

Accounting for trust in governmental reporting

Interim Report

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Summary

- Good progress was made on *data collection*: 9 interviews and 3 consultations were conducted and transcribed
- The continuing work on understanding *needs of various groups of accounting users* is a key
- The preliminary analysis identifies work on *accessibility of accounting data* as a priority to improve users' trust (in particular, digitalization of documents and improvement of search functions)
- In the field of risk reporting, we recommend *aligning internal and external SDPs*, enhancing *standardization of the presentation of risk information across departments* and conducting *the thematic review on risk reporting*
- We continue developing principles and examples of the best practice

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Project purpose

The research project aims to investigate how to enhance users' trust in the UK Government reporting, particularly exploring whether this can be achieved through improvement of risk disclosure. The link between *trust* and *quality of risk reporting* is our focus.

The HM Treasury has recognised trustworthy reporting to be a pre-condition for successful decision-making on the site of users, maintaining the government's reputation and efficient connection with stakeholders (HM Treasury, 2019: 33). A report by the Public Administration and Constitutional Affairs Select Committee stated that, though important initiatives had been on the way (e.g., "Streamlining and Simplification"), experts and users criticised the skew of reporting towards positive news (PACAC, 2017). Against this backdrop, the HM Treasury reinforced its commitment to improving transparency and trust, in particular through enhancing risk disclosure ((HM Treasury, 2019: 33-34).

Progress of the project

We are currently working on the academic literature review and the data collection and analysis. At the time of writing, we have conducted **nine semi-structured interviews** and **three consultations with experts** (Table 1). We classify an interview as a formal semi-structured conversation with users, preparers, and standard setters of governmental accounts, and a consultation as an informal meeting with experts in the field of public sector accounting (e.g. academics) and private sector standard setters. The interviews conducted so far have involved a wide range of different actors: (1) standard setters for central government accounts, (2) preparers of accounts, (3) users of accounts, such as NGOs' representatives, journalists and advisors to Parliament.

Table 1 – Interviews and Consultations

	Interviews/Consultations	Type of actor	Stage of data analysis
Dec 2019	Consultation 1 - Financial Reporting Lab - FRC	Standard Setters for private sector accounts	<ul style="list-style-type: none"> No formal transcription Notes of the meeting taken by the researchers
	Consultation 2 – Expert 1- Academic expert in public finance	Expert in the field, expert user of governmental accounting and statistical information	
	Consultation 3 – Expert 2 -Researcher and expert in public finance	Expert in the field, expert user of central and local governmental accounting and statistical information	
	Interview 1 - Campaigner-Journalist-Accountant involved in several NGOs	NGOs' representative, expert user of governmental accounting and statistical information	
Jan 2020	Interview 2 - HM Treasury, Government Finance Function (GFF)	Standard setter for central government accounts	<ul style="list-style-type: none"> Transcription completed Data are being coded and analysed
	Interview 3 - Journalist 1	Expert user, journalist	
	Interview 4 - Journalist 2	Expert user, journalist	
	Interview 5 - HM Treasury, Government Finance Function (GFF), Whole of Government team	Whole of Government Accounts (WGA) preparer	
Feb 2020	Interview 6 - Former member of the UK Government Accountancy Service	Former standard setter	
	Interview 7 - HM Treasury, Government Finance Function (GFF) and a Government Department Risk and Assurance Director	Standard setter, Risk and Assurance Director	
	Interview 8 - Financial Scrutiny Unit, Parliament	Expert user, advisor to Parliament and select committee	
May 2020	Interview 9 – Researcher and Think-tank member	Expert user, expert user of central governmental accounting and statistical information on equality	<ul style="list-style-type: none"> Transcription completed

Trust in governmental reporting: main findings

Trust is multi-dimensional

A preliminary analysis of the interviews shows the extent to which trust in governmental reporting is multi-dimensional. It is related to many sub-issues that should be investigated in their own right.

There seems to be *no mistrust in numbers* as such (accuracy) but users have issues with **the quality** of the governmental reporting, in particular, with *accessibility* and *understandability* of information (incl. information overload and overlap, limited openness and re-usability of data, lack of comparability of governmental numbers across time, unbalanced narrative reporting, and finally low engagement of non-expert users). Some of these concerns have been dealt with in the Government Financial Reporting Review (2019) and the Financial Reporting Manual (FReM) 2020-21 (HM Treasury, 2019a); nevertheless, we would like to highlight some key issues.

As described in the book “The End of Accounting” (Lev & Gu, 2016), it seems that accounting today does not provide information required by its users. The goal of users of governmental reporting is *the scrutiny* of where and why the money is targeted and whether the target has been achieved, and if not, why (accountability). They try “to understand the way the country is governed and run” (Interview 3 - Journalist). Thus, the information provided in accounting reports should enable users to conduct this scrutiny. However, the reports in their current form seem not to serve these goals well. They are *not made for use*.

Problem 1: Accessibility and usability of information

Accounting information reported through different media and documents is considered by most users to be **a source of data**. Annual reports represent just one type of those documents. They are not read from the first page to the last like novels; they are rather “cookbooks” (Consultation 1 - FRC) where each user searches for particular data. Thus, the length of reports should not be a problem; the main issue is that users cannot find pieces of information they need. *Why do users experience these difficulties?*

Unawareness about relevant documents - The landscape of contemporary government accounting information has been shaped by the adoption of different ways of accounting for government’s activities (i.e. “modes of accounting”) and by an increased digitalization (for a discussion on the current developments in public sector accounting see Jones et al., 2019).

