



## Financial Reporting Advisory Board Paper

### Financial Reporting Manual Review

<b>Issue:</b>	This paper provides the Board with an overview of the planned review of the Financial Reporting Manual (FReM).
<b>Impact on guidance:</b>	The planned review of the FReM will impact on the draft 2020-21 FReM, and potentially on future PES papers.
<b>IAS/IFRS adaptation or interpretations?</b>	n/a
<b>Impact on WGA?</b>	Updates to the FReM may impact on WGA.
<b>IPSAS compliant?</b>	n/a
<b>Impact on budgetary regime?</b>	Any revisions to guidance will the keep in mind the ongoing importance of alignment between the Estimates, budgets and accounts.
<b>Alignment with National Accounts (ESA10)?</b>	Any revisions to guidance will the keep in mind the ongoing importance of alignment between the Estimates, budgets and accounts.
<b>Impact on Estimates?</b>	Any revisions to guidance will the keep in mind the ongoing importance of alignment between the Estimates, budgets and accounts.
<b>Recommendation:</b>	The Board is asked to act as the steering group for the FReM review project, to review the attached Project Initiation Document (PID) and to approve the proposed approach to revising the FReM.
<b>Timing:</b>	The FReM review consists of two phases: substance, and structure/style. The substance phase will complete before the draft 20-21 FReM is considered by FRAB in November 2019; the style phase will follow with all changes finalised before November 2020 FRAB meeting.

## DETAIL

### *Background*

1. HM Treasury published [The government financial reporting review](#) (GFR Review) on 3<sup>rd</sup> April 2019. The review found many elements of best practice that could improve financial reporting across government. HM Treasury committed to updating guidance to reflect these changes with a review of the Financial Reporting Manual.
2. This project combines the joint aims of making the substantive changes to financial reporting guidance agreed in the GFR Review, and improving the structure and style of the FReM to make it a more useful document.

### *FReM Review Project Plan*


3. A review of the substance of the guidance will implement many of the actions from the GFR Review such as setting out best practice for performance reporting under a 'comply or explain' principle. This will form phase I of the FReM review.
4. Phase II of the FReM review will consist of a further detailed review of the style, structure, and completeness of the guidance (ie, whether it includes everything it should, as some relevant guidance may be in other places) and for consistency with other public spending framework guidance. The goal is to make it easy for every user to find what they need, and to highlight the principles that tie together the requirements and the judgements behind annual reports and accounts.
5. The FReM review will take place at the same time as a drafting review of the Consolidated Budgeting Guidance (CBG) Where possible, these reviews will cover similar issues simultaneously, share information and coordinate outcomes.
6. FRAB will act as the steering group for the FReM review. The full Project Initiation Document (PID) forms Appendix A to this paper, and Appendix B gives a detailed planned timeline.

### *Recommendation*

7. The Board is asked to act as the steering group for the FReM review project, to review the attached PID and to approve the proposed approach to revising the FReM.

HM Treasury  
13<sup>th</sup> June 2019

## Appendix A: FReM review project initiation document

 <b>HM Treasury</b>	<b>PROJECT INITIATION DOCUMENT</b>	
	<b>PROJECT TITLE</b>	Financial Reporting Manual (FReM) review
	<b>GROUP(S)</b>	Public Spending
	<b>AUTHOR</b>	Ruth Ward
	<b>DATE</b>	4 June 2019

### PRIMARY OBJECTIVE/QUESTION

- To meet the commitment made in [The government financial reporting review](#) (GFR Review) to carry out a review of the Financial Reporting Manual, as well as updating the guidance to incorporate other actions of the GFR Review.

