsewhere • the Treasury will carry out thematic reviews on a regular basis, each time targeting a specific theme in financial reporting which could indicate an area for improvement • the Treasury will support the Financial Reporting Advisory Board as it undertakes a review of its terms of reference
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Chapter 8

Conclusions and next steps

- 8.1 The Treasury is committed to supporting continuous improvement in financial reporting to meet the four purposes set out earlier in this report. The Treasury is keen to continue working with both external stakeholders and departments to support ongoing improvement in annual reports and accounts and, with the Cabinet Office, in single departmental plans.
- 8.2 The actions listed in this report for the Treasury, and for departments, will ensure that the government continues to make its financial and performance reports more useful to Parliament and the many others who refer to them. Detailed actions are given in the tables at the end of chapters 2-7 of this report, which are collected into a single table in [Annex C](#). This chapter gives a summary of those recommendations.

The map of the government Financial Reporting landscape

- 8.3 Feedback received as part of this review highlighted the difficulties external users can face in trying to link different pieces of financial reporting published by government. The map of the financial reporting landscape, set out in [chapter 4](#), is the first step in tackling this issue. The Treasury will publish this as a standalone piece of guidance that preparers and users of government financial information can refer to.
- 8.4 The Treasury will create a webpage on gov.uk with the map of the financial reporting landscape and will explore further how the map of the financial reporting landscape developed for this review can be used by those preparing annual reports and accounts to help their users find the information they need.
- 8.5 Departments will also be able to cross refer between their own reports and the landscape, in order to understand better how their publications fit into a bigger picture available to Parliament and the public.
- 8.6 The Treasury will continue to evaluate and develop the visualisation map so that it remains relevant and useful, updating and amending it as required, and will continue to seek views from a wide variety of stakeholders and users.

Government guidance

- 8.7 The Treasury issues guidance to departments and it is important that this guidance is regularly reviewed and clear for departments to understand.

- 8.8 The principles behind the best practice found during the Treasury review will be applied across government. This includes performance reporting being organised according to the activity of an organisation, which should make it consistent with, and building from, the business planning that has taken place through the single departmental plan. The single departmental plan in turn should reflect the public commitments made by that department so that stakeholders can see how their concerns are addressed.
- 8.9 The Financial Reporting Manual is updated on a yearly basis to reflect changes in the accounting standards and any other changes across government and is published in December each year.
- 8.10 During the 2019-20 financial year, the Treasury has committed to go further than the usual annual review of the Financial Reporting Manual and will start a zero-based review of this Manual to ensure it continues to be fit for purpose and to include feedback received during this review.
- 8.11 Most of the changes to guidance will be on the level of principles, but some involve additional mandatory reporting disclosures on issues such as staff turnover or risk disclosures. The key principles identified during the review to be reflected in updated guidance are:
- the four fundamental purposes for financial reporting proposed by PACAC, with an implementation hierarchy that puts the needs of the primary user of each report first
 - the importance of balanced reporting, telling the full story of an organisation and providing sufficient context for users to have confidence in the information
 - value for money and clarity in reporting, supported by the checklist to help preparers decide what disclosures should be included in each report
 - transparency around the assurance processes in place, to help users have confidence in reports
 - the principle from ‘Simplifying and streamlining’ that the performance report in annual reports and accounts should tell the story of a department in an accessible and engaging way

Feedback to departments

- 8.12 As part of this review, the Treasury has undertaken a thorough analysis of departmental annual reports and accounts. Each main department’s 2013-14 annual reports and accounts were compared to their 2017-18 annual reports and accounts in order to assess progress made. Reports were compared against the recommendations in ‘Simplifying and streamlining’ as well as the recommendations made in the ‘Accounting for democracy’ reports. This has provided a detailed picture of the quality of each individual department’s annual reports and accounts.
- 8.13 Following on from this analysis, the Treasury intends to give departments comprehensive feedback on their annual report and accounts. This will include highlighting what is being done well, as well as identifying potential areas of improvement. The Treasury has already begun this outreach work,

and will continue working with departments to see how this feedback can be implemented.

- 8.14 The Treasury will also set up a database of best practice examples which will be regularly reviewed and added to with further best practice examples. This database will be available to all those in government who prepare financial reports.

Thematic reviews

- 8.15 The analysis of departmental annual reports and accounts has shown the importance of regular reviews in helping support ongoing improvement in governmental financial reporting. Therefore, the Treasury is intending to carry out thematic reviews of the annual reports and accounts on an annual basis.
- 8.16 These would be similar to the thematic reviews carried out by the Financial Reporting Council, whereby a sample of private sector companies' annual reports and accounts are assessed each year. Each review has been focused on a particular theme, such as significant accounting judgements and sources of estimation uncertainty
- 8.17 The Treasury will begin the thematic review process in 2019, to strengthen the annual feedback cycle between the Treasury and departments to help support continuous improvement in government financial reporting. The Treasury will engage more broadly on the thematic reviews, working with both departments and external users of the accounts to determine the topic of the thematic review.

Opportunities to work with external users of accounts

- 8.18 During this review, the Treasury has liaised closely with external stakeholders, both through the Advisory Board established to support the project, and through active stakeholder engagement, including Full Fact and Institute for Government.
- 8.19 The Treasury is keen to continue to work with these two organisations and others, so that it can better understand the needs of users and how data is used by and presented to their respective audiences. An ongoing Advisory Board will be established, made up of representatives of users, to meet twice a year. This group will inform the government's thinking, particularly around helping departments make annual reports and accounts more usable.
- 8.20 The Treasury also recognises the work others have put into improving financial reporting and have liaised with relevant organisations during this review. The Treasury appreciates the benefits in working with such organisations to enhance government financial reporting.
- 8.21 The Treasury will continue to work with both internal and external users of accounts, to help support continuous improvements in the government financial reporting and build on the work done during this review.
- 8.22 Please contact Resource.Accounts@HMTreasury.gov.uk if you are interested in learning more or in getting involved to improve government financial reports.

The Public Value Framework

8.23 The government is also continuing to implement the recommendations of Sir Michael Barber's 2017 report, [Delivering better outcomes for citizens](#). The Public Value Framework (the main recommendation of Sir Michael's report) has been tested and refined through a series of pilot reviews during 2018 and a revised version was published earlier this year. The framework is now due to play a central role in the upcoming Spending Review. As announced by the Chancellor at Spring Statement 2019, following the principles set out in Sir Michael's report, the next Spending Review will have a renewed focus on the outcomes achieved for the money invested in public services.

Single departmental plans

8.24 Since their introduction in 2015, single departmental plans have gone through several iterations, and they continue to undergo a perpetual process of improvement through the centre of government's close work with departments. The National Audit Office's November 2018 report, [Improving Government's Planning and Spending Framework](#), recognised that the single departmental plan process has improved year on year, "helping departments to conduct business planning in a more professional, informed, integrated way".¹ However, the government is fully aware that there is still progress to be made to ensure the single departmental plans become the invaluable products they were envisaged to be, and is working to improve the planning and performance framework taking into account the National Audit Office and Public Accounts Committee's recommendations.

8.25 The government has identified several levers through which it aims to improve single departmental plans. Two of these such levers are: making changes to the single departmental plan guidance, which departments rely upon to produce both their internal and external single departmental plans; and improving departmental capability, for example by introducing a Planning Maturity Model and implementing cross-departmental networks.

8.26 Cabinet Office guidance mandates the use of single departmental plans as the central business plan for all major departments. The government has also taken steps to improve the consistency and quality of single departmental plans, through providing clearer direction to departments over what they are obligated to include in these documents. Recent changes this year include requesting that departments identify areas of their work which should be considered as cross-government in nature. To support the implementation of these changes, the Treasury and Cabinet Office will continue to work with departments as they produce their 2019-20 single departmental plans and will continue to push for improvements to both the internal and public single departmental plans.

Other Stakeholders

8.27 As well as the Treasury, the first 'Accounting for democracy' report gave recommendations to other important players in the annual reports and

¹ Improving Government's Planning and Performance Framework, National Audit Office November 2018, p.36

accounts process, including select committees and the Financial Reporting Advisory Board.

- 8.28 Parliament is independent of Treasury and this independence is an important part of the accountability and transparency structure. However, the Treasury is committed to supporting the work of the Scrutiny Unit, and welcomes opportunities to engage with Parliament as the users of the annual reports and accounts, including using feedback received from Parliament to enhance government financial reporting.
- 8.29 The aim of the Financial Reporting Advisory Board is to promote the highest possible standards in financial reporting by the government. It currently includes independent members such as representatives from the accountancy profession in the private and public sectors, academia and government bodies. The Financial Reporting Advisory Board has been kept informed of the Treasury's review into government financial reporting and has committed to reviewing its Terms of Reference with the intention of increasing the focus on the performance reports, in line with global trends. It will also review its effectiveness as per its Terms of Reference.