Traditionally, governmental accounting has been characterised by *cash-based accounting* and the centrality of *the budget*. The wave of reforms pursued since 1980s has introduced new ways to account for activities by the government itself (i.e. HM Treasury and governmental departments), its auditing and oversight bodies (i.e. National Audit Office (NAO) and Office for Budget Responsibility (OBR)) and national statistics offices (e.g. Office for National Statistics (ONS)). Currently, four different modes of accounting coexist in the UK: (1) financial reporting based on accounting standards, (2) statistical accounting leading to the publication of national accounts, (3) budgetary accounting and (4) long-term fiscal sustainability projections (Heald & Hodges, 2018). Each mode of accounting has a different purpose and specific assumptions to measure and recognise assets, liabilities, income and expenses.

Have users of accounting kept up with these changes? From our interviews we have noticed that users, who might not have an accounting background (i.e. self-made expert users) associate governmental accounting information with budget information (i.e. mode (3) of accounting). Important information produced in other modes of accounting (e.g. financial reporting and

annual report and accounts) might be under-appreciated and under-utilized by users so they do not look there and thus do not find information they need.

Furthermore, several users observed that *the reconciliation of the figures* is sometimes very difficult due to different accounting and statistical conventions being applied. The HM Treasury has worked on improving this issues with the Clear Line of Sight initiative (HM Treasury, 2009) and the recent [thematic review](#) on the Statement of Parliamentary Supply (SoPS). To achieve greater accessibility and effectiveness of the reporting, the government needs to continue its efforts in clarifying the differences between the four modes of accounting and explaining the purpose of the documents associated with them.

Difficulties in navigating documents and websites - Beside the changes described above, government accounting information has been digitalized and made available through the internet. Users unanimously report difficulties in finding information and navigating public sector bodies' websites (such as Treasury, governmental departments, NAO, OBR, and ONS). Those websites are considered "a big dumping ground for documents" (Interview 4 - Journalist).

"You have to know where to look in order to find information" (Interview 3 - Journalist) or to know people who possess this kind of know-how, users claim. Navigation of governmental information seems to be a skill to be acquired over years. Non-specialist users (parliamentarians, students, researchers, taxpayers etc.) have little chance of finding the information that they need using the current websites' menus. Relevant documents might be spread among departments and scattered over the websites or in several sections of annual reports.

Here is an example: "If you want to know things like how much the government spends on education as a whole, including all parts of government. So, if you went to the Department for Education website or their annual report, you would get nonsense numbers there because they spend some money on education, but also local authorities do [...]. But, again, if you know [where to look] and you go to the annual public expenditure statistical analysis, which the Treasury publishes, [and] you get OECD compliant government spending by function. Over time that will give you everything you want to know. But lots of people don't know that this document exists though." (Interview 3 - Journalist).

Difficulties in navigating documents and websites seem to be ***the biggest issue that undermines users' trust*** and should be tackled with high priority: availability of data is a precondition for efficient scrutiny and accountability.

Information overload and overlap – Too much unstructured data is provided; duplication of information happens in several documents.

Unstructured archiving - There is no logical structure in archiving the documents: "a lot of the trouble with government websites is **archiving**, lots of things disappear or aren't where they said they were and it's very hard" (Interview 3 - Journalist). Difficulties to find the previous versions of the same document (for example, the departments' plans) jeopardize comparability of data; at the same time, comparability seems to be very important for users in order to carry out the adequate scrutiny function.

Openness and re-usability of the data - Once users found the information, they are concerned that most of the publications and data are not in an open and reusable format. Users have difficulties in navigating pdf documents. Data are provided in more accessible formats only per request (for example, in order to help people using assistive technologies).

Problem 2: Understandability of information

The interviews with GFF highlighted once again that “what the public sector and particularly central government does, is difficult” because government aims to achieve “complicated societal outcomes with limited resources” (Interview 7 - GFF). Especially, after abandoning cash accounting, understandability of accounts became an issue (interview 6 – Former Standard Setter): “IFRS is opaque to most accountants and impenetrable for almost every lay person” (Interview 1 – Campaigner and journalist). Non-expert users often do not have the technical knowledge to understand and process the numbers in the financial statements whereas professionals also at times struggle to comprehend and retrieve the information they need.

This leads to

1. **high reliance on intermediaries** who interpret the reports published by the government (Appendix1). For example, journalists rely on comments from think tanks (e.g., Institute for Fiscal Studies and Institute of Government), auditing firms (e.g., PWC, EY, etc.), OBR and analysts and economists working in the City. Parliamentarians depend on the briefings by scrutiny units and specialist advisors. Civil public retrieves its information from the media.
2. **low level of engagement** with data provided, especially in case of non-expert users.

Problem 3: Narrative is tilted towards positive

Narratives in annual reports can help users to make sense of the numbers but can also tell a story that is too positive and avoid critical issues about the organisation. In the UK government accounting setting, this is a broad and well-known issue. It has been raised in the Accounting for Democracy (PACAC, 2017) inquiry and acknowledged in the government’s response to this inquiry (PACAC, 2018) and in the Government Financial Reporting Review (HM Treasury, 2019: 33).

Providing a balanced narrative is challenging both in the private and public sector. In the private sector, managers may have personal incentives to portray a positive picture of their organisation. This issue is discussed in the literature as *impression management* (Clatworthy & Jones, 2003; Merkl-Davies & Brennan, 2017). In the public sector, political embeddedness might influence the way in which narratives are communicated (PACAC, 2017, pp. 42-43).

