



Financial Reporting Advisory Board Paper

Government Financial Reporting Review and FReM Review Update

Issue:	This paper presents a progress update on the actions arising from the Government Financial Reporting Review, with a focus on Phase 2 of the Financial Reporting Manual Review.
Impact on guidance:	Comments relating to non-significant amendments and improvements will be included in the revised 2020-21 FReM as part of the regular in-year update cycle. Further changes may be made to future editions of the FReM.
IAS/IFRS adaptation?	n/a
Impact on WGA?	n/a
IPSAS compliant?	n/a
Interpretation for the public sector context?	n/a
Impact on budgetary and Estimates regimes?	n/a
Alignment with National Accounts	n/a
Recommendation:	The Board is asked to comment on the approach and scope of Phase 2 of the FReM and to note that the User Preparer Advisory Group has now been established
Timing:	The deadline for publishing the revised 2020-21 FReM is 31 December 2020.

Introduction

1. This paper presents a progress update on the actions arising from the Government Financial Reporting Review, with a focus on Phase 2 of the Financial Reporting Manual Review.

FReM Review Phase 2

2. At the Board's last meeting in November, HM Treasury presented a paper that summarised the responses to the autumn 2019 consultation on the draft 2020-21 Financial Reporting Manual and outlined the planned next steps. The full log of all consultation responses was also shared with FRAB members.
3. A total of 38 individual responses were received, which were then broken down into 735 individual comments, each of which made a separate point. The overall tone was positive, and a wide variety of different points were made. It was clear that a great deal of thought and effort had gone into the responses received. Each of the 735 comments and suggestions for improvements were then reviewed individually and assigned a RAG rating and a category based on the anticipated next steps. The summary table below was shared at the last meeting:

Table 1: summary of FReM consultation responses

More significant issue for further consideration	36
Typo	44
Minor adjustment to improve clarity	95
Typo/minor adjustment to improve clarity	139
Issue brought up by multiple respondents, no change	38
Issue brought up by one respondent, no change	100
Issue brought up by multiple respondents, phase II	55
Issue brought up by one respondent, phase II	103
Issue brought up by one or more respondent but no change/for phase II	296
Votes on name change	22
Votes on bringing in during 19/20	18
Votes on name change/bringing in during 19/20	40
Agreed	224
Total	735

4. A number of these comments resulted in changes that were made to the 2020-21 FReM, published on 19th December 2019 following FRAB members' approval. Where comments needed further consideration and/or discussion with stakeholders, it was agreed that they would be picked up in Phase 2 of the FReM Review.
5. Since the last meeting of the Board, the Treasury has carried out a further in-depth analysis of comments that were assigned to Phase 2, were deemed to be significant or where it was felt that no action was required. The Treasury spent a significant amount of time in reviewing each comment individually. The Treasury received detailed and in-depth responses and it was felt that proper consideration should be

given to any comment not actioned as part of Phase 1 of the review. A total of 332 comments were individually analysed as follows:

Table 2: summary of FReM consultation responses reconsidered in Phase 2:

More significant issue	36
Issue brought up by multiple respondents, no change	38
Issue brought up by one respondent, no change	100
Issue brought up by multiple respondents, phase II	55
Issue brought up by one respondent, phase II	103
Total comments considered	332
No action	174
Phase 2 consideration	158

6. The 36 more significant comments were discussed at the previous Board and are shown in Annex B. The Cabinet Office guidance on staff turnover was published in December and will be reflected in the revised draft 2020-21 FReM. In the meantime, a link to the guidance has been circulated to preparers across government. This addressed 23 of the more significant comments raised.
7. Suggestions on risk reporting and comply or explain were considered during Phase 1 of the review and reflected in the FReM that was published in December, though reporting in these areas will continue to be monitored. The structure of chapter 2 of the FReM will be considered as part of Phase 2, as well as how GDPR could relate to other areas of the ARA and whether the FReM wording could be amended to reflect this. The issue of how materiality is outlined and discussed in the FReM will be taken forward as detailed later in the paper.
8. For 174 comments, it was decided that no further action was required. These were largely the comments previously assigned as “no change” in the initial review, plus suggestions that were already sufficiently addressed by the FReM as drafted. Several changes to the FReM that were initially made on the basis of consultation responses were then reversed following feedback at the last Board meeting. Therefore, anything that was likely to give rise to unintended consequences or would not significantly improve the guidance was not taken forward. Due consideration was given to all comments, and a decision that no further action was required was not taken lightly.
9. The remaining 158 comments were assigned categories, to be taken forward as individual workstreams (though there may be some overlap between these categories). Comments were received on a wide range of areas with few overriding themes, and not many comments that were repeated by different responses. Overall it is reassuring that there were no major concerns raised and that there were no areas of the FReM where urgent action was required.

