



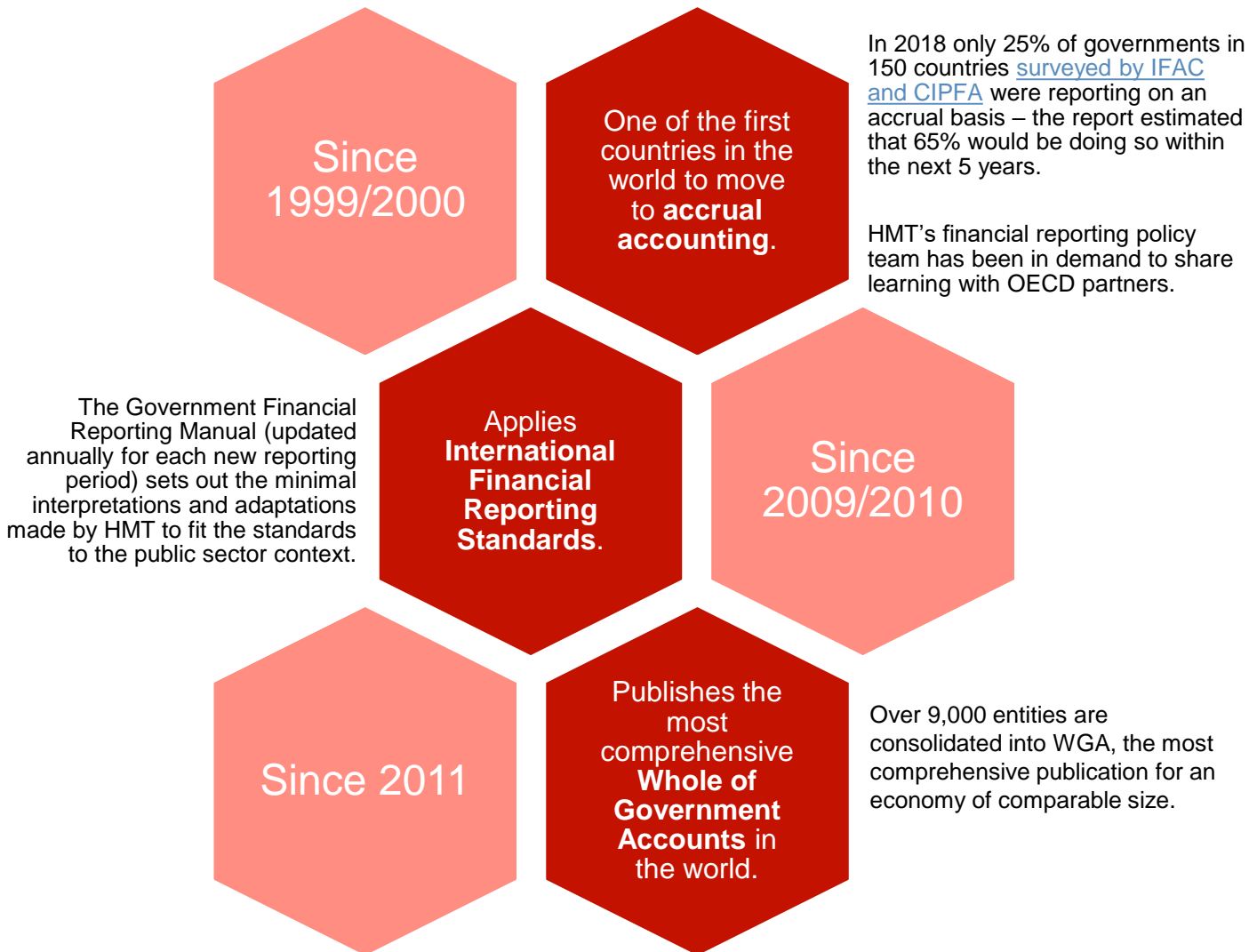
HM Treasury

UK Government Financial Reporting

Technical excellence and
innovation

March 2020

The UK is a world leader in government financial reporting



For three decades HM Treasury has led a process of continuous improvement in UK government financial reporting.

Technical excellence: applying IFRS in the UK public sector

IASB:
International Accounting Standards Board

FRAB:
The independent Financial Reporting Advisory Board

FReM:
The annually updated Government Financial Reporting Manual

IASB proposes new financial reporting standard

HMT reviews the standard for use in the public sector

HMT convenes Technical Working Groups and develops proposed approaches.

HMT reviews consultation comments and revises the guidance, with input from FRAB.

HMT consults on draft application guidance, including any adaptations and interpretations to the standard.

FRAB reviews and comments on HMT's proposals.

Adaptations and interpretations to the standard are included in the FReM, as approved by FRAB.

Government bodies prepare their annual reports and accounts in accordance with the FReM.

Parallel to this process, the new standard is approved for implementation by the IASB and endorsed for use by the UK Endorsement Board.

FRAB includes technical experts, representatives from government bodies, and from Parliament and other stakeholders.

Technical Working Groups include more subject-specific experts, from the public sector and beyond.

HMT engages with the UK Government Finance Function throughout the process of adopting a new standard, to raise awareness, explore implications, and provide training and support.

Innovation: improving UK government financial reporting

Simplifying and Streamlining

Published 2014; implemented 2015/16.

HMT project to improve statutory government annual reports and accounts. Moved from the 'front half/back half' dichotomy to a more integrated reporting model with three elements:

- Performance ("telling the story")
- Accountability
- Financial Statements

Strongly supported by Parliament, this work brought out an overall narrative in annual reports and accounts and paved the way for future improvements.

