HM Treasury

Financial Reporting Advisory Board Paper

Reviewing the 2020/21 financial reporting requirements considering the impact of COVID-19

Issue:	This paper examines the effectiveness of the measures and guidance offered to reduce the reporting burden in 2019/20 in response to COVID-19, the financial statement and accounts issues identified in the 2019/20 Annual Reports and Accounts (ARAs), and sets out proposals for similar measures and guidance to be issued for 2020/21.
Impact on guidance:	The 2020/21 FReM would remain unchanged. However, further guidance would set the minimum reporting requirements for central government entities. There will be no change to the requirements for producing the financial statements.
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.
IPSAS compliant?	N/A
Impact on budgetary regime?	N/A
Alignment with National Accounts (ESA10)?	N/A
Impact on Estimates?	N/A
Recommendation:	That the Board approves the proposed measures for 2020/21 reporting.
Timing:	If agreed, to implement reduced reporting requirements for 2020-21.

DETAIL

A1. Background

1. This paper evaluates the effectiveness of the measures and guidance for the 2019/20 reporting period, details the financial reporting and accounting issues for 2019/20, and examines proposals for reduced reporting in 2020/21. The paper seeks the Board's approval for the planned measures so that HM Treasury can issue guidance as a matter of urgency.

2. In 2019/20 government entities were heavily impacted by COVID-19, and HM Treasury issued guidance and measures to reduce the reporting burden on finance functions. These were approved by the Board in April 2020 for 2019/20 reporting (as detailed in papers FRAB 140 (02(01)) and FRAB 140 (02(02)).

3. FRAB 140 (02(01) identified and discussed the challenges anticipated by preparers and users of ARA due to the COVID-19 pandemic. These were discussed immediately after the announcement of the lockdown in March 2020, and included:

    - The resources available to prepare ARAs being reduced as staff members fell sick, self-isolated or were redeployed to meet urgent needs
    - Entities being less able to prioritise work on ARAs
    - The shift to home working putting a strain on equipment and technology
    - Disruptions and a lack operational capacity from outsourced contractors
    - Difficulties on the valuation of physical assets; and
    - Auditors being unable to perform fieldwork visits to obtain appropriate evidence

    The negative impact of the COVID-19 pandemic on government entities' financial reporting was apparent from a higher number of control total breaches and qualifications, and also a higher portion of entities failing to meet the later administrative deadline for 2019-20.

4. The Board recognised the significant challenges and agreed measures to support government in reducing the reporting burden, including:

    - Offering flexibility to reduce the detail in performance reporting - with a focus on the performance overview covering the key objectives and risks and ensuring appropriate consideration of COVID-19 and EU Exit;
    - Deferral of the implementation of IFRS16 for one year until 1 April 2021; and,
    - HM Treasury's decision to extend the administration deadline for laying accounts by three months to 30th September 2020.

5. These minimum requirements applied to parts of the performance and accountability reports in ARAs; the requirements for producing financial statements remained unchanged. The measures were decided based on a comprehensive review of the FReM considering statutory requirements, in conjunction to discussions with the relevant authorities and final outreach of the planned strategy for approval by FRAB.

6. The reduced reporting requirements were approved by the Chief Secretary to the Treasury who wrote to the Public Accounts Committee on 4th May 2020 advising Parliament of the arrangements. Additional guidance was published to support departments as well as an Addendum to the FReM which set out the minimum requirements.

7. It was made clear that the agreed minimum requirements were only to remain in place while necessary, and entities would be encouraged to go beyond these as far as they could, producing more detailed ARAs wherever possible, and laying accounts earlier than the deadline. Where entities also had to adhere to other legislation, such as the Companies Act 2006, it was made clear that the revised HM Treasury guidance would not supersede this.

A2. Evaluation of the 2019/20 measures and guidance

8. The pandemic has had a significant impact on the resource and capacity of government entities to produce the 2019-20 ARAs in a timely manner and to maintain the quality of financial reporting. It has also become clear that significant challenges remain and we have undertaken an evaluation on the effectiveness of the measures and guidance previously made available to entities in order to assess the need to extend the support offered to 2020-21.

9. We have engaged with government departments and the other relevant authorities to gather feedback on the measures. This has included soliciting (online) survey responses from the Resource Accounts Special Interest Group (RASIG) network[1] and in-depth discussions with finance functions charged with preparing the ARAs.

Quantitative analysis – feedback from preparers

10. The survey results demonstrated that respondents found the measures and guidance helpful[2] (98%). Feedback to the contrary centred on the administrative deadline extension and the delay to the guidance being issued. Respondents overwhelmingly (83%) replied they would have made better use of the measures and guidance if they had been issued earlier.

11. From the RASIG survey results (refer to Annex 1), departments applied measures and guidance to a varying extent as follows (from least to most utilised):

    - Reduced accountability reporting for SOPS (24%);
    - Reduced performance reporting (39%);
    - Omission of sustainability reporting (39%);
    - High level reporting summaries with reduced context (44%);
    - Information referenced elsewhere (56%);
    - Administrative deadline extension (61%); and,
    - COVID-19 specific guidance (78%).

12. A small minority of respondents were not aware of certain measures offered including reduced accountability reporting for SOPS (6%) and the omission of sustainability reporting (11%).

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[1] We received responses from eighteen government entities for the Resource Account Special Interest Group network survey. A full listing of those entities and the survey results are included in Annex 1. We have not included information to identify specific entity's responses and comments to allow for anonymity and promote an open dialogue.

[2] For presentation and clarity, we have grouped responses as follows:

- On measures and guidance, we grouped helpful as very helpful (63%), somewhat helpful (35%)
- On the administrative deadline extension, we grouped strongly agreed (50%), agreed (11%)
- On the planned future use, the remaining survey participants were undecided (22%, 6% respectively) with non-disagreeing with future use

13. A key message from the feedback was that, **if available** most respondents (78%) plan to make future use of measures in 2020-21; while almost all respondents (94%) plan to make use of future guidance[2].