Annex A

Government responses to recommendations made in 'Accounting for democracy'

- A.1 The government recognises the importance of good financial reporting and is committed to improving the quality of departmental reporting through annual reports and accounts, single departmental plans and other reports. 'The government financial reporting review' agrees with the four purposes of reporting as set out in the 'Accounting for democracy' reports and explores how trust in reporting can be enhanced. The Review also tracks the progress made in government financial reporting since 'Simplifying and streamlining', as well as highlighting where there are further improvements to be made.
- A.2 A key finding from the user consultation supporting 'Simplifying and streamlining' was that the inclusion of a large amount of mandatory information was obscuring the big picture and limiting the usefulness of the annual reports and accounts. The government continues to support this principle and will limit any new mandatory reporting requirements, instead encouraging departments to report on what is relevant and material for understanding the individual entity. However, the government accepts that financial reporting may be improved with the introduction of some additional mandated reporting requirements to enhance balanced reporting and to address the needs of users. Where this is relevant, guidance will be updated. A full list of actions and recommendations can be found in [Annex C](#) to 'The government financial reporting review' and many are referenced below.
- A.3 The government has reviewed each of the recommendations made by the Public Administration and Constitutional Affairs Committee (PACAC) in the first 'Accounting for democracy' report and has responded to each recommendation. The government supports the aims of improving government financial reporting, making reports more accessible, and finding ways for those preparing reports to receive and respond to user feedback.
- A.4 As a result of this review, the Treasury will:
- carry out a zero-based review of the guidance for departments producing annual reports and accounts, the [Financial Reporting Manual](#), which will be overseen by the independent Financial Reporting Advisory Board

- establish a bank of best practice examples to support departments improving their reports which will be accessible to preparers of annual reports and accounts, and will be updated on a regular basis
- engage with departments to share the findings of the review and support continuous improvement
- publish the map of the financial reporting landscape online and look for other ways to help users navigate financial reports
- monitor the financial reporting landscape and update the map of the financial reporting landscape so it remains relevant
- carry out regular thematic reviews on specific issues in financial and performance reporting
- establish a group of external users of annual reports and accounts to meet twice a year and share feedback to help those preparing government financial reports better meet their needs

Table A.1: Reporting in the annual report and accounts

<p>'Accounting for democracy': Paragraph 34</p>	<p>"The Treasury should update its guidance to Departments setting out that Annual Reports and Accounts should include statistics on staff turnover within the Department and also the staff engagement scores for the Department from the latest Civil Service People Survey. The average figures for the Civil Service should also be included."</p>
<p>Response</p>	<p>The government agrees that it is important that statistics on staff turnover and staff engagement are communicated.</p> <p>As set out in Chapter 6 and Chapter 7 of 'The government financial reporting review', the Treasury has considered all the main departmental annual reports and accounts and found that some departments already report turnover figures or staff engagement scores. The government agrees that the inclusion of staff engagement data would increase the usefulness of the annual reports and accounts and therefore, as part of the zero-based review of the Financial Reporting Manual, the Treasury will revise guidance to mandate the publication of staff turnover data and engagement scores, on a consistent basis, across central government. This information will form part of the Staff Report.</p>
<p>'Accounting for democracy': Paragraph 45</p>	<p>"We recommend that the Treasury explore how Annual Reports and Accounts can be made more useful by requiring Departments to report not just by organisational unit but also by policy area. This could be achieved by, for instance, restructuring the Estimates subheads or providing additional spending breakdowns of spending within the notes to the Accounts. Senior officials would remain accountable for the money they have spent through reporting by organisational unit. Audited statements for policy area should include both performance and financial data so that citizens can evaluate how effectively Departments are spending money."</p>
<p>Response</p>	<p>The government welcomes feedback on how government financial reporting can be made more useful to users, and agrees that senior officials should remain accountable for the money they have spent through reporting by organisational unit. This forms part of the accountability framework where accounting officers have responsibility for the stewardship of resources of the individual organisation.</p>

Departments are individual organisations of varying sizes and it is important that each department reports in a way that is relevant for the work they do, without causing an unnecessary administrative burden. Therefore, the government will continue to encourage departments to report on spending and performance matters that are relevant and significant for understanding the individual organisation. During the zero-based review of the Financial Reporting Manual, the Treasury will amend the guidance to emphasise that organisations should use their performance report to tell the story of their activity which should include reporting by policy area if this is both relevant and material to the organisation.

The Treasury will continue to remind departments that Estimates lines should be self-explanatory and represent agreed groupings. However, Estimates lines are not only decided on by departments, they must agree changes in liaison with their select committee and their Treasury spending team. Departments are encouraged to work with their select committee when deciding what to report against in their annual reports and accounts.

To maintain flexibility, the Financial Reporting Manual will support a 'comply or explain' approach where departments can choose to diverge from the best practice set out in the guidance, but must acknowledge and explain their divergence.

The National Audit Office has already provided an independent response to PACAC on the questions that fall under the purview of the Comptroller and Auditor General.

'Accounting for democracy': Paragraph 50	"Departments should disclose both financial and performance information about significant programmes in their Annual Reports and Accounts and clearly relate spending to outputs, outcomes and performance. Annual Reports and Accounts should disclose useful information about each programme, such as its planned duration, its current and forecasted cost and its current performance. This information, which should be audited, should be disclosed for all financially material or politically significant programmes within the Departmental boundary."
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Response	The government welcomes ideas as to how government financial reporting can be made more useful, and agrees that information about significant programmes is useful to users of annual reports and accounts.
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As set out above, departments are individual organisations of varying sizes and it is important that each department reports in a way that is relevant for the work they do. Therefore, the government will encourage departments to report on spending and performance matters that are relevant and significant for understanding the performance of the organisation. This could include by programme if this is both relevant and material to the department. Some departments already report against their policy key performance indicators in the annual reports and accounts. The Financial Reporting Manual sets out that entities "performance analysis must include information on how the entity measures performance i.e. what the entity sees as its key performance measures, [and] how it checks performance against those measures".¹ This analysis should provide information on the current

¹ [Financial Reporting Manual 2018-19](#), para 5.2.10, p.16

performance of any programmes where these are material and relevant to the organisation.

During the zero-based review of the Financial Reporting Manual, the Treasury will amend the guidance to emphasise the information organisations should use providing in their performance report about programmes where relevant.

To maintain flexibility, the Financial Reporting Manual will support a ‘comply or explain’ approach where departments can choose to diverge from the best practice set out in the guidance, but must acknowledge and explain their divergence.

**‘Accounting for democracy’:
Paragraph 51**

“Departments should also report data about significant projects, such as Trident and HS2 (which is the largest infrastructure project in Europe), in their Annual Reports and Accounts. This data, which should also be audited, should include spend to date for each project, spend in the year for each project, milestones met or not met and forecasted end date for the project. It should be provided for all projects that are significant in terms of the delivery of the Government’s priorities or that have a lifetime budget that is above materiality. Some of this data may be similar to the data held in the Annual Report on Major Projects, in which case the Department should clearly identify links to the Major Projects report within individual Departmental Annual Reports and Accounts so that the reader can swiftly access the data concerned.”

Response

The government agrees that information on spend and performance of major projects is of interest to users of the annual report and accounts and encourages departments to report on what is relevant and significant to meet the needs of users.

The Financial Reporting Manual sets out that “the purpose of the ‘performance analysis’ is for entities to provide a detailed performance summary of how their entity measures its performance.”² During the zero-based review of the Financial Reporting Manual, the Treasury will amend the guidance to emphasise that departments should use their performance report to tell the story of their activity, including providing a summary of any material and relevant projects.

However, the government also agrees that it is right to have higher expectations for the reporting of the most significant projects such as HS2 or Trident. In the planned zero-based review of the Financial Reporting Manual the Treasury will assess existing performance guidance and strengthen it where necessary to ensure effective reporting against major projects.

As noted in ‘Accounting for democracy’, the Infrastructure and Project Authority’s (IPA) Annual Report on Major Projects provides analysis of performance on the largest transformation, ICT, military capability, and infrastructure projects (including HS2) across government departments. Revised guidance will set out that departments should avoid repeating disclosures in their annual report and accounts where these are made elsewhere, as far as this is consistent with full and suitable reporting on significant projects. Where appropriate, disclosures can be

² [Financial Reporting Manual 2018-19](#), para 5.2.9, p.16

replaced with a link to highlight the information that is already available elsewhere.

The Treasury will focus on reporting on major projects will as the subject for a deep-dive review, as part of the planned programme of regular thematic reviews.

To maintain flexibility, the revised Financial Reporting Manual will support a 'comply or explain' approach where departments can choose to diverge from the best practice set out in the guidance, but must acknowledge and explain their divergence.

'Accounting for democracy': Paragraph 55 **"Alongside information on the effectiveness of its services, Departments should publish the costs of basic elements of those services. We recommend that Departments in future publish the full public sector unit costs (on a consistent basis) for key services (including those mentioned in their Single Departmental Plan and Annual Report) - for example the cost of a prison place, a court hearing, a school place or a hospital stay - on a consistent basis over time. Collecting and publishing comparative unit cost data across regions, and over time, and perhaps also against international comparators, would enable Government and public alike to assess how cost effective Government policies and programmes are, to understand how cost effective service delivery is, and identify where action is needed to address poor value for money."**

Response The government agrees with the aim set out in this recommendation, which is for users of the annual reports and accounts to be able to understand the cost effectiveness of government. Users should be able to understand the cost effectiveness of different decisions, so that Parliament are able to hold departments to account.

Chapter 7 of 'The government financial reporting review' discusses the use of unit costs and highlights that some departments already publish unit costs in their annual reports and accounts. When this is the case, for example by HMRC, the basis for the calculation is given as part of the disclosure, and the same measure is used between the different indicators for comparison and transparency. The Financial Reporting Manual prescribes that departments should include unit cost information for fees and charges income, where material.

Assessing unit costs can be a valuable way of understanding efficiency but there are good reasons for departments to calculate and share unit costs carefully. They are highly subjective and can be misleading. Unit costs tend to focus attention on some activities at the expense of others, and this can lead to perverse incentives and poor value for money.

Drawing on examples of good practice, the Treasury agrees with the recommendation and intends to amend guidance to state that unit cost data should be shared when used for decision making, assuming that doing so will not cause perverse incentives or reduce value for money. Organisations will be requested to provide transparency around the basis of calculation and narrative to support user understanding. Comparative data should also be disclosed where available.