10. Any quick wins were flagged and where possible actioned, such as emailing another team or adding a new link to the FReM guidance. Other comments will need some further consideration and thought, including discussion with relevant stakeholders where appropriate. Where this would result in proposed changes to the FReM guidance that are relatively minor and uncontroversial, they will be included as part of the regular update of guidance carried out annually. Where proposed changes are more significant, they will be made to future editions of the FReM. The Treasury is open to making further changes where this is necessary and will improve the guidance and is looking to be comprehensive in addressing comments that have been raised. All proposed changes will be presented to the Board for approval.

11. A breakdown of the number of comments per category is outlined below (with an in-depth breakdown table provided in Annex B):

Table 3: Phase 2 consultation comments by category

Category	Comments	(Of which) quick Wins
Additional guidance	47	6
Wording	33	16
Presentation	17	5
Minor structural improvement	11	6
Department specific	12	1
Applicability	9	1
Relevant Authorities	9	
Audit issue	6	
Materiality	5	
SoPS	4	
Examples	1	
Landing Page	1	
Promotion & Comms	1	1
Regularity	1	
Accessibility - Dec 2020 update	1	
Total	158	36

12. The category with the largest number of comments assigned to it relates to additional and further guidance that the FReM mentions or is related to. Of the 43 comments, 7 relate to the staff report guidance contained in the FReM. These comments will be collated and discussed with Cabinet Office who own the policy that the guidance is based on. Other comments relate to links and consistency between the FReM and the illustrative statements, MPM and application guidance, and also with guidance such as the UK Corporate Governance Code, FRC Revised Guidance on the Strategic Report and PES guidance. It is envisaged that most of

these comments are not significant and will be addressed as part of the regular in-year update of the 2020-21 FReM.

13. 33 comments relate to the wording of the FReM, of which 16 relate to very minor clarifications that can be made easily and therefore have been flagged as quick wins. 6 comments relate to references to the EU in the FReM, and these will need to be considered as a separate workstream and considered over summer 2019. Other comments include those related to better linkages between Chapter 2 (The purposes and principles of government financial reporting) and Chapter 4 (The annual report and accounts) of the FReM, greater interconnectivity between different sections of the FReM and encouraging the Annual Reports and Accounts to be presented as one coherent document. It is expected that most of these comments will be addressed as part of the regular in-year update of the 2020-21 FReM.
14. 17 comments suggested presentational improvements. Some of these can be taken forward relatively easily, such as the inclusion of additional hyperlinks to other relevant documents and will therefore be included as part of the regular update cycle. Other suggestions may be more difficult to achieve quickly, such as the inclusion of more diagrams, graphics and tables in the guidance. Where possible, follow up discussions will be had with individual respondents for further detail, for example if they would like to suggest a diagram could be added that would make the FReM more useable where this has been flagged.
15. 12 comments relate to suggested structural improvements and are relatively minor and easy to implement. In particular, it is felt that the addition of a glossary would be valuable.
16. Several departments raised specific issues relating to things particular to them. They will each be contacted individually to discuss further, and clarification sought where required.
17. 9 of the comments received were in relation to applicability and scope. The possibility of a "FReM light" has been discussed and discounted previously by the Board. The Treasury also conducted some outreach work with smaller bodies in 2016 who were generally not in favour specific guidance for them. However, the issue of "what parts of the FReM applies to which bodies" is something that should be considered further as an individual future workstream, particularly in relation to charitable bodies.
18. A further 9 comments were raised by the relevant authorities and/or their auditors – for example where the FReM only refers to arrangements in one of the devolved administrations and not others. These will be put together and discussed with the Relevant Authorities Working Group.

