

Annex: Financial Reporting Manual 2020-21 Amendment Log

Amendments to the 2020-21 Government Financial Reporting Manual

The 2020-21 Government Financial Reporting Manual (FReM) has been substantially reviewed and amended. This document lists all the changes made to the existing 2019-20 FReM (published in December 2018) reflected draft 2020-21 version, including any significant changes made following the public consultation in September/October 2019.

Paragraph	Change	Reason for change
Structural	<p>The structure of the FReM has been revised, and four parts have been identified with new headers:</p> <p>Chapter 1 – Introduction</p> <p>Part A: Principles, purposes and best practice Chapter 2 – Government financial reporting principles Chapter 3 – Best practice in narrative reporting</p> <p>Part B: The form and content of government annual reports and accounts Chapter 4 – The annual report and accounts Chapter 5 – The performance report Chapter 6 – The accountability report Chapter 7 – The financial statements</p> <p>Part C: Applying accounting standards to government annual reports and accounts Chapter 8 – Adopting and interpreting IASs and IFRSs</p> <p>Part D: Further guidance for government annual reports and accounts Chapter 9 – Further guidance on accounting boundaries Chapter 10 – Further guidance on accounting for assets and liabilities Chapter 11 – Further guidance on accounting for income and expenditure</p>	<p>Adding new section headers makes it clear what each part of the guidance is for. This should help keep the structure coherent in future updates, and will help readers navigate the FReM.</p>

	Chapter 12 – Further guidance on accounting for pensions Chapter 13 – Whole of Government Accounts	
Chapter 1: Introduction	<p>The first chapter of the existing FReM includes a mixture of guidance on accounting principles and accounting boundaries for the annual report and accounts. There was some overlap with other existing material.</p> <p>Content that relates to the annual reports and accounts as a whole has all been moved to the new Chapter 4, The annual report and accounts.</p> <p>The revised Chapter 1 is simply an introduction to the FReM itself.</p>	<p>The new Chapter 1 is more focused and readable.</p> <p>The new FReM moves from referencing general financial reporting principles applicable to annual reports and accounts at a high level, to providing detailed guidance on annual reports and accounts.</p> <p>Content now moves from less to more detail throughout the FReM.</p>
1.1 The purpose of the Government Financial Reporting Manual (FReM)	<p>Expanded from paragraph 1.1.1 in the existing FReM; footnote listing the relevant authorities brought up into the text.</p> <p><u>Post consultation</u>: Paragraph 1.1.5 added on the government functional standard GovS 006:Finance</p>	
1.2 The structure and contents of the FReM	New section, other than the reference to gov.uk which is taken from Paragraph 1.2.3 of the existing FReM.	
1.3 The FReM review and update cycle	Expanded from paragraph 1.1.4 in the existing FReM.	
1.4 Which entities apply the FReM	<p>Expanded from paragraphs 1.1.2-3 in the existing FReM</p> <p><u>Post consultation</u>: Note at foot of Figure 1 updated to reflect that audit requirements may vary for different relevant authorities.</p>	
Chapter 2: Government financial reporting principles	This new chapter introduces the four purposes of government financial reporting first articulated in the Public Administration and Constitutional Affairs Committee’s (PACAC’s) <i>Accounting for democracy</i> reports.	The new FReM begins with the most basic principles of government financial reporting. These are the fundamental ideas that sit behind the rest of the guidance.