'Accounting for democracy':
Paragraph 60

In addition to the "core tables" which are already published, Annual Reports and Accounts should expand reporting of other information, wherever possible to show longer time series of other data. In each case this should be accompanied with narrative, to explain to the reader information, such as explanations for spending variations over time, which might not be evident from the figures alone. Time series and accompanying trend analysis should cover a rolling period of five years past: for income, assets, liabilities and expenditure. Where possible, projections of future spending should also be extended forward into the remainder of the Spending Review period. Expenditure and balance sheet trends should be shown broken down between different policy areas and programmes and accompanied by helpful narrative explaining the main causes of changes and impacts on service activity. Information should be adjusted for any changes in the responsibilities of Departments (such as the movement of the Office for Civil Society from the Cabinet Office to the Department of Culture, Media and Sport) or accounting policies, so that it is comparable across a number of years.

Response

The government is supportive of ensuring the transparency and comparability of data, and agrees that the figures in the annual reports and account should be presented in detail and with context, including associated explanatory narrative.

Treasury guidance sets out that the performance report should provide contextual information, including longer time series analysis and comparators going beyond the prior year, where information is available. The annual reports and accounts are an accountability focused document, prepared at the end of each financial year, for users to scrutinise the performance of the organisation in the previous financial year as well as the outcomes it has achieved as a result of its spending and activity.

However, the government supports transparency of data and as such, information on future spend is available elsewhere. The Public Expenditure Statistical Analysis, published by the Treasury, contains statistical information that includes projected future spend by departmental groups. It is also important that the annual reports and accounts are laid before Parliament in a timely manner, and that providing additional detail that is available elsewhere does not create an additional reporting burden for the preparers of the annual reports and accounts.

To avoid duplication and keep reports readable, revised Treasury guidance will set out that departments should not repeat disclosures in their annual report and accounts that are made in another report. Instead they should provide a link to highlight the information that is already available elsewhere. [Chapter 4](#)Chapter 5 of 'The government financial reporting review' has established a map of the financial reporting landscape which will be published on gov.uk, and will signpost where relevant information may be found by users. Departments will be encouraged to link to other information that may be found outside the annual report and accounts. Previous years' annual reports and accounts are also easily accessible in the public domain.

During this review the Treasury has identified best practice examples where departments signposted information well. In future, the Treasury will maintain a bank of best practice examples for those preparing departmental annual reports and accounts and encourage departments to provide good quality information

that is well signposted. These include examples of core tables in the annual reports and accounts which include time series data for comparison already.

The Treasury will also carry out regular thematic reviews on specific issues in reporting, to help ensure that departments are implementing the guidance effectively.

**'Accounting for democracy':
Paragraph 92**

"The Annual Reports and Accounts should continue to report on spending against the Estimates. The Treasury should consider whether future Annual Reports and Accounts need to be adjusted to reflect any changes suggested by the Procedure Committee in its report on the Estimates process. Given that the Accounts report against what the Government promised to do in the estimates, it is vital that the link between the two documents is completely clear. The Treasury should continue to review how the Estimates and Accounts can be made more consistent with each other (greater "alignment")."

Response

Departments continue to report on spending against Estimates in their annual reports and accounts. The government is committed to alignment between Estimates and the annual reports and accounts and will continue to review how they can be made more consistent with each other. This will include the government reviewing the changes suggested by the Procedure Committee in its report on the Estimates.

In addition, the map of the financial reporting landscape, included in [Chapter 4](#) of 'The government financial reporting review', brings together the government financial reporting landscape into one place. One of the aims of this, amongst others, is to create a better understanding of users as to the link between different financial information, including the single departmental plans, Estimates and the annual reports and accounts.

The map of the financial reporting landscape will be published on gov.uk and the Treasury will keep it up to date and look for further opportunities to make use of it to help Parliament and other users find what they need in government financial reports.

**'Accounting for democracy':
Paragraph 100**

"In our view, the Annual Reports and Accounts should enable the reader to see how final outturn compares to the original plans, set out in the Spending Review as the Institute for Government has suggested. To do this currently involves tracking figures between several documents (the Spending Review, Main Estimates, Supplementary Estimates and Accounts) and is complicated and technical. Annual Reports and Accounts should provide a simple summary of why the figures have changed from the Government's original plans in the Spending Review or the Budget. This should be incorporated into the annual analysis that we recommend above. This will enable the House of Commons to hold the Government to account for changes to its spending plans."

Response

The government agrees it is important that Parliament can hold the government to account for what it has spent, and that it is transparent in how different types of government financial reporting feed into one another.

The map of financial reporting landscape, in [Chapter 4](#) of 'The government financial reporting review', sets out the relationship between different documents in the financial reporting landscape. The Spending Review informs the departmental settlements, which in turn, forms the detailed budgets that are approved and scrutinised by Parliament through the Supply Estimates process. Departments then publish their spending against these limits in the annual reports and account. The purpose of the annual reports and accounts is to hold the department to account for the money they have been approved to spend in that financial year, and therefore, the government believes the Estimates Memoranda are a more appropriate place to track changes in approved budgets than the annual reports and accounts.

The map of the financial reporting landscape will be published on gov.uk and the Treasury will keep it up to date and look for further opportunities to make use of it to help Parliament and other users find what they need in government financial reports.

'Accounting for democracy':
Paragraph 103

"Parliamentary scrutiny of the Government's commitments to Parliament should not be limited to the announced spending limits. The House of Commons should be able to scrutinise, through the Annual Reports and Accounts, how actual spending and activity compared to any financial commitments announced to Parliament, in press releases, or through the media to spend on or cut particular programmes or policy priorities. The Annual Report and Accounts should include an audited statement reconciling, as far as reasonably practicable, the financial commitments made with what eventually happened. This would include financial commitments made in ministerial announcements to Parliament (either in select committees or in debates), the Spending Review, the Budget, the Manifestos of the elected parties and Departmental press releases."

Response

The government supports the concept of making announcements easier to follow but does not agree that the annual report and accounts should be repurposed to track ministerial commitments.

The annual report and accounts is part of a wider landscape of government financial reports. The purpose of all financial reporting across government is to enable Parliament and others to hold the government to account for the way that it has used public money. Within this broader framework and purpose, different reports fill different roles.

Any financial commitment should impact on a series of publicly available reports over the course of a Spending Review period and over the relevant annual budget cycles. The expenditure should be announced, and then shown in the budgets of the relevant departments. It should be included in Estimates and represented in the performance measures in the relevant department(s) single departmental plans.

The role of annual reports and accounts is to show actual outturn, by organisational unit, looking back at the end of each annual cycle. In this way they are key to accountability between the accounting officer in each organisation and Parliament. Government commitments often relate to more than one department

or organisation, and may cover several years. To hold ministers to account for an individual announcement therefore often requires more information than is needed to meet the purpose of annual reports and accounts.

To test this view, the Treasury followed through an announcement in the 2015 Spending Review on the Pothole Action Fund. [Chapter 4](#) of 'The government financial reporting review' sets out the steps followed, and documentation reviewed, to allow for this tracking to occur. A certain amount of judgement was required, as an announcement that may seem material to a constituent may not be material to a department. However, it was possible to follow the announcement through various reports to evidence of the actual expenditure.

While this experiment is promising, showing how much information is already available to track government commitments, it also highlights some of the challenges involved. The government supports the concept of making announcements easier to follow so will support users to follow reporting on a specific point of interest from one document to another.

The Treasury has begun to tackle this issue with the map of the landscape of government financial reporting, and the summary of the approach taken to follow the announcement relating to the Pothole Action Fund. These tools will be made available online, and the Treasury will update them and consider further ways to encourage alignment, links between reports, and transparency for users.

However, following ministerial and other commitments that do not already fall into these reports would mean repurposing annual reports and accounts to disclose expenditure that falls outside the activity of the organisation and time period that they are designed to cover. This would create delays in the publication of these reports, and make it harder for Parliament to hold government to account.

The Treasury will therefore revise guidance to highlight that departments should identify expenditure that relates to significant or high-profile public commitments in their annual report and accounts. This should happen naturally as single departmental plans are updated to reflect major announcements. Treasury guidance already includes a requirement for departments to report against their single departmental plans in their annual reports and accounts, and specifies that it should include an overview of actions to deliver on cross-government priorities.

**'Accounting for democracy':
Paragraph 114** "When Government statistics are published, the publishing Department names a statistician that MPs and journalists can approach with queries about the meaning of the published data. A similar practice should be brought into effect with Annual Reports and Accounts. We recommend that every published Annual Report and Account should in future contain the contact details of named individuals within the Department's finance function whom journalists, MPs, House staff and members of the public can approach with queries about how the accounting data can be used for example to illuminate how much is spent on a particular policy priority or how much a department owes on a Private Finance contract."

Response The government believes that due to the scale and scope of financial and non-financial information in the annual reports and accounts, as well as due to staff turnover, it would not always be helpful for annual reports and accounts to include the contract details for a single named individual.

Departments already provide contact details in their annual reports and accounts that users can contact. Enquiries can then be passed through the department to the right person. However, the Treasury will mandate that each department needs to give a contact email address in their annual reports and accounts, that will be monitored on a regular basis. Adding individuals' contact details would not lead to any better usability of the accounts than is already in existence with the current processes, and might create difficulties if the named individual left the organisation.

In addition to this, Parliament has procedures in place to hold a department to account for the content of the annual reports and accounts, which would not come through having a named person in the accounts. For example, the Public Accounts Committee can request to speak to any accounting officer on the content of their annual reports and accounts, and each department has a select committee that reviews the relevant departments annual reports and accounts, and can query the content with departments as necessary.

**'Accounting for democracy':
Paragraph 128** "It is important that the Treasury recognise that accounts in the public sector do very different things to accounts in the private sector and their design should reflect the different groups of people who use them. Given that, it is important that although the accounts currently meet the international standards, the Government makes additional disclosures above and beyond standard corporate accounting. Otherwise both Parliament and citizens will be unable to use these documents to hold government to account."

Response The Treasury is the standard setter for central government and mandates the requirements of the annual reports and accounts through the Financial Reporting Manual. This is based on International Financial Reporting Standards as adapted and interpreted for the public sector.