14. When asked whether the administrative deadline extension was useful, most respondents agreed[2] (61%). Of the remaining; neither agreed nor disagreed (11%) and disagreed (28%). Several factors drove this varied response (discussed in the next section 'qualitative analysis').

Qualitative analysis – RASIG network survey comments and discussions with preparers and users

15. For the administrative deadline extension, views from different stakeholders included:
    - Convenience of additional reporting time for preparers (favourable)
    - Closer proximity to the reporting deadlines of local government pension schemes which fell within the departmental group (favourable)
    - Subsequent impact on finance processes later in the year overlapping with the Whole of Government Accounts (WGA) and other scheduled finance processes (adverse)
    - Negative impact on the timeliness of reports to users (adverse)
    - Incentivise to meet the administrative deadline where feasible (adverse)

16. The qualitative survey comments also raised concerns over COVID-19 specific issues, namely; going concern for Arm's Length Bodies (ALBs) and the need for associated letters of comfort, the continued impact on staff workloads and the timing of IFRS16 implementation.

17. Qualitative survey comments provided detailed feedback on IFRS 16 with respondents generally confirming that the implementation delay was well received and had a favourable impact on their financial reporting workload at year end. Some respondents confirmed that they were already prepared for IFRS 16 implementation.

18. In addition to the RASIG network survey, there was positive engagement from other departments either via informal discussions or received via email. We had specific consultations with the Department of Health and Social Care (DHSC) as a relevant authority impacted heavily by the COVID-19 pandemic.

19. Feedback on the additional guidance produced included positive feedback on the clarity of how reduced reporting changes had been communicated, however, the annexed accounting guidance could be clearer. Preparers suggested cross government working groups to identify, discuss, and present good practise across the network. As preparers have requested earlier communication of measures and guidance, we aim to respond rapidly if proposals are agreed with FRAB.

Impact on WGA

20. The deadline for the cycle 1 (draft) WGA information is usually in July each year, with the deadline for final WGA information in September. The final WGA data needs to align to the entity's final published accounts. While some preparers may work on WGA and entity accounts simultaneously, often preparers finish final accounts and then finalise cycle 2 WGA data submissions. However, as more entities lay accounts post recess in September (or even later), finance teams have struggled to manage multiple processes simultaneously and WGA submissions have been submitted later than normal. In 2019/20, the WGA deadlines were

extended to 30th September 2020 for the draft data and 4th December 2020 for the final data.

A3. Financial statements and accounts issues for 2019/20

21. In determining a suitable 2020/21 approach, we analysed departmental laying dates, took into account the NAO guide for audit and risk committees, and subsequently reviewed a sample of published ARAs to identify common issues and themes. We also considered the FRC's review[3], and used work carried out by the Treasury earlier in the year to canvass views on 2019/20 departmental reporting challenges.

Laying dates

22. Despite the Treasury extending the administration deadline for laying ARAs in 2019/20, 26% of ministerial and non-ministerial departments failed to publish their ARAs by 30th September deadline with some still yet to publish as of the date of this report. Please refer to Annex 2 for a summary of department laying dates.

23. For government entities that failed to meet 30th September deadline, there will be an ensuing effect on the current work plan and subsequently the financial reporting schedule for the 2020/21 period. Further, longer time periods between the reporting date and the date the ARAs are laid, increases the required work in respect of post balance sheet events (IAS10) and the time period that must be covered by the performance report. They also reduce the timeliness of ARAs for users.

24. The following sections of analysis review a sample of published 2019/20 departmental accounts and summarise 2019/20 reporting challenges as highlighted by departments themselves. The areas highlighted by departments as key challenges are similar to those considered important by the NAO.

Performance report – sampled entities

25. To better understand how departments applied the reduced reporting measures and guidance, and how the impact of COVID-19 was presented in the performance report, we selected a sample of entities[4] and analysed the effectiveness of performance overviews with the specific considerations for the impact of COVID-19. Only one did not use any of the measures. Article 5.3.2 of the FReM-2019/20 on the performance overview details its structure and requirements..

26. The performance report should cover events in the reporting period and consider information up until the ARA is signed. This is particularly important as the first large scale

[33] The Financial Reporting Committee performed a COVID-19 Thematic Review of a cross section of published private company accounts published in July 2020 https://www.frc.org.uk/getattachment/03838acd-facc-4a06-879c-a4682672a6d7/CRR-COVID-19-Thematic-Review-Jul-2020.pdf

[4] Our population from which to select a sample of ARAs was limited to those government entities who had published their accounts as at 5 November 2020. We judgementally selected entities based on size and those with a significant impact due to COVID-19. The sample included: Cabinet Office, Department for Business, Energy and Industrial Strategy, Department for Education, Department for Work and Pensions, Foreign and Commonwealth Office, HM Revenue and Customs, HM Treasury and Ministry of Housing, Communities & Local Government

impacts of COVID-19 were experienced close to year end with a significant time period elapsing before the publishing date, due to the extension to the administrative deadline.

i. Summary, environment and outlook

All entities described the impact and their response to COVID-19 within their performance overview. Almost all went into detail on the uncertainty caused by the pandemic and looked ahead at the possible outlook. Better ARAs ordered these sections based on their significance to the entity.

ii. Key risks

The risks section provides a summary of the principal risks including their impact and mitigation strategy, as well as their effect on the delivery of objectives and future performance.

Most sampled ARAs included COVID-19 under a separate heading within the various sections of the performance report. Some clearly portrayed the specific risks they faced as a result of COVID-19, outlining the specific mitigation strategies for each of these risks and subsequently linked these to their strategy.

iii. Strategic objectives

The strategic objectives to be included in the performance overview should summarise the single departmental plan objectives and organisational goals.

A few entity's strategic objectives were not amended to reflect the impact of COVID-19. Some of the entities successfully integrated COVID-19 into their strategic objectives while other entities chose to include a detailed separate section. Either approach worked; however, departments that integrated tended to consider the subsequent impacts more thoroughly.

