The Chartered Institute of Public Finance & Accountancy

scrutinising public accounts

A guide to government finances

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A guide to government finances

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Foreword

The decade following the global financial crisis has shone a light on public finances like never before. The huge cash injection by governments around the world to shore up the banking sector resulted in the doubling of debt in the UK and near financial collapse for others. The debate will rage on as to the action taken by governments and no doubt will be the theme for many scholars and commentators for several years to come.

To be able to assess the impact of this significant increase in debt and day-to-day policy decisions on the nation's public finances has added to the clamour for greater scrutiny of public finances.

The UK government is one of the most transparent in the world, ranked eighth in the Transparency International rankings. One thing is clear – there is a wealth of information available. In an era of fake news and information overload, often the challenge is knowing where to look and what questions to ask to be able to scrutinise public spending.

One document above all others is key in this process – the annual accounts. All public sector bodies are required to prepare and present financial statements. Although these documents may often look impenetrable, this should not put citizens off seeking a better understanding of what government is spending on individual public services, long-term debt and the trends in government debt. The key factor is that the accounts are audited independently so the information in the accounts can be relied upon.

This publication's aim is to help guide the interested citizen to decipher the nomenclature in public finances, understand the process for agreeing the amounts given to individual departments and then assess how well they have performed.

A better understanding by the citizen will add to a more informed debate about public finance and good public financial management and hold the government to account based on evidence not perception.

Richard Douglas
Chair of the CIPFA Governments Board

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List of Annual Reports and Accounts

To help provide the reader with insights into government financial statements, this publication refers to a number of central government departments' annual report and accounts for the year 2017/18.

In order of appearance, this publication includes annual report and accounts for:

- HM Revenue and Customs (HMRC)
- Department for Work and Pensions (DWP)
- Department for Digital, Culture, Media and Sport (DCMS) (formerly the Department for Culture, Media and Sport)
- Ministry of Housing, Communities and Local Government (MHCLG) (formerly the Department for Communities and Local Government)
- Home Office
- Department for Environment, Food and Rural Affairs (Defra)
- Competition and Markets Authority (CMA)
- Department for Health and Social Care (DHSC) (formerly the Department of Health).

In addition, there is an extract from the Home Office Resource Accounts 2004.

Contents

Overview

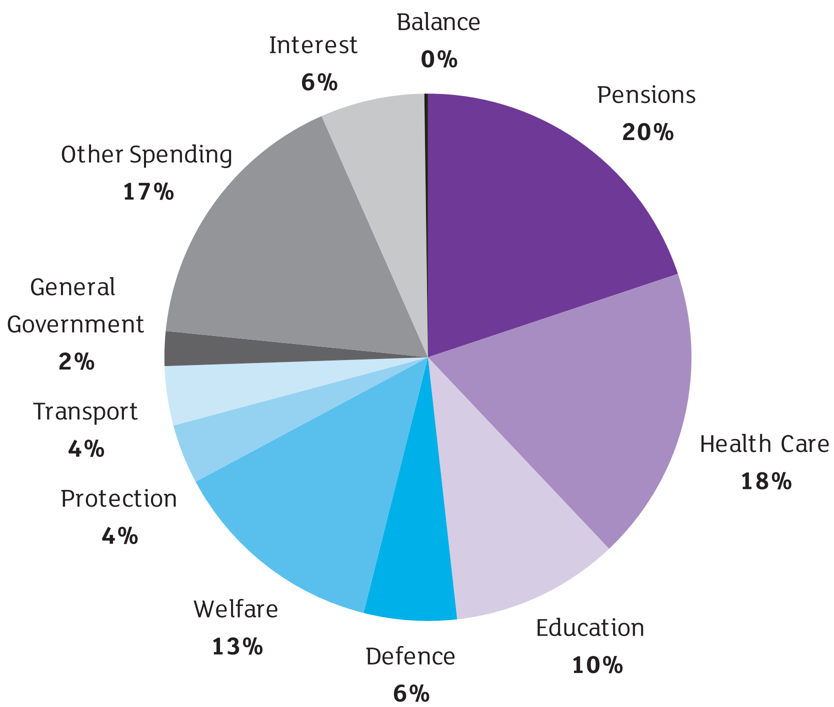
The UK general government is, according to the Office for National Statistics (ONS) Blue Book, "made up of units providing services for collective or individual consumption that are not sold at market prices. These units are usually funded by compulsory payments (taxes) and may be involved in the redistribution of national income (for example, benefits and state pension)".

The sector includes government departments and agencies, local authorities, the devolved administrations in Northern Ireland, Scotland and Wales, the state education system, the National Health Service (NHS), the armed forces and the police. Non-departmental public bodies are also included in the general government sector.

The Office for Budget Responsibility (OBR) forecasts UK government to spend almost £820bn in the year 2018/19, which represents 38.4% of national income. To fund this, receipts from taxes, fees and sales of goods and services is forecast to be £775bn, leaving a shortfall of £37bn (deficit) which the government will have to borrow.

