



# HM TREASURY

## Financial Reporting Advisory Board

### Review of resource accounts – progress report

<b>Issue:</b>	Review of resource accounts
<b>Impact on guidance:</b>	None
<b>IAS/IFRS adaptation?</b>	N/A
<b>IPSAS compliant?</b>	N/A
<b>Interpretation for the public sector context?</b>	N/A
<b>Impact on budgetary regime?</b>	N/A
<b>Alignment with National Accounts</b>	N/A
<b>Impact on Estimates?</b>	N/A
<b>Recommendation:</b>	The Board is asked to note the progress made in the Review of resource accounts
<b>Timing:</b>	For information only

#### SUMMARY

1. Following the ASB's review of narrative reporting, and a number of similar publications from accounting and consulting firms in the private sector, HM Treasury has begun a review into the quality of narrative reporting within Resource Accounts. The review is intended to both provide an overview of current reporting quality and generate recommendations to encourage consideration of, and movement towards, best practice reporting.
2. The purpose of this paper is to update the Board on the progress of this work and to share initial findings.

## DETAIL

### Scope

3. The intention is that all 2005/06 departmental resource accounts will be reviewed. In addition, a sample of executive agencies and NDPB's has also been chosen. Where the accounts make reference to another document (such as the departmental plan, or annual review) these documents are also taken into consideration.

4. The focus of the review is on best practice reporting; therefore the review does not consider compliance with, for example, FReM guidance on the management commentary. However, two discrete sections on compliance with guidance on the remuneration report and other specific areas of detail that are of interest to the financial reporting policy team have been included.

### Method

5. A checklist has been compiled against which the resource accounts may be scored. This checklist first considers the overall accessibility of the document (through use of contents, tables, charts, colour etc.). It then goes on to consider reporting using the following categories:

- i. Operating environment
- ii. Strategy, Structure & Risk
- iii. Policy & Processes
- iv. Performance

These categories are mapped to the ASB reporting statement in Annex B.

6. Finally, the checklist includes two discrete checklists on compliance with remuneration reporting requirements and other areas of interest to the FRP team.

### Initial Findings

7. At the end of February 07, 8 sets of accounts have been reviewed. The diagram in Annex A summarises the average results arising.

8. In general, even from this limited sample, it is clear that entities are much better at meeting compliance requirements than they are at best practice. This is hardly a surprising result.

9. Perhaps of more interest are those areas in which entity reporting is furthest from best practice:

#### *Performance*

10. Clearly the worst scoring area of reporting is performance. Within this category, reporting on traditional performance indicators (service delivery and financial performance) score relatively well, however reporting of performance in more innovative areas such as environmental impact, diversity and employee morale is generally light.

### *Strategy, Structure and Risk*

11. Entities reviewed to date are relatively clear in reporting their strategic direction, corporate governance arrangements and risk management (the latter two perhaps receive more focus due to reporting requirements in those areas). In the disclosure of the risks themselves, initial results indicate that the focus of these disclosures tend to be on operational risks, whilst financial risks and reputation risk receive much less attention. The structure of entities is generally explained to some degree, but there is a clear lack of explanation as to why such a structure is appropriate and how that structure meets the needs of end service-users.

### **Other observations**

12. Government entities produce a number of different documents for different purposes, or to meet different statutory obligations. Much information that is included in these documents would be considered best practice information for narrative reporting. Examples include, but are not limited to:

- Departmental Strategy (focus on strategy, operational environment and future targets);
- Departmental Plan (focus on short-term target setting, often accompanied by historic performance reporting);
- Separate Annual Review (including, for example, extended performance data and wider discussion of service delivery).

13. A project is currently being piloted with a sample of departments to merge resource accounts with the departmental plan, with the intention of improving efficiency and overall reporting quality in this area.

14. Another area of inefficiency identified is departments producing yellow book resource accounts for laying before Parliament, whilst producing a separate, usually glossy, annual report and accounts for wider distribution or to meet different legislation.

15. Further work will need to be done to understand the drivers and timetables behind these different documents, but there is clearly a potential opportunity to improve the efficiency of departmental reporting.