For 2019/20 (similar to risks) the close proximity to year end meant this was understandable; however, as it becomes clearer what the longer-term impacts of the pandemic will be, the strategic objectives may need to be updated. Conversely, the entity must balance this with not losing sight of their main objectives.

iv. Assessment of performance

The performance overview provides a synopsis of the performance analysis, outlining whether a department is progressing towards its single departmental plan objectives.

A few sampled ARAs provided a detailed breakdown with figures of different COVID-19 response programmes. Others produced a full-page narrative overview of their pandemic response as part of the performance overview section. The more technical ARAs sampled considered the impact of COVID-19 on their Key Performance Indicators (KPIs) currently and as an outlook.

Financial statements – sampled entities

27. We identified higher risk financial reporting areas from discussions with the NAO and with reference to the lessons learnt sections of the FRC's COVID-19 Thematic review. A detailed breakdown of the financial reporting considerations of COVID-19 canvased from expert

reports and guidance is in Annex 3. We then made our own assessment on the sampled entities effectiveness at addressing certain higher risk financial reporting areas.

28. For the seven sampled entities, we have analysed their effectiveness at evaluating the financial impact and considerations of COVID-19 in their accounts. We focussed on the following areas identified in the FRC report and those issues relevant to most sampled entities with detail included in Annex 4 for the following areas:

    i. IAS 1 Presentation of Financial Statements - judgements & accounting estimates

    ii. IFRS13 Fair value measurement

29. Overall sampled entities addressed the key risk areas associated with COVID-19 including post balance sheet events, contingent liabilities and valuation; however, we have not reviewed this in detail. Some sampled entities were less strong at key judgments and accounting estimates (refer to Annex 4). Our assessment is limited by late publishing of ARAs and we plan to perform a deep dive analysis to identify good practise for circulation in the coming weeks as well as seek views from the User Preparer Advisory Group.

Financial statements – central government feedback on departmental reporting challenges

30. HM Treasury undertook an extensive outreach programme across the Financial Leadership Group (FLG) and staff across government during April to July 2020 to understand and identify the key factors relating to the financial statements that were causing problems as a result of COVID-19. We provided additional guidance and support in response. The key issues are listed below, and discussed in detail in Annex 3:

    i. IAS 1 Presentation of Financial Statements - going concern

    ii. IAS 1 Presentation of Financial Statements - judgements & accounting estimates

    iii. IAS 2 Inventories – existence

    iv. IAS 10 Events after the Reporting Period

    v. IAS 36 Impairment of Assets - valuation and impairments of non-financial assets

    vi. IAS 37 Provisions, Contingent Liabilities and Contingent Assets – new commitments and interaction with multi-year grant payments (see separate FRAB paper)

    vii. IFRS9 Financial Instruments and IFRS7 Financial Instruments Disclosures - expected credit losses, credit risk and disclosures

    viii. IFRS15 Revenue from Contracts with Customers - revenue recognition (or reversal)

    ix. IAS 19 Employee Benefits – pension scheme asset valuation

Expected persistence of financial reporting issues for 2020/21

31. Some of the financial reporting issues for 2019/20 were exacerbated by the timing of the pandemic. Support schemes were being developed very close to the financial year end, which meant in some cases careful consideration of which amounts needed to be reflected in the 2019/20 financial statements was needed by entities and audit teams.

32. The national lockdown and the accompanying restrictions on movement also made year-end activities more difficult, including where physical inspections are required or work normally takes place in person.

33. There was unprecedented uncertainty leading to challenges in producing estimates and making accounting judgements. The speed of policy making also required new processes and controls and the management of new risks.

34. A number of the financial reporting issues are likely to persist in 2020/21 and new issues may develop. For at least some of the months to date, departments have been firmly in the 'response' phase to the pandemic although now moving to business as usual, and finance teams have needed to deal with a number of complex accounting issues: including in relation to new support schemes, new challenges and new organisations being set up in response to the crisis. The environment continues to be uncertain when looking ahead to 2020/21 accounts.

Financial statements– National Audit Office report

35. The National Audit Office published their 'Guide for audit and risk committees on financial reporting and management during COVID-19' on 24 June 2020[5]

36. The guidance aimed to help audit and risk committees, including by examining the impacts on their organisations of the COVID-19 outbreak. It serves as a useful overview of some issues the NAO considered important when examining 2019/20 ARA, namely;

    i. Valuations – including property, pension scheme and inventory valuations

    ii. Completeness of liabilities – including in relation to onerous contracts, legal cases, contractual obligations, commitments or changes in assumptions and policies

    iii. Going concern assessments, and;

    iv. Events after the reporting period

A4. Planned measures and guidance for 2020/21 and beyond

37. In determining a suitable 2020/21 approach, we have focused on the following areas; laying dates, guidance, IFRS16 implementation, discount rates changes, and performance/accountability reporting measures.

Laying dates

38. Preparers expressed a range of opinions on the administrative deadline for laying ARAs with concerns raised about both granting a similar administrative deadline extension to 30th September or reverting to a 30th June deadline with the continued impact of COVID-19. Based on comments and discussions with preparers and users, we will be returning to the administrative deadline of 30th June, with extensions provided on a case by case basis.

[5] The National Audit Office issued guidance to audit and risk committees in relation to COVID-19 in June 2020 https://www.nao.org.uk/report/guidance-for-audit-and-risk-committees-on-financial-reporting-and-management-during-covid-19/

39. The earlier administrative deadline supports entities wanting to lay early to do so. Granting extensions on a case by case basis can ensure preparers set-out their reporting timetable in advance and signals HM Treasury's desire to return to pre-recess laying. The main reason for the administrative deadline extension in 2019/20 was that entities did not have sufficient time to adapt their schedule and reporting processes with the operational impact of COVID-19 striking close to year end. Preparers laying pre-recess are able to start the WGA process early while those with an extension are able to agree a suitable timetable for submissions. Receiving submissions in two batches will allow the WGA team to better plan their workload over the period.