Using the Public Expenditure Statistical Expenditure Analysis (PESA), which is based on the National Accounts concepts, the spending will be on the following areas (Figure 0.1). Pensions, healthcare and welfare make up half the total government spend.

Figure 0.1: Total forecast expenditure for 2018/19



Source: Data from PESA data, based on COFOG categories accessed from UK Spending

TRANSPARENCY AND ACCOUNTABILITY – WHERE TO LOOK FOR INFO?

The challenge may be that we do not know what we do not know insofar as knowing where to get the information, understanding the different terminology and knowing the questions to ask around what government spends in order to assess whether it is doing this well.

The UK government has made huge efforts and strides to provide greater transparency as recognised by Transparency International (TI) in its annual Corruption Perceptions Index (CPI). In the 2017 CPI, the UK government is ranked alongside Luxembourg and the Netherlands as the eighth least corrupt country in the world. The UK government has increased transparency by making public data public through the Open Government Data platform, delivering greater accountability through the improvements to the financial reporting frameworks to make these understandable and accessible and publishing the Whole of Government Accounts (WGA), which is the most comprehensive consolidation bringing together 7,000 government bodies.

However, negative headlines over the latest public spending let-downs challenge perceptions. Public service delivery failures include increasing wait times in the NHS, budget overspend, government outsourcing and procurement failure. Such instances can lead the public to question whether the government is spending the money given to it effectively, efficiently and economically.

To comprehend what is really happening and come to an informed view, the layperson needs to be able to understand what information is available and scrutinise this effectively by asking the right questions and knowing where to look for the answers. Only then can the government be held to account. The best place to start is to follow the money.

BUDGETS, ESTIMATES AND ACCOUNTS

Firstly, what is the process for allocating government spending?

Every three to four years the spending review usually takes place and sets out the government's future spending plans. These plans are developed to fit in with the government's aim to achieve public expenditure control:

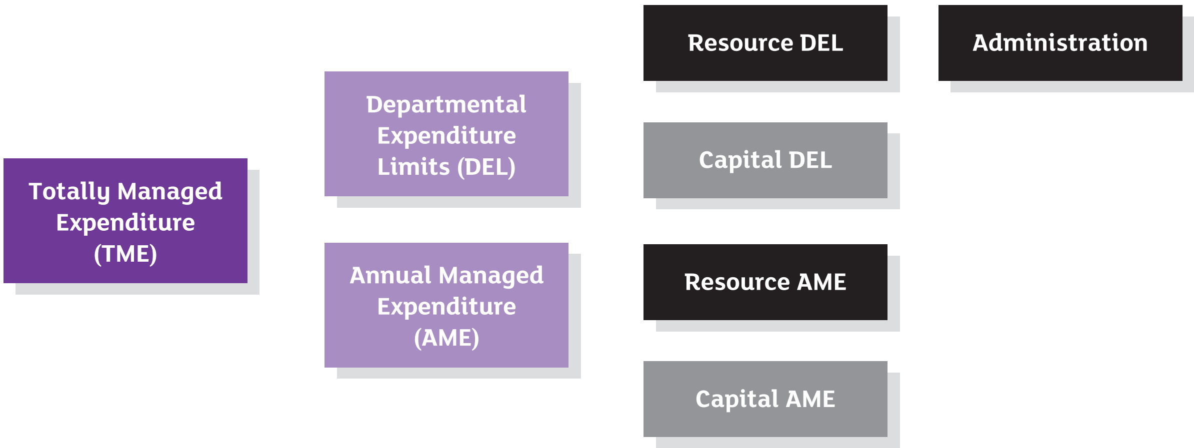
- to support the achievement of macro-economic stability by ensuring that public expenditure is controlled in support of the government's fiscal framework
- to provide good incentives for departments to manage spending well so as to provide high quality public services that offer value for money to the taxpayer (Consolidated Budgeting Guidance (updated annually)).

The budgets include a breakdown of the resource and capital in the departmental expenditure limits (DELs) for each government department, including amounts to be paid to local government, health and the devolved administrations for each DEL for a number of years ahead.

These spending review totals form the basis of subsequent Main Estimates that are voted by Parliament.

Estimates, also known as 'supply estimates', are documents presented to Parliament setting out the government's plans for spending for a financial year. The estimates cover ('control') total spending allowed by each department and the ambit (what they are allowed to spend money on.) Note this process covers most government spending but there are a few specific exceptions where funding has been approved in other legislation, namely Consolidated Fund Standing Services covering specific functions or costs such as judges' salaries, returning officers' expenses and payments to the EU.

Figure 0.2: The relationship between total managed expenditure and the different spending controls applied



These documents need to be approved by Parliament before government departments can spend money. Therefore, this is an important part of the Parliamentary scrutiny of government spending plans.

