



Financial Reporting Advisory Board Paper

Financial Reporting Manual 20-21 exposure draft and consultation paper

Issue:	This covering note presents the FReM 20-21 exposure draft and consultation paper for FRAB review.
Impact on guidance:	This consultation will help shape the substantial changes to the FReM proposed for the 2020-21 reporting period, to be considered for final approval by FRAB in November 2019.
IAS/IFRS adaptation or interpretations?	n/a
Impact on WGA?	Updates to the FReM may impact on WGA, but none of the proposed changes in this draft affect WGA directly.
IPSAS compliant?	n/a
Impact on budgetary regime?	Guidance supports enhanced Statements of Outturn against Parliamentary Supply (SOPS), improving transparency around budgets and Estimates.
Alignment with National Accounts (ESA10)?	n/a
Impact on Estimates?	Guidance supports enhanced Statements of Outturn against Parliamentary Supply (SOPS), improving transparency around budgets and Estimates.
Recommendation:	The Board is asked to review the proposed exposure draft and consultation documents and approve for publication.
Timing:	Approval of the draft FReM and consultation paper is needed at the September board meeting to allow the consultation to begin on 13th September. The consultation will run until 25th October. A revised draft will be presented to the Board at the meeting on 21 st November for approval.

DETAIL

Background

1. As reported to the Board at the June FRAB meeting, many of the actions of [The government financial reporting review \(GFR review\)](#) can be addressed by enhancing the Financial Reporting Manual (FReM). HM Treasury committed to making these changes while carrying out a two phase zero-based review of the Financial Reporting Manual.
2. The Treasury have chosen to approach phase 1 by implementing those actions from the GFR review that may lead to substantive changes in the way that government bodies prepare annual reports and accounts.
3. A revised FReM including the phase 1 changes has been drafted and along with a consultation paper setting out the changes and seeking feedback from stakeholders. The FReM will be open to consultation before planned publication in December.
4. Phase 2 will consist of a further zero-based review of the style, structure, and completeness of the guidance and for consistency with other public spending framework guidance. Phase 2 will follow in 2020 and the Board are asked to continue to act as the steering group to consider the changes. Details of the next steps of phase 2 will follow at the March 2020 meeting.

Progress update

5. An out of meeting paper circulated on 9th August updated FRAB on the implementation project and proposed phase 1 changes to the FReM. The Board was asked to provide comment on the scope of work and many thanks to those Board members who responded. Members confirmed that they were generally comfortable with the approach.
6. In addition to the FReM working group meetings and NAO workshop earlier in the summer, a joint Treasury / Scrutiny Unit / Institute for Government (IfG) workshop took place on 14th August to gain further external stakeholder feedback on the planned approach. Attendees were happy with the direction of travel and proposed change to the FReM. Support was also given to the plans to implement actions from the GFR review.
7. The IfG discussed their plans to publish a paper in response to the GFR review. It is expected to pick up on some areas where they would like to see further action, but mostly will set out their plans to monitor the Treasury's implementation of the commitments given in the GFR review. The IfG has agreed to keep us updated on their evaluation.

FReM exposure draft and consultation paper

8. A revised 2020-21 FReM has been drafted which includes the revisions in line with the accepted recommendations of the PACAC report and feedback from all stakeholder engagement sessions.
9. A copy of the updated draft FReM is attached, paper FRAB 137 (02A). The associated consultation draft is paper FRAB 137 (02B).

10. The revisions to the FReM include:

- A new structure set out into 4 parts with accompanying chapters to improve navigation
- A revised introduction chapter focusing on the purpose and structure of the Manual
- A new chapter outlining the principles of government financial reporting and introducing the comply or explain principle and where this is necessary
- A new chapter highlighting best practice in narrative reporting
- A new chapter bringing together in one place all elements of the existing FReM in respect of the annual report and accounts, for ease of reference
- New individual chapters on the performance report, accountability report and financial statements (which follows the structure of the annual report and accounts) with improved clarity and guidance
- Revised positioning of the chapter on the application of IFRS in the public sector with no substantive change to content
- Individual chapters on further guidance for specific accounting areas with no substantive change on content
- Content changes include:
 - focus on enhanced quality of narrative reporting
 - inclusion of some material from the annual additional PES guidance
 - more formalised requirement to report on progress against objectives, single departmental plans, risk profile and management, unit cost data, trend data and any other information on future plans of the entity
 - changes to performance reporting
 - additional requirements to link performance to the parliamentary accountability statement, the Statement of Parliamentary Supply
 - enhanced language on applying the Corporate Governance Code and Orange Book principles on risk disclosure