Supplementary guidance

40. Overall, the financial reporting and account guidance issued in May 2020 was effective; consequently, similar guidance should be offered going forward. For 2020/21, we will issue updated guidance for COVID-19 and EU exit earlier, on OneFinance. This will facilitate more timely consideration and open discussions with preparers.

IFRS16

41. IFRS 16 was deferred by a further year to 1 April 2021 as part of the COVID-19 review of financial reporting requirements. When FRAB originally provided advice to defer IFRS 16, the Board agreed on the condition that it would be a time-limited, one-year deferral.

42. Departmental feedback on the deferral was mainly positive; departments noted that the deferral was appreciated and provided much-needed relief to the finance function. Some preparers noted that they were already prepared to implement IFRS 16 as of 1 April 2020.

43. We have engaged with other relevant authorities and been advised of requests for a further deferral of IFRS 16. The Department of Health and Social Care, and NHS England and NHS Improvement, have been particularly strong in this regard. These bodies note that they have not been able to prioritise IFRS 16 implementation due to COVID-19 pressures and do not consider it possible or appropriate to do so this winter, given the continuing extraordinary pressures on the NHS (including increased workload for NHS finance staff) and new DHSC operational undertakings. This is compounded by the significant recovery work needing to take place to ensure the 2020-21 annual reports and accounts are laid in a timely manner, with the 2019-20 DHSC group ARAs only expected to be laid in December 2020, meaning considerable COVID-19 related pressures are expected through to next Summer and beyond.

44. CIPFA/LASAAC have also discussed this at their November meeting and have tentatively agreed to defer IFRS 16 for a further year to 1 April 2022, pending FRAB views in this area.

45. Other departments, however, have communicated to us that they do not support any further deferral of IFRS 16 (with it already being deferred twice). They prefer to implement IFRS 16 on 1 April 2021. The two departmental early adopters of IFRS 16 have also completed implementation successfully in their 2019/20 accounts and have confirmed they do not wish to raise any further issues with FRAB regarding implementation.

46. HM Treasury is continuing to plan and work towards a 1 April 2021 implementation of IFRS 16 in the FReM and will support departments in their preparations. We have already published application guidance and budgeting guidance, and hosted training sessions. We are also in the process of developing further training, incorporating 'lessons learned' and best practice from the early adopters.

Discount rates

47. Another element of financial reporting in 2020/21 we considered was discount rates. As agreed by FRAB, HM Treasury communicates discount rates annually for provisions, pensions and financial instruments. The discount rates for short- and medium-term provision flows, and pensions, are updated annually. The rates for long- and very-long-term provision flows, and financial instruments, are updated to a Spending Review timetable.

48. As Spending Round 2019 (SR19) gave settlements for 2020/21, we considered updating the relevant provision and financial instrument rates for 2020/21. However, while Spending Reviews are normally multi-year, SR19 was a single-year funding plan. Part of the reason for updating the relevant provision and financial instruments rates to a Spending Review timetable is to avoid the volatility that comes with an annual update—this logic does not necessarily hold with SR19, as it only lasts for a single year. Moreover, some departments expressed concern at the extra work involved in updating these discount rates, especially in a year when resources are stretched and preparing Supplementary Estimates is particularly difficult.

49. Considering our overarching objective to reduce the reporting burden experienced by government departments in 2020/21, HM Treasury has therefore decided to maintain the existing long- and very-long term provisions discount rates, and financial instruments discount rate, for 2020/21. We will review the position again in 2021/22.

Reduced reporting measures

50. Based on our analysis, we would also like to **extend the flexibility of the minimum reporting requirements measures for a further year** namely on the performance report and accountability report as detailed in Annex 5 and summarised as follows:

    - Performance report - omit the performance analysis and instead use summary information in the performance overview section;
    - Performance report and accountability report - Ability to reference information published elsewhere (including the sustainability information published later by DEFRA).
    - Accountability report – Removing the comply or explain statement for the presentation and layout of the Statement of Parliamentary Supply and removing the requirement that all figures be presented in £000s.

    There would be no changes to the financial statements; apart from a message that entities should focus on materiality in line with the existing framework. There should be select committee engagement on the approach taken.

51. This approach will support departments producing a high quality less detailed performance overview covering key areas is more effective than potentially lower quality more detailed report. Overall, the higher quality performance overview will benefit from meeting the 30th June administration deadline with a better level of readability and overall understandability. Key areas of interest including the response to the pandemic and EU exit will remain.

52. Sustainability reporting is becoming increasingly important to stakeholders. HM Treasury, considers it important to continue to work towards aligning our sustainability reporting with best practise and improving our Sustainability Reporting Guidance. However, for 2020/21 we continue to support the reduced sustainability reporting to reduce pressures on

preparers. Wider information continues to be published by DEFRA (Department for Environment, Food and Rural Affairs).

Further considerations

53. We recognise that preparers are still under considerable pressure as a result of the pandemic and the flexibility would ease this burden. While the private sector is under similar pressure; government entities are at the front of the government's measures in response to the pandemic which adds significant challenges.

54. HM Treasury continues to review and update the full FReM (as detailed in separate FRAB 140 (08) paper) to ensure it remains current and have made changes to the FReM from 2020-21 which introduce new reporting requirements. The suggested minimum reporting measures are based on the requirements of the updated FReM, but similar to those agreed for 2019/20.

55. These minimum reporting requirements are time limited and published as a FReM Addendum consistent with their temporary nature. The position will continue to be monitored for any ongoing impact on financial reporting beyond 2020-21.

A5. Closing

Next Steps

56. If the measures are agreed by the Board, HM Treasury will seek approval from HM Treasury ministers and write to the PAC setting out the minimum reporting requirements and the continued focus on key areas of interest, including the response to the pandemic and EU exit. Guidance will be published on gov.uk as soon as possible and communicated widely and extensively to all relevant stakeholders. HM Treasury continues to engage with relevant authorities on discussions for 2020/21.

57. HM Treasury continues to support departments. For example, bringing the largest departments together to discuss asset valuations. We are regularly updating OneFinance with links to relevant external guidance. The evolving need for further guidance in particular areas will be considered carefully and be in line with the current reporting framework.

