



Financial Reporting Advisory Board Paper

Financial reporting 2019-20 and 2020-21

Issue:	This paper gives an update on the revised financial reporting requirements for 2019-20 and sets out approaches for 2020-21.
Impact on guidance:	The 2019-20 FReM was supplemented by an Addendum and the 2019-20 PES paper was substantially rewritten to reflect reporting changes in response to COVID-19. Decisions about next steps will shape the 2020-21 FReM and PES paper.
IAS/IFRS adaptation or interpretations?	N/A
Impact on WGA?	Later laying dates for government ARAs are likely to have a knock-on effect to WGA preparation. Any streamlining of financial statements would have a material effect on WGA, though this is not being proposed. Inconsistency in reporting across the public sector will significantly compromise WGA.
IPSAS compliant?	N/A
Impact on budgetary regime?	N/A
Alignment with National Accounts (ESA10)?	N/A
Impact on Estimates?	N/A
Recommendation:	<p>FRAB members are asked to provide feedback on the options for the 2020-21 financial reporting cycle and surface any issues not already considered in this paper.</p> <p>FRAB members are asked to confirm whether they would be comfortable to consider and respond to HM Treasury's proposed approach to 2020-21 in an out of meeting paper, or at a meeting in September.</p>
Timing:	FRAB members will be asked to approve the 2020-21 FReM in November 2020. Any substantive changes to the current draft must be agreed and made in advance of that meeting.

DETAIL

2019-20 financial reporting update

1. Following the 19th March Board meeting, HM Treasury formed a longlist of potential options for 2019-20 government ARAs based on the various ideas discussed. Due to the amount of uncertainty inherent in the Covid-19 situation, it was sensible to initially explore a full range of possible solutions, including those that were more novel.
2. FRAB met in April to review the options and the approach recommended by HM Treasury, which was set out in *FRAB 140 (02 (1)) April 2020 – Reviewing the 2019-20 financial reporting requirements in the light of Covid-19*. After discussion, FRAB members supported the recommended option 4 from that paper:
 - 4) **Removing** some reporting requirements altogether for 2019-20, leading to detailed financial statements as per the 2019-20 FReM with streamlined annual performance and accountability reports
3. FRAB were also advised that the administrative deadline for laying accounts was deferred from 30th June to 30th September 2020, and agreed to defer implementation of IFRS 16 Leases until 1 April 2021 (except for those bodies that had already early adopted it).
4. HM Treasury staff reviewed the issued guidance on 2019-20 financial reporting and engaged with preparers and users of reports. Detail of the proposed streamlining was shared with FRAB out of meeting for any further comment.
5. As the optional streamlining was kept to the performance and accountability reports, the changes needed to the FReM itself were minimal and could be summarised in a brief Addendum. The details of the revised regime were therefore set out in supplementary guidance, *PES (2020) 03 Guidance on the preparation of 2019-20 annual reports and accounts*.
6. The detail in PES (2020) 03 was developed in close consultation with the National Audit Office, the Parliamentary Scrutiny Unit, and the Cabinet Office. The paper was also reviewed by three preparers of ARAs from different departments.
7. HM Treasury worked throughout with the Resource Accounts Special Interest Group (RASIG), the Relevant Authorities Working Group (RAWG), and the Users and Preparers Advisory Group (UPAG). These contacts, the Cabinet Office's performance reporting network, and HM Treasury spending teams were all kept updated on the proposed changes as they developed.
8. The PES paper included:
 - (a) Updates to references and process details, such as the laying process, that reflected changes due to new ways of working.
 - (b) Options for streamlining where this is permitted, with text added setting out minimum reporting requirements which apply only for the financial year 2019-

20. Departments were encouraged to go beyond these minimum requirements wherever they could practicably do so.

- (c) Supplementary guidance on preparing 2019-20 ARAs in the context of EU exit and COVID-19, including specific guidance on performance reporting and the financial statements.
9. The details were finalised in early May and Parliament was notified. The Public Accounts Committee signalled that they intended to send a response, and due to staff illness there was some delay before it became clear that this was not likely to be a priority for them.
 10. After discussion with the Parliamentary Scrutiny Unit, HM Treasury decided to publish the guidance with a caveat that it was pending any further Parliamentary comment. The FReM Addendum and PES (2020) 03 went out on 20th May 2020. The guidance set out the need for those entities taking up the option to streamline, to engage with their relevant parliamentary select committee when determining the content of the performance report.
 11. Feedback from departments since then has been that the majority will take advantage of the deferred laying date, but many were already quite far through their reporting process by the time the guidance was available and therefore may not benefit from the optional streamlining to a significant degree.
 12. HM Treasury will continue to engage with the main government departments as they prepare and finalise the ARAs to gauge the extent to which the option to streamline performance reporting was taken up and if it has proved helpful.