Accounts

Government departments are required, under the Government Resources and Accounts Act (GRAA 2000) to prepare annual report and accounts using commercial style financial reporting requirements (IFRSs). The annual accounts must be independently audited by the National Audit Office (NAO) or by another body appointed by them. The head of the NAO, the comptroller and auditor general (C&AG), will add their audit opinion following a detailed assessment. The C&AG is appointed by the Crown for a fixed term tenure and is an officer of Parliament, independent of government.

The audited accounts are a key resource to providing scrutiny for public spending. They include information on:

- performance – telling the story
- accountability
- financial statements.

However, there is some debate whether the annual report and accounts deliver accountability for public spending as highlighted in the recent Public Administration and Constitutional Affairs Select Committee (PACAC) Accounting for Democracy report (2017) and its update (2018).

QUESTIONS TO ASK TO SCRUTINISE GOVERNMENT (PUBLIC) SPENDING

All public sector entities must prepare annual financial statements and are, by and large, prepared on the same basis so that they can be added together to provide a whole of government perspective.

As the financial statements now follow commercial style, financial reporting standards to aid comparability and provide consistency with the private sector have become increasingly complex. Indeed, many would argue that they are too complex due to the sheer volume – a standard set of accounts is around 150 pages plus disclosures. In part this reflects the reality of the current financial processes such as accounting for public finance initiatives (PFIs) and public private partnerships (PPPs).

To help scrutinise spending, the reader of the accounts should consider the following ten questions:

1. Have the accounts been qualified? If so why?
2. Did the department or government body achieve what it set out to achieve?
3. Is there any information on capability and efficiencies? Does the performance report provide any information on efficiencies made by the organisation and/or their capability to deliver?
4. Is there anything unusual in the non-executive director's (NED) report?
5. Risk management – what are the comments on internal audit's judgement of the control environment?
6. Are there significant movements between the current year and previous year on assets, liabilities, expenditure or revenue?
7. What has happened to long-term liabilities including PFIs (or its successor PF2)?
8. What has happened to provisions? Have these increased? Are there any new provisions?
9. What has happened to contingent liabilities that are not remote (these may become provisions)? Any increases in these will result in more money being committed in future years leaving less for other spending priorities.
10. What is the trend on the core tables? Do the department's stated aims seem achievable based on the projected spending levels?

In addition, it is worth checking whether there have been any ministerial directions. A ministerial direction is a document from the minister(s) instructing officials to pursue a specific course of action which does not follow the best advice given by the lead official (the permanent secretary who is also the accounting officer) for the department.

The accounting officer must follow the Treasury rules to manage public money as set out in the Treasury's Managing Public Money guidance. If there are any doubts over the value for money or propriety of a spending proposal, the accounting officer may seek a ministerial direction.

LOCAL GOVERNMENT

Local government makes up a significant portion of general government. In fact, local government's share of land and buildings held is higher than all central government bodies (including the Department of Health, Department for Education and Ministry of Defence).

Councils operate independently of central government and are accountable to their local electorates for the services they provide.

Local government bodies in England include:

- county councils – have responsibility for services across all the county, including education, transport, planning, fire and public safety, social care, libraries, waste management, trading standards, etc
- district, borough and city councils – have responsibility for services such as rubbish collection, recycling, council tax collections, housing and planning applications
- unitary authorities and London and metropolitan boroughs – a single tier of local government which provides all the local services provided by the two-tier councils (ie in London and metropolitan areas, some services such as fire, police and public transport are provided through 'joint authorities,' such as the Greater London Authority).

The position is different in the devolved administrations:

- In Scotland, there are 32 local authorities (or councils) that provide public services, including education, social care, waste management, libraries and planning.
- In Wales, there are 22 unitary authorities (county and county borough councils) that deliver a wide range of services such as education (must be made available under UK and Welsh law), trading standards, libraries, leisure and tourism, environmental health, refuse and recycling, transport and highways, housing, social services, etc.

FUNDING

Local government receives funds from central government through grants from the Ministry of Housing, Communities and Local Government (MHCLG), the block grant to the devolved administrations, the Department for Education (DfE) for schools funding or the Home Office for police. These funds are supplemented with local taxes such as council tax or precepts for police and fire authorities and, increasingly, other income (ie from car parking and other services.)

Local government bodies are legally required to present a balanced budget for approval from the locally elected councillors setting out planned income (including proposed council tax increases) and expenditure. Since 2010–2018, central government funding has almost halved in real terms and spending power (government funding plus council tax) has decreased by 28.6%. However, increasing demand for local services has put significant pressure on local government finances. Many have managed the reduction through use of reserves, cutting back on discretionary public services, reducing staff and outsourcing back office functions. However, as the spending cuts continue there are real questions over the medium to long-term sustainability of local authorities as highlighted in the NAO Financial Sustainability of Local Authorities 2018 report.

ACCOUNTABILITY

Similar to central government financial statements, local authority accounts have a crucial role to play in providing accountability to taxpayers and other stakeholders for spending public money.

Local government accounts follow accounting standards set out in the *Code of Practice on Local Authority Accounting in the United Kingdom* (the Code) prepared by CIPFA/LASAAC. These largely follow the same standards as central government and work together with central government as an observer to the Financial Reporting Advisory Board (FRAB).

