



HM TREASURY

Financial Reporting Advisory Board Paper

Financial Reporting Review - Update

Issue:	HMT are currently undertaking a review of government financial reporting, following the publication of the Public Administration and Constitutional Affairs Committee (PACAC) report <i>Accounting for Democracy</i> . This paper sets out the scope and objectives of the review, the governance arrangements, the progress made to date and the planned next steps.
Impact on guidance:	Where changes are to be made to reporting requirements, we envision incorporating these changes into the existing cycle of updates to relevant guidance.
IAS/IFRS adaptation?	N/A
IPSAS compliant?	N/A
Interpretation for the public sector context?	N/A
Alignment with National Accounts	N/A
Impact on budgets/Estimates?	N/A
Recommendation:	The Board is asked to note the developments outlined in the paper and provide any comments that they may have.
Timing:	The main output of the Government Financial Reporting Review will be a report which we will aim to publish in Spring 2019

Introduction

1. Four years have passed since Treasury's *Simplifying and Streamlining* report, the most recent review and improvement exercise for government annual reports and accounts. In 2017 the Public Administration and Constitutional Affairs Committee (PACAC) published *Accounting for Democracy*. It made 68 recommendations on how government financial reporting could be improved, covering the annual report and accounts, single departmental plans, and the broader reporting landscape.

2. The government response to PACAC proposed carrying out an in-depth review of government financial reporting that will both consider progress since *Simplifying and Streamlining* and address the recommendations made in *Accounting for Democracy*. This approach was welcomed by PACAC in their 2018 follow up report.
3. This paper sets out the scope and objectives of the review, the governance arrangements, the progress made to date and the planned next steps.
4. **We ask the Board to note the developments outlined in the paper and provide any comments that they may have.**

Scope and objectives

5. The overall objective of the review is to examine opportunities to improve government financial reporting. We plan to do this by:
 - drawing on the findings of the *Simplifying and Streamlining* project, the *Accounting for Democracy* reports, and a review of the current state of reporting, in order to articulate fundamental principles for government financial reporting;
 - assessing the *Accounting for Democracy* recommendations for the annual report and accounts and single departmental plans and enabling the Treasury to respond to each recommendation individually;
 - producing guidance for departments based on the findings of the review.
6. The main output of the Government Financial Reporting Review will be a report which we will aim to publish in Spring 2019, with the detailed response to the Committee included as an annex. We have developed a draft plan for the structure of the report, which will be subject to change as appropriate over the course of this project:
 - 1) **Background and principles**
 - a. a high level discussion of the history and purpose of financial and other reporting across government and beyond;
 - b. a statement of the principles of financial reporting in government which addresses the purpose of reporting.
 - 2) **The current state of financial reporting in government**
 - a. an overview of the landscape of reporting in government;
 - b. the findings of a review of annual reports and accounts;
 - c. the issues raised by *Accounting for Democracy* and the recommendations made in that report.
 - 3) **Next steps for government financial reporting**
 - a. best practice examples from across government;
 - b. guidance for government bodies to improve their financial reporting;
 - c. further recommendations that we believe will lead to the ongoing improvement of financial reporting.
 - 4) **Annex:** a full list of the recommendations in *Accounting for Democracy* with a summary response against each one.
7. Annex A of this paper sets out a high level project plan.