	<p>The chapter also emphasises the importance of user engagement, and includes further basic principles for reporting:</p> <ul style="list-style-type: none"> • choosing what to publish and how to publish it; • balanced reporting; • comply or explain; • balancing cost and usefulness in reporting; and • continuous improvement. 	<p>This chapter answers the ‘why’ questions for reporting, and will help inform judgement and shape future guidance as well as future reports.</p>
<p>Chapter 3: Best practice in narrative reporting</p>	<p>This new chapter brings in a range of best practice points for all narrative included in financial reports, including:</p> <ul style="list-style-type: none"> • The role of narrative reporting; • Choosing what to say and how to say it; • Design choices and infographics; • Context and trends; • Usability; • Using clear English; • Handling standardised content with care; and • Resources for better narrative financial reporting. 	<p>This guidance reflects feedback from many different users of government financial reports on the importance of narrative.</p> <p>Many of the subsections are responses to concerns raised by PACAC in ‘Accounting for democracy’. Others reflect discussions between HMT and various users of government annual reports and accounts.</p>
<p>Chapter 4: The annual report and accounts</p>	<p>This new chapter combines elements of the existing chapters 1 (introduction), 2 (accounting principles), 4 (accounting boundaries), and 5 (form and content of the annual report and accounts) into one single new chapter.</p>	<p>This new chapter groups for convenience all the high level guidance that relates to the annual report and accounts as a whole.</p>
<p>4.1 Introduction and Structure of public sector annual reports and accounts</p>	<p>Expanded from paragraphs 5.1.1-2 in the existing FReM.</p>	<p>Expanded the formatting for clarity.</p>
<p>4.2 Accounting principles for government annual reports and accounts</p>	<p>4.2.1-2 are new paragraphs quoting from Managing Public Money.</p> <p>4.2.3 is taken from 1.1.5 of the existing FReM.</p> <p>4.2.4-6, Generally Accepted Accounting Practice (GAAP), is adapted from 2.1.1-2 of the existing FReM.</p>	<p>Much of the wording in this section is refined for readability.</p> <p>The presence of the financial reporting principles chapter at the start of the FReM reduces the pressure on this content – its scope is now purely the</p>

	<p>4.2.7, Parliamentary accountability and regularity, is adapted from 2.1.3 of the existing FReM.</p> <p>4.2.8, Historical cost convention, is adapted from 2.1.4 of the existing FReM.</p> <p>4.2.9-10, A true and fair view, is adapted from 2.2.8-9 of the existing FReM.</p> <p>4.2.11, Small and medium-sized entities, is adapted from 2.1.5 of the existing FReM.</p> <p>4.2.12-18, Conceptual Framework for financial reporting, is adapted from 2.2.1-7 of the existing FReM.</p> <p>4.2.19-20, Applying IASs and IFRSs, is adapted from 1.2.1 of the existing FReM.</p> <p>4.2.21-26, Accounting policies and budgetary controls, is adapted from 1.3.1-5 and 2.3.1 of the existing FReM.</p>	<p>accounting principles for annual reports and accounts.</p>
<p>4.3 Consolidation and accounting boundaries</p>	<p>Taken from 4.1.1-4 in the existing FReM, unchanged except for some extra paragraph breaks.</p>	<p>Paragraph breaks added for readability.</p>
<p>4.4 Reporting requirements beyond central government departments</p>	<p>4.4.1-2, Scottish and Welsh spending bodies, is adapted from 5.1.4-5 of the existing FReM.</p> <p>4.4.3-5, Executive agencies and trading funds, is adapted from 1.6.1 and 5.1.6 of the existing FReM.</p> <p>4.4.6-8, Other arm's-length bodies, is adapted from 5.1.6 of the existing FReM.</p> <p>4.4.9-12, Arm's-length bodies which are companies, is adapted from 1.5.1-2, 5.1.7, and 5.1.9 of the existing FReM.</p> <p>4.4.13-15, Arm's-length bodies which are charities, is adapted from 1.4.1-5 and 5.1.8 of the existing FReM.</p>	<p>This section combines parts of the existing chapter 5 with the existing chapter 1, to reduce repetition.</p> <p>None of the substance has changed, but the language has been simplified where possible.</p>