Preliminary suggestions and examples of best practice

To Problem 1: Accessibility of information

Solutions to this problem could be embedded into “HM Treasury digital strategy” (2012) and include provision of navigation aids and searching algorithms as well as intelligent archiving of documents. In our eyes, such solutions can be achieved relatively **quickly**, in small steps, and might be treated as a high priority.

In particular, based on the interviews with users, we suggest:

- **Improvement of the navigation of single electronic documents**, for example, by providing tagging or machine readability. For this purpose, documents should be available in multiple formats; in particular, formats where the structure is tagged in some way would be useful, e.g. Word, html, or a tagged pdf document.
- **Improvement of documents’ connectivity through cross-referencing and regular mapping the landscape of budgeting and reporting information** produced by the

government and other independent bodies (e.g. OBR, ONS and NOA). The machine-learning concepts of classifying and clustering different chunks of documents seem to be especially promising.

- The creation of a visual **dashboard** of the document landscape would be an optimal solution. The dashboard structure will organize the archiving of the documents and information, radically improving the search through the website menu. It would also be the place where summaries of documents could be found and cross-referenced according to topics, not to the date of their publication (in the current practice, latest publications are announced on the website; the problem is again that users search for information by topics and not follow what is uploaded on the website chronologically): think of a “recipe book”.

The question is of course to what extent HM Treasury has the flexibility to design its website - which has been a part of the GOV.UK website since 2013 – in accordance with its special needs. To advance the project, it might make sense for us to liaise with Social Media and Digital Communications department at the Treasury.

Example of the best practice:

Government of Canada InfoBase: <https://www.tbs-sct.gc.ca/ems-sgd/edb-bdd/index-eng.html>

To Problem 2: Understandability of information

Solutions for the understandability problem are not as straightforward as in case of accessibility. However, we believe that the focus should be on the genuine needs of users.

The long discussed *financial literacy* – educating non-expert users in accounting matters through more detailed and non-jargon explanations etc. – is an ideal but rather *illusory solution* as there is no way for non-specialists to understand enough of IFRS and other accounting conventions in public sector in order to be able to make decisions or form a competent judgment.

Importantly, to be literate in accounting is also not what users really want. Rather, they expect the government to provide the information in the form that does not require understanding of accounting directly or through intermediaries. They want the Treasury and independent oversight bodies (e.g. NAO and OBR) to produce the numbers and *do the interpreting, or translating, job* at the same time (the job currently done by various intermediaries as presented in Appendix1).

Our interviews and consultations suggest that modern users expect data providers to deliver “information in a format that is useful” highlighting the “fundamental points of information”:

- Emphasis on the income statement not just the balance sheet. “The income and expenditure statement should be presented in a format that is understandable and explicable to users” (Interview 1 – Campaigner and journalist). There must be an explanation of *revenues by source* and *expenditures by categories*. Also, the presentation of historical trends is important allowing for comparability over time: Users are interested in monitoring long-term trends in patterns of expenditure, in tax collection per head, corporate tax, etc.

Visualization - An important strategy to improve understanding of accounts is graphical presentation of accounting information. However, also this is not a

straightforward road. As users highlighted, good visualization requires a lot of finesse; users are looking for “simple graphs that tell a story” (Interview 3 - Journalist), “explain what numbers are really showing” and “which numbers are used and why” (Interview 4 - Journalist). Sometimes, the same number can be calculated differently (due to change in regulation, for example); thus, the graph should make explicit what is behind the numbers to make a comparison possible. Users’ problem is “lack of detail in some published figures” (think tank, email communication).

Example of the best practice:

Government accounts of the Isle of Man

<https://www.gov.im/categories/tax-vat-and-your-money/government-accounts/>

especially:

<https://www.gov.im/media/1368468/audited-accounts-government-accounts-2018-19.pdf> (pp. 6-10)

Other formats of reporting could be considered. Users stated that “to further increase trust, the government should *engage more with researchers and users on the figures*. [...] It may be useful if government departments hosted *meetings on the main financial statistics* they produce - the assumptions, the trends, etc.” (think tank, email exchange). Also, providing *short video summaries* of accounts might be useful.

To Problem 3: Narrative is tilted towards positive

Biased narratives which are tilted towards positive news and used as marketing instruments undermine trust in accounting information. In the public sector, impression management can be exercised by interference and influence from politicians keen to promote their agenda and avoid blame by putting gloss on the reporting (PACAC, 2017, pp. 42-43; Guerin, McCrae, & Shephard, 2018).

This issue is most tricky to solve. Our interviews suggest that there are users/intermediaries that “ungloss” narratives provided by Treasury and departments (see Appendix 1). The solution for Problem 3 could be to take the reports provided by those intermediaries as examples of best practice and start to report in this style. However, the major problem here could be the cultural resistance.

It is a very broad issue. Given the seed corn character of the current research, we focus on risk management and risk reporting. “Intelligent” risk management (Power, 2004) and risk reporting should be an opportunity to engage in and maintain an honest dialogue with stakeholders about assumptions, biases, uncertainty and complexity of the government’s activities. Our project takes a step in this direction.

Risk reporting: main findings

The interviews with the GFF have revealed a robust commitment to improve risk reporting and the overall risk management framework in central government. GFF is promoting a stronger link between planning (strategy), risk, performance and external reporting. Actions in this direction have already been taken. Firstly, Government Financial Reporting Manual (FRoM) for 2020-21 (HM Treasury, 2019a) includes a detailed guidance on disclosing principal risks and

risk management programmes, while the previous edition made only a few references to risk disclosure and none to risk management. Secondly, at the beginning of 2020, the GFF has published a new “Orange Book: Management of Risk – Principles and Concepts” (HM Treasury, 2020b).