In doing this, the Treasury is ensuring that departments annual reports and accounts meet international standards, with different treatment, where appropriate, to reflect the different requirements between the private and public sector.

'Accounting for democracy': Paragraph 138 "Materiality for Government Accounts should be disclosed. Whilst witnesses to our inquiry raised concerns about interest from the media and others pushing down materiality, this has not happened in the private sector where materiality is already disclosed. Materiality helps people understand how detailed the audit of the Accounts has been and how far they should rely upon the auditor's assurance about the accuracy of the figures."

Response The auditors are responsible for setting the level of materiality that they use for their audit process. This judgement is the responsibility of the auditor, and the government is committed to maintaining the independence of the Comptroller and Auditor General.

The National Audit Office has already provided an independent response to PACAC on these questions.

'Accounting for democracy': Paragraph 147 "Several of our witnesses have suggested that there is bias or spin in the Annual Report sections of Annual Reports and Accounts. The Government should move to address this by adopting the same principles to which National Statistics are subject (frankness, impartiality, objectivity and accessibility) for all the data in the Annual Report and Accounts. The new revised UKSA statistical Code of Practice should be extended to all accounting data within Departments. The National Audit Office and UKSA should work together to ensure that the code is adopted by Departments and to notify Parliament and the public where Annual Reports and Accounts are currently falling short of its requirements."

Response In the original response to the 'Accounting for democracy' report, the government agreed that one of the main purposes of annual reports and accounts is "to provide a credible and accurate record which can be relied upon".

There are a number of principles which the annual reports and accounts must already abide by, for example the generally accepted accounting principles of consistency, relevant, reliability and comparability. All professional accountants must apply the principles set out by their qualifying bodies. These are similar to the National Statistics principles set out above and the annual reports and accounts will be prepared in reference to these.

A further requirement is that every annual report and accounts includes, in the accountability report, a statement of the accounting officer's responsibilities. Each accounting officer must confirm that he or she takes personal responsibility for ensuring that the annual reports as a whole are fair, balanced and understandable, as per the UK Governance Code. The steps that accounting officers take to gain assurance are set out in general in [Chapter 5](#) of 'The government financial reporting review', and more detail on governance arrangements at each department can be found in Accounting Officer System Statements.

While the Treasury has identified several examples of best practice where departments have shared performance against targets in a balanced way, for example the use of a traffic light system in HMRC's 2017-18 annual reports and accounts to show performance against departmental commitments, there is still scope for improvement. The government considers that this is not due to the lack of a code of practice, but to challenges associated with implementing the high

standards already set out for government financial reporting. Therefore, the Treasury will address this issue by drawing attention to best practice, by feeding back to departments on the findings of their review, and through amendments to guidance during a planned zero-based review of the Financial Reporting Manual.

The National Audit Office has already provided an independent response to PACAC on the questions that fall under the purview of the Comptroller and Auditor General.

Table A.2: Management information including single departmental plans

'Accounting for democracy': Paragraph 167	"The Government must give priority to improving management information. This will mean ensuring the political and administrative leadership of all Departments is committed to good management information. This commitment should be included in the appraisal of the work of Permanent Secretaries and Executive Departmental Board members. The Government should make clear that it expects the Single Departmental Plan framework to last for the long term."
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Response The government is committed to improve the use of management information, particularly by ensuring that the most senior leaders in departments are making full use of high quality information to inform their decision making. Departments are responsible for establishing appropriate governance and accountability mechanisms, however, Cabinet Office and the Treasury continue to take steps to improve the operation of these mechanisms.

The robust and effective use of management information is implicit throughout the Permanent Secretaries' performance appraisal process. A number of inputs are used to inform the appraisal process, among these are:

- An assessment of performance against the department's single departmental plan objectives and indicators. Every department with a single departmental plan is required to produce regular internal updates on their progress towards delivery of their single departmental objectives in the form of quarterly performance reports.
- A report on financial management in the department, compiled by the Treasury, which gives an overall assessment of the quality of financial management in the department, including any risk areas on which to focus.

It is essential for Permanent Secretaries to have a thorough understanding of the management information in their departments, because it is this information against which they are judged continuously throughout the year in terms of single departmental plan updates, Function updates, and *ad hoc* audit mechanisms such as Public Account Committee hearings.

Executive Board members are subject to the common civil service annual performance process, and as their membership of a board will necessarily form part of the remit of their work, they will similarly be judged against their use of good management information to progress work at board-level.

The government agrees with the Committee that the centre needs to work together to ensure departments are using their single departmental plans internally. Any significant change takes a while to bed in. Cabinet Office and the Treasury are already engaging with all departments to provide support to this end. For example, the Cabinet Office and Treasury officials regularly meet with departments' planning leads, and Cabinet Office have set up a Planning Network to help departments share best practice and consult on the content of the annually revised guidance. Significant progress has already been made on this front over the past year. For example, the Chief Executive of the Civil Service agreed with the Ministry of Defence at their Executive Committee to integrate their single departmental plan with their internal business plan, the Defence Plan.

The government is also committed to improving single departmental plans, and making them a more useful tool for departments and the centre. Cabinet Office and the Treasury have taken four approaches to help departments produce better plans. Firstly, by facilitating better join-up within departments. The centre is working with departments to better join up financial and business planning, bringing strategic and finance directors together through the Planning Peer Group and engaging at working level through networks and teach-ins.

Secondly, through increasing departmental capability. The Finance Leadership Group led Planning Peer Group has developed a Planning Maturity Model, to help departments improve their planning capability. The Treasury and Cabinet Office also produce a good practice guide for single departmental plans and encourage departments to share best practice through planning networks.

Thirdly, through bringing in expertise and challenge. Departments are required to engage with the Cabinet Office central functions and spending teams, before finalising their single departmental plans. Spending teams and the Cabinet Office central functions will attend challenge sessions on departments' single departmental plans and provide challenge where single departmental plans are not satisfactory.

Finally, through increasing accountability by making explicit the requirement for accounting officers and Secretaries of State to sign off plans, in addition to Chief Secretary to the Treasury and the Chancellor of the Duchy of Lancaster providing final sign off.

'Accounting for democracy': Paragraph 184 "The Treasury and Cabinet Office should work together in making sure that Departments use Single Departmental Plans internally. The Government should ensure that all their major decisions are made on the basis of a full understanding of the practically available data. They should also move forward with the other aspects of the Financial Management Review, developing, for example, better information on the costs of activity in the public sector and on realistic forecasting."

Response The government is fully supportive of the Committee's recommendation that the Cabinet Office and the Treasury should encourage departments to make full use of internal single departmental plans, and in doing so, ensure that all major decisions are made on the basis of a full understanding of the practically available data. Departments are committed to using single departmental plans internally and each department has its more detailed internal single departmental plan for this purpose.

The National Audit Office Report 2018 acknowledges that many departments have aligned their internal decision-making processes with the single departmental plans they present to the Cabinet Office and the Treasury, however, the centre is aware that there is still considerable scope for improvement here across government. The National Audit Office Report highlighted that a majority (58%) of respondents agreed that their un-published single departmental plans were used by their senior management for decision-making. The Treasury and the Cabinet Office will continue to drive the use of internal single departmental plans as departments' key planning and decision-making tool, through fora such as the Single Departmental Plan Network, and through regular meetings at official-level between the centre and departments.

Since 2015, the government has monitored performance through single departmental plans, which provide a set of key indicators and metrics against each departments' strategic objectives. Performance monitoring has been improved further for the 2018-19 planning year. Departments are now required to submit quarterly performance reports against their single departmental plan objectives to Cabinet Office and the Treasury. This supplements the existing information departments already share with spending teams in support of the ongoing dialogue around spend, risk and other performance information, drawing on information provided to department boards.

Spending teams use performance information to inform their decisions, for example at Spring Budget 2017, analysing the trends and drivers in delayed transfers of care informed funding decisions for adult social care. As a result, the government announced an additional £2 billion over three years for adult social care, with one of the conditions being that the funding should be used to reduce delayed transfers of care attributable to social care. Since March last year, delayed transfers of care attributable to social care have decreased by 39%. The Budget 2018 committed to

systematically tracking performance and outcomes achieved for the money invested in public services.

The government is carrying out a range of initiatives leading to ongoing improvement in government financial management, including:

- implementing the recommendations of Sir Michael Barber's 2017 report, Delivering better outcomes for citizens, in the creation of the Public Value Framework which was tested and refined through a series of pilot reviews in 2018, revised and published early in 2019, ready to play a central role in the upcoming Spending Review
- implementing the recommendations of the Financial Management Review, including:
 - the launch of the Government Finance Academy in February 2016, to provide high quality learning and development offers to help improve financial skills, capability, and talent across the Government Finance profession
 - the creation of new Centres of Excellence such as the Technical Accounting Centre of Excellence (TACoE)
 - the establishment of a Costing Unit in the Treasury to build a more forensic understanding of the cost of public services

'Accounting for democracy':
Paragraph 185

"Management information should be seen as a key function of a Department. It should not be seen as a 'nice to have' nor confined to the Finance team. The Treasury and Cabinet Office should ensure that all senior civil servants are aware that it is impossible for them to deliver public services effectively or efficiently without good data linking outcomes to spending and realistic medium term plans."

Response

Senior civil servants have always been required to demonstrate an ability to deliver public services through a comprehensive understanding of the political and economic pressures within which their department operates, using management information to inform their understanding. Nonetheless, the Cabinet Office and Treasury are currently pursuing several programmes to develop this capability further.

