



# HM TREASURY

## Financial Reporting Advisory Board Paper Statement of Parliamentary Supply (SoPS) and performance report thematic review update

<b>Issue:</b>	<p>This paper provides the background to the SoPS and performance report review, before detailing proposed changes (included in the exposure draft (FRAB 137 (02A)) and as part of the consultation).</p>
<b>Impact on guidance:</b>	<p>It is proposed that some changes to SoPS reporting are brought in to the 2019/20 FReM, with further updates to performance reporting included as part of the 20/21 FReM.</p>
<b>IAS/IFRS adaptation?</b>	n/a
<b>Impact on WGA?</b>	n/a, WGA does not prepare a SoPS.
<b>IPSAS compliant?</b>	n/a
<b>Impact on budgetary and Estimates regimes?</b>	Guidance supports enhanced Statements of Parliamentary Supply (SoPS), improving transparency around budgets and Estimates.
<b>Alignment with National Accounts</b>	n/a
<b>Recommendation:</b>	<p>To review the consultation paper and the updates made in the 20-21 FReM exposure draft (provided in agenda item 02) and to approve these documents for publication on gov.uk on Friday 13 September.</p>
<b>Timing:</b>	<p>The consultation will run from 13 September to 25 October 2019 and an update on the review, with final proposals to be included in the FReM, will be brought to the November FRAB meeting.</p>

## *Background and the SoPS thematic review*

1. A thematic review of the SoPS has been launched following the Government Financial Reporting (GFR) review and the Treasury's commitment to perform regular thematic reviews. The SoPS review forms the second of two thematic review during 2019 (the other being a post implementation review of IFRS9 and 15).
2. The SoPS is a key accountability statement, which shows the year end outturn and compares this to the Supply Estimate that Parliament has provided statutory authority for an entity to spend against. If an entity's outturn exceeds its Estimate, it has incurred spend without parliamentary approval and therefore deemed irregular which may result in a qualification of the audit opinion on the annual report and accounts.
3. The SoPS was chosen as a specific area of thematic review given informal feedback received over different periods, stating that the SoPS was both difficult to prepare and difficult for the users of accounts to understand. In addition, the SoPS guidance has not been reviewed in detail since 2014.
4. Whilst the initial remit of the thematic review was to consider the quality and clarity of SoPS reporting within the accountability report, it became clear that consideration should also be given to improve the linkage of the Statement to broader performance reporting to aid the understanding for the user. Therefore, the scope of the thematic review expanded to consider how the performance report could encompass and connect narrative in respect of the SoPS reported outturn against Estimate.
5. The objectives of the review are, therefore, as follows:
  - a) to improve guidance – to review and consolidate guidance to ensure it is fit for purpose;
  - b) to review and improve the quality of SoPS reporting – This covers the statement and the notes; and
  - c) to evaluate whether improvements made to the performance report could complement improved SoPS reporting.
6. As part of the SoPS project, the Treasury has carried out a desktop review of 30 departmental Annual Reports and Accounts. In addition, the Treasury has held meetings with a number of departments and other stakeholder (including Parliamentary users and the NAO) in order to discuss draft proposals. This work has helped to refine the proposals outlined below.
7. Although the typical structure or form of thematic reviews has not yet been finalised, the structure, timeline and goals of the SoPS thematic review has been carefully considered. A project initiation document has been drafted, with goals and next steps discussed with stakeholders, to ensure the SoPS thematic review is completed successfully.

## *Proposals*

8. Proposed updates to SoPS reporting are detailed in the FReM exposure draft (in chapter 6 and Annex 1 (see FRAB 137 (02A)) and the consultation document (FRAB 137 (02B)). Section 2 of the consultation, specifically, explains the proposed changes and supporting rationale for preparer and user comment. The Board should refer to this consultation for detail.