Conclusion

58. For 2019/20, HM Treasury implemented flexibilities in central government performance reporting as approved by FRAB, along with an extension to the administrative deadline for accounts laying (from 30th June to 30th September). Our survey of RASIG members shows that the reduced reporting measures were well received.

59. Key reporting issues faced by departments in 2019/20 included asset valuations are expected to persist in 2020/21, and therefore conclude that there is a continued need to ease the financial reporting burden on departments for 2020/21.

60. We plan on returning to a laying administration deadline of 30th June 2021, with departments unable to meet this earlier deadline to seek an extension to 30th September by

contacting HM Treasury on an individual basis. We plan to go ahead with IFRS 16 implementation in April 2021 but fully recognise the potential impact on departments.

Recommendations

The Board agrees the approach to setting minimum requirements for central government financial reporting requirements in 2020/21.

HM Treasury
19th November 2020

B1. Annexes

Annex 1

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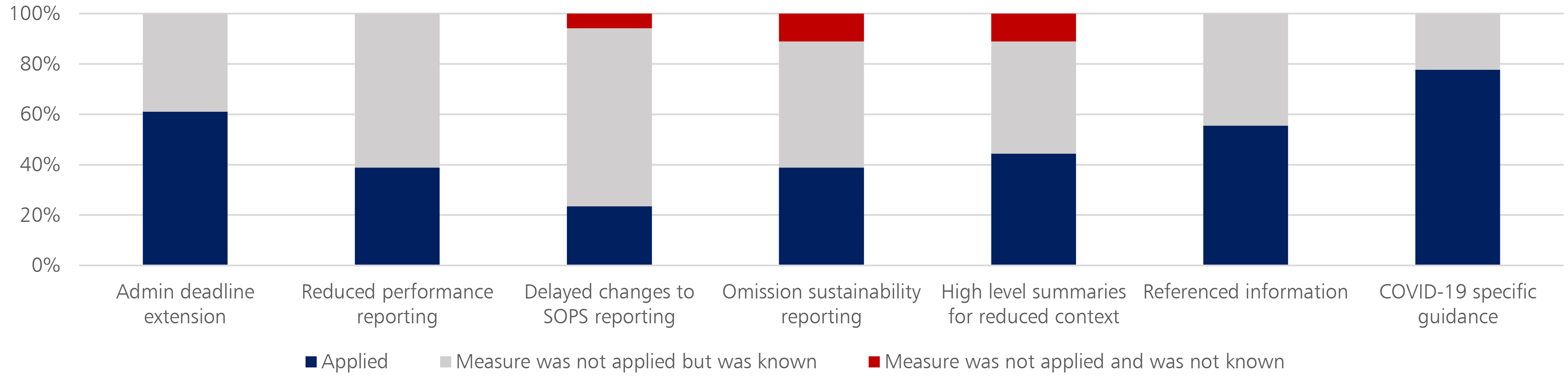
Resource Account Special Interest Group (RASIG) survey results

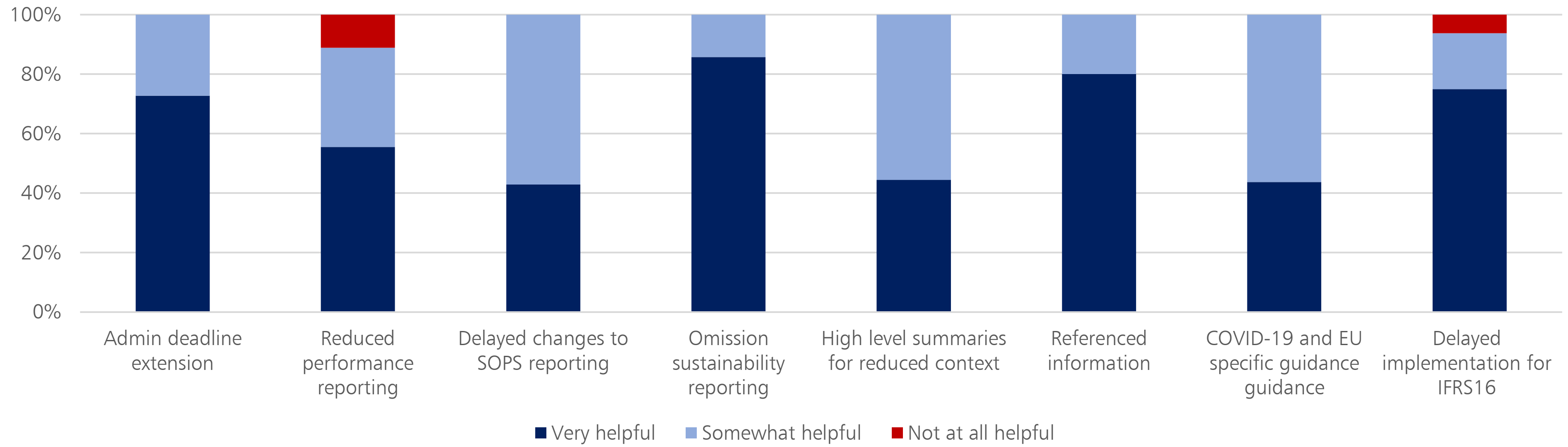
For the 2019/20 annual report and accounts, did the department make use of the following measures or guidance:

	Applied3		Measure was not applied but was known		Measure was not applied and was not known	
	Responses (count)	Responses (%)	Responses (count)	Responses (%)	Responses (count)	Responses (%)
Extension to administrative deadline	11	61%	7	39%	0	0%
Reduced performance reporting	7	39%	11	61%	0	0%
Delayed updates to SOPS reporting	4	24%	12	71%	1	6%
Omission sustainability reporting	7	39%	9	50%	2	11%
High level summaries for SOPS (to £m)	8	44%	8	44%	2	11%
Referenced information	10	56%	8	44%	0	0%
COVID-19 and EU specific guidance	14	78%	4	22%	0	0%