Local government, the Treasury and CIPFA are working together to resolve and implement current cost (depreciated replacement cost (DRC)) for highways in local government which would align it to the measurement rule used by central government (Department for Transport). Implementing DRC would remove one of the long-standing audit qualifications in the WGA.

Local government financial statements are designed to enable individual authorities to demonstrate performance both in the way in which they organise themselves and, more importantly, in how they budget against the general fund to provide services.

The Expenditure and Funding Analysis brings together local authority performance reported on the basis of expenditure measured under proper accounting practices with statutorily defined charges to the general fund (including the House Rent Allowance).

Financial statements include:

- the comprehensive income and expenditure statement
- movement in reserves
- the balance sheet
- cash flow statements
- notes to the accounts.

QUESTIONS TO ASK TO SCRUTINISE LOCAL GOVERNMENT SPENDING

The questions to check in the local government set of audited financial statements are very similar to those outlined for central government. They include the following:

1. Have the financial statements been qualified by the auditors?
2. What are the changes in assets?
3. What are the changes in liabilities?
4. What are the changes in income?
5. What are the changes in expenditure?
6. What is the movement in reserves? What is the trend information? What is the movement in usable reserves?
7. What are the levels of provisions? Are there any major changes?

8. What are the levels of contingent liabilities? Are there major changes, particularly non-remote contingent liabilities?
9. What is the auditor's opinion on the value for money audit?
10. Have other reports of financial distress been made?

HEALTH

Of the total UK central government spending, spending on health (£147bn in 2017/18) is second only to pensions (£161bn), representing a huge proportion of the total of central government spending (£628bn).

Figure 6.2 in Chapter 6 clearly demonstrates just how complex the health and social care delivery landscape is and the sheer number of different organisations involved. Each of the organisations will have its own accountabilities and is required to prepare annual accounts.

Spending for the NHS has been largely protected from the cuts to public spending. Therefore, the overall reduction in public spending has been disproportionately larger in other 'not protected' areas of government spending.

The NHS is largely funded by general taxation (80%), and the remainder is made up through National Insurance and 1% through patient charges (for example prescriptions in England and Wales but not Scotland).

The Department for Health and Social Care (DHSC) consolidates all the individual health bodies (in Figure 0.4) to provide a good starting point to assess how the health sector is performing. As this is a central government department, the questions to consider when scrutinising government spending are the same. In addition, the individual health bodies, including NHS trusts, are also required to prepare audit financial statements.

DEVOLVED ADMINISTRATIONS

The Scottish Parliament, the National Assembly for Wales and the Northern Ireland Assembly were established and took control in 1999. As their history and administrative structures are different, so are the funding arrangements for each.

The UK government retains responsibility for national policy on all matters that have not been devolved, such as foreign affairs, defence, social security, trade and macro-economic management.

The funding of the devolved governments is largely through the block grant and yearly adjustments made according to the Barnett formula. Increasingly income raising powers (taxes) are being devolved from the UK government to the devolved governments, depending on the different agreements with Scotland, Wales and Northern Ireland.

Each jurisdiction has its own independent auditor general appointed by the Crown who provides their opinion on the financial accounts.