Changing expectations from corporate reporting.

Feedback from Parliament, think tanks, and others.

Best practice – can it become standard practice?

Meeting the needs of users.



Government Financial Reporting Review

Published 2019; implementation ongoing.

HMT project to engage with users and further improve government financial reporting. Inspired by and responding to the PACAC report '[Accounting for Democracy](#)'. Covers:

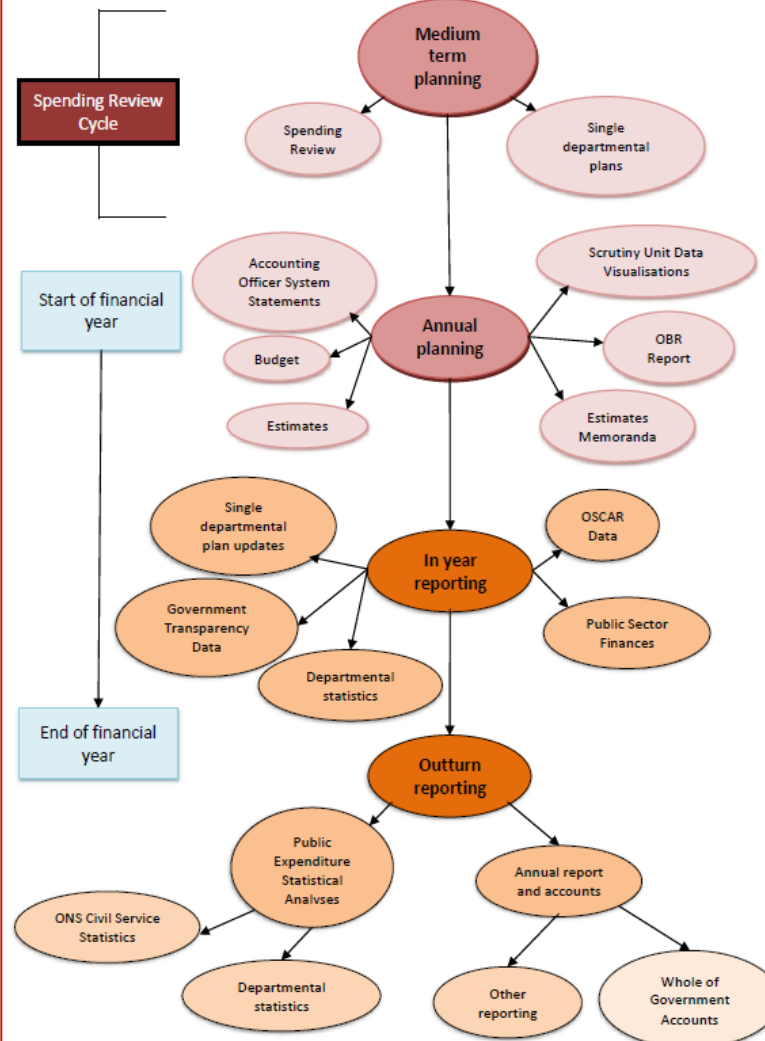
- the principles and purposes of reporting,
- the context for annual reports and accounts,
- ensuring that reports are trustworthy, and
- a review of 28 best practice examples.

Innovation: The Government Financial Reporting Review

“The goal is government reporting that is **simple, easy to read**, and reflects **the unique story of each department**. Reports should meet the needs of their **primary users**, including: **the House of Commons** controlling government spending; **the public** assessing value for money; and **managers inside departments** (Ministers and civil servants) needing information to run those departments effectively. Underpinning all these needs is the **duty of government documents to provide an accurate record** of activity and decision-making. ”

[The Government Financial Reporting Review](#), p.3

Chart 4.A: The government financial reporting landscape



Annual reports and accounts are only one kind of financial report, in a landscape.

What makes them special?

- 1) **Centrality:** they draw on and (ideally) link to the other reports.
- 2) **Accountability:** the financial statements and many of the statutory accountability disclosures are audited.
- 3) **Publicity and recognition:** far more high profile than (for example) Public Expenditure Statistical Analyses.
- 4) **Timeliness:** UK central government departments' accounting periods run April-March. Departments aim to lay their reports before Parliament before summer recess. The majority are therefore published about three months after year end.



Snapshot: HM Treasury's work now

Technical excellence

- Supporting Finance Function colleagues with **advice, guidance, and technical updates**.
- Bringing together accounting and budgeting expertise to **support policy initiatives** such as 'The Government as Insurer of Last Resort'.
- Finalising the implementation of **IFRS 16 Leases**.
- Developing approaches to implementing **IFRS 17 Insurance Contracts**.
- Updating the **Government Financial Reporting Manual (FReM)** every December.
- Running the most complicated public sector consolidation exercise in the world to produce the **Whole of Government Accounts**, every year.

Innovation

- Reviewing and expanding the FReM with innovations such as:
 - The use of **comply or explain** guidance to balance consistency with allowing bodies to tell their own stories;
 - A new chapter setting out the **principles and purposes** of government financial reporting;
 - Guidance on **best practice in narrative reporting**.
- Engaging with Parliament and other users, with the creation of a new **Users and Preparers Advisory Group (UPAG)**.
- Carrying out **thematic reviews** to deep dive into specific areas of reporting.
- Collecting and promoting dozens of examples of best practice from UK government annual reports and accounts, every year.

Continuous improvement