Options for financial reporting in 2020-21

13. The COVID-19 disruption to the 2019-20 financial reporting cycle has implications for the 2020-21 cycle too. Departments laying their 2019-20 annual reports and accounts months later than planned will have less time available to prepare for 2020-21. There may still be significant economic uncertainty in April 2021 and it is possible that the virus may still be disrupting daily life and creating challenges for preparers and auditors.
14. These challenges mean that it may not be straightforward to switch back to business as usual for the 2020-21 reporting cycle.
15. The situation is more complicated as the version of the 20-21 FReM published in November 2019 incorporates significant changes that were tested in public consultation in September and October 2019.

Context: the FReM review

16. The 2020-21 FReM reflects the first phase of the FReM review, carried out to implement the recommendations of the Government Financial Reporting (GFR) Review.
17. Phase I FReM review timeline (in brief):
 - April 2019: GFR Review published
 - May-June 2019: HMT staff engage with FReM stakeholders
 - July-August 2019: first draft 20-21 FReM developed
 - September 2019: FRAB approve draft 20-21 FReM for consultation

- September-October 2019: six week consultation on draft 20-21 FReM
- October 2019: 735 consultation comments reviewed and 20-21 FReM revised
- November 2019: FRAB approve revised 20-21 FReM
- December 2019: 20-21 FReM published

18. Many of the responses to the consultation on the 20-21 FReM included valuable suggestions that need further testing with users and preparers before changes can be made. The intention was to bring these forward during 2020 through the second phase of the FReM review however, much of this work has been deferred due to the impact of the current crisis.

Context: changes made in the 20-21 FReM

19. The changes made in the December 2019 version of the 2020-21 FReM are set out in full in the Amendment Record which forms Appendix 1 to this paper.

20. In brief:

- 1) A new four-part structure was introduced, with new chapters on principles and best practice in narrative reporting.
- 2) Content that had been interpolated awkwardly over time was moved to create a more logical flow from summary to detail.
- 3) A new emphasis on balanced reporting and continuous improvement was backed up with the introduction of a 'comply or explain' approach for several requirements.
- 4) The language was clarified and simplified wherever possible, and outdated references have been revised or (where appropriate) expanded.
- 5) Content on performance reporting was brought in from the PES paper and developed to strengthen the link with Single Departmental Plans (SDPs).
- 6) Comply or explain requirements on risk reporting, future plans, unit cost data, and trend data were added, along with similar requirements to improve the narrative around the Statements of Outturn against Parliamentary Supply (SOPS) disclosures.
- 7) Further SOPS narrative disclosure requirements on the budgeting framework and variances between outturn and estimates (if not included in the performance report).
- 8) Enhanced disclosures on staff turnover and staff engagement were introduced for the Remuneration and Staff Report.

21. Additionally a set of changes to the SOPS were intended for introduction in 2019-20, including:

- 1) Making the implicit required structure for SOPS reporting explicit, with a comply or explain requirement to follow the illustrative disclosures.
- 2) Requiring explanatory text.
- 3) All numbers to be presented in £000's.
- 4) Minor presentation and formatting changes.

Due to COVID-19 pressures, these SOPS changes were not brought in for 2019-20.

Options for financial reporting 2020-21

22. FRAB members are asked to consider the following issues before the 2020-21 FReM is reissued in December 2020:

1) Should departments be asked to apply the 20-21 FReM already published, or should HM Treasury roll forward the 2019-20 FReM for a further year?

The default assumption is that the 20-21 FReM published in December 2019 will apply, as under usual circumstances HM Treasury avoids bringing substantive changes in during the financial year they will affect.

Due to the consultation process, departments are aware of the planned 20-21 FReM. Changing it now could cause confusion.

As it stands, however, departments will be asked to make changes to their reporting at a time when they may still be under significant pressure.

2) If the 20-21 FReM is applied as planned, should any of the the substantive changes arising from the FReM review be deferred until 21-22?