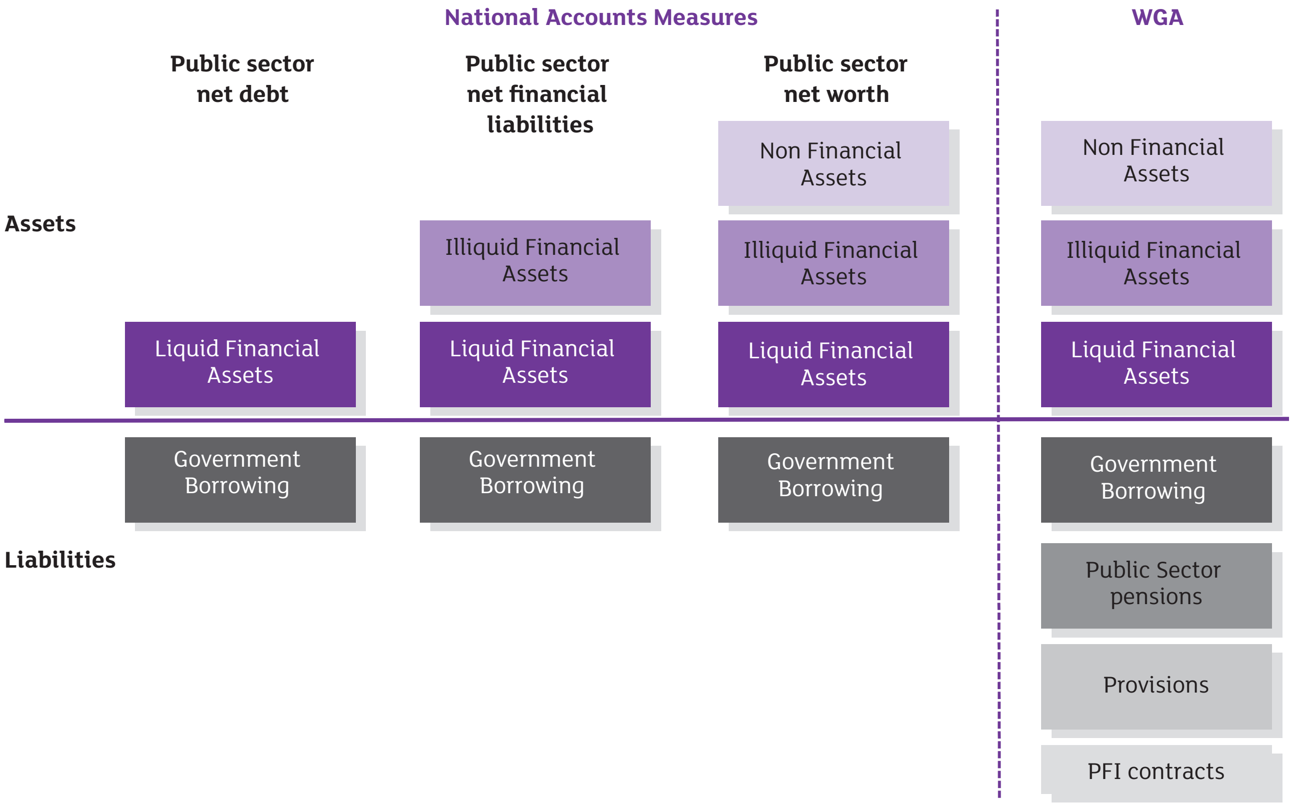
THE WHOLE OF GOVERNMENT ACCOUNTS (WGA)

The UK WGA is one of the most comprehensive sets of government accounts in the world. It brings together over 7,000 government bodies accounts including central government, local government, health and public corporations (such as the BBC and Channel 4).

The WGA is prepared by the Treasury and is audited by the C&AG. Since its first publication in November 2011 (for the financial year 2009/10), there have been significant improvements to the WGA. However, some challenges remain including the timeliness of the report and the wider use of the WGA. In the 2018 Spring Statement, the chancellor committed to completing a review of the government balance sheet.

The WGA provides a broader picture of government revenue, expenditure, assets and liabilities than the ONS measures in the national accounts.

Figure 0.4: Comparison highlighting the additional information provided by the WGA compared to the national accounts



The WGA measure includes additional information on both government assets and liabilities compared to the narrower national accounts' measures. Figure 0.4 highlights the key differences between the different national accounts measures: ranging from public sector net debt which is simply the difference between liquid financial assets (ie cash) and government borrowing, to public sector net worth which includes a wider measure of assets – non-financial assets (eg land and buildings), illiquid financial assets (eg debtors and prepayments) and liquid financial assets, but only includes government assets. More complete information on the government liabilities is included in the WGA such as public sector pensions, provisions and PFI.

More information about long-term assets and, importantly, liabilities will help inform better decision making and more effective long-term planning.

PERFORMANCE MANAGEMENT IN CENTRAL GOVERNMENT

It can be difficult in the public sector to directly link inputs (or government spend) and activities to outputs and outcomes such as education spending. This is even harder in the context of central government as it is largely the policy making arm and not the front line delivery vehicle for public services provided.

According to The Government's Planning and Performance Framework: Single Departmental Plans, single departmental plans (SDPs) set out a department's objectives, how it will use its resources to achieve them and how its performance should be measured. Progress against these objectives is provided in the performance section of the annual report and accounts.

RECOMMENDATIONS

The UK government is recognised as being in the top ten most transparent countries in the world, according to the CPI 2017. To further enhance transparency and deliver greater accountability to allow enhanced scrutiny of public spend there are three specific recommendations.

First, there should be greater accessibility to the information the government provides (ie information to be available as an Excel file/other downloadable data files rather than only as a PDF, as the former present information in a more accessible format).

Second, the timeliness in which the information is provided should be improved in order to be used more effectively (eg faster completion of the annual report and accounts and the publication of the WGA). Furthermore, possible in-year reporting that has been audited would be useful to allow information to be used in 'real time'.

Third, the government should consider how it can make the information more user-friendly. The implementation of the Simplifying and Streamlining Statutory Annual Report and Accounts (CM8905) recommendations has made a difference. Furthermore, a greater use of data visualisation would help.

FURTHER READING

- Consolidated Budgeting Guidance (updated annually)
- HM Treasury Managing Public Money
- Whole of Government Accounts 2016/17
- The Government's Planning and Performance Framework: Single Departmental Plans
- House of Commons Public Administration and Constitutional Affairs Committee: Accounting for Democracy: Making Sure Parliament, the People and Ministers Know How and Why Public Money is Spent
- Fourteenth Report of Session 2016/17 and update (2018)

CHAPTER 1

Introduction

There is an increasing global demand for governments to be more open and transparent about their use of public funds. Questions such as how public funds are used, if this is as intended and who is ultimately accountable, have led governments to increase their commitment to implement accrual accounting. This is estimated to increase from 31% in 2015 to 71% by 2020, according to the PwC Global Survey on Accounting and Financial Reporting by Central Governments (Second Edition) (2015). Fundamentally, it is a question of the public's trust in the state to use public funds to deliver public services that deliver value for (public) money.

