



Financial Reporting Advisory Board Paper

Government Financial Reporting Review Next Steps

Issue:	This paper provides the Board with an overview of the actions arising from the Government Financial Reporting Review and next steps. The review of the FReM is covered in a separate paper elsewhere on the FRAB agenda.
Impact on guidance:	Thematic reviews of IFRS 9 and IFRS 15 and Parliamentary accountability could potentially lead to changes in the FReM and PES guidance, and will be factored into the FReM review and update cycle.
IAS/IFRS adaptation or interpretations?	N/A
Impact on WGA?	N/A
IPSAS compliant?	N/A
Impact on budgetary regime?	Any revisions to guidance will the keep in mind the ongoing importance of alignment between the Estimates, budgets and accounts.
Alignment with National Accounts (ESA10)?	Any revisions to guidance will the keep in mind the ongoing importance of alignment between the Estimates, budgets and accounts.
Impact on Estimates?	Any revisions to guidance will the keep in mind the ongoing importance of alignment between the Estimates, budgets and accounts.
Recommendation:	The Board is asked to note the actions and next steps outlined in this paper and provide any comments that it may have.
Timing:	Thematic reviews of IFRS 9 and 15 and Parliamentary accountability and will be undertaken by the end of 2019. Work has already commenced on implementing some of the other one-off projects, and will continue through this summer and beyond. There are also number of ongoing commitments; to regularly undertake thematic reviews, monitor the financial reporting landscape and engage with users and preparers. These are being built into future work plans.

DETAIL

Background

1. As reported to the Board at the April FRAB meeting, HM Treasury published the [Government Financial Reporting Review](#) on 3rd April 2019.
2. The report explores the purpose and principles of government financial reporting, building responses to the underlying concerns expressed by PACAC and marking out ideas to support future improvements.
3. This paper provides the Board with an overview of the actions arising from the review and planned next steps. This is being managed as an overall project with the different strands planned and managed separately but also interacting with one another. The principle action is the review of the FReM and this is covered in paper 14 B of this agenda item.

Thematic Reviews

4. In the Government Financial Reporting Review, HM Treasury committed to carrying out regular thematic reviews focussing on different issues in government financial reporting to help support ongoing improvement. Based on feedback from both departmental preparers and users, two reviews will commence in summer 2019 - on IFRS 9 and 15 implementation and reporting and on Parliamentary accountability and reporting against the Estimate.

IFRS 9 & IFRS 15

5. IFRS 9 and IFRS 15 were applied in the public sector in the 2018-19 financial year for the first time. The introduction of these two standards consequently was a major reporting challenge for the whole of the public sector and there is therefore a clear need to review their implementation.
6. The focus of this review will be to engage with preparers and auditors, focussing on reviewing whether the timing and content of the guidance that HMT provided to preparers was effective. As well as this, there will be a thematic element to the review whereby government-wide practice in relation to the reporting of IFRS 9 and IFRS 15 disclosures is identified and evaluated.
7. Information will be gathered from departments and relevant authorities and sought via a questionnaire. It is expected that this will be sent out in the next month, following feedback on the content from the Technical Accounting Centre of Excellence (TACoE). Initial discussions have already taken place with TACoE as well as with the Resource Accounting Special Interest Group (RASIG).
8. A desktop exercise will be carried out to evaluate a sample of government ARAs to assess the quality of disclosures in relation to the two standards, both in financial statements and the annual report. It is expected that elements of this would be comparable to the thematic reviews of IFRS 9 and IFRS 15 carried out by the FRC.

9. A workshop is expected to take place to provide feedback to departments in late summer. Following this, it is expected that the review's findings will be published. If any changes to the FReM are required, then these will be fed into the review of the FReM.

Parliamentary accountability and reporting against the Estimate

10. As part of the Government Financial Reporting Review, HM Treasury agreed with PACAC's view that maintaining Parliamentary control of government spending and enabling Parliamentary accountability was a key purpose for government financial reporting. Therefore, it is felt that this should form the basis for an early thematic review.
11. The focus of the review will be on The Statement of Parliamentary Supply (SoPS) as this is the primary Parliamentary accountability statement. It reports the outturn for the departmental group against the final annual spending limits authorised through a vote by Parliament in the Estimates. Unlike the other primary statements, the SoPS is not an IFRS-based disclosure as it is unique to central government.
12. Feedback from users and preparers has suggested that there is a lack of understanding of the SoPS and how it should be reported. The Treasury has started work on scoping the review, though this is still at a very early stage. However, it is expected that the review will be designed to:
 - a. identify and evaluate government-wide practice in relation to the reporting of the SoPS
 - b. assess whether the current format and content of the SoPS best meets user needs
 - c. evaluate the current guidance on the SoPS and whether this best meets the needs of preparers
13. It is expected that this review will be carried out and be published over the remainder of 2019, with any recommendations for changes to guidance feeding into the FReM review and update cycle.