One such programme, rolled out across departments at the end of the 2018-19 single departmental plan cycle, is the Planning Maturity Model. Developed by the Planning Peer Group, a director-level cross-government working group, the Planning Maturity Model provides departments with a comprehensive and objective framework through which to assess their planning capability. In doing so, it encourages senior civil servants to reflect on how they might improve the quality of their department's medium-term planning, in order to more efficiently deliver government policy and achieve better value for money outcomes for the public. The Model sets out clear standards for best practice across eight key elements of business planning. It makes clear, for example, that departments should be consistently and effectively using performance management

information to inform future planning at all levels, and that performance information is linked to financial information and used to determine value for money. Cabinet Office and Treasury anticipate that departments' engagement with the Planning Maturity Model will build departments' planning and performance reporting capability as they move into the 2019-20 single departmental plan cycle.

The Government Finance Function is also working to raise awareness of the importance of good-quality management information. To this end, for example, they are delivering a Cross-Government Management Accounts Project to drive a step change in the standard of financial management information at board level across government departments, by developing resources and sharing best practice in management information. They are also developing key metrics to ensure financial reporting is targeted as effectively as possible and that the best financial information is made available to the decision makers who need it.

**'Accounting for democracy':
Paragraph 197**

"The Treasury and Cabinet Office should work with Departments to ensure that the full Single Departmental Plans are published, subject to necessary omissions on grounds of national security or commercial confidentiality. Departments must, on a quarterly basis, share the full un-redacted Single Departmental Plans with the Comptroller and Auditor General and his staff. Unaudited progress reports against the Single Departmental Plans (with the restrictions above and full access for the National Audit Office) should be published on a quarterly basis (as recommended by the Comptroller and Auditor General) so that Parliament is informed of Departmental progress. These should include commentary on performance and, where required, actions being taken to improve outcomes. It is disappointing that the Treasury have rejected a similar recommendation from the Public Accounts Committee; we urge them to reconsider."

Response

The government supports the Committee's desire to further increase transparency and the ability for Parliament to hold the government to account for its spending. However, as the government has already explained in previous responses to both this Committee and to the Public Accounts Committee, there should remain a clear distinction between what departments share externally and what they produce internally as part of their ongoing business planning processes. The internal single departmental plans represent a space where departments are able to develop new policy ideas, and as such they often include commercially sensitive data which it would not be appropriate or helpful to publish.

Notwithstanding the reasons outlined above as to why the government will not publish internal single departmental plans, both the Cabinet Office and the Treasury are exploring the scope for including additional financial and workforce data and clearer indicators of success for the programme of work laid out for departments for 2019-20. The government is fully committed to continuing to improve the published single departmental plans so they are able to provide both Parliament and UK citizens with the best possible understanding and scrutiny of departmental objectives and performance against those objectives.

Elsewhere, Supplementary Estimates and the associated memoranda continue to provide additional information including in-year spending and how the Supplementary Estimate will be applied to achieve departmental objectives. Annual reports and accounts continue to provide a fuller picture of financial and non-financial performance at year-end, based on single departmental plan objectives, where relevant. This year, the guidance for the annual reports and accounts has been further strengthened to support improved reporting on the UN Sustainable Development Goals.

The Cabinet Office and the Treasury will continue to encourage departments to update their public single departmental plans on a regular basis, and in light of any changes to the department or new information received. As the government has already made clear in our response to other recommendations, we believe there is a strong case to be made against the publication of internal single departmental plans, and through extension, against the publication of quarterly performance updates against internal single departmental plans.

**'Accounting for democracy':
Paragraph 198**

"The Government should ensure that past performance information published on performance against Single Departmental Plans remains available when new information is published so they can be used as accountability documents in the future, and progress over time can be easily monitored. As with Annual Reports and Accounts, data from the Single Departmental Plans should be available in excel format so that users are able to analyse that data more thoroughly."

Response

The public versions of single departmental plans and all annual reports and accounts already remain available on the government's website, even once they have been superseded by a newer version of the document. This ensures that they can continue to be used as accountability documents in the future, and will allow for progress over time to be understood.

Many data sets can be downloaded in spreadsheet format, though the government does not make this a requirement for departments. The government will continue to review the accessibility of data and will make changes as needed to support transparency.

Meanwhile, the Treasury and the Cabinet Office will continue to make improvements to the public plans, to enhance their usability and transparency. This will include:

- improving workforce and financial information
- additional and improved performance indicators
- aligning the internal processes and timetable for producing public and internal plans

Cabinet Office and the Treasury continue to look for new ways to improve the public plans. In order to make headway on this for the future, the

government has engaged with the Office for National Statistics, the Institute for Government and the National Audit Office ahead of the next planning round.

'Accounting for democracy': Paragraph 202	"Departments should report against their Single Departmental Plan in their Annual Report and Accounts in a consistent format throughout. Such reporting should provide a complete financial and performance picture of the Department's activity for the year."
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Response

The Treasury's guidance states that departments must report against their single departmental plans in their annual reports and accounts. It sets out that the annual reports and accounts should present a clear picture of the departmental group's aims, activities, functions, and performance and where appropriate, be aligned to their single departmental plans. Whilst the guidance requests that departments report against their single departmental plans in a way which enables external understanding of performance and value for money achieved, the government does not prescribe a set template for departments to abide by. This is because we believe departments should be afforded flexibility in determining how to report their performance, according to how they have structured their strategic objectives within their single departmental plans.

As part of the bank of best practice examples, the Treasury will include examples where departments have reported against their single departmental plans in the annual reports and account in a consistent and comprehensive manner.

Table A.3: Users of financial reporting

'Accounting for democracy': Paragraph 17	"Annual reports and accounts must be clearly presented so non-accountants can read and make use of them."
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Response

The government agrees that annual reports and accounts should be able to be used by individuals who are not accountants.

From the review into departmental accounts as set out in [Chapter 6](#) of 'The government financial reporting review', the Treasury has concluded that since 'Simplifying and streamlining', the presentation of annual reports and accounts has improved, allowing the user to more easily and quickly gain an overview of the entity. The government agrees that departments should continue to improve the presentation and use of plain English, including removing lengthy technical language where possible, in the annual reports and accounts to make the reports more user friendly.

Going forward, the Treasury will highlight and promote best practice both in guidance and in a database of best practice examples, to support

departments in continuing to make their annual reports and accounts more user friendly.

'Accounting for democracy': Paragraph 24 "Accounts would be better used if they were prepared more often with the ultimate readers in mind, for example, commentators on public policy, peers and MPs and their researchers."

Response The government agrees it is important for the annual reports and accounts to reflect the needs of the ultimate reader

As set out in Chapter 3 of 'The government financial reporting review', the Treasury prepares its guidance to departments for the preparation of annual reports and accounts with the ultimate reader in mind, who is Parliament. Where there is no conflict between the needs of different users, the annual reports and accounts are prepared with the intention of meeting the needs of all users, but where there is a conflict, the needs of Parliament will prevail.

The Treasury is doing a zero-based review of the Financial Reporting Manual and in doing this, will review the guidance to ensure it reflects the need for entities to think about the needs of their users whilst compiling their annual reports and accounts.

'Accounting for democracy': Paragraph 25 "The Treasury should identify good practice, and share and encourage its adoption by other Departments."

Response The government agrees that it would be beneficial for best practice examples to be shared between the preparers of the annual reports and accounts, and for departments to be able learn from each other

The Treasury has identified good practice within its review of the departmental annual reports and accounts, and will make a bank of best practice examples to be utilised by preparers of annual reports and accounts.

'Accounting for democracy': Paragraph 27 "It is clear that Annual Reports and Accounts are hard to follow. Non-accountants and commentators like the King's Fund and Taxpayer's Alliance do not find them as useful as they should be. Professor Prowle and Dr. Harradine are right to call for more systematic information about who is using Accounts, what figures and facts they are using from them and what they think about the documents. We recommend that the Treasury carries out research to identify how many people are buying and downloading Annual Reports and Accounts, who current readers are, what those readers think and who the potential readership is likely to, or should, include. We further recommend that the Treasury should regularly seek to find out what potential users of the Annual Reports and Accounts (including those who submitted evidence to our inquiry) think about how they could be improved to make it easier to assess the effectiveness of Government spending."

Response The government is supportive of making the annual reports and accounts easier to use in assessing the effectiveness of government spending. The government will continue to work with departments, and internal and external users of accounts, to help support continuous improvements in government financial reporting.

Chapter 6 of 'The government financial reporting review' identifies that since 'Simplifying and streamlining', there has been an increase in the usability of the annual reports and accounts, for example with all departments organising their annual reports and accounts to the revised three-part structure and now including a clear statement of the purposes and activities of the organisation. However, there are some variations across the different departments and there are still improvements that can be made to government financial reporting.

The Treasury formed an Advisory Board for the review, which included a range of members, including the Scrutiny Unit and two external organisations identified by PACAC as independent representative of public users of government reporting. The Treasury also reached out to a range of financial reporting experts from both the private and the public sector, as well as other interested stakeholders. The Advisory Board has provided an invaluable perspective and members have shared many insights into how annual reports and accounts could be made more user friendly. There has been a wider discussion around the users of the annual reports and accounts, including an appreciation that whilst there are multiple users, from journalists, to members of the public, Parliament is the main user of the annual reports and accounts, which are a way for departments to be held to account for spend.

To build on this engagement, the Treasury intends to organise a group of user representatives to meet on an ongoing basis, to discuss improvements to government financial reporting. The Treasury will also support departments to reach out to users, and to take full advantage of feedback provided by their select committees.

'Accounting for democracy': Paragraph 31 "Departments and the Treasury should consider always that the demands of public sector users of financial information differ from those of private sector users and therefore they may need to provide them with additional explanations and information."

Response The government agrees that the demands of public and private sector users of financial information may differ.

The Treasury is the standard setter for central government and mandates the requirements of the annual reports and accounts through the Financial Reporting Manual. The Financial Reporting Manual includes requirements for disclosures that go beyond those requested by the private sector, to demonstrate the understanding that the demands of private sector and public sector users of financial information are different. For example, central government annual reports and accounts must include the Statement of Parliamentary Supply and accompanying notes to enhance parliamentary accountability.