In 2017, the Transparency Internationsal (TI) in its annual Corruption Perceptions Index (CPI) acknowledged the UK government's significant improvements to increase transparency. One major step on this journey has been the publication of the WGA, the most comprehensive set of consolidated financial statements for the UK which uniquely includes both central government and local government bodies.

Other initiatives to increase transparency include:

- implementing accrual accounting (commercial style financial reporting) across central government to align with other parts of the wider public sector
- the financial management reform programme – a new performance management framework across central government
- greater transparency through making more government data publicly available.

INCREASING PUBLIC SCRUTINY

The Public Administration and Constitutional Affairs Committee (PACAC) Accounting for Democracy report and its update highlight that despite many improvements in government financial reporting and management information, the UK government still does not have full accountability and transparency. While a considerable amount of information is published by public bodies, the real issue may be how understandable and accessible the information is.

This publication's key aim is to help the taxpayer and citizen understand terminology around public finances, the framework and systems used in the UK public sector, the information available, and how and where to look to achieve greater scrutiny and accountability for public spending.

This publication examines the different types and sources of information that are available to parliamentarians, ministers, taxpayers and citizens to allow proper scrutiny of public spending. In addition, it explains the different terminology in laymen's terms, uses actual examples from various public sector bodies and highlights where to look in a set of central government department's set of accounts to pick out key areas to check. Furthermore, it examines other data and published reports that can help provide scrutiny and ensure accountability.

However, there are gaps, and this publication highlights the limitations to enable the reader to have a full understanding of the information that is available and appreciate the limitations. Finally, there are suggestions on what could be done to further improve the information available, which ultimately comes down to supply and demand. If there is sufficient demand, the government will endeavour to provide information as seen in its commitment to meet the transparency and open government data agenda.

PUBLIC FINANCES

In 2017/18, the UK government spent over £800bn (£627bn was spent by central government). This is largely paid for by the government income of £744bn, the main source which is taxes, and the shortfall is funded through government borrowing.

Government borrowing, or the 'deficit', was £42.6bn according to ONS figures, the lowest since 2007. However, government debt is now the highest in peace time (general government gross debt was £1,786.3bn at the end of December 2017, according to ONS statistics released in April 2018), equivalent to 87.7% of gross domestic product (GDP).

THE CONSTITUTION AND ITS ROLE IN SCRUTINY

Each year the UK government sets out the legislative agenda in the Queen's Speech and Parliament exercises scrutiny over the finances through the estimates process.

Although the House of Commons' constitutional role remains, in practice the Treasury has assumed the function of controlling expenditure and delegated accountability to departmental accounting officers since 1866 with the introduction of the Exchequer and Audit Departments Act 1866, which states that it is:

an Act to consolidate the Duties of the Exchequer and Audit Departments, to regulate the Receipt, Custody, and Issue of Public Moneys, and to provide for the Audit of the Accounts thereof.

The Treasury sets out guidance for budgeting, financial reporting and managing public money that departments and departmental accounting officers must follow.

Every year Parliament authorises proposed government spending through the Supply and Appropriation Acts (often referred to the 'supply process'). This is based on the spending review, which loosely sets out the government's intentions and allocates a total spending envelope. The estimates process provides more detail on spending for each department and has to be formally approved by Parliament. If departments spend more than that approved in any of the budgets agreed, or the spend is outside that allowed (the 'ambit'), this is deemed to be a breach. Retrospective approval is required. Not all government spending is approved through the supply process as there may be standing legislation approving the spending such as judges' salaries.

At the end of the financial year, all public bodies, including central government departments, agencies and local government bodies, are required to prepare and publish audited financial statements that show where the funds have been spent.

Public sector financial statements are prepared following the International Financial Reporting Standards (IFRSs) developed by the International Accounting Standards Board (IASB), adapted as appropriate by the independent Financial Reporting Advisory Board (FRAB). The same standards are followed by the private sector. Adaptations may be needed where standards are silent on public sector issues such as taxes. In this case, the International Public Sector Accounting Standards (IPSASs) are applied.

The financial statements are part of the annual report and accounts and are subject to an independent audit review by the NAO (or an external auditing body appointed by the NAO), headed by the Comptroller and Auditor General (C&AG). This provides assurance to the reader that the information is 'true and fair'. However, there are some important caveats to this.

First, the C&AG does not audit all the information in the annual report and accounts – the C&AG will review the narrative sections only to confirm that the figures quoted are the same as those audited in the financial statements. The performance report and accountability section will usually be marked up to state that they have been subject to audit. Often readers tend to read the narrative section and not delve into the detailed financial statements. Ironically, it is this section that is not subject to audit.

