



HM TREASURY

## **Presentation to PEMPAL TCOP**

Financial reporting - the introduction of accrual accounting  
in UK central government and recent developments

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## First Session

- Why did we introduce accrual accounting and budgeting?
- How did we introduce it?
- What were the challenges that had to be overcome (and what problems remain)?
- How does financial reporting fit into the public spending framework?
- How does the financial reporting system operate?

## Second session

- Recent developments in financial reporting
- Future developments

# Why did we introduce accrual accounting and budgeting?

- Accrual based approach to Government accounting and budgeting that aims to translate the Government's policy priorities into departmental strategies and budgets, and then reports to Parliament on the efficiency and effectiveness of services provided.
- Four main reasons for introduction:
  - (i) Modernising government
  - (ii) Cash isn't enough
  - (iii) Accountability
  - (iv) Experience of others

# **How did we introduce accrual accounting and budgeting?**

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- Resource Accounting and Budgeting (RAB) project launched in November 1993 Budget by the Chancellor with aim of bringing together central government planning, budgeting, Estimates and reporting on to a resource basis by 2001.
- Small dedicated team in Treasury managed project
  - (i) Planning and specification
  - (ii) Resources and expertise
  - (iii) Stakeholder management
  - (iv) Risks and unexpected shocks
  - (v) Communication and consultation
  - (vi) Top level support

# **What were the challenges?**

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- Main challenges:
  - (i) Culture
  - (ii) Vision
  - (iii) Costs and benefits
  - (iv) Communication
  - (v) Implementation
- Remaining challenges?

# How does financial reporting fit into the public spending framework?

**National Accounts** – follow European System of Accounts and basis for fiscal rules

**Budgets** - Aim to (i) control against fiscal Rules and (ii) incentivise value for money. Aligned with Estimates and accounts.

**Estimates** - Annual Parliamentary approval for spending based on budget framework

**Whole of Government Accounts** - consolidates the audited accounts of over 3000 organisations across the public sector. Also externally audited by the National Audit Office (government auditors)

**Annual Report and Accounts**

Report annual spending on a departmental basis. Follow IFRS “as adapted for the public sector” and includes outturn on Estimate voted by Parliament. Externally audited by National Audit Office

**Parliament**

# Public spending framework

The various elements of the framework have different purposes and rules:

**National Accounts:** fiscal performance is measured by reference to the National Accounts (European System of Accounts 95)

**Budgets:** are used to control public spending and need to align with the National Accounts to support fiscal control

**Estimates:** seek annual Parliamentary authority for departments' spending that isn't authorised elsewhere

**Department Accounts:** report departments' actual spend for the year on an IFRS basis, adapted for the public sector, and compare outturn with Estimates.

**Whole of Government Accounts:** consolidates the audited accounts of over 3000 organisations across the public sector.

**Clear Line of Sight (CLOS):** Reforms to align the frameworks aimed at simplifying the reporting of public finances, to make it easier for Departments to manage financial resources and to strengthen VFM incentives .

# **How does the financial reporting system operate?**

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- Legal framework for financial reporting in central government – Government Resources and Accounts Act 2000
- Role of Treasury in developing the Financial Reporting Manual (FReM) and the function of the other “relevant authorities”
- Role and function of the Financial Reporting Advisory Board

# Questions?

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## Second session

- Recap of how the financial reporting system operates
- Recent developments in financial reporting
  - (i) Clear Line of Sight
  - (ii) Whole of Government Accounts
  - (iii) OSCAR
- Future developments
  - (i) Streamlining and simplifying accounts
  - (ii) Mid year reporting
  - (iii) EPSAS