In the interviews, we understood that the GFF is taking a holistic approach to the governmental risk management framework. Currently, risk management and risk reporting are mainly disjunct. The vision of the GFF is to achieve a greater integration between risk management at the backstage and risk reporting to external stakeholders at the front stage.

Problem 1: Risk registers are not enough for an effective risk management

“The Orange Book Management of Risk - Principles and Concepts” published by HM Treasury in 2004 (HM Treasury, 2004) “focused predominantly on risk management process” and, as a result, departments generated “risk registers with more colours and more numbers” [Interview 7 - GFF]. However, the effectiveness of this process is still debatable: it frequently became an exercise to fill templates [Interview 7 – GFF].

Problem 2: Linking strategy, risk and performance

In the new risk management framework, risk considerations need to be embedded in every step of decision-making process: from planning (in the single departmental plans) to implementation and reporting to external stakeholders: “so not seeing risk management as something you do in the implementation stage, but actually how you build in thinking around risk which is effectively just thinking around uncertainty and assumptions, and bias and complexity”. [Interview 7 – GFF].

This progress is without doubt welcomed. However, there is an issue which the GFF is aware of and which the government has been called to act upon (Wheatley, 2018; Freeguard, Shephard, Guerin, Pope, & Zodgekar, 2020), namely the current *misalignment between internal (and “secret”) single departmental plans (SDPs) and external single departmental plans published and reported to users* (e.g. Select Committees and the Public Accounts Committee). This misalignment appears because some departments might have two versions of the plan: one internal and one external. As the GFF pointed out, the external version is “a wish-list that says ‘if we had infinite resources and infinite capability this is what we would do’” [Interview 7 – GFF]. The internal version is more realistic.

Setting external SDPs as a “wishing list” creates issues when the plan needs to be compared with the outputs and outcomes in the annual report: Although the department is working on the assumptions of the real SDP, the Parliament scrutinises the government based on the external SDP. When it comes to reporting, departments might have the tendency of selecting only the objectives that they achieved and “gloss over” the less attainable ones. This results in an annual report perceived as selective and leading to a loss of users trust.

Problem 3: Quality of risk disclosure

Current practice of risk disclosure in departmental annual reports and accounts (ARAs) manifests similar issues as those known in the corporate sector. Firstly, risk disclosure is still considered to be “boilerplate”. Secondly, information on risks is reported in different parts of the annual report, and this makes the document difficult to navigate [Interview 2 – GFF]. Thirdly, different departments use different jargon in relation to risk; furthermore, the terminology used by a particular department is often not consistent over time. For example, “principal risks” might be called differently in ARAs of the same department. In the Department for Work and Pensions ARAs 2016-17, the term “control issues” is used instead of “principal

risks” while in the ARAs 2017-18 “control challenges” is applied. (For more details see Appendix 2 – The case study of DWP). Finally, visualization and trend data are welcomed by most users we interviewed.

Preliminary suggestions and examples of best practice

Risk management linked to governance and organisational culture

The risk management framework envisaged in the new version of the Orange Book (2020) promotes a better support to decision-making and should be linked to **governance and culture** of the organization. In this context, Chief Risk Officer (CRO) has a role to play in facilitating the embeddedness of the risk management in the organisational governance and culture. As previous research shows, the effective risk management and its “champions” should promote dialogue, experimentation and learning in the organisation (Mikes, 2016). Embracing a more open and honest risk culture would also have benefits in terms of accountability and trust.

Embracing uncertainty in Single Department Plans (SDPs)

As pointed out above, the coexistence of two sets of SDPs creates issues with credibility of annual reports. Again, those issues do not have a quick and easy fix. However, users would welcome a clear and honest assessment of the assumptions, biases and *uncertainty around the delivery of plans* [Interview 9 – Think-Tank]. A more detailed description of risks and uncertainties in SDPs and a more explicit link to performance reported in annual reports could be helpful for users as well. In this sense, *risk reporting could be a means to achieving a more balanced and fair representation of the departmental performance*. In our final report we will explore these issues in more details and provide more concrete suggestions.

Enhancing the quality of risk reporting

Although the HM Treasury’s approach to reporting standards is principles-based and not prescriptive, we believe that *a certain level of standardization* in the presentation of risk information would be welcomed. In this sense, we believe that the guidance on risk reporting highlighted in the Government Financial Reporting Manual (FRoM) 2020-21 could be a good starting point to encourage departments to report risk in a more **systematic way** (e.g. in the performance report and governance statement and with relevant cross-referencing).

Examples of the best practice: Department for Work and Pension (see Appendix 3 for more detail) and Ministry of Justice ARAs

Suggestions on digitalization of the documents and creation of a dashboard discussed above would apply to the risk reporting as well. We would suggest creating a risk reporting **taxonomy and tags** shared by all departments in order to enhance comparability across organisations and over time. The [experience of FRC on XBRL reporting](#) and the structured data format could be useful in this sense. We could update on this in the final report.