### **Next steps**

16. The review of resource accounts will continue over the coming months. In the short term it is intended that a brief summary of results to date is circulated to departments in advance of the 06/07 reporting process, giving departments the opportunity to feed those results into their reporting considerations this year.

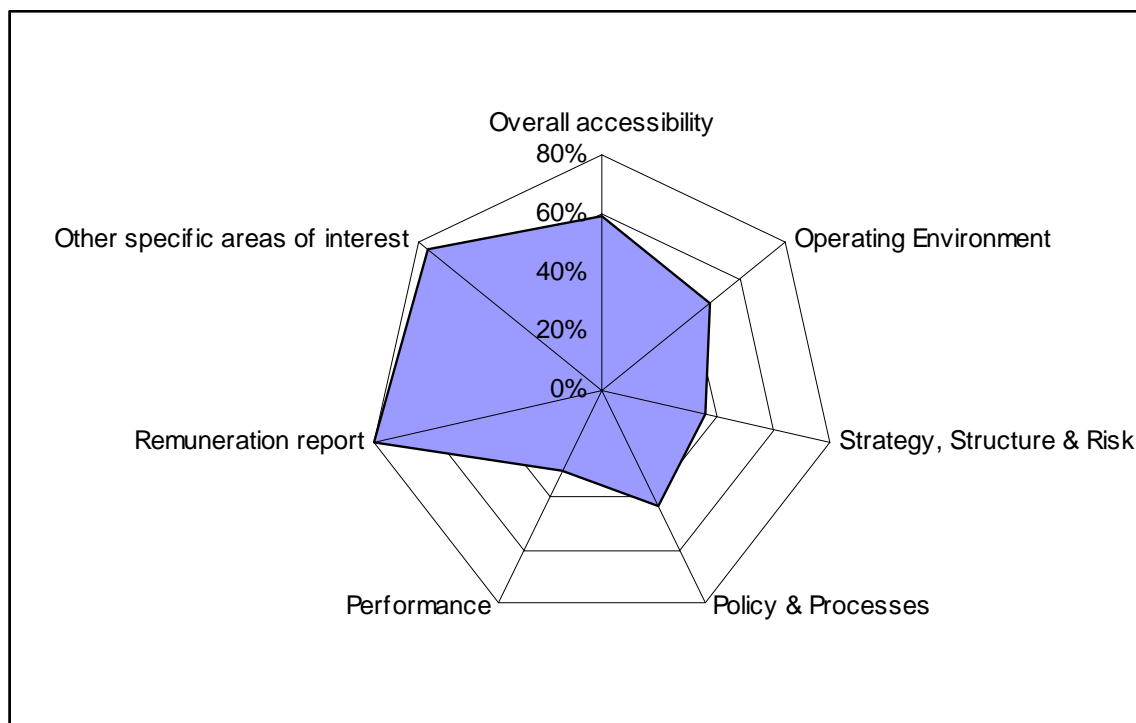
17. Once the review of all sampled accounts is completed a more formal report will be produced and again shared with departments, and possibly a wider audience, in order to encourage continuing improvement of narrative reporting.

### **Financial Reporting Policy Team**

19 March 2007

## Annex A

### Average score by category:



The shaded area represents the average score achieved. The position of the shaded area on the chart shows which categories have scored better. A 'perfect' score would show the entire chart as shaded.

## Annex B

### Reporting categories mapped to ASB reporting standard

	Operating environment	Strategy, Structure & Risk	Policy & Processes	Performance
Description of business and external environment (paragraphs 30-32)	x	x		
Strategy and Objectives (paragraphs 33-37)		x	x	
Current Development and Performance of the Business (paragraphs 43-46)			x	x
Future development and performance (paragraphs 47-49)	x	x	x	x
Resources (paragraphs 50-51)			x	x
Principal risks and uncertainties (paragraphs 52-56)		x		
Capital Structure and Treasury policies (paragraphs 63-67)			x	
Cash flows and Liquidity (paragraphs 68-74)			x	x
Environmental, employee and social issues, and contractual arrangements/relationships (paragraphs 28-29)			x	x
Key Performance Indicators (KPIs), both financial and non-financial (paragraphs 38-40)				x