'Accounting for democracy': Paragraph 32 "Whilst the Treasury's reforms are a good first step, the way they have been implemented by different Departments, within a broad framework, currently varies widely. It is clear from the evidence provided to us that, on their own, the reforms as currently implemented will not necessarily provide Annual Reports and Accounts that completely fulfil the needs of potential users. Departments should make concerted efforts to present financial data in a way that clearly links measurable outputs and outcomes, and is useful to readers."

Response The government supports the Committees view that there should be continued strengthening of performance reporting, including against key performance indicators, objectives, and risks and outcomes.

One of the key focuses of 'Simplifying and streamlining' was to improve annual reports and accounts by enhancing their structure and refining the information they contain. The government believes it is important to support the continuing improvement of the usability of the annual reports and account and therefore agrees that departments should make concerted efforts to present financial data in a way that clearly links measurable outputs and outcomes, and is useful to readers.

The government is committed to building on existing best practice to make reports more accessible, and to use every opportunity to help users navigate the financial reporting landscape. In [Chapter 6](#) and [Chapter 7](#) of 'The government financial reporting review', the Treasury has considered the main departments annual reports and accounts, both pre- and post-'Simplifying and streamlining' and intends to give constructive feedback to departments on these findings, as well as to share best practice examples through a database to be made available to all those preparing government financial reporting. In doing this, the Treasury will support departments in continuing to fulfil the needs of users.

'Accounting for democracy': Paragraph 33 "It is disappointing that the Treasury have not monitored any changes in the way that accounts have been used since the reforms of 2015–16. As we recommend above, the Treasury should monitor the use of accounts to identify good practice. Where good practice already exists, Departments should be encouraged to learn from it. We also believe further reform is needed to address more directly the need for greater transparency and address needs of users."

Response The government fully agrees that it is important that the annual reports and accounts are accurate and transparent, so that MPs, the public, and others, can take decisions based on good quality information.

The Treasury has considered the content of the main departments annual reports and accounts since 'Simplifying and streamlining', in [Chapter 6](#) of 'The government financial reporting review'. This review was done in the 2018-19 financial year to allow opportunity for the new practices since 'Simplifying and streamlining' to become embedded. Before this, the Treasury has informally engaged with departments for feedback since 'Simplifying and streamlining', and has liaised with the Scrutiny Chair.

The Treasury has reviewed improvements in government financial reporting, and identified best practice examples from departmental accounts. From this, a database of best practice examples will be made available to all those preparing government financial report to allow departments to continue to learn from each other and improve the usability of annual reports and accounts. This database will be regularly reviewed and added to with further best practice examples.

The Treasury will continue to work with both internal and external users of the accounts to better understand the needs of users, and how data is used by different users. Doing this will inform the government's thinking, for example by influencing the topic of the Treasury's thematic reviews, which will assist departments to continue to make annual reports and accounts more user friendly.

'Accounting for democracy': Paragraph 64 "Annual Reports and Accounts should routinely be published in Excel or another similar usable format, so that analysts (whether inside Parliament, for which see below in Chapter 4, or outside in civil society) can swiftly extract the data and make use of it. The Treasury, working with Departments, should strive to improve Annual Reports and Accounts against the open data ranking system devised by Full Fact and endorsed by the Public Administration Select Committee in 2014."

Response The government agrees that users of the annual reports and accounts should easily be able to make use of the data provided, including by providing more data in accessible spreadsheet formats.

The ways in which information is shared and used is constantly developing, in line with technical advancements and the changing expectations of users. Modern technology has helped drive improvements

in financial report, for example new tools for graphic design and online publication have created new possibilities for report presentation.

Annual reports and accounts published by departments must also develop to keep in line with technological advances. The Financial Reporting Manual already requires departments to publish their core tables in a spreadsheet format to be viewed and downloaded in the same place as the annual reports and accounts. The Treasury will strengthen the guidance to support best practice of publishing other data from the annual reports and accounts in an accessible spreadsheet format.

However, the government is mindful that to ensure annual reports and accounts are relevant, the administrative deadline for laying the documents in Parliament is within three months of the year end. The government is committed to ensuring that the annual reports and accounts are timely to enable proper and effective Parliamentary scrutiny. Therefore, the publication of data in spreadsheet format may sometimes need to follow the publication of the annual reports and accounts document, as to not delay the laying of the accounts.

Opportunities for improved financial reporting highlighted by this review will feed into government planning for digital transformation. The Treasury will ensure that the needs of the external users of government financial reports are considered as data systems are developed. The Treasury also intends to promote changes that support future digital reporting, such as the effective tagging of data and the use of a modular report structure.

'Accounting for democracy': Paragraph 66	<i>"The Government should use modern technology to make the Accounts useful to outsiders, for example making them touchscreen friendly so that the data can be organised in different ways. The accompanying narrative should be shorter, written in plain English and accompanied by summary data and insightful graphics."</i>
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Response	Modern technology has helped drive improvements in financial reporting. For example, new tools for graphic design and online publication have created new possibilities for report presentation. The government is keen to work with departments to ensure that they are making full use of the technology available as well as future developments as they become available, to produce more usable annual reports and account.
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From the review into departmental accounts, the Treasury has concluded that since 'Simplifying and streamlining', the common use of infographics has improved the look and feel of the annual reports and accounts, allowing the user to more easily and quickly gain an overview of the entity. The government agrees that departments should continue to use visualisation to enhance their reports, and should continue to focus on the use of plain English in the annual reports and accounts to make the reports more user friendly.

Going forward, the Treasury will highlight and promote best practice both in guidance and in a database of best practice examples, and encourage departments to utilise the opportunities technological advances provide. The government also intends to bear the annual reports and accounts in mind when creating the digitalisation agenda.

Table A.4: Other stakeholders

<p>'Accounting for democracy': Paragraph 73</p>	<p>"We recommend that the Treasury make FRAB more representative of the consumers of Accounts and more attuned to users' requirements, by increasing representation on the Board of users or user groups. We further recommend that Treasury and FRAB should consider how, within the framework of recognised accounting standards, Accounts could be made more useful and responsive to the needs of users, providing the sort of information we have proposed within this report."</p>
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Response

The aim of the Financial Reporting Advisory Board is to promote the highest possible standards in financial reporting by the government. Currently, the Financial Reporting Advisory Board includes independent representatives from the accountancy profession in the private and public sectors, academia and a Parliamentary observer as well as government bodies. The Financial Reporting Advisory Board is also attended by the Parliamentary Scrutiny Unit.

The Treasury has had discussions with the Financial Reporting Advisory Board over the content of the PACAC report and the potential for greater user involvement in considering proposed changes to accounting policy and practice. The Treasury will continue to support the Financial Reporting Advisory Board, as the secretariat, but is mindful of the importance that the independence of Financial Reporting Advisory Board is maintained. However, discussions are ongoing with the Board to consider expanding its role to developments and improvements in financial reporting in the public sector.

In order to ensure ongoing engagement with users, a separate group will be established to build on the relationships formed during 'The government financial reporting review' in 2019 and any follow up work. This group of external users will share insights, on an advisory basis, to support the continuous improvement of government financial reporting.

'Accounting for democracy': Paragraph 74 "Select Committees should consider the suggestion made by the Director of Full Fact that they should have an annual hearing not simply on the Annual Report and Accounts, but on the information published by Government Departments (including Accounts) more generally. Departments should take note of what select committees have to say on how Annual Reports and Accounts of individual Departments could be made more useful to their readership, within the general requirements of accounting standards, audit and consistency. The Treasury should also influence Departments to follow the example of the Department of Health in consulting specialist think tanks and researchers about what information they would like the Department's Annual Reports and Accounts to disclose (in addition to the information the Treasury mandates to maintain consistency between Departments)."

Response Select committees are independent of the government and it is not for the government to determine the content of a select committee hearing. However, the government is fully supportive of the role the select committees play and believes departmental select committees should play an important role in determining specific content in the annual report and accounts and the government strongly encourage departments to consult with select committees and user groups.

Departmental select committees have the opportunity to give feedback to departments during the year on the content of the annual reports and accounts, including advising how to make them more useable for Parliament. The government agrees it is important for the annual reports and accounts process that the relationship between departments and their select committees continues to be utilised and the government is ready to provide support as required.

'Accounting for democracy': Paragraph 91 "Annual Reports and Accounts should be the cornerstone of Parliamentary accountability. The House of Commons should, through the Accounts, have the ability to hold the executive to account for its spending, against plans account in the Estimates and Spending Review."

Response The government agrees the annual reports and accounts are a cornerstone of Parliamentary accountability. The purpose of the annual reports and accounts is for Parliament to scrutinise the spending of government and to hold government to account, as a vital part of the annual accountability cycle.

'Accounting for democracy': Paragraph 95 "We support the Public Accounts Committee and its Chair in their intention to take evidence from senior civil servant about excess votes where the Committee deem it necessary. We urge the Government to consult with the Public Accounts Committee to ensure it has enough time to do this."

Response The government is supportive of the role the Public Accounts Committee plays in holding government to account for how its actual spend compares to its Estimates, through the excess vote procedure. The government will support the Public Accounts Committee in their role wherever possible.

'Accounting for democracy': Paragraph 113 "Many Members of Parliament will wish to continue to rely upon the work of the National Audit Office and the Scrutiny Unit to alert them to issues in the accounts. However, it is also clear that Members have welcomed the opportunity to understand more about what information is available within these documents and how they and their staff can use them. We therefore encourage the National Audit Office and Scrutiny Unit to continue to publicise the information contained in the accounts and to offer training to Members, their staff and other Parliamentary staff in how to use the accounts."

Response Members of Parliament play an important role in the accountability and transparency element of government. The Treasury will continue to support the National Audit Office and Scrutiny Unit in publicising the information contained in government financial reporting, and is keen, on request, to offer training to Members, their staff and other Parliamentary staff in how to use the accounts.

