



Financial Reporting Advisory Board

Financial Reporting and Audit Reset - Introduction

Issue:	<p>HM Treasury is undertaking a review of the financial reporting and audit landscape in central government. In recent years ARAs have grown in complexity, timeliness of reporting has decreased, and audit requirements have increased.</p> <p>The NAO small bodies report published in June 2025 highlighted that the current financial reporting and audit framework may not be proportionate for all bodies; and there are wider developments underway in the private sector.</p> <p>HM Treasury proposes to undertake a review of the financial reporting framework in order to identify potential areas for improvement. This paper sets out the proposed scope of the project and key workstreams.</p>
Impact on guidance:	N/A
IAS/IFRS adaptation?	N/A
Impact on WGA?	N/A
IPSAS compliant?	N/A
Interpretation for the public-sector context?	N/A
Impact on budgetary regime and Estimates?	N/A
Alignment with National Accounts	N/A
Recommendation:	That the board notes the scope of the programme of work proposed by HM Treasury.
Timing:	Ongoing

DETAIL

1. Background

- 1.1. Financial reporting and audit plays a central role in ensuring that government is accountable to Parliament for its spending decisions and is critical to maintaining public trust. The UK is widely recognised as a leader in public sector financial reporting, having been at the forefront of the introduction of accruals accounting, the application of IFRS across the public sector, and the consolidation of public sector accounts (WGA).
- 1.2. Over time the burden of financial reporting and audit has increased. The introduction of new accounting standards, increased disclosure requirements, and increased audit scrutiny have all contributed to a more challenging environment for accounts preparers. It is not clear that the increased accounts and audit burden has produced significant additional benefits for users. However, alongside these changes, the timeliness of accounts laying has declined; of the 49 entities whose accounts are laid by HM Treasury, 66% laid pre-recess in 2024/25 compared with 96% in 2018/19.
- 1.3. In June 2025 the NAO published their report, 'Accountability in Small Government Bodies' report, which articulated the concern that requirements for small bodies may be disproportionate. At the PAC hearing to discuss the recommendations in the report, HM Treasury committed to considering the option of a separate regime for small bodies.
- 1.4. The Department for Business and Trade is currently undertaking a review of corporate reporting in the private sector. The "Modernisation of Corporate Reporting Programme" [announced in October 2025](#) includes announced legislative changes intended to; remove the need for medium sized companies to produce a strategic report, exempt wholly owned subsidiaries from producing a strategic report and remove the requirement to produce a director's report.
- 1.5. Audit Scotland have recently launched a consultation on their new draft Code of Audit Practice, which will apply from the 2027-28 financial year. Among other changes there is a proposal to introduce a separate assurance framework for smaller bodies. See section 8 of the proposed code [here](#). The changes proposed will see Audit Scotland move away from ISA compliant audits for their smaller bodies, and instead a lower level of assurance being provided.
- 1.6. Given these combined contributing drivers, HMT is starting a programme of work designed to bring together stakeholders from across the sector to consider where there could be beneficial developments to the financial reporting and audit framework. Given the scale of this, HMT will deliver this in lieu of thematic reviews as this scope encompasses much of the recent thematic discussions held.

2. Proposed Workstreams

Small bodies' regime

2.1. Following the NAO's recommendation to explore a separate reporting regime for small bodies, and the subsequent PAC hearing, HM Treasury has committed to returning to the PAC with a proposal for a small bodies' regime.

2.2. HM Treasury will consider:

- whether a differentiated reporting and audit regime for small bodies is appropriate in central government;
- how a 'small body' might be defined for reporting and audit purposes, including options for qualitative and/or quantitative thresholds; and
- which reporting requirements and/or auditing standards could be reduced or streamlined, with consideration to both the Performance and Accountability Report and financial statement disclosures

Financial Reporting Requirements

2.3. Many of the requirements in the FReM for the Performance Report and Accountability report are not based on IFRS requirements, and given the iterative nature of these sections, there may be areas of overlap and duplication. HM Treasury considers that there is an opportunity to streamline and improve the FReM requirements for the narrative sections of the annual report and accounts. HM Treasury will undertake a review and return to FRAB with proposed changes to FReM requirements.

2.4. IFRS 19, effective from 1 January 2027 in the private sector, reduces disclosure requirements for subsidiaries without public accountability. HM Treasury will consider whether the reduced disclosure requirements of IFRS 19 are appropriate for central government and, if so, which bodies they should apply to.

2.5. Finally, HM Treasury will undertake a consistent and comprehensive review to identify specific standards/adaptations that would benefit from review, and whether the current adaptations/interpretations are appropriate for central government or if there is scope for further adaptation/improvement.

Audit

2.6. The burden of audit has increased in recent years, driven by changes to ISA requirements and changes in auditing approaches. Audit fees have risen, alongside the time and cost to deliver and service audits. This workstream will look to work collaboratively with auditors, the FRC and other key stakeholders to consider wider changes to audit for all bodies, whilst respecting the independence of statutory audit.

2.7. Much of the central government audit framework is set out in statute, including the roles of the FRC, the Public Audit Forum, the devolved auditors and the NAO. Within this framework, HM Treasury will work with key partners – including the NAO, DBT, and the FRC – to understand the options for providing proportionate external audit whilst maintaining assurance for users of accounts.

3. Guardrails in this work

At this juncture, the following parameters around scope have been identified:

- **IFRS as the basis for central government financial reporting** - This work programme is not intending to re-examine whether IFRS is the appropriate underlying framework for central government financial reporting. IFRS is well-established across central government, provides international comparability, and underpins the consolidation of Whole of Government Accounts. The focus of this programme will be limited to how IFRS is interpreted, adapted, and applied in central government.
- **Changing the primary users or objectives of central government accounts** - The programme does not seek to change the fundamental purpose of central government financial reporting or the role of Parliament as the primary user of accounts. The purpose of the workstream will be to enhance the role annual reports and accounts can play in supporting effective parliamentary scrutiny, transparency, and accountability.
- **Revisiting statutory reporting or laying timelines** - This work will not revisit the statutory deadlines for the preparation, audit, or laying of accounts, nor to redefine the overall reporting timetable.
- **Principles of transparency and accountability** - Any proposals will consider potential impacts on the quality of information provided to Parliament, and the role annual reports and accounts play in ensuring transparency and accountability. Changes will be carefully considered in the context of the information parliament needs to hold departments to accounts and the need for that information to be provided in a timely manner.

4. Next Steps and Engagement with FRAB

4.1. HM Treasury welcomes initial feedback from FRAB on the proposed workstreams, including any areas which the Board thinks should be a particular focus.

4.2. HM Treasury will begin to engage with key stakeholders, including with accounts preparers, DBT, FRC, auditors including the NAO and members of the Public Audit Forum, and relevant groups e.g. UPAG and RAWG, to inform the development of options for each of the workstreams set out above.

4.3. HM Treasury will return to FRAB with an update on the progress of each of the workstreams at the June meeting.

HM Treasury
19th March 2026