More generally, we aim to analyse professional and academic literature to **establish a framework of principles and criteria to identify best practices of risk reporting**. This framework will draw on several sources such as: the NAO “Good Practice in Annual Report” (NAO, 2020); FRC Lab studies (FRC, 2017, 2018); professional bodies and accountancy firms guidance (ACCA, 2014; ICAEW, 2011; PwC, 2016, 2019); the Government Financial Review Best Practice 2018-19 (HM Treasury, 2020a), international evidence, academic studies and reflections on earlier attempts to reform financial reporting (Likierman & Vass, 1984). Furthermore, in our recommendations on risk communication and visualisation, we are

drawing on work of the [Winton Research Center at the University of Cambridge](#) and the [Risk and Regulation Advisory Council](#). Our findings might contribute to the HM Treasury's bank of best practice in reporting.

Finally, we hope the results of our research could prompt the HM Treasury to conduct a *thematic review on risk reporting*.

Conclusions

- **Work on data accessibility and usability through digitalization and improvement of search functions** might be considered an absolute priority and a headway to enhance users' trust and engagement.
- This work should be informed by better **understanding of the needs of various types of users** (Appendix 1) and the ways they work with different types of data provided by the Treasury and other governmental bodies. For example, there are datasets that are regularly demanded and commented/scrutinised by particular groups of users. Some groups of users create and utilize their own databases; knowledge about data used in those databases could enhance the work on data digitalization.
- In the field of risk reporting, we recommend **aligning internal and external SDPs, enhancing standardization of the presentation of risk information across departments and conducting the thematic review on risk reporting**.
- The preliminary analysis of interviews suggests that organisational culture in departments might play an important role in the realization of plans and initiatives to improve data accessibility and usability as well as risk reporting. As the discussion on accessibility and understandability of accounting information in public sector has been evolving for quite a while, a reflection on **why many recommended steps have NOT been implemented** might be helpful. All goals discussed in the report "sound easy to achieve – but they are not as there are significant blockers and constraints which will require sustained effort to overcome" (Freeguard, 2020). Such blockers might relate to incentives and organizational culture (funding pressure, attitude towards data as not a strategic priority, historical ways of working with data, poor user engagement that fails to recognise user needs, or over-prioritises the needs of specific users at the expense of others, etc.) but also to data quality itself (e.g., a lack of data standards across government, legacy systems built in data inconsistency, etc.) (Freeguard, 2020). It is crucial to understand which hurdles prevail and how they can be overcome.

Further steps of the project

Further interviews and consultations with users: As our research is developing, the list of interviews is expanding (Appendix 3). All interviewees we met were very keen on the project and suggested other individuals/institutions who might be interested in taking part in our research. We are currently waiting for a reply to arrange further interviews with NGOs, think-thanks (e.g. Institute for Government and Full Fact), the National Audit Office and the Public Accounts Committee.

Next to interpreting interviews, we will analyse documents collected during the fieldwork in order to better understand users' needs, for example, the checklist/scorecard applied by the Parliament scrutiny unit when they appraise departmental reports.

With respect to recommendations provided in this report, we aim to focus our work on **two issues**:

First, to be able to make concrete suggestions on the improvement of data accessibility, we are working with a team of **data scientists** from the Mathematics Department of the University of Leicester. This cooperation will help us to understand what is the state of the art on machine reading as well as tagging, classifying and clustering of information and how we can advise the government on this. As a first step, we plan to apply the concepts of classifying and clustering different chunks of text to a large collection of documents (e.g., departmental reports) in as similar format as possible. If it works for that set, it would be worth trying to solve the problem by getting the data from a variety of different document types. To discuss the possibilities of implementation of this work, we might search for additional contacts among relevant staff members in the Treasury (e.g., in **the Social Media and Digital Communication unit**) and would be grateful if support could be provided here.

Second, we would like to develop our research to provide the basis for standardization of risk reporting across departments through better understanding of standards in the private sector (informed by FRC) and examples of best practice within Treasury departments but also internationally. We consider development of *principles to identify best practice* of risk reporting as a crucial step. This work might enhance the implementation of the “new” Orange Book in government departments and inform the Treasury thematic review on risk reporting (in case they wish to conduct one).

Appendix 4 shows the project timeline.