'Accounting for democracy': Paragraph 130 "Professor Heald argues that Accounts give us assurance that the Government knows what it spends money on, and can measure it accurately. At the moment, we do not have summarised data that enables us to check how many of the Government's published Accounts are either accurate or properly compiled. The National Audit Office should publish an annual report which identifies how many Accounts are qualified, why they were qualified and what that tells us about the Government's ability to manage its finances effectively."

Response The National Audit Office plays a fundamental role in the annual reports and accounts process and has been kept involved in this review as an observer on the Advisory Board.

The government maintains that low numbers of qualified accounts are an important measure, revealing that in a clear majority of cases, the public and Parliament can, and should have, confidence in the accuracy of the figures reported by the government.

In order to improve transparency around the many different ways that accounting officers gain assurance over financial and performance reports they sign off, and the other sources of assurance available to users of annual reports and accounts, [Chapter 5](#) of 'The government financial reporting review' gives an overview of the processes in place to enhance in the trustworthiness of financial reporting.

In their response to the first 'Accounting for democracy' report, the National Audit Office stated, "the number of non-standard opinions and auditor reports (including qualified opinions) is typically small each year so it would not be difficult to publish a list of non-standard reports by the C[omptroller] & A[uditor] G[eneral] each year".³ The government will support the National Audit Office in their decision whether or not to publish this information.

³ Accounting for democracy Revisited: The Government Response and Proposed Review, PACAC 2018, p.70

'Accounting for democracy': Paragraph 139	"The Government's support for the Comptroller and Auditor General and the NAO is welcome and important. The NAO's role is constitutionally vital, both as the auditor of value for money in the public sector and as the auditor of the Accounts. As Government's independent auditor, the NAO assures Parliament that it can rely upon the financial data published in unqualified Accounts to scrutinise the Government. Irrespective of the format or the contents of Annual Reports and Accounts, the NAO's valuable role must be protected."
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Response	The role of the Comptroller and Auditor General, and that of the National Audit Office are written into the Government Resources and Accounts Act (2000) and therefore this role is protected by legislation. The government continues to recognise and support fully the important role and independence of the National Audit Office.
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'Accounting for democracy': Paragraph 149	Departments should also subject the performance data and commentary in their Annual Report to an authoritative audit of the accuracy, completeness and objectivity of the data and statements made, to enable citizens and their representatives to obtain a full and unbiased view of the Department's performance. This audit should go further than the NAO's current audit of the annual report for consistency with the accounts. This audit should be conducted by an independent body, potentially the NAO, if it considers it appropriate, or UKSA. This audit should assess the accuracy of the statistics used in assessing performance, whether the Department has used a complete set of statistics in that assessment, and how true and fair the commentary provided in the report is.
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Response	The government is committed to maintaining the independence of the Comptroller and Auditor General.
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The National Audit Office has already provided an independent response to PACAC on the questions that fall under the purview of the Comptroller and Auditor General.

Annex B

Government financial reporting landscape data table

Table B.1: Government financial reporting landscape data table

Report name	Description	Produced by?	Covers time period?	Reporting cycle	When produced?	Category	Laid in Parliament?	Main user
Spending Review	The Treasury carries out Spending Reviews to determine how to spend public money – usually over a multi-year period - in line with the government’s priorities.	Treasury	Usually multiple years	Usually every 3 - 5 years	No set date	Medium Term Planning	Yes	Parliament
Single departmental plans	Single departmental plans set out a department’s objectives, resource allocations, how its risk will be managed, and its performance measured.	Departments	Set out objectives for the duration of Parliament, and updated annually	Usually every 3 - 5 years	No set date	Medium Term Planning	No	Internal, Government, Public, Parliament
Budget	The Budget is a statement the Chancellor of the Exchequer makes to the House of Commons on the nation’s finances and the government’s proposals for changes	Treasury	Financial year	Annual	Autumn	Annual Planning	Yes	Parliament

Report name	Description	Produced by?	Covers time period?	Reporting cycle	When produced?	Category	Laid in Parliament?	Main user
	to taxation and spending. The Budget also includes forecasts for the economy by the Office for Budget Responsibility.							
Office for Budgetary Responsibility Reports - Economic and fiscal outlook	Five year forecasts for the UK economy and public finances and an assessment of whether the Government is likely to achieve its fiscal targets	Office for Budgetary Responsibility	5 years outturn and remainder of the Spending Review	Twice annually	Spring and Autumn	Annual Planning	No	Government, Public, Parliament
Office for Budgetary Responsibility Reports - Fiscal sustainability report	Long-term projections of the UK public finances and public sector balance sheet analysis.	Office for Budgetary Responsibility	50 years	Every two years	Summer	Annual Planning	No	Government, Public, Parliament
Estimates	Supply Estimates are the bi-annual process by which the Treasury presents the government's spending plans, based on departmental settlements allocated at the Spending Review, to Parliament for approval. This covers 'Main Estimates' and 'Supplementary Estimates'.	Treasury / independents	Annual, financial year (April XY-March XZ)	Twice annually	Spring and Summer	Annual Planning	Yes	Parliament
Estimates memoranda	Government departments are required to produce an Estimates Memorandum for the relevant select committee to explain what is proposed in their Main Estimate and	Departments and independents	Annual, financial year (April XY-March XZ)	Twice annually	Spring and Summer	Annual Planning	No but shared with select committees	Parliament

Report name	Description	Produced by?	Covers time period?	Reporting cycle	When produced?	Category	Laid in Parliament?	Main user
	how proposals compare to past spending plans.							
Scrutiny Unit data visualisations	The visualisations show spending trends, changes since last year and how current plans for 2018-19 compare to original proposals in the 2015 Spending Review, together with some context. Also, an interactive spending chart showing all government spend	Parliamentary Scrutiny Unit	Annual, financial year (April XY-March XZ)	Annual	Summer	Annual Planning	No but shared with select committees	Parliament
Accounting Officer System Statements	Accounting Officer System Statements set out to Parliament all of the accountability relationships and processes within a department.	Departments	Forward looking - assessing the system at time of publication	Annual	Summer	In-year reporting	No	Internal, Government, Public, Parliament
Government Transparency Data	Wide range of transparency data published by individual departments including Central government spending over £25k, contracts over £10k and Gender Pay Gap information. Cabinet Office also produce cross-government data on Civil Service sickness and absence data, Ministers' interest declarations, Ministers' salary data, Senior civil servants' names, grades, job titles and annual pay rates, Special advisers' names, grades and annual pay.	Departments, arms'-length bodies, and independents	Month or year	Monthly or annually	Cabinet Office central releases in December	In-year reporting	No	Public, analysts

Report name	Description	Produced by?	Covers time period?	Reporting cycle	When produced?	Category	Laid in Parliament?	Main user
	Gov.uk Registers provides structured datasets of government information							
OSCAR data	The dataset provides quarterly updates to monthly outturn data. The outturn information is taken from OSCAR data submitted by departments. The public will be able to see monthly patterns in spend by organisations reporting data on OSCAR. At the same time, users will be able to drill down beneath previously released high-level aggregates.	The Treasury via departments, arms'-length bodies and independents	Year to date spending by month	Quarterly	Quarterly	In-year reporting	No	Public, analysts
Public Sector Finances Bulletin	The public sector finances statistical bulletin is published jointly by the Office for National Statistics and the Treasury on a monthly basis and provides the latest available estimates for key public sector finance statistics, such as public sector net borrowing, public sector net debt and public sector current budget deficit/surplus.	Office for National Statistics / Treasury	Snapshot of fiscal aggregates as well as time-series data	Monthly	Monthly	In-year reporting	No	Public, analysts
Public Sector Spending Statistics	Treasury Public Spending Statistics provide a range of information about public spending, showing central government spending by department on a budgetary basis over 5 years, public sector spending by service over 5 years, and public sector spending	Treasury	5 or 21 years	Quarterly	Quarterly	In-year reporting	No	Public, analysts

Report name	Description	Produced by?	Covers time period?	Reporting cycle	When produced?	Category	Laid in Parliament?	Main user
	by function and economic category over 21 years.							
Single departmental plans update	Single departmental plans set out a department's objectives, resource allocations, how its risk will be managed and its performance measured.	Departments	Annual, financial year (April XY-March XZ)	Usually every 3 - 5 years	Summer	In-year reporting	No	Internal, Government, Public, Parliament
Annual report and accounts	Annual reports and accounts present a department's performance against its objectives, its governance and management of risks and the outcomes it has achieved as a result of its spending.	Departments, arms-length bodies, independents	Annual, financial year (April XY-March XZ)	Annual	Summer	Outturn reporting	Yes	Parliament
Whole of Government Accounts	The Whole of Government Accounts is a consolidated set of financial statements for the UK public sector. The Treasury prepares it annually, bringing together the audited financial results of over 6000 entities. The Whole of Government Accounts includes central government departments, academies, devolved administrations, NHS trusts, local authorities and public corporations such as the Bank of England.	Treasury	Annual, financial year (April XY-March XZ)	Annual	Spring	Outturn reporting	Yes	Parliament
Public Expenditure Statistical Analyses	Public Expenditure Statistical Analyses is the yearly publication of information on government spending. It brings together recent	Treasury	5 years outturn and remainder of SR	Annual	Summer	Outturn reporting	Yes	Parliament

Report name	Description	Produced by?	Covers time period?	Reporting cycle	When produced?	Category	Laid in Parliament?	Main user
	outturn data, estimates for the latest year, and spending plans for the rest of the current spending review period. It also shows spending by region.							
Office for National Statistics Civil Service Statistics	Employment statistics for the Civil Service population, providing regional analyses, diversity and earnings data.	Office for National Statistics	Snapshot as at 31 March	Annual	Summer	Outturn reporting	No	Government, Public, Parliament
Infrastructure and Projects Authority Major Projects Report	The Infrastructure and Projects Authority Annual Report publishes the whole life cycle costs on projects in the Government Major Projects Portfolio which comprises the most complex and strategically significant projects and programmes across government, based on figures from their business cases.	Infrastructure and Projects Authority	Annual, financial year (April XY-March XZ)	Annual	Summer	Outturn reporting	No	Government, Public, Parliament
Departmental statistics	National and official statistics relating to the department's policies and priorities	Departments, arms-length bodies, independents	Month or year	Monthly or annually	Monthly or annually	Outturn reporting	No	Government, Public, Parliament
Official Development Assistance Reporting ¹	This is an annual publication that provides provisional statistics about the amount of Official Development Assistance the UK has provided as a proportion of Gross National Income.	Department for International Development	Calendar year (ODA), Financial Year (GPEx)	Annual	Autumn	Outturn reporting	No	Government, Public, Parliament, OECD

¹ Included as examples of regular reporting specific to one department.