	4.4.16, Reportable activities, is adapted from 1.7.1 of the existing FReM.	
4.5 Presentation to Parliament and publication	Adapted from 5.5.1-10 in the existing FReM	No changes, but this part of the existing FReM clearly relates to the whole of the annual report and accounts and is, therefore, moved for improved positioning.
Chapter 5: The performance report	This chapter provides updated and new guidance on the performance report, with the sections on the accountability report and financial statements moved to create new subsequent chapters.	Updated to improve the clarity of performance reporting guidance, separating this out into a single chapter, and to reflect improvements to guidance arising from the GFR and SoPS thematic reviews.
5.1 Purpose of the performance report	A new section that details the purpose of the performance report and incorporates guidance from the <i>Additional guidance for the preparation of annual reports and accounts</i> PES paper.	Expanded to emphasise the importance of the performance report, incorporating themes arising from the GFR review and to add PES guidance into the FReM where relevant.
5.2 Principles for the performance report	5.2.1 – 3, new paragraphs that outline key principles for performance reporting, referring the user back to the principles and best practice chapters, and some further specific principles: a) reporting should reflect the structure and activity of the organisation; b) trend data should be included; and c) preparers should make clear where information has been audited. 5.2.4 – 7, requirements on following the Companies Act 2006 or other relevant legislation, auditing and signing of the performance report have been largely carried forward from the previous FReM.	The new guidance incorporates recommendations arising from the GFR review, with some existing guidance carried forward.
5.3 Performance overview	The guidance covers an explanation of the performance overview and what should be included. Most requirements are brought forward from the previous FReM.	The desktop review of annual reports and accounts indicated that most entities prepared an effective performance overview section, in that they followed requirements of the FReM and

	<p>Guidance on summarising performance and risks has been expanded to better align the overview to the performance analysis.</p> <p>Guidance on explaining the structure of the organisation, if not otherwise done so, has been split out as a separate bullet point, to improve the clarity of guidance.</p> <p>The requirement to summarise single departmental plan (SDP) or organisational goals is new, but was already implied under the existing requirement to provide a performance summary.</p> <p>Other requirements have been strengthened. In particular, risk reporting has been enhanced by strengthening the requirement to report on risk, how risks have been mitigated and how they will affect future performance.</p>	<p>contained enough information for the lay user to have no need to look further into the rest of the annual report and accounts, unless they were seeking specific detail. Therefore, guidance has been largely carried forward, especially as GFR review recommendations were instead incorporated into the new performance analysis requirements.</p> <p>However, guidance has been updated to better align the overview to the analysis section and to improve the clarity of guidance.</p>
<p>5.4 Performance analysis</p>	<p>The section has been substantially revised, to incorporate recommendations arising from the GFR and SoPS thematic review.</p> <p>5.4.2 – 3, emphasise the importance of linking users to other parts of the annual reports and accounts and why entities have been permitted some flexibility in reporting, incorporating recommendations arising from the GFR review.</p> <p>The guidance is broken down into three sections: a) mandatory requirements; b) comply or explain requirements, and c) best practice recommendations.</p> <p>The section then goes onto cover sustainability reporting.</p> <p>5.4.4, mandatory requirements include:</p> <ul style="list-style-type: none"> • Reporting on progress against SDP goals. An existing reporting requirement for those entities with a SDP but introduced in the FReM from the Additional Guidance for Preparers PES paper. • For entities without SDP goals, the form or reporting should be agreed first with the sponsoring department, relevant 	<p>5.4.2 - 3 incorporate recommendations arising from the GFR review.</p> <p>This structure was deemed the clearest in relation to the requirements, given the number of them.</p> <p>This section incorporates required reporting per PES papers, best practice arising from the GFR and SoPS reviews and otherwise carries forward requirements.</p> <p>Per the desktop review of annual reports and accounts, most entities already complied</p>