11. In addition, this draft also includes improvements in the style and presentation of the Statement of Parliamentary Supply (SoPS), and references in the performance report, arising from the SoPS thematic review, details of which are in FRAB 137 (03).

12. An accompanying consultation paper (FRAB 137 (02B)) has been prepared, which summarises the changes in more detail and provides a framework of questions to prompt stakeholder responses. The revised FReM will be published alongside the consultation paper for stakeholder feedback.

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13. An annex sets out a detailed amendment log to help respondents follow the changes from the 2019-20 FReM published in December 2018.
14. The consultation is planned to run from 13th September to 25th October. This allows for a minimum of six weeks consultation time. It also provides time for responses to be processed and any further amendments to the FReM made before providing the Board with an updated version of the 20-21 FReM, as necessary for the 21st November meeting.
15. To make the most of the six weeks consultation period, HM Treasury will reach out directly to key stakeholders to ask for responses to the consultation. Outreach will also take place at the technical updates presented in the autumn, and at all opportunities to present to groups such as RASIG and the CCOA Knowledge Network, to raise awareness across the public sector.
16. During the consultation period Treasury staff will continue to review and quality check the proposed changes, including further review against other guidance.
17. Appendix A to this paper details the ongoing and tight timetable for the FReM review project.
18. The 2020-21 FReM must be published before the end of December 2019 to meet the publication statutory deadline.

Recommendation

19. FRAB members are asked to review the 20-21 FReM exposure draft, and the accompanying consultation paper (including recommendations relating to the SoPS, see details in agenda item 3), and approve these documents for publication on gov.uk on Friday 13 September.

HM Treasury
6th September 2019

Appendix A: Project timeline

Month	Activity
March-May 2019	<ul style="list-style-type: none"> project planning - COMPLETE agreeing the key milestones - COMPLETE
June 2019	<ul style="list-style-type: none"> FRAB approve project plan - COMPLETE initial review of the text - COMPLETE working group meeting 1, 28 June - COMPLETE
July 2019	<ul style="list-style-type: none"> working group meeting 2, 31 July - COMPLETE FReM workshop at the NAO, 30 July - COMPLETE
August 2019	<ul style="list-style-type: none"> FReM workshop with the Scrutiny Unit and IfG, 14 August - COMPLETE working group teleconference to approve the exposure draft, 28 August - COMPLETE phase 1 drafting completed (all substantive changes brought in) and papers to FRAB, 30 August - COMPLETE
September 2019	<ul style="list-style-type: none"> special purpose FRAB meeting approves exposure draft, 6 September phase 1 consultation begins, 13 September phase 2 (style/structure) planning begins
October 2019	<ul style="list-style-type: none"> phase 2 review and planning detailed project timeline for phase 2 developed phase 1 consultation concludes, 25 October any further substantive changes to the draft 20-21 FReM begin
November 2019	<ul style="list-style-type: none"> draft 20-21 FReM finalised by 14 November draft 20-21 papers to FRAB by 14 November FRAB approve the draft 20-21 FReM, 21 November phase 2 review and/or drafting

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December 2019	<ul style="list-style-type: none">• draft 20-21 FReM published• phase 2 review and/or drafting continues
First half of 2020	<ul style="list-style-type: none">• phase 2 draft finalised
Mid 2020	<ul style="list-style-type: none">• consultation on phase 2 revisions to 20-21 FReM
November 2020	<ul style="list-style-type: none">• FRAB approve the final 20-21 FReM
December 2020	<ul style="list-style-type: none">• final 20-21 FReM published