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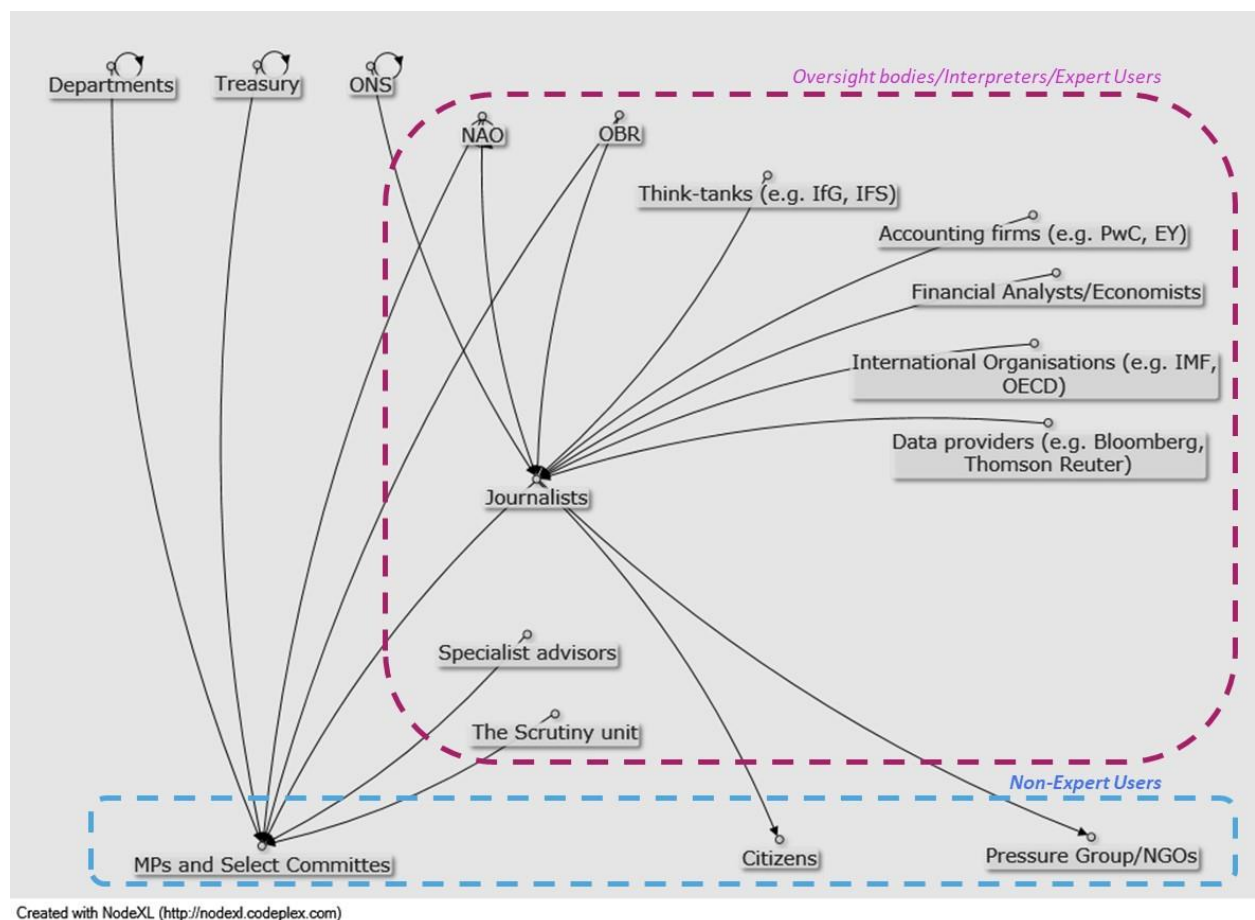
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Appendices

Appendix 1 – Users and interpreters in public sector accounting



Appendix 2 – Department for Work and Pensions (DWP)

What are users looking for in risk reporting?

The interview with an advisor to Parliament (Interview 8) was insightful for understanding of what users expect from a high-quality risk reporting. In his advisory role, the interviewee analyses departments' annual reports and accounts on a regular basis to support select committees in scrutinizing the work of departments.

The risk reporting in the [Department's for Work and Pensions \(DWP\) Annual Report and Accounts 2016-17](#) has been identified by the user (Interview 8) as an example of the current best practice. The clarity and completeness of risk communication in this document were particularly emphasised: the direction of risk changes, mitigation, assessment of the responsible person and plans were disclosed (Figure 1).

Generally, the Scrutiny Unit checks departmental ARAs for particular issue (they have a check list) that are similar to those highlighted by other oversight bodies (e.g. OBR and NAO). Importantly, the lack of any reference to those crucial issues would alert the users and make them "sceptical" (Interview 8). For example, a recurrent and well-known concern in the case of DWP is the high level of fraud and error in benefits. The annual report identifies this issue as one of the principal risks for the department. If the annual report had "glossed" over this topic, the user would be very wary of the quality of risk reporting.

Figure 1 - Department for Work and Pensions (DWP) Annual Report and Accounts 2016-17, p. 96

Department for Work and Pensions Annual Report and Accounts 2016-17

96 | Accountability report

Department for Work and Pensions Annual Report and Accounts 2016-17

Accountability report | 97

Permanent Secretary's assessment of the system of control and the significant control issues

From the developments recorded above in the system of control, and the assurances I have received, I consider that the department continues to make improvements in the controls it operates, and I share the Chief Internal Auditor's view that the controls provide 'moderate assurance'.

Within the overall system of control there are 5 control issues which I regard as significant. Each of these, and the action we are taking, is described below and shows where my assessment of the significance of the issue has changed over the year, as illustrated in the following key:

Significance increased from 2015-16	Significance unchanged from 2015-16	Significance decreased from 2015-16
↑	↔	↓

Firstly, I no longer consider one control issue reported in 2015-16 as significant. This is the issue that reflected the need to 'transform our professional skills, experience, and flexibility of our workforce, to achieve our DWP 2020 vision'. In 2016-17 we have made significant progress through:

- a DWP-wide programme of capability improvement delivered through our Heads of Profession and supported by a range of HR interventions including learning, talent development and specialist recruitment
- the Employee Deal Programme which we put in place following agreement with departmental trade unions to maximise the flexibilities agreed with our workforce to support improved customer service and outcomes
- our leadership development offer which we expanded to all our colleagues as our focus shifts increasingly towards team development and leading others through change

My 5 control issues are:

- monetary value of fraud and error
- performance variation in health service assessments
- keeping our systems and data safe
- maintaining IT services while effecting digital transformation
- delivering Universal Credit full service

Monetary value of fraud and error

Control issue
This continuing control issue is to protect the annual spend on benefits and pensions against fraud, and error. The Comptroller and Auditor General has again qualified his opinion on our accounts on regularity due to the material level of fraud and error in benefit expenditure, which has been the case since 1988-89.