	<p>select committee and HM Treasury spending team. Otherwise, these entities are required to also report on performance against objective. This was discussed as part of the GFR review and best practice as part of the SoPS review.</p> <ul style="list-style-type: none"> • Reporting on non-financial information including social matters, respect for human rights anti-corruption and anti-bribery matters. The FReM requires this reporting, as detailed under EU law and is carried forward. 	<p>with this requirement to structure their performance analysis around the discussion of progress against goals. Given this and to ensure consistency of reporting and best practice is followed, it was considered that this requirement should be mandatory for entities that do not have SDPs.</p>
	<p>5.4.5, Introduction of comply or explain requirements:</p> <ul style="list-style-type: none"> • Further detail on the structure of the organisation, if not otherwise provided elsewhere, to aid the user’s understanding. • Further detail on the risk profile of the organisation and how risks have affected performance and been mitigated. This requirement has been added given the GFR review to tie the discussion of risk into the accountability report. • Disclosure of unit cost data, where these are a relevant indicator or metric in relation to SDPs or other objectives. This requirement has been added given the GFR review. • Disclosure of relevant trend data. This requirement has been added given the GFR review. • A financial review, this requirement has been added given the SoPS thematic review and finding that financial performance should be tied into broader performance more effectively. • Detail on future plans and performance. This requirement has been added given the GFR review. • A summary of any key issues detailed in the accountability report that may be of use to the user. The requirement to summarise any key issues arising from the accountability is new and is designed to ensure preparers bring 	<p>This section incorporates recommendations arising from the GFR and SoPS reviews, adjustments for clarity and otherwise carries forward requirements.</p> <p>A number of accounts already adhere to these requirements, per the desktop review. For example, the majority of entities discuss future plans, although usually this was tied into general performance reporting and not separated out as an individual section.</p>

<p>together reporting across annual reports and accounts into the performance report.</p> <ul style="list-style-type: none"> • Otherwise comply or explain requirements are carried forward from previous FReM requirements (explaining the purpose of the analysis section and reporting against any further key financial indicators or measures). <p>Further comply or explain requirements have been added in relation to the financial review, but only for entities that are required to prepare SoPS. These requirements have been added given the findings of the SoPS thematic review and are as follows:</p> <ul style="list-style-type: none"> • Context and explanation of the public sector budgeting framework • A summary table showing outturn against estimate • Commentary on outturn against estimate variances • A summary outturn to accounts reconciliation, where this is easy to provide. • A trend analysis 	<p>The purpose of this section is to provide an understanding of the budgeting framework and why outturn against Estimate is important, before providing any further relevant detail.</p> <p>This complements changes to SoPS reporting, aiding usability, and addresses weaknesses of SoPS reporting (namely that a lack of supporting context is provided and that SoPS reporting can be difficult for a lay user to understand).</p> <p>The majority of accounts reviewed already incorporate a financial review.</p> <p>These requirements are comply or explain only for entities that compile SoPS, as the budget framework and outturn against estimate is more relevant to them. Entities that do not prepare SoPS should still refer to this requirement as best practice.</p> <p>It should be noted that most entities that prepare SoPS already adhere to these requirements; for example, most accounts reviewed summarised the SoPS outturn against Estimate in their financial review.</p>
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	<p>5.4.6, Inclusion of best practice recommendations:</p> <ul style="list-style-type: none"> • For entities that do not prepare a SoPS, they still should consider how to apply the comply or explain requirements in relation to the financial review. • Financial reviews may still include as best practice: a) an analysis of the balance sheet position; b) detail on the type of spend incurred, and c) detail on outturn against estimate by SDP objective or organisational goal. 	<p>As above, entities that do not prepare SoPS should refer to the comply or explain requirements for best practice. Further best practice recommendations in relation to the financial review have not been drafted as comply or explain given that they were not deemed relevant enough forms of reporting for all departments (this was corroborated by the review of accounts).</p> <p>In addition, providing outturn against estimate for each organisational goal could be highly judgemental, as spend would need to be apportioned, and difficult for departments to compile, given estimate lines rarely match to objectives. Noting this reporting as best practice, however, should encourage this reporting where this would aid users.</p>
	<p>5.4.8, Provides guidance on sustainability reporting. It amalgamates paragraphs on sustainability reporting from the existing FReM, incorporates guidance previously included in the additional guidance on the preparation of ARAs PES paper and refers preparers to the sustainability reporting guidance for further detail.</p>	<p>The new paragraph collates guidance on sustainability reporting into one section of the FReM. It summarises mandatory requirements, before referring the user onto the separate sustainability reporting guidance.</p>
<p>Chapter 6</p>	<p>This new chapter is adapted from section 5.3 in the existing FReM, with amendments. Chapter 6 also contains the updated guidance on the Statement of Parliamentary Supply (SoPS) that was the separate chapter 3 in the existing FReM.</p> <p>The changes to SoPS are the most significant in the chapter. While a number of changes in reporting are listed below, these are not considered significant. The data shown is not changing, merely the way it is presented and</p>	<p>To improve readability and bring in actions from the government financial reporting review.</p> <p>The SoPS guidance has been reviewed and updated as part of a separate thematic review of SoPS disclosures.</p>