# **Recap of how the practically the financial reporting system operates**

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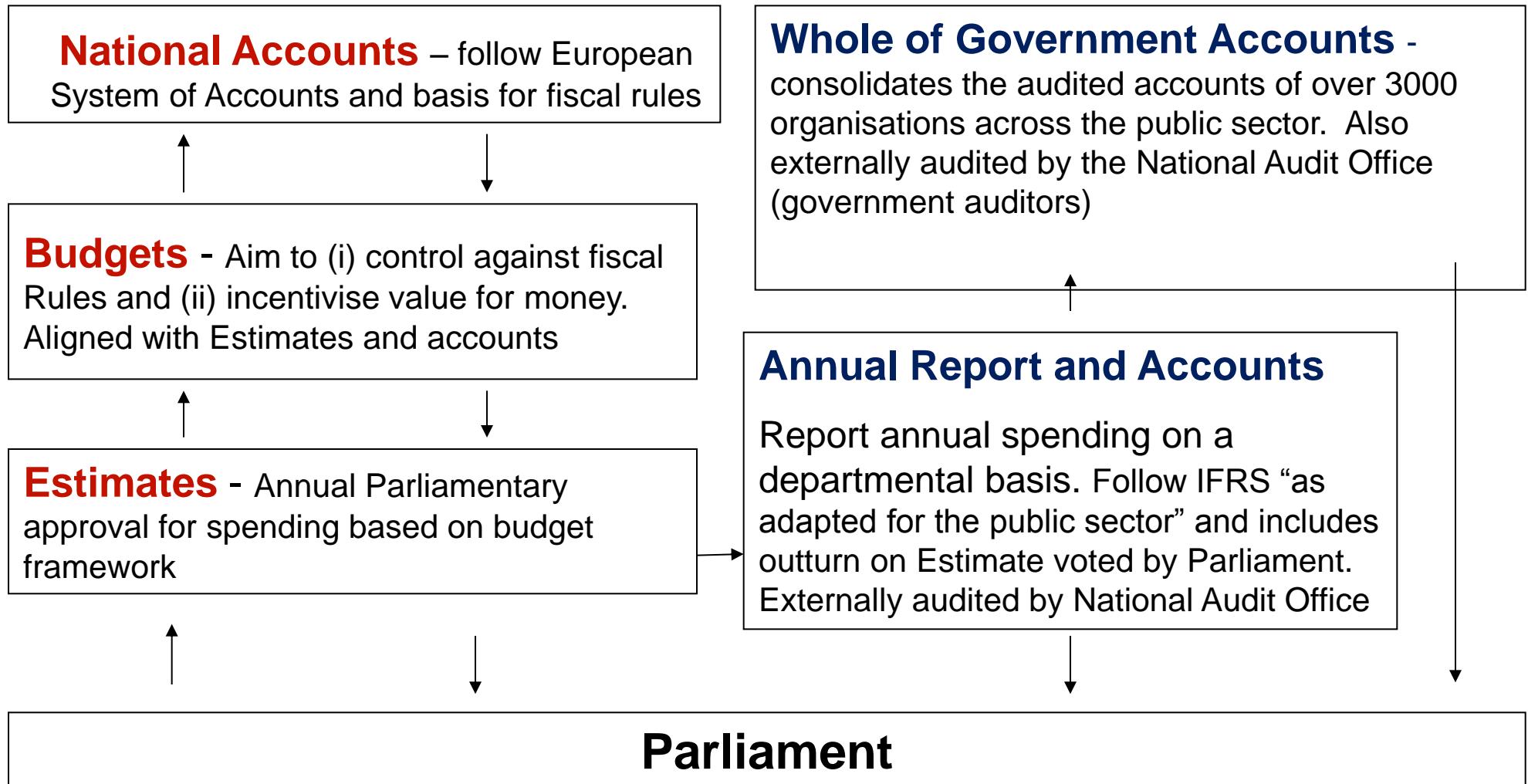
- Legal framework for financial reporting in central government – Government Resources and Accounts Act 2000
- Role of Treasury in developing the Financial Reporting Manual (FReM) and the function of the other “relevant authorities”
- Role and function of the Financial Reporting Advisory Board

# Recent developments in financial reporting

## Clear Line of Sight

- Projects aim was to:
  - (i) modernise the public spending system to improve accountability and transparency
  - (ii) simplify the reporting of public finances to make it all easier to understand
  - (iii) To make it easier for departments to manage their financial resources and to strengthen value for money incentives
- This to be achieved by aligning the treatment of transactions in budgets, Estimates and accounts.
- And consolidating arms-length bodies into parent Departments accounts

# Reminder of public spending framework



# **Recent developments in financial reporting**

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## **Clear Line of Sight**

- Review undertaken in late 2012 highlighted that the project's objectives were met
- The improved understanding of the financial relationship between departments and arms length bodies is a considerable benefit of the CLOS
- Work continues to ensure misalignments arising from new standards is kept to a minimum

# Recent developments in financial reporting

## Whole of Government Accounts

- Whole of Government Accounts (WGA) consolidates the audited accounts of over 3000 organisations across the public sector in order to produce a comprehensive, accounts-based picture of the financial position and performance of the UK public sector.
- WGA is based on EU-adopted International Financial Reporting Standards (IFRS), the system of accounts used internationally by the private sector. The same standards are used for the production of Departments resource accounts.
- It is a major step forward in transparency and accountability, and globally the most ambitious public sector consolidation.