- 19.6 comments received relate to specific audit issues, raised by the NAO or Audit Scotland. These will be taken forward with the NAO and audit authorities in the devolved administrations, and the devolved administrations themselves.
- 20.5 comments relate to the concept of materiality and how this is discussed and referred to in the FReM. This was discussed in the last meeting of the Board, particularly around how the concept applies to non-financial reporting. Any proposed changes to the wording of the FReM would need to be considered carefully and discussed with relevant stakeholders, including NAO. Research also needs to be carried out into wider work being carried out in this area.
21. Other comments include 4 related to the Statement of Outturn against Parliamentary Supply (SOPS), mainly around clarifying SOPS: Note 4: Analysis of income due to the Consolidated Fund. The Treasury has started to look at how the guidance can be improved and has discussed this with a number of departments. It is expected that minor changes to the text will be made as part of the regular in-year update of the 2020-21 FReM.
22. Overall, the public consultation provided a wealth and variety of suggestions on many parts of the FReM. It is important that all comments and suggestions for improvements to the FReM are given due consideration and taken forward into the guidance where appropriate.

Best practice examples

23. The Government Financial Report contained a number of examples of best practice taken from departmental annual reports and accounts, and the Treasury committed to publishing further examples in future. Following a desktop review of 2018-19 accounts, examples were chosen where they demonstrated some of the new requirements in the FReM, such as trend data, balanced narrative and effective infographics. Examples were also included that were highlighted in the NAO report *Building Public Trust Awards – good practice in annual reports February 2020*. The new suite of 41 best practice examples has been published on gov.uk¹.

Thematic reviews

24. The Treasury presented a paper on the pilot thematic reviews of IFRS 9 and IFRS 15 at the November 2019 meeting. This was published on gov.uk in January². The results of the SOPS thematic review were also presented and will be published in the next month. The Treasury aims to carry out a further review later this year.

¹https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/869630/Final_Best_Practice_Report.pdf

² <https://www.gov.uk/government/publications/post-implementation-review-of-ifrs-9-and-ifrs-15>

Departmental engagement

25. The Government Financial Reporting Team ran 2 sessions at the recent Government Finance Conference in Liverpool, focussing on the changes made to the 2020-21 FReM. The Treasury is committed to continue engaging with preparers of government annual reports and will look for further opportunities to do this through the year.

User Preparer Advisory Group

26. The inaugural meeting of the User Preparer Group was held on 23rd January and chaired by Andrew Buchanan. This was established to discuss the ways in which government annual reports and accounts could be improved, following the Government Financial Reporting Review.

27. The meeting was productive with representatives from departments, smaller bodies, think tanks and academics, and there was a high level of interest and engagement. It will look to consider best practice examples and contribute to the bank going forward. It will also seek to propose where and how areas of narrative reporting may be improved. Other areas of focus will be to consider potential topics of thematic reviews and therefore influence our work programme going forward.

28. Detail of the Group discussion and proposals will be fed back to FRAB and future meetings will align with the FRAB meeting schedule. The next meetings are planned for April/May and September this year.

Sustainability reporting

29. Central government entities that are within scope of the Greening Government Commitments (GGCs) are required to follow the mandatory sustainability reporting guidance (SRG). The SRG sets out the minimum requirements, some best practice guidance and the underlying principles to be adopted in preparing the information on sustainability reporting in ARAs. This information is included in the performance report and is audited for consistency.

30. The SRG is updated every year and in 2019/20, a consultancy group was set up to support HM Treasury in ensuring the relevance of the content in this guidance, for example by advising on changes in sustainability legislation.

31. New GGCs are coming in from 2020/21 which means the SRG needs to be amended to reflect this. Given this coincides with the publication of the revised FReM, the Treasury is taking this opportunity to perform a general review of the guidance and will look to bring in some of the new concepts featured in the FReM.

32. The Treasury has also held initial discussions with the NAO regarding how public sector entities can be better supported on sustainability reporting, particularly as sustainability becomes more prominent. A thematic review into sustainability reporting is also being considered.