### BACKGROUND

- The Financial Reporting Manual (FReM) is the central financial reporting guidance for government, giving a framework for applying the International Financial Reporting Standards in the public sector. It also provides guidance on other disclosure requirements for central government bodies, as well as illustrative financial statements.
- The FReM is statutory guidance that is revised for each financial year. Updated versions are subject to approval by the Financial Reporting Advisory Board (FRAB) and appear in draft by 31 December of the year before the financial period they relate to. Further amendments may be made before a final version is published the following December, a few months before the financial year it covers ends.
- Changes to the FReM have been brought in on an ad hoc basis through the annual update cycle, keeping the information up to date but cumulatively leading to a less readable, less structured piece of guidance.
- A review of the substance of the guidance will implement many of the actions from *The government financial reporting review*, such as setting out best practice for performance reporting under a 'comply or explain' principle.
- This will be accompanied by a detailed review of the style, structure, and completeness of the guidance (ie, whether it includes everything it should, as some relevant guidance may be in other places) and to ensure its consistency with other public spending framework guidance. The goal is to make it easy for every user to find what they need, and to highlight the principles that tie together the requirements and the judgements behind annual reports and accounts.
- The FReM drafting review will take place at the same time as a drafting review of the Consolidated Budgeting Guidance (CBG) Where possible, these reviews will cover similar issues simultaneously, share information and coordinate outcomes.

### SCOPE

- The first phase of the project will be the review of the substance of the guidance. This will reflect the actions emerging from engagement with users in *The government financial reporting review*.

Issues that were not raised, such as adaptations and interpretations of International Financial Reporting Standards already approved by FRAB, will not be revisited.

- The second phase will be a detailed review of the structure, style, and completeness of the guidance as well as consistency with the suite of the public spending framework guidance documents. This might involve, for example, shifting existing material from one piece of guidance to another, or breaking up the FReM into several separate documents, or adding context to help users understand requirements.

#### DELIVERABLES AND CUSTOMERS

- The main customers will be the users of the FReM (primarily departments and Finance Function staff across government; other users of the FReM include groups across Treasury, Cabinet Office, ALBs, devolved administrations, and the NAO).

#### RESOURCE, APPROACH AND MILESTONES

- **Resource:** the project team will consist of Ruth Ward and a secondee joining the GFR team. The GFR team will have a student intern for 6 weeks July-August who can dedicate time to the project. Vikki Lewis will provide oversight and support.
- **Approach:**
  - Phase I of the project will incorporate all planned substantive revisions to the FReM. A consultation will run on these proposed changes in September and October 2019, and a final version will be presented to FRAB as the draft 20-21 FReM considered in November 2019.
  - Phase II, on style and structure, will run alongside Phase I where possible and continue, leading to a consultation with departments on the proposed changes in the first half of 2020.
  - The final version of the 20-21 FReM will be reviewed and approved by FRAB again in November 2020 for publication in December 2020.
- **Key milestones:**
  - FRAB November 2019: the draft 20-21 FReM includes all planned substantive changes, following consultation with departments.
  - FRAB November 2020: the final 20-21 FReM includes all non-substantive changes, following consultation with departments.

#### GOVERNANCE

- Vicky Rock will take ownership for the project at a senior level.
- The Financial Reporting Advisory Board (FRAB) has a statutory role in approving revisions to the FReM, and will act as a steering group throughout the project.

#### HEADLINE ISSUES AND RISKS

- **Challenging timetable:** we have committed to carrying out the review, and to incorporating the actions on guidance from the GFR Review, in the draft 20-21 FReM. All substantive changes to this statutory guidance must be approved by FRAB in November 2019. To mitigate the risks associated with this hard deadline, we propose to divide the project into two phases and prioritise substantive changes (ie, the actions from the GFR Review) in phase I. Major changes to the structure and style of the main body of the FReM will form phase II, kicking off once the consultation on phase I is under way in September 2019. We will review plans for realism on an ongoing basis and

improvements to other parts of the guidance, such as the illustrative statements, may be deferred to the 21-22 draft if necessary. We will record any deferrals and refer them to a third phase, to run mid to late 2020.