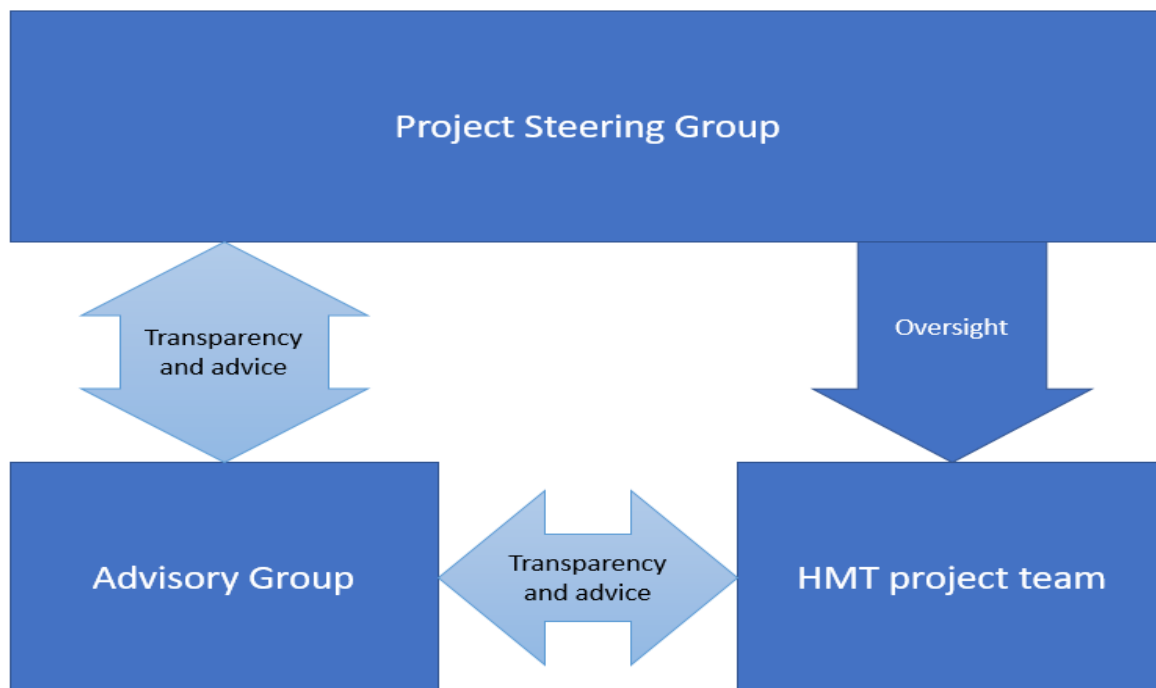
Governance

8. It was clear from the PACAC inquiry into government accounts and the subsequent *Accounting for Democracy* reports that there are a wide range of views on what the purposes of annual reports and accounts are and the information that they should contain, particularly in the 'front half' annual report.

9. We want to explore those views further and have established an Advisory Board to bring together a range of user perspectives and provide insight and guidance to the project. The Advisory Board is chaired by the HMT Director of Public Spending and membership includes senior representatives from NAO, Scrutiny Unit, think tanks, Devolved Administrations and government departments. Several FRAB members are on the Advisory Board including the Chair.

10. We have also established a Departmental Sub-group to bring a wide range of viewpoints from preparers across government to provide practical insight and advice into the proposed guidance and response. We will also speak to other stakeholders during the project, in particularly those involved in developments in the corporate reporting landscape.

11. The project is overseen by an internal Project Steering Group of senior Treasury and Cabinet Office staff members. The diagram shows how the various elements of the governance arrangements will function:



Progress to date

12. Work on the review commenced in September ahead of the first meeting of the Advisory Board meeting in early October. The focus of the initial meeting was on the principles that should form the basis of reporting in government, building from the four purposes set out in *Accounting for*

Democracy. It was agreed that the project should produce high level guidance on the nature and purpose of public sector reporting.

13. There was also discussion on who the users of accounts are and what their needs might be. It was agreed that the review will focus specifically on the annual reports and accounts and external single departmental plans, with the primary user being Parliament. However, the needs of other users (ie, the general public) should not be disregarded. The Board were keen that this work should consider the perspective of external users of government information,

14. There was also a meeting of the Departmental Sub-Group in late October. Discussions were focussed around the *Accounting for Democracy* recommendations, particularly any 'quick wins' and those recommendations that were likely to prove trickier to implement. This was also the focus of the second meeting of the Advisory Board that took place in early November. This meeting focussed more on the recommendations themselves. There was a consensus that the government financial reporting landscape can be confusing to external users, and it was agreed that a map or diagram of all the different kinds of government reporting would be useful. This document would show how reports fit into the government financial cycle, and include information about assurance.

15. HMT have also begun undertaking detailed work on reviewing individual departmental accounts against each of the *Accounting for Democracy* recommendations, as well as against the *Simplifying and Streamlining* report. We have also met with external stakeholders including the Integrated Reporting Council and the Financial Reporting Council as we continue to explore the recommendations in more detail.

Next steps

16. Work has started on outlining and explaining the government financial reporting landscape. The aim of this is to better inform the user by setting out the range of financial reporting products, explaining why they are produced and how they fit together. This is seen as a key proponent of the final report and it is envisaged that it will assist in responding to a number of the *Accounting for Democracy* recommendations.

17. Work has also continued on the review of individual government annual reports and accounts. From this work we will identify best practice examples as well as determine the extent that there has been progress against the *Simplifying and Streamlining* report and that the *Accounting for Democracy* recommendations are currently being met. Following publication of the report we plan to discuss our detailed findings with individual departments.

18. Drafting of the report will begin in December, with the aim of publishing in March 2019. There are a further 3 meetings of the Advisory Group planned to help review and shape the report and the response to the recommendations. We will provide a further update to the Board at the March 2019 meeting.

19. **We ask the Board to note the developments outlined in the paper and provide any comments that they may have.**

HM Treasury
22nd November 2018

Annex A

High Level Project Plan

Government financial reporting review - overview