	<p>most alterations relate to formatting and the requirement to include explanatory text, provided in the illustrative disclosures.</p> <p>The changes to SoPS reporting are supplemented by changes to performance reporting (see chapter 5) which are designed to summarise the SoPS for the lay user, as well as otherwise providing key information on performance.</p> <p>The changes made are as follows (also to be made in the 2019-20 FReM):</p> <ul style="list-style-type: none"> • Structure of the SoPS – An explicit requirement mandating the structure of reporting that the SoPS should follow has now been introduced (i.e. to stipulate the tables and notes that must be disclosed, as indicated by guidance and the illustrative disclosures). This requirement was already implicit, but is now explicit. • Following the form of the SoPS illustrative disclosures – Following the form of the SoPS, i.e. the presentation of rows and columns as dictated by the illustrative disclosures (rather than the structure of the SoPS itself) is now a comply or explain requirement. • Explanatory text – Preparers must include supporting and standardised text, as provided in the illustrative disclosures which explains the purpose of the SoPS and why it is the key accountability statement. • All numbers are presented in £000's – An explicit requirement that all numbers are presented in £000's has been introduced, to ensure the SoPS aligns to the figures presented in the Supply Estimates. This requirement was already implicit, but is now explicit. • Minor alterations to presentation of the SoPS – minor alterations to the SoPS are also included as part of the updated illustrative disclosures. For example, DEL and AME total rows have been added to the SoPS summary table, or the adjustment of the virements columns. • Formatting and other minor adjustments – The guidance allows entities to format SoPS disclosures as they prefer so as 	
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	<p>to align with the style of their annual reports and accounts. However, the illustrative disclosures now provide best practice formatting.</p> <p>Please note the following SoPS changes are only to be made in the 20-21 FReM.</p> <ul style="list-style-type: none"> The title of the SoPS – The SoPS has been renamed the Statement of Outturn against Parliamentary Supply (SOPS). <p>Budgeting framework – Where the budgeting framework has not already been explained as part of the financial review in the performance report (see chapter 5 of the draft FReM), an explanation of the budgeting framework must instead be included with the SoPS notes; for example, through a flow of funds diagram.</p> <p>Commentary on variances between outturn and the Supply Estimate – Unless commentary is already provided as part of the financial review in the performance report (see chapter 5 of the draft FReM), it is mandated that commentary on variances between outturn and the Supply Estimate is provided in the SoPS. Preparers are allowed discretion as to what commentary they provide, and whether it covers the SoPS summary table or SoPS note 1</p>	
6.1.1-4 Purpose and scope of the accountability report	<p>Adapted from 5.3.1-3.</p> <p>Added “the primary user of the annual report and accounts” to 6.1.1.</p> <p>Changed “Westminster departments” to “UK central government departments” in 6.1.4</p> <p>Added a link to Chapter 3, best practice in narrative reporting.</p>	<p>Consistency with the newly expressed principles for government financial reporting.</p> <p>Avoided using “Westminster” as synonym for “government”.</p>
6.2 Auditors and the accountability report	<p>Adapted from 5.3.4-5, with heading added and minor tweaks for readability.</p> <p>Changed “Westminster” to “UK government” in 6.2.1.</p>	<p>New heading/section to help users navigate.</p> <p>Avoided using “Westminster” as synonym for “government”.</p>
6.3 Structure of the accountability report	<p>Adapted from 5.3.6-13, with minor tweaks for readability.</p>	