Second, all accounts will have an element of estimation, such as the estimate for the useful life of assets which is used to calculate the annual depreciation charge. This is one of many estimates used in the accounts to match the cost of the asset over the time period it is used and is calculated using the methodology in the accounting standards. There is often the perception that the accounts must be 100% accurate. In reality, estimates and other assumptions will impact the preparation of the accounts and the supporting notes. The auditors will assess whether the assumptions and estimates accounts are true and fair.

Parliament will exercise scrutiny based on the NAO's audits of all government accounts, and the C&AG will provide their opinion on the accounts. Other House of Commons bodies, such as departmental select committees, the Public Accounts Committee (PAC) and the Public Administration and Constitutional Affairs Committee (PACAC) all have key roles to play in examining government expenditure and holding ministers and officials to account for their spending decisions.

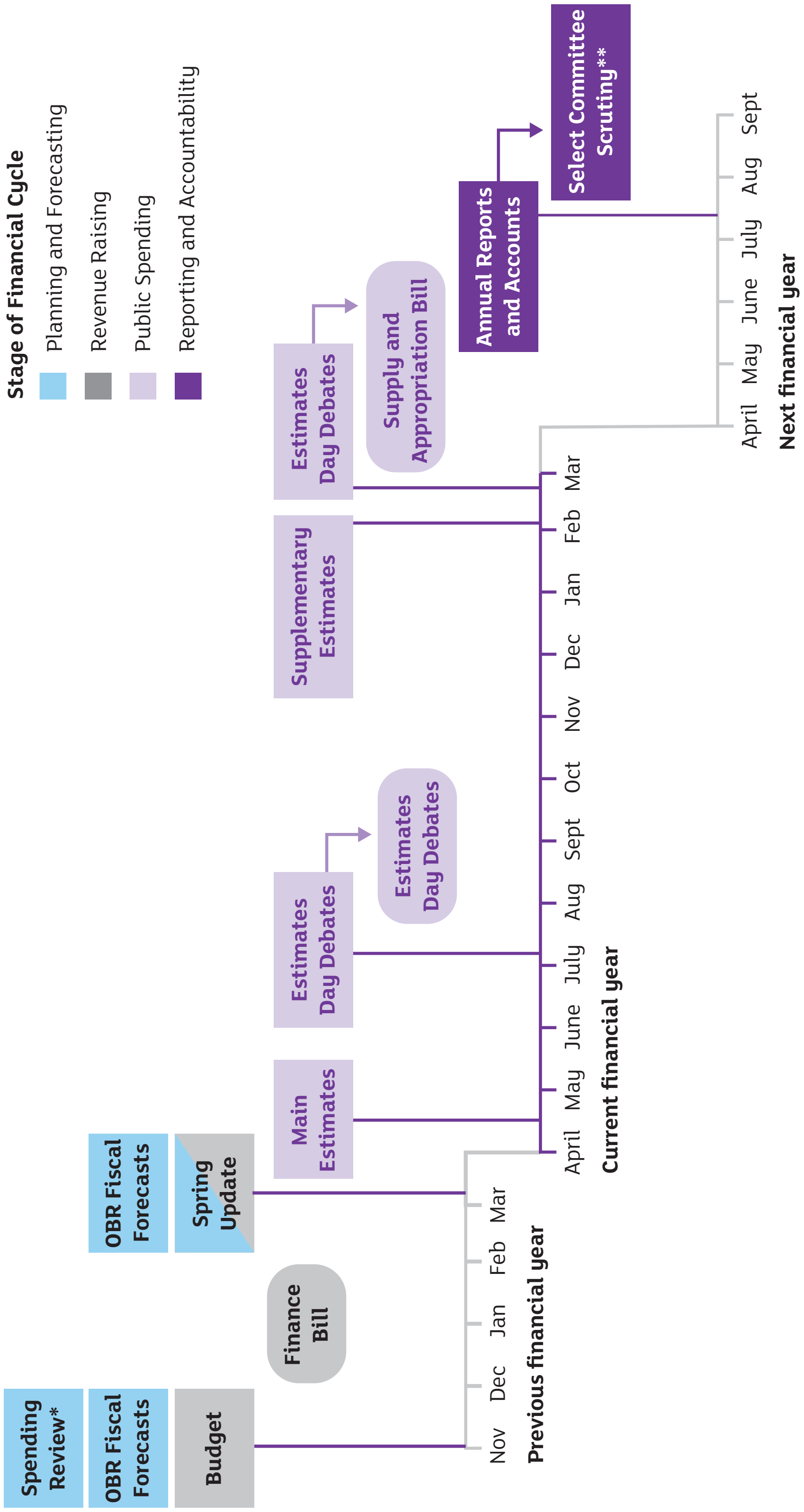
CHAPTER 2

Budgeting in central government, spending reviews and estimates

THE SPENDING REVIEW

The spending review usually takes place once every three to four years and is an internal government review of future spending plans. The outcome is announced in Parliament and sets out the proposed spending limits (resource and capital deparmental expenditure limits) for each department for each of a number of years ahead. The spending review totals form the basis of subsequent Main Estimates voted by Parliament.