Many of the changes in the 20-21 FReM either clarify principles or establish best practice, and others simply improve the readability of the FReM itself.

One approach would therefore be to use the 20-21 FReM but defer changes that might be additional burdens for departments.

A disadvantage of deferring substantive changes is that while this would make 20-21 easier, departments would then need to bring in the FReM review changes at the same time as most of them are implementing IFRS 16 in 21-22. Implementing all the FReM review changes in 20-21 would smooth the profile of work over the next few years.

23. The changes made as a result of the FReM review implement a commitment made to Parliament at a Public Administration and Constitutional Affairs Committee (PACAC) evidence session. HM Treasury need to be able to justify any deferral of these changes to Parliament, with reference to the experience of departments laying their 2019-20 annual reports and accounts.
24. **HM Treasury's initial view, prior to consultation, is that it would be preferable to apply the 20-21 FReM already published and implement all the substantive changes it contains from the FReM review.**
25. The optional streamlining offered for 2019-20 annual reports was designed as an extraordinary measure to be applied in a single year, addressing the highly unusual circumstances due to the pandemic striking so close to financial year end. HM Treasury does not anticipate offering streamlining in 2020-21 but will continue to closely monitor the situation as the year progresses.
26. Following discussion at this meeting, HM Treasury proposes to test the preferred option with stakeholders over the summer, including both preparers and users of annual reports and accounts, and revert to FRAB with a more detailed plan. This could be done as an out of meeting paper or could be on the agenda for a September FRAB if an additional meeting is held.

Recommendations

- FRAB members are asked to provide feedback on:
 - the options for the 2020-21 financial reporting cycle,
 - The feasibility of HM Treasury's preferred option of implementing the FReM review changes in 20-21 as planned, and
 - any relevant issues not already considered in this paper.

- FRAB members are asked to confirm whether they would be comfortable to consider and respond to HM Treasury's proposed approach to 2020-21 in an out of meeting paper, or at a meeting in September.

HM Treasury
18th June 2020

Annex 1

Amendments to the 2020-21 Government Financial Reporting Manual

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: Application of accounting standards to government annual reports and accounts Chapter 8 – Adapting 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 Chapter 12 – Further guidance on accounting for pensions Chapter 13 – Whole of Government Accounts</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 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>The new Chapter 1 is more focused and readable.</p> <p>The new FReM moves from referencing general financial</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>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>Paragraph 1.1.5 added on the government functional standard GovS 006:Finance</p>	
1.2 The scope of the FReM	<p>Expanded from paragraphs 1.1.2-3 in the existing FReM</p> <p>Note at foot of Figure 1 updated to reflect that audit requirements may vary for different relevant authorities.</p>	
1.3 The structure and contents of the FReM	<p>New section, other than the reference to gov.uk which is taken from Paragraph 1.2.3 of the existing FReM.</p>	
1.4 The FReM review and update cycle	<p>New section, outlining the different levels of guidance in the FReM</p>	
1.5 The FReM review and update cycle	<p>Expanded from paragraph 1.1.4 in the existing FReM.</p>	
Chapter 2: Government financial reporting principles	<p>This new chapter introduces the four purposes of government financial reporting first articulated in the Public Administration and Constitutional Affairs Committee's (PACAC's) Accounting for democracy reports.</p> <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; 	<p>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> <p>This chapter answers the 'why' questions for reporting, and will help inform judgement and shape future guidance as well as future reports.</p>

	<ul style="list-style-type: none"> • comply or explain; • balancing cost and usefulness in reporting; and • continuous improvement. 	
Chapter 3: Best practice in narrative reporting	<p>This new chapter brings in a range of best practice points for all narrative included in financial reports, including:</p> <p>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>	<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>
Chapter 4: The annual report and accounts	<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>
4.1 Introduction and Structure of public sector annual reports and accounts	<p>Expanded from paragraphs 5.1.1-2 in the existing FReM.</p>	<p>Expanded the formatting for clarity.</p>
4.2 Accounting principles for government annual reports and accounts	<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>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>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 accounting principles for annual reports and accounts.</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>	
4.3 Consolidation and accounting boundaries	Taken from 4.1.1-4 in the existing FReM, unchanged except for some extra paragraph breaks.	Paragraph breaks added for readability.
4.4 Reporting requirements beyond central government departments	<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>4.4.16, Reportable activities, is adapted from 1.7.1 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>