9. A summary of the desktop review of annual reports and accounts, including themes and trends identified is also provided. The outcome of the review is planned to be published in the new year but and a more detailed update will be presented to the Board at the November meeting.
10. In summary, however, the proposed changes to SoPS reporting include the following:
  - a change to the title of the SoPS to improve understanding of the Statement and its purpose
  - the requirement to include some explanatory text on the purpose and importance of SoPS disclosures (provided in the SoPS illustrative disclosures)
  - the requirement to provide an understanding of the budgeting framework, including key terms, if not already provided
  - the requirement to provide commentary on variances, if not already provided
  - the requirement to provide numbers in £000's and,
  - adjustments to the disclosure of virements, note 4 of the SoPS and other formatting amendments (all outlined in the SoPS illustrative disclosures).
11. It is proposed that these updates to SoPS reporting are brought into the 19/20 FReM, although this is a point for consultation. The Treasury does not consider the changes proposed to SoPS reporting to be wide ranging or difficult for departments to implement and feedback from preparers has supported this assumption. For example, explanatory text is provided for departments to include and changes to the format of disclosures should not be hard to follow. Given this and to improve SoPS reporting from the 19/20 financial year, it is considered appropriate to bring these changes in during this financial year.
12. The changes are intended to improve usability and enhance transparency, in addition to aiding preparers. The proposals received positive feedback in initial discussions with stakeholders. The consultation now offers all stakeholders the opportunity to comment.
13. In addition, from 2020/21, it is proposed that the following comply or explain requirements are included in relation to performance reporting, to complement improved changes to SoPS disclosures and other changes to general financial reporting: The inclusion of a financial review; an explanation of the budgeting framework; a summary of outturn against estimate; and commentary on variances.
14. These changes are proposed to summarise SoPS disclosures for the lay user and to further improve usability. The SoPS mirror the form of the Estimates, providing a required level of detail, but may still be difficult for lay users to interpret, even when the changes proposed above are implemented. By instead summarising SoPS disclosures in the performance report, it is ensured that the lay user will be able to clearly and quickly understand why a department's outturn is important, what variances there are and any further ramifications.
15. It is proposed that the changes to performance reporting are brought into the 20/21 FReM, rather than the 19/20 FReM. The changes to performance reporting will require more consideration than the changes proposed to SoPS reporting. In addition, the 20/21 FReM is bringing in other performance reporting requirements, arising from the government financial reporting review, and it will aid preparers if all changes to performance reporting

(arising from both the government financial review and SoPS review) are brought in at once.

16. Again, initial feedback from stakeholders on these changes was positive but they will also be consulted on. It should be noted that the majority of major departments already include a financial review in their annual reports.
17. As well as preparer feedback, the Treasury will target users of the accounts as part of the review and the consultation. Targeted users will be contacted as the consultation opens, with an offer to meet to discuss the review.

### ***Further points***

18. A thematic review paper will be published subsequent to the publication of the FReM, by the end of the 2019/20 financial year.
19. The project timeline is provided below.

### ***Recommendation***

20. FRAB members are asked to consider the above background, review the consultation paper and the updates made in the 20-21 FReM exposure draft (provided in agenda item 02) and to approve these documents for publication on gov.uk on Friday 13 September.

July	August	Sept	Oct	Nov	Dec
Phase 1 - Evaluation	Phase II - Feedback and draft	Phase III - Implementing updated approach			
<ul style="list-style-type: none"> <li>● Evaluation of performance reports and SoPS in ARAs</li> <li>● Research of best practice, GFR review recommendations</li> <li>● Draft options and initial proposals</li> </ul>	<ul style="list-style-type: none"> <li>● Obtain feedback on project scope and proposals, in FReM meetings and other ad hoc meetings</li> <li>● Draft initial guidance</li> </ul>	<ul style="list-style-type: none"> <li>● FRaB update - scope of project, changes to be made and draft guidance</li> <li>● Consult more widely on project, changes to be made and draft guidance</li> </ul>	<ul style="list-style-type: none"> <li>● Out of meeting FRAB paper if required</li> <li>● Continue drafting guidance/new approach after consultation</li> </ul>	<ul style="list-style-type: none"> <li>● Finalise guidance/approach</li> <li>● Obtain final FRAB approval</li> <li>● Issue updates in FReM/other guidance as relevant</li> </ul>	<ul style="list-style-type: none"> <li>● Obtain feedback on initial guidance - including from Users (potential user group)</li> </ul>