What we have done
We have established a new Counter Fraud and Compliance Directorate, bringing together operational, strategy and analytical roles in a new structure responsible for progressing fraud, error and debt measures within our department.
We have implemented benefits-specific fraud and error strategies, which focus on the main causes of fraud and error which include earnings. The application of the Fraud and Error Framework to individual strategies has helped target risk and focus resource effectively. We continue to work with other parts of government. We extended our use of HM Revenue and Customs' Real Time Information on earnings while the Fraud and Error Reduction Incentive Scheme (FERIS), but now known as the Right Benefit Initiative from 1 April 2017) continued to incentivise local authorities to tackle earnings-related fraud and error.

My assessment of this control issue
Preliminary estimates show that the level of overpayments due to fraud and error in 2016-17 was 2.0% (or £3.5bn) of total benefit expenditure. Working together with local authorities, we estimate that we recovered £1.1 billion of overpayments resulting in an estimated net loss of 1.4% (£2.4bn). We estimate that we underpaid benefits by 0.9% (or £1.6bn).

These figures are not significantly different from previous years, and the new Directorate had not yet been in place long, so for now my overall assessment of the significance of this control issue is unchanged.

Plans for 2017-18
We have a coherent fraud, error and debt strategy. The pillars of this are:

- our welfare reforms, in particular Universal Credit, which will help deliver significant fraud and error savings
- strengthening our operational delivery, including a stronger focus on quality and on maximising recoveries where overpayments occur
- using the data we have to identify and target risk areas

Further detail on fraud and error is covered in the performance analysis section on pages 59 to 62 and in the Incorrect Payments note on pages 205 to 211.

Best Practice identified by an expert user.

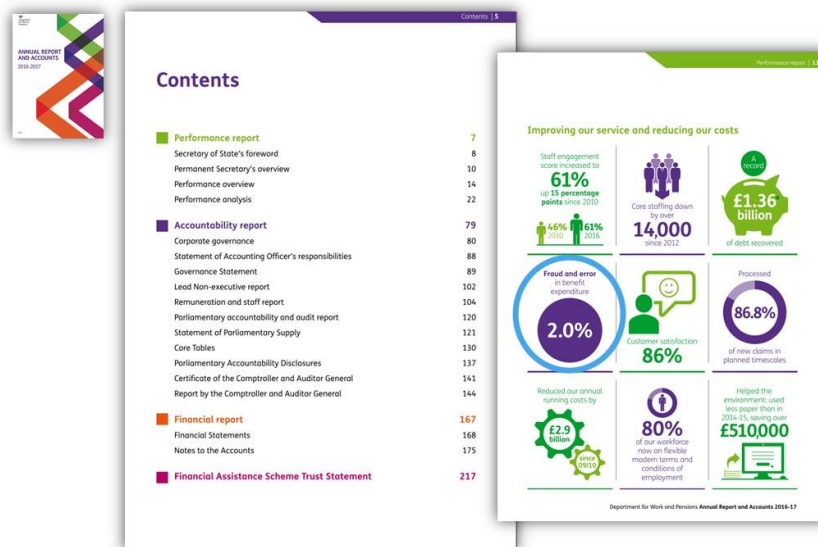
Which criteria did the user apply to classify this risk reporting as best practice?

Understandability and clear communication:

1. identification of risks
2. how those risks have changed through the period (arrow)
3. management of risks
4. the impact of those changes and management's response

Linking performance and risk are seen as a way to improve risk reporting and restore trust in annual reports. In the [DWP ARAs 2016-17](#), the performance report presented a colourful infographic on how the Department has improved its services and cut costs (Figure 2). However, a sceptical user may find in the graphic more questions than answers. For example, looking at the indicator on fraud and error, one might ask: is 2% a good performance? Why? What is the benchmark? What is the trend over time? Which target – if at all – was set in the SDP? Has the target been achieved? We acknowledge that a simple infographic might not be able to provide an answer to all these questions, however, an open discussion of these issues and a cross-reference to other documents and sources of information (e.g. data.gov.uk) might be welcomed.

Figure 2 - Department for Work and Pensions (DWP) Annual Report and Accounts 2016-17, p. 13



Comments: fraud and error is one of the main principal risks of the Department of Work and Pension.

The Performance Report highlighted that fraud and error are of an amount equal 2% of the benefit expenditure.

Open Questions:

- Is 2% a good performance?
- How can users judge this figure?

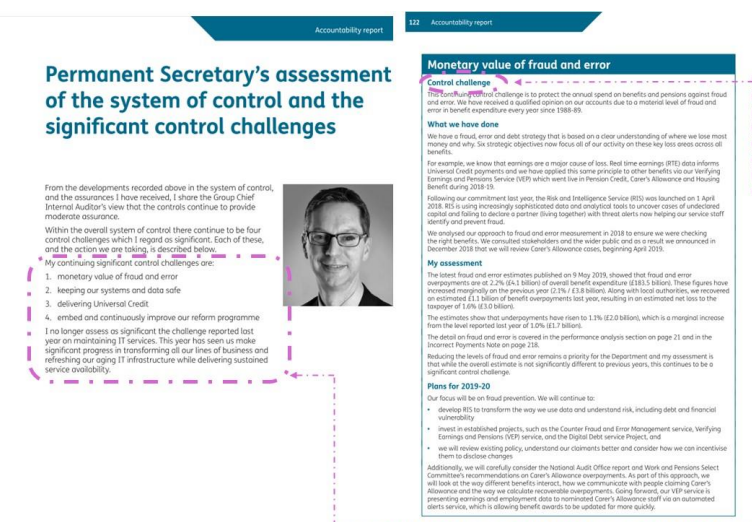
Suggestions for improvement:

- Provide trend data and context
- Cross-reference to further explanation in the report
- Link the information in the report to external databases (e.g. Fraud and Error in the Benefit System on data.gov.uk)

How has risk reporting changed over time?