4.5 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 Additional guidance for the preparation of annual reports and accounts 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	<p>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.</p> <p>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.</p>	The new guidance incorporates recommendations arising from the GFR review, with some existing guidance carried forward.
5.3 Performance overview	<p>The guidance covers an explanation of the performance overview and what should be included. Most requirements are brought forward from the previous FReM.</p> <p>Guidance on summarising performance and risks has been expanded to better align the overview to the performance analysis.</p>	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 contained enough information for the lay user to have no need to look further into the rest of the annual report and

	<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>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 select committee and HM Treasury spending team. Otherwise, these 	<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 with this requirement to structure their performance analysis around the discussion</p>

	<p>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>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 together reporting across annual 	<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>

reports and accounts into the performance report.

- 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).

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:

- 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

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.

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).

The majority of accounts reviewed already incorporate a financial review.

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.

It should be noted that most entities that prepare SoPS already adhere to these requirements; for example, most accounts reviewed summarised the SoPS outturn

	<p>against Estimate in their financial review.</p>
<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</p>

		this reporting where this would aid users.
	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.	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.
Chapter 6	<p>This new chapter is adapted from section 5.3 in the existing FReM, with amendments.</p> <p>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 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. 	<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>

	<ul style="list-style-type: none"> • 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 to align with the style of their annual reports and accounts. However, the illustrative disclosures now provide best practice formatting. Please note the following SoPS changes are only to be made in the 20-21 FReM. • The title of the SoPS – The SoPS has been renamed the Statement of Outturn against Parliamentary Supply (SOPS). 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 	
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	<p>framework must instead be included with the SoPS notes; for example, through a flow of funds diagram. 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 6.4.1-6 Corporate governance report	<p>Adapted from 5.3.6-13, with minor tweaks for readability.</p>	
6.4.7-11 Corporate governance report	<p>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.</p>	<p>Enhanced language on risk disclosure and Accounting Officer responsibilities implement actions from ‘The government financial reporting review’.</p>

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.	New requirements for SoPS reporting
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 General to the House of Commons	Adapted from 5.3.32-6.	New heading/section to help users navigate.
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 Adapting 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.	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.	
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.	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	

Annex 2

Summary evaluation of options for 2019-20 financial reporting

Option	Action
Option 1 - "Do Nothing" - produce 2019-20 ARAs as per the current FReM to normal timescales	Discounted – the scale of the challenge means that this won't be possible for a lot of entities
Option 2 – Timing – Relaxing expectations regarding when 2019-20 ARAs will be laid before Parliament. Full set of ARAs to be produced later in the year before the statutory deadline	Partly taken forward - administrative deadline extended by 3 months to 30 September.
Option 3 - Staggering the production of ARAs – producing financial statements for 2019/20 to similar timescales to now, and the annual report some time later	Discounted - no support from stakeholders, goes against the notion of a single, coherent document and could actually create more work for auditors and preparers, and there was no recent precedent
Option 4 - Removing some reporting requirements altogether for 2019-20, leading to <u>detailed financial statements as per the 2019-20 FReM</u> with streamlined annual performance and accountability reports	Taken forward – largescale support from stakeholders, maintains credibility, report to existing framework, streamlining the annual report significantly eases the reporting burden
Option 5 - Removing some reporting requirements altogether for 2019-20, leading to <u>streamlined financial statements</u> , accountability and performance reports	Discounted – little support from stakeholders, does not significantly ease the burden for preparers, may not be possible within current legislation
Option 6 - Extending the reporting period so that one set of ARAs covers 24 months. The new period would run 2019-21, and a full set of annual report and accounts for that period would be published in 2021. Instead, interim accounts and the SOPS would be published for the 2019-20 financial year	Discounted – shifts reporting burden from now to a year's time, no support from stakeholders, no not possible within current legislation, no precedent
Option 7 - Exempting government bodies from producing ARAs for 2019-20 and requiring that <u>interim accounts be published instead</u> ; potentially also producing a form of the Parliamentary accountability disclosures (in particular the Statement of Outturn against Parliamentary Supply (SOPS)). No further financial reporting for 2019-20 would be required via ARAs	Discounted – little support from stakeholders, not possible within current legislation
Option 8 - Exempting government bodies from producing ARAs for 2019-20 without requiring any alternative	Discounted – little support from stakeholders, not possible within current legislation, precedent