33. The Treasury is reviewing the developments in sustainability reporting in the private sector, including the recommendations made by the Task Force on Climate-related Financial Disclosures, which formed part of the Green Finance Strategy published by HM Government in July 2019. The Treasury will continue to look at how these developments can influence sustainability reporting in government.

Conclusion

34. This paper summarises the recent work carried out in relation to the commitments made in the Government Financial Reporting Review. The Treasury's focus over spring and summer will be taking forward the Phase 2 FReM Review workstreams and sustainability reporting guidance, as well as engaging with stakeholders as appropriate.

Recommendation

35. The Board is asked to comment on the approach and scope of Phase 2 of the FReM and to note that the User Preparer Advisory Group has now been established.

HM Treasury
19th March 2020

Annex B

Table of Phase 2 comment categories

Category	Comments	Quick Wins
Additional guidance	47	6
Cabinet Office staff report	7	
Illustrative statements	5	
Application guidance	5	
UK Corporate Governance Code/FRC on Strategic Report	4	1
MPM/Gov Statement	4	
PES guidance	3	
Companies Act, Charities SORP	2	
CFERs	2	
Companies Act	2	
Sustainability Guidance	2	2
WGA	1	1
FOI	1	
Additional capital accounting guidance	1	
Interface of all guidance	1	
Corporate Governance Code	1	
MoJ guide to accounts	1	
Estimates	1	1
Additional Guidance - ONS	1	1
Companies (Miscellaneous Reporting) Regulations 2018	1	
GDPR	1	
IASB Disclosure Initiative	1	
Wording	33	16
Minor wording improvement	15	12
EU references	6	
Chap 2 and 4 linkages	3	
Interconnectivity of ARAs and FReM	2	1
Specific references to standards in Chap 8	1	
Cross-reference	1	
CIPFA name - CIPFA/LASAAC Local Authority Accounting Code Board (CIPFA/LASAAC). Acronyms	2	1
Comply or explain	1	
CFERs	1	1
Language	1	
Presentation	17	5
Links	6	4
Style	5	1
Graphics	3	
Tables	2	
Diagrams	1	
Minor structural improvement	11	6
1.3 - do we need a section setting out the contents and structure of the FReM?	4	3

Glossary	2	
Internal hyperlinks	2	2
Consistent language - FReM, CBG, MPM etc	1	
New section E	1	1
New annex	1	
Department specific	12	1
DfT	9	
DCMS	1	1
DHSC	1	
DHCLG	1	
Applicability and scope	9	1
Relevant Authorities	9	
Audit issue	6	
Materiality	5	
SoPS	4	
SoPS Note 4	3	
Performance reporting	1	
Examples	1	
Landing Page	1	
Promotion & Comms	1	1
Regularity	1	
Accessibility	1	
Total	158	36

Annex B

Table 2: More significant issues raised in Phase 1 (as per FRAB 138)

	Issue	Comments	Proposed approach
1.	Clarity on risk reporting, particularly the difference between the performance overview and the performance analysis.	3	Updated - Changes made to the revised draft FReM to refine and improve the risk disclosure guidance.
2.	Staff turnover disclosures	23	Requirement to disclose staff turnover retained – agreed PACAC recommendation. HM Treasury is working with the Cabinet Office to ensure the guidance is available. The revised draft FReM updated to clarify that while the disclosure is mandatory, the guidance should be followed on a comply or explain basis.
3.	The language around GDPR.	1	No change to existing requirements following legal advice. It is not possible to resolve the tension between statutory remuneration disclosures and GDPR until further case law has developed. HM Treasury is keeping this under review.
4.	The structure of chapter 2.	5	Not yet updated -To consider along with other structural changes in phase II.
5.	The introduction of a lighter version of the FReM for smaller entities.	1	Not accepted – The principle of differential reporting in central government is not currently being considered. While introducing a lighter version of the FReM could be counterproductive, HM Treasury will consider how to make the guidance more navigable in phase II.
6.	The lack of a general/principles discussion of materiality	2	Not yet updated - an in-depth discussion to be added after stakeholder engagement in phase II.
7.	A suggestion to strengthen 'comply or explain' by requiring	1	Updated - The required disclosures in the Governance Statement extended to include a summary of actions taken to improve

	entities to state what they are doing to improve reporting.		reporting where an 'explain' option has been taken.
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