6.4.1-6 Corporate governance report		
6.4.7-11 Corporate governance report	Adapted from 5.3.13-14, amended to expand language on the Corporate Governance Code and risk disclosure, to emphasise the Accounting Officer's responsibility, and to encourage links to the Accounting Officer System Statement.	Enhanced language on risk disclosure and Accounting Officer responsibilities implement actions from 'The government financial reporting review'.
6.5.1-14 Remuneration and staff report	Adapted from 5.3.15-27, with minor tweaks for readability.	
6.5.16 Remuneration and staff report	Adapted from 5.3.28-9, with added content: e) new requirement to disclose staff turnover as per Cabinet Office guidance. f) new requirement to disclose staff engagement scores, from the latest Civil Service People Survey (or alternative similar indicators for those who don't participate) h) additional guidance on reporting trade union facility time disclosure l) additional guidance on exit packages disclosure	Enhanced disclosures on staff turnover and engagement implement actions from 'The government financial reporting review'.
6.6 Supply and the Statement of Outturn against Parliamentary Supply (SoPS)	This section has been revised on the basis of the SoPS thematic review. Paragraphs 6.6.7 to 6.6.9 have been substantially revised, otherwise paragraphs are similar to those in the existing FReM.	Refer to Section 2 of the consultation for background and an understanding of the proposed changes.
6.7 Other notes relating to Parliamentary accountability	Adapted from 5.3.31.	New heading/section to help users navigate.
6.8 The Certificate and Report of the Comptroller and Auditor	Adapted from 5.3.32-6.	New heading/section to help users navigate.

General to the House of Commons		
Chapter 7 The financial statements	This new chapter is unchanged from paragraphs 5.4.1-28 in the existing FReM, other than some minor amendments.	Separating out content into a single chapter to aid usability and readability.
Chapter 8 Adopting and interpreting IASs and IFRSs	This new chapter is unchanged from Chapter 6 of the existing FReM, other than some changes in relation to IFRS 16 detailed here: ADD LINK TO FRAB PAPER	Separating out content into a single chapter to aid usability and readability.
Chapter 9 Further guidance	Taken unchanged from 4.2.1-15, with an added link to guidance on accounting for transfers of a function under common control	This section was in the old 'Accounting boundaries' chapter 4 – it's very detailed, so makes more sense here in the 'further guidance' section.
Chapter 10 Further guidance on accounting for assets and liabilities	Taken unchanged from Chapter 7 of the existing FReM, other than some changes in relation to IFRS 16 detailed here: ADD LINK TO FRAB PAPER	
Chapter 11 Further guidance on accounting for income and expenditure	Taken unchanged from Chapter 8 of the existing FReM, with one amendment	
11.2.1-2 Accounting for Supply	Taken from 3.3.1-3.	Moved down from the Chapter 3 (which is now part of Chapter 6) after the FReM working group pointed out that this is detail that belongs in further guidance.
Chapter 12 Further guidance on pensions accounting	Taken unchanged from Chapter 9 of the existing FReM	
Chapter 13 Whole of Government Accounts	Taken unchanged from Chapter 10 of the existing FReM	

Annex 1 SoPS disclosures illustrative guidance	This section of the FReM incorporates illustrative guidance previously in Department Yellow and updates this based on the recommendations arising from the SoPS thematic review. Refer to chapter 3 of the consultation for further detail.	Changes made as a response to the SoPS thematic review
Annex 5 Links to relevant guidance and resources	Reviewed and updated with additional links to help preparers	