# Recent developments in financial reporting

## Whole of Government Accounts

- WGA is providing a more complete view of the public finances, complementing the information contained in the key national accounts based measures used for managing the public finances.
- It is also being used to support longer term fiscal analysis, as evidenced by the Office of Budget Responsibility's use of WGA data to inform its annual Fiscal Sustainability Report.
- Have now published three audited WGA's so trend data is developing that is helping to inform future analysis and decision-making.
- Also gives absolute figures for items that should be managed as of major importance for spending control – public service pensions, provisions, financial stability interventions, PFI

# Recent developments in financial reporting

## OSCAR

- Online System for Central Accounting and Reporting (OSCAR) - is a cross government project to develop a robust, user-friendly system that will provide the Treasury with key management information and data for public reporting.
- OSCAR is leading to improvements in the quality of data the system holds by simplifying data structures, developing validation and strengthening control processes and accountabilities.
- Aim is to get towards “one version of the truth” rather than have mismatches between data held on individual systems and that which is held centrally.

# **Future developments in financial reporting**

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## **Streamlining and simplifying accounts project**

- Anecdotal evidence suggests that central government annual report and accounts are not well used, difficult to understand and are getting longer.
- At a time when resources are constrained and Government is committed to being more transparent and providing clearer and better information to help external challenge, it is essential that annual reports and accounts are meeting the needs of users and are not unnecessarily burdening the preparer community.
- Projects aim is to (i) simplify and streamline the presentation of annual report and accounts; (ii) better meet the needs of users of the accounts; (iii) gather a clear understanding of the purpose of the accounts; and (iv) remove unnecessary burdens from the preparer community.

# **Future developments in financial reporting**

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## **Streamlining and simplifying accounts project**

- Builds on “cutting the clutter” and integrated reporting work being undertaken in the private sector.
- Initial evidence is that the annual report and accounts is important as an accountability document, especially as subject to audit, but users want to see more focus on linking policies and financial results to outcomes - "Following the pound" – and a reduction in unnecessary disclosures.
- Our hope is to improve accountability by focussing on material items and introducing more segmental analysis, trend and outcome information. This should also improve the usefulness of the documents for decision-making purposes.

# **Future developments in financial reporting**

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## **Mid year reporting project**

- Departments used to provide Autumn Performance Reports to Parliament to provide an update on performance during the year. These were suspended in 2010 following the introduction of a new performance regime under the coalition government.
- Parliament requested introduction of mid-year reporting as a replacement and HM Treasury is now working with Departments to deliver a format for mid-year reporting that is consistent with the finance and performance reporting required in the annual report and accounts, internal management information and the information presented to Parliament in Estimates.
- Ultimate aim is to provide consistent reporting to Parliament throughout the financial year.

# **Future developments in financial reporting**

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## **European Public Sector Accounting Standards (EPSAS)**

- View of the European Commission that the prospect of further fiscal and budgetary integration in the EU highlights the need for harmonised public-sector accounting standards in order that budgetary decisions at national level can be assessed at EU level.
- Initial report from Commission concludes that taking into account the views of Member State authorities and others put forward in public consultation carried out by Eurostat, International Public Sector Accounting Standards (IPSAS) cannot easily be implemented in Member States as it currently stands.
- The report notes though that IPSAS does though represent an indisputable reference for potential EU harmonised public sector accounts.

# **Future developments in financial reporting**

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## **EPSAS**

- While supporting the overall principle of harmonised accrual accounting standards put forward in the report, the Government is mindful therefore that there are a number of very important issues still to be addressed. These include:
  - (i) the legislative basis of EPSAS,
  - (ii) the conceptual framework that will underpin the standards, and
  - (iii) the governance arrangements to be put in place to determine when an adaptation of an IPSAS (or the formulation of a new standard altogether) is necessary and how this will be undertaken.
- We are actively working with the European Commission to ensure that these issues are

# Questions?