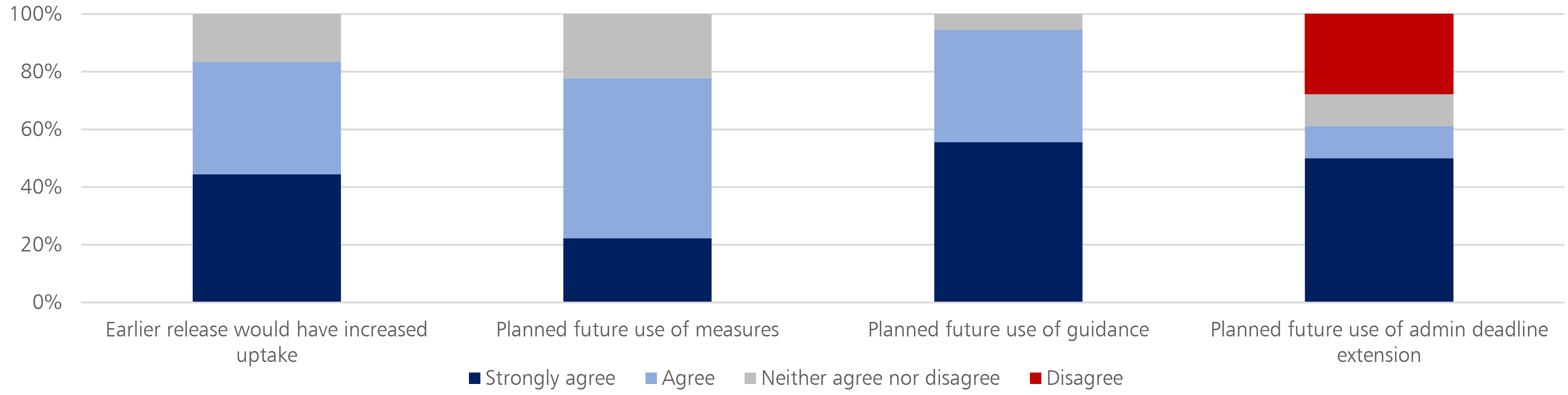
For the 2019/20 annual report and accounts, how effective were the following measures:

	Very helpful		Somewhat helpful		Not at all helpful		Sub-total (used for %)	N/a - Measure not used
	Responses (count)	Responses (%)	Responses (count)	Responses (%)	Responses (count)	Responses (%)	Responses (count)	Responses (count)
Extension to administrative deadline	8	73%	3	27%	0	0%	11	7
Reduced performance reporting	5	56%	3	33%	1	11%	9	9
Delayed updates to SOPS reporting	3	43%	4	57%	0	0%	7	11
Omission sustainability reporting	6	86%	1	14%	0	0%	7	11
High level summaries for SOPS (to £m)	4	44%	5	56%	0	0%	9	9
Referenced information	8	80%	2	20%	0	0%	10	8
COVID-19 and EU specific guidance	7	44%	9	56%	0	0%	16	2
Delayed implementation for IFRS16	12	75%	3	19%	1	6%	16	2



Indicate your level of agreement with the following statements:

	Earlier PES publication would have increased uptake		Planned future use of measures		Planned future use of guidance		Planned future use of admin extension	
	Responses (count)	Responses (%)	Responses (count)	Responses (%)	Responses (count)	Responses (%)	Responses (count)	Responses (%)
Strongly agree	8	44%	4	22%	10	56%	9	50%
Agree	7	39%	10	56%	7	39%	2	11%
Neither agree nor disagree	3	17%	4	22%	1	6%	2	11%
Disagree	0	0%	0	0%	0	0%	5	28%



In total eighteen government entities responded to the survey including: Cabinet Office, Competition and Markets Authority, Department for Business, Energy and Industrial Strategy, Department for Digital, Culture, Media & Sport, Department for Education, Department for Transport, Department of Health and Social Care, Government Internal Audit Agency, HM Courts and Tribunals Service, Ministry Of Defence, Ministry of Defence, Ministry of Housing, Communities & Local Government, Ministry of Justice, Northern Ireland Civil Service, Ofgem, Ofsted, Standards and Testing Agency, Education Funding Agency, Teacher Regulation Agency, Welsh Government. Survey responses were solicited via the RASIG network mailbox with help from HMRC and via a post on the RASIG network page of One Finance.

Annex 2

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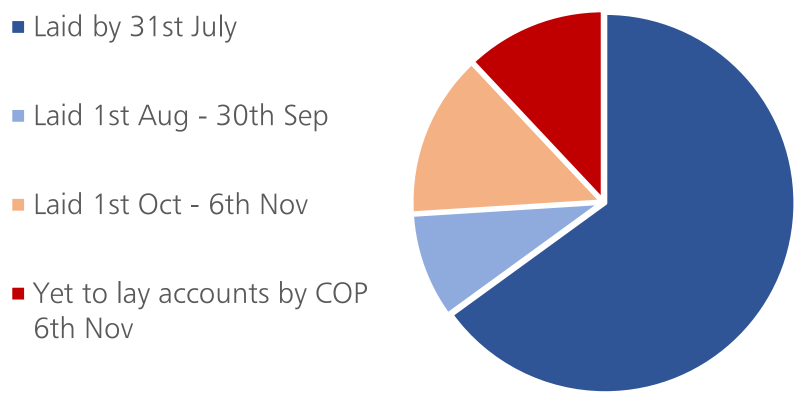
Ministerial and non-ministerial departments laying dates

	Departments	
	(Count)	(%)
Laid by 31st July	28	65%
Laid between 1st Aug and 30th Sep	4	9%
Laid between 1st Oct and 6th Nov	6	14%
Yet to lay accounts by COP 6th Nov	5	12%



Discussions with the NAO

The NAO is performing a similar analysis (on a larger population) indicating comparable results; however, the results have not yet been finalised.

Further, their office compared the laying dates to previous reporting periods to analyse the effect of COVID-19 on the overall schedule for the public sector's published accounts. They confirmed that despite the extension of the deadline to 30th September, a significantly higher portion of ARAs failed to meet the later administrative deadline. We (and they) both note that in previous reporting it is not uncommon for entities to fail to publish by the administrative deadline.