- **Pushback from departments:** the financial reporting teams from departments expressed concerns about burdens arising from new reporting requirements throughout the GFR Review project. There is a risk that these preparers may be very critical at the consultation stage, pushing back against new requirements so that it is difficult for FRAB to approve the changes in November 2020. To mitigate this risk, we will ensure that departments are kept informed of the progress of the project and any prospective changes. We propose to involve departmental representatives (both those engaged in the GFR Review and any others expressing an interest) at an early stage and ensure they are well represented on the working group throughout the project. We will use existing channels at every level to raise awareness of this work, from the Finance Leadership Group (FLG) to the Resource Accounts Special Interest Group (RASIG), so that any concerns can be addressed. We will also share updates through Government Finance Academy technical updates, and at the 2020 Government Finance Function Conference.
- **Providing support without encouraging boilerplate reporting:** there is tension between providing enough support to help preparers, without inadvertently creating incentives to copy and paste examples or repeat long stretches of boilerplate information from year to year. To mitigate the risk of boilerplate, we will ensure that the revised FReM remains principles-based and continues to emphasise the importance of departments telling their own stories. We will also make sure the FReM itself provides a model of concise, clear language and the effective use of diagrams and links.

## STAKEHOLDERS

- Internal stakeholders:
  - Government Financial Reporting
  - Spending teams
  - Treasury Officer of Accounts
  - Finance Insight, Planning and Performance
- External stakeholders:
  - Financial Reporting Advisory Board (FRAB)
  - Finance Leadership Group (FLG)
  - Ministerial and non-ministerial departments
  - Resource Accounts Special Interest Group (RASIG) Devolved administrations
  - Cabinet Office
  - Parliamentary Scrutiny Unit
  - National Audit Office
  - Public Administration and Constitutional Affairs Committee
- We will form a working group to convene internal and external stakeholders to collectively discuss the proposed changes to the FReM. This group will meet three times in June, July, and September 2019.
- Further stakeholder engagement will include: a workshop for NAO staff members; briefings and updates to FRAB and the FLG as appropriate; updates shared via the RASIG OneFinance forum, via the GFA training, and at the 2020 GFF conference.

*This document should be kept as the key statement of a project's objectives, for the lifetime of the project.*

## Appendix B: FReM review project timeline

Month	Activity
March-May 2019	<ul style="list-style-type: none"> <li>project planning</li> <li>agreeing the key milestones</li> </ul>
June 2019	<ul style="list-style-type: none"> <li>FRAB approve project plan</li> <li>initial review of the text</li> <li>working group meeting 1</li> </ul>
July 2019	<ul style="list-style-type: none"> <li>working group meeting 2</li> <li>FReM workshop at the NAO</li> </ul>
August 2019	<ul style="list-style-type: none"> <li>phase I drafting completed (all substantive changes brought in)</li> </ul>
September 2019	<ul style="list-style-type: none"> <li>working group meeting 3 approves exposure draft</li> <li>phase I consultation begins</li> <li>phase II (style/structure) drafting begins</li> </ul>
October 2019	<ul style="list-style-type: none"> <li>phase II drafting continues</li> <li>phase I consultation concludes</li> <li>all substantive changes to the draft 20-21 FReM are finalised</li> </ul>
November 2019	<ul style="list-style-type: none"> <li>FRAB approve the draft 20-21 FReM</li> <li>phase II drafting continues</li> </ul>
December 2019	<ul style="list-style-type: none"> <li>draft 20-21 FReM published</li> <li>phase II drafting continues</li> </ul>
First half of 2020	<ul style="list-style-type: none"> <li>phase II draft finalised</li> </ul>
Mid 2020	<ul style="list-style-type: none"> <li>consultation on phase II revisions to 20-21 FReM</li> </ul>
November 2020	<ul style="list-style-type: none"> <li>FRAB approve the final 20-21 FReM</li> </ul>
December 2020	<ul style="list-style-type: none"> <li>final 20-21 FReM published</li> </ul>