



HM Treasury

## Financial Reporting Advisory Board Paper Future Thematic Reviews

<b>Issue:</b>	HMT is considering topics for future thematic reviews; we have received potential review topics from UPAG and FRAB members and have asked UPAG to prioritise potential review topics.
<b>Impact on guidance:</b>	N/A at this stage.
<b>IAS/IFRS adaptation?</b>	No adaptations or interpretations proposed at this stage.
<b>Impact on WGA?</b>	None.
<b>IPSAS compliant?</b>	N/A
<b>Interpretation for the public-sector context?</b>	No adaptations or interpretations proposed at this stage.
<b>Impact on budgetary regime and Estimates?</b>	N/A
<b>Alignment with National Accounts</b>	N/A
<b>Recommendation:</b>	<b>That the Board note the progress on identifying and prioritising thematic review topics and provide specific comment on the top five ranked thematic review topics.</b>
<b>Timing:</b>	The Board will receive a further update at the March meeting

### DETAIL

1. The User and Preparer Advisory Group (UPAG) has met and discussed potential thematic review topics and their view on which should be prioritised.
2. HM Treasury are asking the Board to note the progress and provide specific comment on the topics ranked most highly by UPAG.

## **Background**

3. The Government Financial Reporting Review<sup>1</sup> commits HMT to carry out regular thematic reviews focusing on different issues in government financial reporting. In practise, this focuses on identifying areas of improvement in the financial reporting frameworks and guidance produced by HMT.
4. It also commits HMT to establish a group of external users of annual reports and accounts to meet twice a year and share feedback to help preparers better meet the needs of users. This led to the creation of the Users and Preparers Advisory Group (UPAG).
5. The Financial Reporting Council (FRC) prioritise thematic reviews on where they believe there is scope for improvement or where there is specific user interest. HMT will apply similar criteria.
6. To date, HM Treasury have completed three thematic reviews covering Parliamentary accountability and reporting against the Estimate, a strategic review of the financial reporting response to COVID-19 and a post implementation review of IFRS 9 and IFRS 15. The fourth thematic review is currently on going and an update on progress is illustrated in paper 148 (12).

## **Findings**

7. A list of 10 thematic reviews were suggested by the Users and Preparers Advisory Group (UPAG) members, HMT and FRAB members in 2022.
8. UPAG members were invited to rank the suggestions in order of priority, which they did for their October 2022 meeting. UPAG members discussed the topics and the ranking results, from which emerged the principles that they based their decision on. These principles were, in no particular order;
  - a. The scope for improvement in the content of ARAs.
  - b. Inconsistencies between ARAs already published.
  - c. The urgency of the topic.
  - d. The importance of reader usability.

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<sup>1</sup>[https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/791567/the\\_government\\_financial\\_reporting\\_review\\_web.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/791567/the_government_financial_reporting_review_web.pdf)

9. The results of the ranking process were:

<b>Ranked highest priority</b>	
<b>1.</b>	A more specific thematic review of the Financial review section within Performance Analysis to consider how well departments are conveying their financial performance in terms which the lay reader can understand.
<b>2.</b>	Fraud and error reporting
<b>3.</b>	Reporting and disclosure on large multi-year infrastructure projects
<b>4.</b>	A review of how well government departments are doing in telling their story in easily understandable terms to the lay reader in the Performance sections (overview and analysis).
<b>5.</b>	IAS 37 - Provisions, contingent liabilities and contingent assets
<b>6.</b>	Outcome delivery plans and risk reporting
<b>7.</b>	Judgements and estimates
<b>8.</b>	Sustainability reporting
<b>9.</b>	Digitalisation of reports/truly interactive accounts
<b>10.</b>	Discount rates
<b>Ranked lowest priority</b>	

### Next steps

10. HMT have considered the top 5 ranked thematic reviews, within the context of frameworks provided to Annual Report and Accounts preparers across government by HMT. Appendix A illustrates further detail as to what a thematic review might entail for the top 5 ranked topics.
11. HMT considered;
  - a. Public Accounts Committee recommendations<sup>2</sup>.
  - b. Timeliness and pertinence of the topic in relation to feedback received from NAO, users and preparers.
  - c. The scope for improvement within FReM and PES papers issued to guide ARA preparers.
  - d. How many Departments are impacted by the review topic - for example, only a few specific Departments will have multi-year infrastructure projects to report on but all Departments will need to create a Performance Analysis.
12. After considering the feedback from UPAG, HMT thinks the following topics are particularly strong candidates for thematic reviews:
  - a. Topics ranked 1<sup>st</sup> and 4<sup>th</sup> together – these cover topics that impact ARAs of all FReM compliant entities and there is both a clear urgency for review and scope for improvement of the guidance.
  - b. The topic ranked 2<sup>nd</sup> - it is similar in nature to recent PAC recommendations and audit qualifications Departments have received from the NAO.
13. The topics that are not immediately taken forwards will remain on the list for consideration in future by FRAB and UPAG.
14. HMT will provide a further update on its planned reviews at the March 2023 FRAB meeting.

<sup>2</sup>[https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/1081146/E02757434\\_CP\\_691\\_TM\\_Progress\\_Report\\_elay.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1081146/E02757434_CP_691_TM_Progress_Report_elay.pdf)

## Recommendation

That the Board note the progress on identifying and prioritising thematic review topics and provide specific comment on the top five ranked thematic review topics.

HM Treasury

24th November 2022

## Appendix A

Ranking	Topic	Scope of review
1	A more specific thematic review of the Financial review section within Performance Analysis to consider how well departments are conveying their financial performance in terms which the lay reader can understand.	A review of the application of guidance in FReM (paragraphs 5.4.4-5.4.6). The review would consider if the guidance is fit for purpose <sup>3</sup> , general compliance with the guidance and how FReM guidance fits in with our best practise examples.
2	Fraud and error reporting	A review of the application of the small amount of fraud and error reporting included in FReM and PES guidance already and also further review to assess the need to include more disclosure requirements in ARAs.
3	Reporting and disclosure on large multi-year infrastructure projects	A review to assess the need to include more disclosure requirements in ARAs on this topic and how that would work alongside existing reporting requirements of the Annual Report on Major Projects from IPA <sup>4</sup> .
4	A review of how well government departments are doing in telling their story in easily understandable terms to the lay reader in the Performance sections (overview and analysis).	A review of the application of guidance in FReM (paragraphs 5.3-5.4) and related PES paper providing guidance on preparation of ARAs. The review would consider if the guidance is fit for purpose <sup>3</sup> , general compliance with the guidance and how FReM guidance fits in with our best practise examples.
5	IAS 37 - Provisions, contingent liabilities and contingent assets	A review of the application of guidance in FReM and Department Yellow guidance relating to IAS 37 related disclosures. The review would consider if the guidance is fit for purpose <sup>3</sup> and consider general compliance with the guidance.

<sup>3</sup> A 'fit for purpose' review may include adding, clarifying or removing requirements, as deemed appropriate.

<sup>4</sup>[https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/1092181/IPA\\_AR2022.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1092181/IPA_AR2022.pdf)