Annex 3

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Financial statements– detail on central government feedback on departmental reporting challenges

i. IAS 1 Presentation of Financial Statements - going concern

Issues around going concern arose for a number of departmental Arm's Length Bodies, as well as some Public Corporations and Trading Funds which are not consolidated. Many of these bodies were impacted by a drop in commercial income, footfall and sponsorship in late 2019/20 and into 2020/21 due to COVID-19 related movement restrictions and the wider economic effects of the virus.

Departments needed to consider a number of factors to make an assessment of an entity's ability to continue as a going concern. As going concern is always an adjusting event and must be assessed as at the date the financial statements are issued, this matter was under consideration throughout the audit process and triggered some requests by the National Audit Office for Letters of Comfort or other agreements of support to be made to the impacted entity.

Consideration needed to be given for the potential for any contingent liabilities created under a Letter of Comfort or Guarantee to crystallise, and to the potential need to provide direct support to the ALB, for instance in the form of a loan or grant. There was a need for departments to work closely with ALBs affected by loss of income on these issues.

There was also a going concern issue for one department who moved their bodies on to block grant payments covering a certain limited period in advance, which led to the need to work with auditors to provide assurance around these bodies going concern status.

ii. IAS 1 Presentation of Financial Statements - judgements & accounting estimates

As mentioned above in the review of sampled entities financial statements, COVID-19 led to increased estimation uncertainty in a variety of areas of the accounts. Uncertainty around the trajectory of the pandemic persisted during the process of accounts preparation. Entities are required to disclose their significant judgements, key sources of estimation and uncertainty, the key assumptions used and their sensitivity to change which was a challenging task within this environment.

Uncertainties existed for a number of the accounting areas discussed further in this section, for example valuation of properties and other assets, inventories, revenue recognition and expected credit losses for financial instruments.

It was noted that the lack of consensus of the impact of COVID-19 on the economy meant that the full disclosure of judgements, assumptions and sensitivity estimates was even more important than usual.

iii. IAS 2 Inventories – existence

The standard requires physical inventory counts to take place on an annual basis. The national lockdown in March 2020 meant that a physical count by management and attendance by auditors may not have been possible. The NAO may have been able to test and place reliance on management controls over inventory movements, if management could demonstrate these controls.

COVID-19 meant that monitoring inventory levels for critical supplies needed to be prioritised, as well as supply chain management.

iv. IAS 10 Events after the Reporting Period

COVID-19 was recognised as a pandemic by the World Health Organisation on 11 March 2020, and was therefore classed as a current period event for 2019/20 which required ongoing evaluation for events after the reporting date.

The financial accounting and budgeting issues caused by COVID-19 and the additional work needed by finance staff, alongside the reduced staff resource available due to staff sickness, unavailability or redeployment during the accounts preparation period, meant that 2019/20 accounts were generally laid later than in previous years. This extended the period between the end of the accounting period and the signing of the accounts for a number of entities, complicating the consideration of events after the reporting period.

The fast-moving nature of the pandemic also caused difficulties, as macro-economic forecasts from bodies such as the Office for Budget Responsibility rapidly became out of date as the situation moved on. Asset valuations may rely on such macro-economic forecasts. Entities would normally have used March valuation inputs and disclosed the impact of post balance sheet data in sensitivity disclosures, but some may have needed to re-assess this approach where movements were material.

v. IAS 36 Impairment of Assets - valuation and impairments of non-financial assets

There were a number of difficulties caused by the pandemic when evaluating the valuation of, or need to impair, non-financial assets such as property, plant and equipment. Similarly to inventory, the restrictions on movement may have necessitated valuers dispensing with an inspection of the property or other asset. Where estates are sizeable, this may have caused a particular issue.

The more severe the COVID-19 impact on individual markets, and the more unpredictable the consequences, the more likely that an entity may have needed to declare a material valuation uncertainty. This was reflected by a number of emphasis of matter paragraphs in central government audit reports which highlighted uncertainties in this area.

vi. IAS 37 Provisions, Contingent Liabilities and Contingent Assets – new commitments and interaction with multi-year grant payments

Issues in connection with IAS 37 emerged as departmental accounts preparation and audits progressed. As the COVID-19 situation became critical in the final month of the 2019/20 accounting period, a number of departments made multi year grant commitments towards the end of that period. In some cases, it was judged that the department needed to create a provision for these in 2019/20.

The National Audit Office concluded that a ministerial announcement (or series of announcements) in isolation does not give rise to a constructive obligation; however, the collective impact of ministerial announcements and other actions could give rise to a constructive obligation.

vii. IFRS9 Financial Instruments and IFRS7 Financial Instruments Disclosures - expected credit losses, credit risk and disclosures

COVID-19 caused unprecedented and fast-moving changes in the economic environment, and in the situations of other entities with whom a financial instrument may be held. Following IFRS 9, entities were required to determine the amount of expected credit losses (ECLs) which they should recognise, and the need to recognise Lifetime ECLs where there is a significant increase in credit risk on a financial instrument. This required the application of judgement to determine ECLs and assess changes in the risk of a default occurring over the expected life of a financial instrument. Where the entity is exposed to material financial instrument risk, relevant disclosures under IFRS 7 were required.

As previously mentioned, macro-economic forecasts quickly became outdated due to how fast the situation was changing, which may have caused difficulties in entities application of macroeconomic scenarios and in their weightings. There was a need to continuously monitor for new information becoming available within the rapidly changing environment. For the requirements of IFRS 7, entities needed to consider any material credit risks, currency risks (such as the impacts of FX movements), liquidity risks and market risks (including changes in the property market).

For departments creating new financial instruments as part of COVID-19 support packages, they had to develop modelling of ECLs for these packages. There was also a need for departments to consider the impacts on their ALBs, and they may have needed to engage with MHCLG when considering impacts on local authorities. Both the effects of COVID-19 and the significant government support measures needed to be considered when assessing forecast conditions.