Future thematic reviews

14. Several potential topics for future thematic reviews have emerged from the Government Financial Reporting Review and PACAC's inquiry and report. These include risk reporting (linking in with Mark Ripley's Government Finance Function work), pension disclosures and the reporting of major projects. HM Treasury will also look at ways for establishing how the specific topics for reviews are decided upon, and the potential for involving the group of users and preparers referred to later in this paper. It is also important that developments and themes in the broader financial reporting landscape are taken into account when deciding upon future topics.
15. HM Treasury would also like to engage with the FRC to learn about how they manage their own thematic review process. However, we are keen to maintain an element of flexibility in the approach taken that reflects HM Treasury's status as a Relevant Authority and its responsibility to produce statutory guidance.

Departmental Engagement

16. As part of the Government Financial Reporting Review report, HM Treasury committed to engaging with departments to share the findings of the review and support continuous improvement.
17. Work in this area has commenced. The report has been published on gov.uk and OneFinance, and a summary of the findings presented to RASIG and the Government Finance Leadership Group (FLG).
18. Following feedback and engagement from the FLG, a short paper outlining the, “Top 5 financial reporting quick wins” was produced and shared to feed into the 2018-19 accounts preparation process. These focussed on the importance of:
 - a. trend data to provide context
 - b. balanced reporting (not just “good news”)
 - c. plain English
 - d. infographics
 - e. making most of the landing page on gov.uk
19. HM Treasury is planning further engagement to communicate with departments, such as via the Government Finance Academy events and the Government Finance Conference.

User Engagement

20. A key action arising from the report was the commitment for HM Treasury to form a user engagement group, meeting twice a year and bringing together preparers and users of financial reports.
21. As part of the Government Financial Review project, an Advisory Board and a Departmental Sub-group of preparers were established. Both groups provided invaluable feedback to the project and engaged extensively with the work being carried out.
22. HM Treasury is keen to build on this work and establish a group of both users and preparers. It is important that this group is well balanced in terms of its membership so that the voices of users are heard. Therefore, we are keen to involve the Institute for Government and Full Fact that were part of the Advisory Board as well as other similar think-tanks with an interest in government financial reporting. We are also very keen for the Parliamentary Scrutiny Unit to be a member of the group.
23. As well as the preparers of the financial statements, it is also important that this group includes the preparers of the performance report element of ARAs, given the focus on performance reporting in the Government Financial Reporting Review. HM Treasury has had initial discussions with the Parliamentary Scrutiny Unit and plan to undertake further scoping work in the coming weeks. It is expected that potential members will be approached soon, with the group established over the summer with terms of reference drafted.
24. The first meeting of the group is planned to take place in late summer/autumn 2019 once the 2018-19 accounts have been published and digested. There is potential for this group to feed into the review of the FReM, as well as providing ideas for topics of future thematic

reviews. Further meetings will be planned once the group has formed, with the aim of meeting twice a year.

25. HM Treasury will seek other ways to engage with users of ARAs and encourage departments to liaise closely with select committees and specific interest groups and seek feedback on whether financial and performance reporting are meeting their individual needs.

The Financial Reporting Landscape

26. One of the key outputs of the review was the development of a map of the financial reporting landscape, created to assist users with navigating the various forms of government financial reporting. Feedback on this has been positive, and HM Treasury is keen to explore ways to communicate this more effectively online.
27. HM Treasury's Government Financial Reporting Team have held initial discussions with its Digital Communications Team to establish how this could be taken forward. This has highlighted that there are certain limitations in gov.uk that mean that the publishing of an interactive landscape map with hyperlinks may not be possible at this stage. Further discussions are planned on this workstream, as well as exploring the extent to which other interactive charts and graphics are displayed on gov.uk and possible workarounds.
28. HM Treasury will also monitor the financial reporting landscape and update the map as necessary to ensure that it remains relevant and useful.

Sharing Best Practice

29. The Government Financial Reporting Review report included around 30 best practice examples taken from departmental annual reports and accounts. This will form the basis of a bank of best practice examples to encourage improvement and help preparers of ARAs to better meet the needs of users.
30. Initially, examples of best practice from the 2017-18 ARAs will be available on OneFinance, and a similar exercise is planned to identify more examples from the 2018-19 ARAs once published. Going forward, this workstream will also seek to establish:
- a. the best format for the examples (pdf, webpage, narrative, etc)
 - b. the optimal web location (gov.uk, OneFinance)
 - c. the cycle for future updates and a portfolio of best practice examples developed over time.
31. It is important that this work continues to be based on user feedback, including any provided through the user engagement group. Work will also link in with other similar work in this area, such as the Building Public Trust Awards.

Recommendation

32. The Board is asked to note the actions and next steps outlined in this paper and provide any comments that it may have.

HM Treasury
13th June 2019