Continuing with the example of DWP, we analyse whether the department has changed or further improved its approach to risk disclosure in [ARAs 2018-19](#) (Figure3).

Figure 3 - Department for Work and Pensions (DWP) Annual Report and Accounts 2018-19

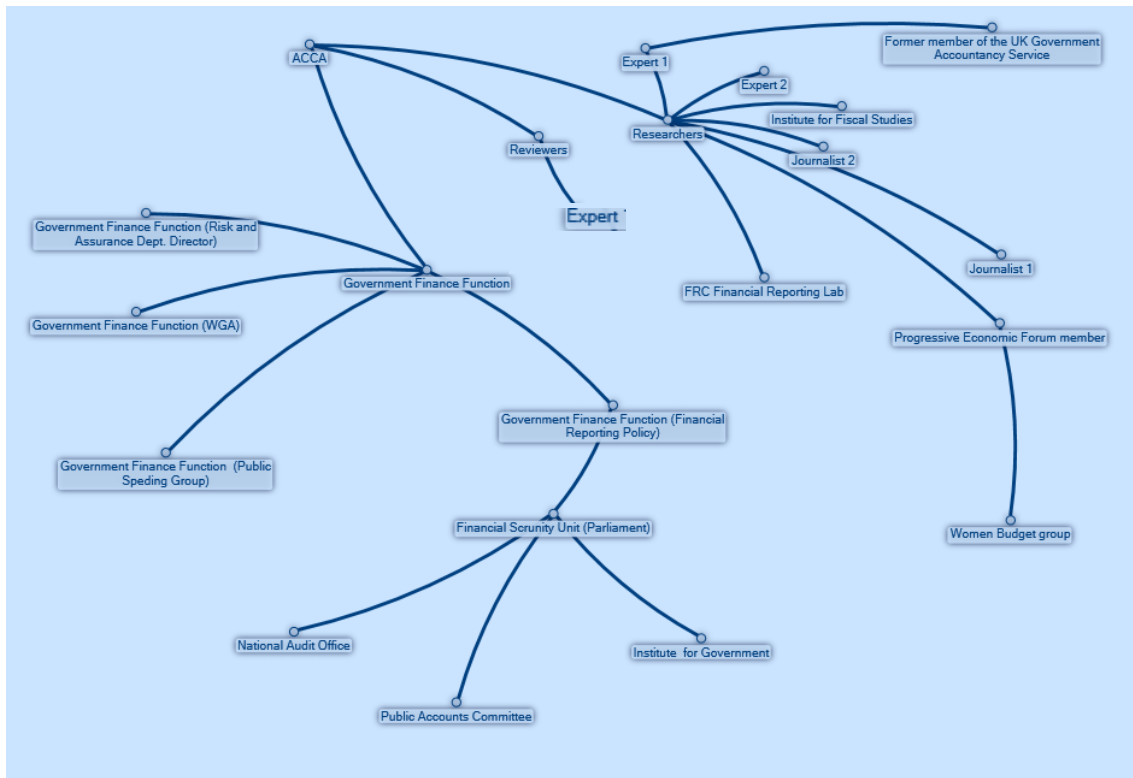


Some observations:

1. Updated the list of principal risks
2. Principal risks are now called "control challenges"
3. No visualization of how those risks have changed through the period (arrow)

Risk disclosure is still very detailed. The Department has updated its principal risks (i.e. control challenges) signalling the willingness to seriously reflect on the concerns and issues affecting the performance. However, we observed some issues that might undermine the comparability of the information over time and across departments. Firstly, the DPW labels its "principal risks" as "control challenges" while in the previous report 2017-18 they were called "control issues". Secondly, we can see that visual indications of the change in risk (arrows) are not applied anymore. These inconsistencies might present challenges for tagging and cross-referencing of documents. It is why we plea for the at least basic risk reporting taxonomy and the use of tags.

Appendix 3 – Social network of actors involved in the research



Created with NodeXL Basic (<http://nodexl.codeplex.com>) from the Social Media Research Foundation (<http://www.smrfoundation.org>)

Appendix 4 – Project timeline

	Nov 2019	Dec 2019	Jan 2020	Feb 2020	Mar 2020	Apr 2020	May 2020	Jun 2020	Jul 2020	Aug 2020	Sept 2020	Oct 2020
Literature review on the subject (<i>research objective 1</i>)												
Consultation with a Financial Reporting Lab representative												
Consultations with experts												
Desk-top review of departmental annual report and WGA to identify current practice												
Semi-structured interviews with the three UK Finance Function officials (<i>research objective 2</i>)												
Setting-up the field work with users: securing field access												
Promotion of the research by the ACCA team at the Government Finance Function Conference 2020												
Semi-structured explorative interviews with users (<i>research objective 3</i>).												
Transcriptions and Data analysis												
Writing up interim report												
Delivery of interim report to ACCA												
Developing ideas for best practice (<i>research objective 4</i>)												
Investigate the possibility to liaise with Social Media and Digital Communications department at the Treasury.												
Follow-up meeting with the UK Finance Function officials												
Writing up final report												
Delivery of final report to ACCA												
Discussion for follow-up study (in possible collaboration with ACCA).												