There was recognition that financial instrument disclosures are highly valued by users of financial statements for the transparency that they provide.

viii. IFRS15 Revenue from Contracts with Customers - revenue recognition (or reversal)

The main issue noted in relation to IFRS 15 was the possible need to reverse some revenue under the variable considerations model of the standard. This was due to the reduction of income due to restrictions on movement and business operations. Entities needed to consider to what extent there may be reversals of revenue due to rebates, penalties for late delivery, or volume discounts, for example.

As noted previously, falls in income were of particular concern for Public Corporations, Trading Funds, and departmental ALBs operating on a partially or fully commercial basis.

ix. IAS 19 Employee Benefits – pension scheme asset valuation

Some departments have significant on balance sheet pension schemes, and the impact of COVID-19 meant that asset information at the valuation date 31 March 2020 is likely to have been volatile. Some departments secured a valuation report at 28 February 2020 and therefore would have needed to obtain a movement report for 31 March 2020. There is a risk that observable data may have had a material impact on valuations.

There were also specific difficulties with obtaining valuations of local government pension schemes for those departments who need to include these within their group accounts, due to delays in the sign off and audit of some pension scheme accounts.

Annex 4

[Return to reference location in paper]

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We focussed on two areas identified in the FRC report and relevant to the public sector. Our financial reporting review work was limited as these reviews are performed on a wider population by the NAO as part of a separate review.

i. IAS 1 Presentation of Financial Statements – Significant accounting estimates and judgments

While all ARAs sampled identified COVID-19 as having an impact on estimates and judgements; for some entities the breadth of this consideration was limited to either general remarks or a focussed to single items. Few ARAs considered the estimate uncertainty on other less fundamental areas (e.g. discount rates, post-retirement benefit schemes, revenue, inventory provisioning, investment properties and expected credit loss).

A few clearly explained which critical judgements and key sources of estimation uncertainty were impacted by or had arisen as a result of COVID-19 and significantly increased the level of disclosure compared to their 2018/19 annual reports and accounts. Others, correctly assessed the impact of COVID-19 on a number of other areas of the accounts, including provisions and pensions including projecting impacts on benefit expenditure in 2020/21 in the Events after the Reporting Period note. One entity provided a detailed analysis of the timetable of announcements close to year end explained the treatment of different items.

ii. IFRS13 Fair Value Measurement

Government entities must consider the credit risk associated with the fair value measurement of derivative assets and liabilities. One of the sampled entities held derivatives. The fair value of these derivatives should be assessed under IFRS9; however, the entity did not consider how the pandemic affected their estimates on expected credit loss (ECL) in the ARA. Entities should consider the changes to assumptions included in valuation techniques and assumptions as a result of COVID-19.

Government entities holding investment properties must consider whether there are key assumptions requiring disclosure under IFRS 13. Two entities sampled held investment properties, while one detailed the impact of COVID-19 on the current valuation and reliability of related estimations, the another entity did not disclose or consider the impact on the investment property. One entity even performed stress testing with different economic scenarios.

Annex 5

Addendum to Government Financial Reporting Manual 2020/21: minimum reporting requirements

Introduction

1. In response to the unprecedented COVID-19 situation and the effect it has had on government entities, HM Treasury has reviewed the financial reporting requirements for 2020/21. In order to ease the burden on preparers of government annual reports and accounts (ARAs), this guidance sets out the minimum reporting requirements as per the Financial Reporting Manual (FReM).

2. These minimum requirements for ARAs are in place for a limited time and only relate to non-audited elements of ARAs. This guidance does not replace the FReM but provides minimum reporting requirements. Entities may go beyond the minimum requirements where they are able to. Further detail will be provided in PES guidance.

3. We recommend that departments who plan to streamline their ARAs contact their select committee in advance, seeking their input on matters to be covered in the report. ALBs should contact their parent department in the first instance.

Performance report

4. Entities applying the FReM are permitted to omit the performance analysis as set out in paragraphs 5.4.1 – 5.4.6 of the 2020/21 FReM. Instead, entities have the option of only producing the summary information in the performance overview as set out in paragraph 5.3.1 – 5.3.3 of the FReM.

5. The performance overview should also summarise where money has been spent, and give a short commentary on any major developments in the year such as new projects, programmes, or liabilities, as well as significant financial issues.

6. For 2020/21, there is an option not to report in ARAs against the sustainability reporting requirements as set out in paras 5.4.7 and 5.4.15 of the 2020/21 FReM. As in previous years, this information will be reported later in the year by DEFRA (Department for food and Rural Affairs) in the Greening Government Commitments report.

7. More broadly, where relevant non-audited performance information has already been published and reported elsewhere, entities are encouraged to refer to the relevant publication rather than producing the information in the performance report of their ARAs.

8. Departments should engage with their select committees when considering what specific areas to report on. In particular, it is expected that performance reports would include information on the impact of EU-exit and COVID-19 on departmental activity and outcomes as well as core KPIs, linking these to the UN Sustainable Development Goals (SDGs) where relevant.

Accountability report

9. The only optional requirements in relation to the accountability report relate to the Statement of Parliamentary Supply (SoPS) as outlined below.

10. Entities applying the FReM are no longer required to adhere to the comply or explain requirement in para 6.6.7(b) of the 2020/21 FReM, that SoPS disclosures must follow the form of the illustrative disclosures.

11. Entities are also permitted to omit the requirements set out in 6.6.8 (d) in relation to supporting text and the presentation of figures in £000s in the SoPS.

12. Where information that would usually be required in the accountability report is already published and reported elsewhere, entities will be permitted to refer to the relevant publication rather than producing the information in their accountability report. This only applies to information that is not subject to audit.

Financial statements

13. There is no change to the required format and content of financial statements. They should continue to be produced in line with the requirements in the published 2020/21 FReM. However, preparers are encouraged to consider materiality within the current framework. They will be urged to assess whether there is content that is immaterial by value and/or nature, and to engage with their auditors on this.