Report name	Description	Produced by?	Covers time period?	Reporting cycle	When produced?	Category	Laid in Parliament?	Main user
UK Defence in Numbers	Breakdown of total UK defence spend and how it meets NATO target and compares with other countries' defence spend	Ministry of Defence	Annual, financial year (April XY-March XZ)	Annual	Autumn	Outturn reporting	No	Government, Public, Parliament, NATO
Public Finance Initiative data	High level cross-government report and detailed data on Public Finance Initiative projects in government	Treasury / Infrastructure and Projects Authority	Annual, financial year (April XY-March XZ)	Annual	Autumn	Outturn reporting	No	Government, Public, Parliament
National Audit Office Value for Money Studies	Each study examines a major area of government expenditure, and our objective is to form a judgement on whether value for money has been achieved, which Parliament use to hold government to account for how it spends public money	National Audit Office	The National Audit Office undertakes around 60 value for money studies each year.	Regularly	Regularly	Independent scrutiny	Reports form the basis of Public Accounts Committee inquiries	Government, Public, Parliament

Annex C

Government financial review actions and recommendations

Table C.1: Chapter 2 actions and recommendations

Paragraph	Action
2.11	The Treasury will carry out regular thematic reviews focusing on different issues in government financial reporting.
2.12	The Treasury will form a user engagement group, meeting twice a year and bringing together preparers and users of government financial reports.
2.13	Opportunities for improved financial reporting highlighted by this review will feed into government planning for digital transformation.
2.13	The Treasury will ensure that the needs of the external users of government financial reports are considered as data systems are developed.

Table C.2: Chapter 3 actions and recommendations

Paragraph	Action
3.7	Departments are recommended to engage early with select committees and seek feedback on whether financial and performance reports are meeting their needs.
3.17	The Treasury will continue to uphold the principle of balanced reporting in revised guidance, will enhance risk reporting, and will collect and share more best practice examples over time to encourage ongoing improvement.
3.23	The Treasury will use the disclosure checklist questions to inform future reporting guidance, and will include them in the revised Financial Reporting Manual for those preparing government financial reports to refer to.
3.24	The Treasury will ensure that the other principles in this chapter are reflected in the revised Financial Reporting Manual, including the four purposes for reporting set out by PACAC.
3.25	The Treasury will support the implementation of best practice by building up a bank of best practice examples and making these available to preparers of financial reports across government.

Table C.3: Chapter 4 actions and recommendations

Paragraph	Action
4.10	The Treasury will monitor the financial reporting landscape to make sure that it remains relevant and accurate and will continue to seek views from a wide variety of stakeholders and users.
4.91	This map of the financial reporting landscape, and the supporting data table in Appendix 2, will be published on gov.uk, and kept updated.
4.93	The Treasury will consider what more can be done to signpost the connections between documents such as Estimates, Estimates Memoranda, single departmental plans, and annual reports and accounts to enable users to track significant or formal commitments which have been made to spend public money.

Table C.4: Chapter 5 actions and recommendations

Paragraph	Action
5.4	The Treasury will also consider how further transparency and trust can be enhanced in future reporting cycles.
5.10	The Treasury will review its approach to guidance on accounting officer statements of responsibility and support departments to share more effectively how they build trust in reporting.
5.12	Future Treasury guidance will support departments to bring suitable references and links to their Accounting Officer System Statements into their annual report and accounts, where they do not already do so.
5.34	The Treasury will update the requirements to support better disclosures of accounting officer responsibilities, and to raise the profile of Accounting Officer Systems Statements.
5.35	The Treasury will introduce new requirements for risk disclosure including the identification and managements of risks, and how those risks have changed during the period, the impact of those changes, and management's response.
5.37	The Treasury will continue to challenge departments to be clear about what elements of their reports are audited.

Table C.5: Chapter 6 actions and recommendations

Paragraph	Action
6.16	During the zero-based review of the Financial Reporting Manual, the Treasury will encourage departments to include multiple years' worth of comparative data as standard when figures are shared in the Performance or Accountability Reports, with narrative to explain the changes. Which could be presented in a table or visually as a graph.

6.26	As discussed in chapter 5, the Treasury plans to enhance mandatory risk reporting.
6.35	Departments should ensure their performance report include a balanced reflection on progress against the goals shared in single departmental plans.
6.35	Departments should also review the discussion of anticipated future changes in their annual reports and accounts to make sure that it gives users enough context.
6.36	Departments should continue to use visuals to enhance user understandability.
6.37	Departments should improve reports further by making more use of trend data over a number of years, and should consider where information is best placed in order to tell their story.
6.39	Departments should continue to provide the key accountability and governance disclosures and, where accountability disclosures appear in another section of the report, references and links should be provided in the accountability report.
6.40	The Treasury will engage with departments to share the findings of this review, and will promote continuous improvement through updates to the Financial Reporting Manual, future thematic reviews, and the planned bank of best practice examples.

Table C.6: Chapter 7 actions and recommendations

Paragraph	Action
7.6	The Treasury will use all of the best practice examples shared in this report as the basis for its bank of best practice examples. This will be updated regularly and made available to all those preparing government financial reports.
7.17	The Treasury will encourage departments to consider how the map of the landscape developed for this review can be used by those preparing annual reports and accounts to help their users find the information they need.
7.30-31	Departments should use their judgement, guided by the unit cost checklist provided in paragraph 7.31, to determine whether to publish unit cost data. This should support the general purpose of the performance report: to tell the department's story.
7.35	During the zero-based review of the Financial Reporting Manual, the Treasury will promote fundamental principles including: <ul style="list-style-type: none"> • performance reporting should be organised according to the activity of an organisation, reflecting the information used by internal decision-makers • this should be consistent with, and build from, the business planning that has taken place through the single departmental plan
7.36	During the zero-based review of the Financial Reporting Manual, the Treasury will look to revise guidance to support further disclosures in these areas: <ul style="list-style-type: none"> • unit cost data should be shared if it is used for decision-making, with transparency around the basis of calculation and narrative to support user understanding

	<ul style="list-style-type: none"> • Staff turnover data should be published, on a consistent basis, across central government.
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7.37	<p>During the zero-based review of the Financial Reporting Manual, the Treasury will revise guidance provided by departments, encouraging:</p> <ul style="list-style-type: none"> • the use of simple indicators such as the red/amber/green model followed by HMRC to discuss outcomes against aims • a 'comply or explain' approach to the disclosures in the performance report - departments should prioritise telling their story, but if they choose not to follow best practice to do so they must explain why not
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7.38	<p>During the zero-based review of the Financial Reporting Manual, the Treasury will also enhance transparency by strengthening financial reporting requirements to better reflect the reporting of risks, how they change over time and how they are managed.</p>
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7.50	<p>The Treasury will take steps to ensure that the transparency and accountability provided by good financial reporting is enhanced as new reporting tools become available over time:</p> <ul style="list-style-type: none"> • opportunities for improved financial reporting highlighted by this review will feed into government planning for digital transformation • the Treasury will promote changes that support future digital reporting, such as the effective tagging of data and the use of a modular report structure
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7.51	<p>The Treasury will promote best practice on presentation when revising financial reporting guidance, for example:</p> <ul style="list-style-type: none"> • how graphics can be made accessible to those with different perception needs, such as different colour vision • the use of links to connect different parts of the same report so that a long document is easier to navigate • the use of formatting in text, tables, and graphics to make financial reporting more readable
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7.61	<p>The Treasury is committed to supporting the work of the Scrutiny Unit, and to keep engaging with Parliament to improve annual reports and accounts.</p>
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7.61	<p>Departments are strongly encouraged to engage with their respective select committees on the content of reporting and how they can improve their individual reports.</p>
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7.63	<p>The Treasury is committed to building on existing best practice to make reports more accessible, and to use every opportunity to help users navigate the financial reporting landscape. Drawing on established best practice, this could include:</p> <ul style="list-style-type: none"> • promoting the publication of all data sets included in the annual report and accounts in formats such as Excel or CSV • promoting the approach of providing an opportunity for those who need to request a more accessible format • promoting best practice in setting up the landing page for each set of annual reports and accounts, to include narrative, links to the relevant single departmental plan and Accounting Officer System Statements, and links to prior year reports
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- 7.64
- the Treasury will share detailed findings from this review with departments, to support accounting officers to learn from good practice and to address any areas for improvement in their own financial reporting
 - the Treasury will set up a database of best practice examples, beginning with those found during this review and regularly updated, which will be made available to all those preparing government financial reports
 - during its planned review of the Financial Reporting Manual, the Treasury will update the guidance to reflect best practice found during this review, and to reflect feedback from users in Parliament and elsewhere
 - the Treasury will carry out thematic reviews on a regular basis, each time targeting a specific theme in financial reporting which could indicate an area for improvement
 - the Treasury will support the Financial Reporting Advisory Board as it undertakes a review of its terms of reference
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This document can be downloaded from
www.gov.uk

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