Figure 2.1: The stages of the financial cycle extract



Notes:

* *Spending Review happens once every three to four years*

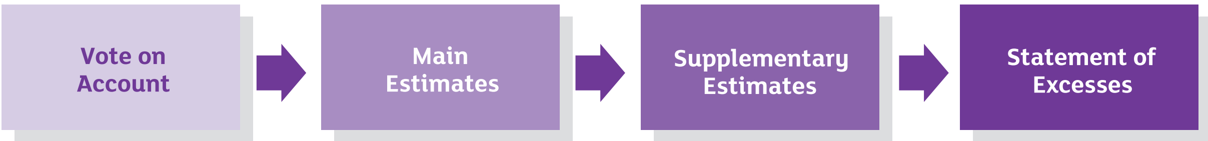
***Select Committee Scrutiny of Departmental Annual Reports and Accounts may continue well into the financial year*

Source: The Estimates Process and 2017-18 Main Estimates guide

ESTIMATES

Estimates, also known as supply estimates, are the documents presented to Parliament setting out the government's plans for spending for a financial year. These need Parliamentary approval before government departments can go ahead and commit to spend. This is known as supply. This process covers most government spending but there are a few specific exceptions where other legislation allows the spending, including judges' salaries.

The estimates process includes:



Vote on Account

The Vote on Account is the consideration and approval of an advance of funding for the first four months of the financial year (April to July) for each government department. This usually represents 45% of the previous year's total spending. The Vote on Account is normally published in February and approved by Parliament in March, in time for the start of the new financial year commencing in April. Otherwise, government departments would not be allowed to spend any money at the start of the financial year.

Main Estimates

This is the consideration and approval of the spending plans for the new financial year for each government department. Main Estimates are normally published in April, but not approved until July. Money already authorised through the Vote on Account is deducted from the amounts required for the year to provide government with funding for the remainder of the financial year.

The Main Estimates are explained and updated annually so that the user can better understand the spending plans of the government that are voted by Parliament.

The estimates set out include:

- the spending limits
- the ambit.

THE SPENDING LIMITS

The Treasury sets out the guidance on budgeting and the spending controls in the *Consolidated Budgeting Guidance*, updated annually. The purpose of the controls is to “support the achievement of the fiscal framework and provide management incentives for departments”.

The fiscal mandate sets out the government’s aim to “return the public finances to balance at the earliest possible date in the next Parliament”. The independent Office for Budget Responsibility (OBR) assesses how well the government is performing against this aim (more information is provided in Other sources of information in Chapter 9.)

Total government spending

The total amount that the government spends is also known as the total managed expenditure (TME). This is split up into:

- departmental budgets – the amount that government departments have been allocated to spend (ie DELs)
- money spent in areas outside budgetary control – all spending that is not controlled by a government department and includes welfare, pensions and debt interest payments and others (ie annually managed expenditure (AME)).

Departmental expenditure limit (DEL)

The government budget that is allocated by the spending review to be spent by each government department is known as the DEL.

Departmental budgets include the running of the services that it oversees, such as schools or hospitals, and the everyday cost of resources such as staff.

Annually managed expenditure (AME)

AME is deemed to be more difficult to control as it is spent on programmes that are demand-led such as welfare, tax credits, public sector pensions or debt interest.

It is spent on items that may be unpredictable or not easily controlled by departments and are relatively large in comparison to other government departmental spending.

Resource and capital spending

Both DELs and AMEs can be further split into resource spending and capital spending.

Resource spending is money that is spent on day-to-day resources and administration costs. Capital spending is money that is spent on investment and things that will create growth in the future.

Control totals apply to the following:

- **Resource DEL (RDEL)** – Resource budgets are the Treasury’s control over the level of current spending. Within the resource budget some transactions will have an immediate or near-immediate impact on the fiscal position, for example pay and procurement. Other transactions will only have an effect in future periods, for example the take-up of provisions, or revaluation of assets. Both types of transaction fall within the resource budget.

- **Administration costs** – Administration budgets are controlled to ensure that as much money as practicable is available for front line services and programmes. Over the last few years, government departments have faced significant cuts to the administration budgets to help reduce government spending overall. Provision in the resource budget that is not in administration budgets is termed programme spending.
- **Capital DEL (CDEL)** – Capital budgets are controlled because net investment increases net borrowing, impacting on the level of government debt.

Planning totals apply to:

- resource AME (RAME)
- capital AME (CAME).

Departments have to monitor AME spending closely and tell the Treasury if they expect AME spending to rise above forecast. Although the Treasury accepts that in some areas AME is inherently volatile and may mean departments are not always able to manage the spending within budgets in that financial year, any expected increases in AME need the Treasury's approval.

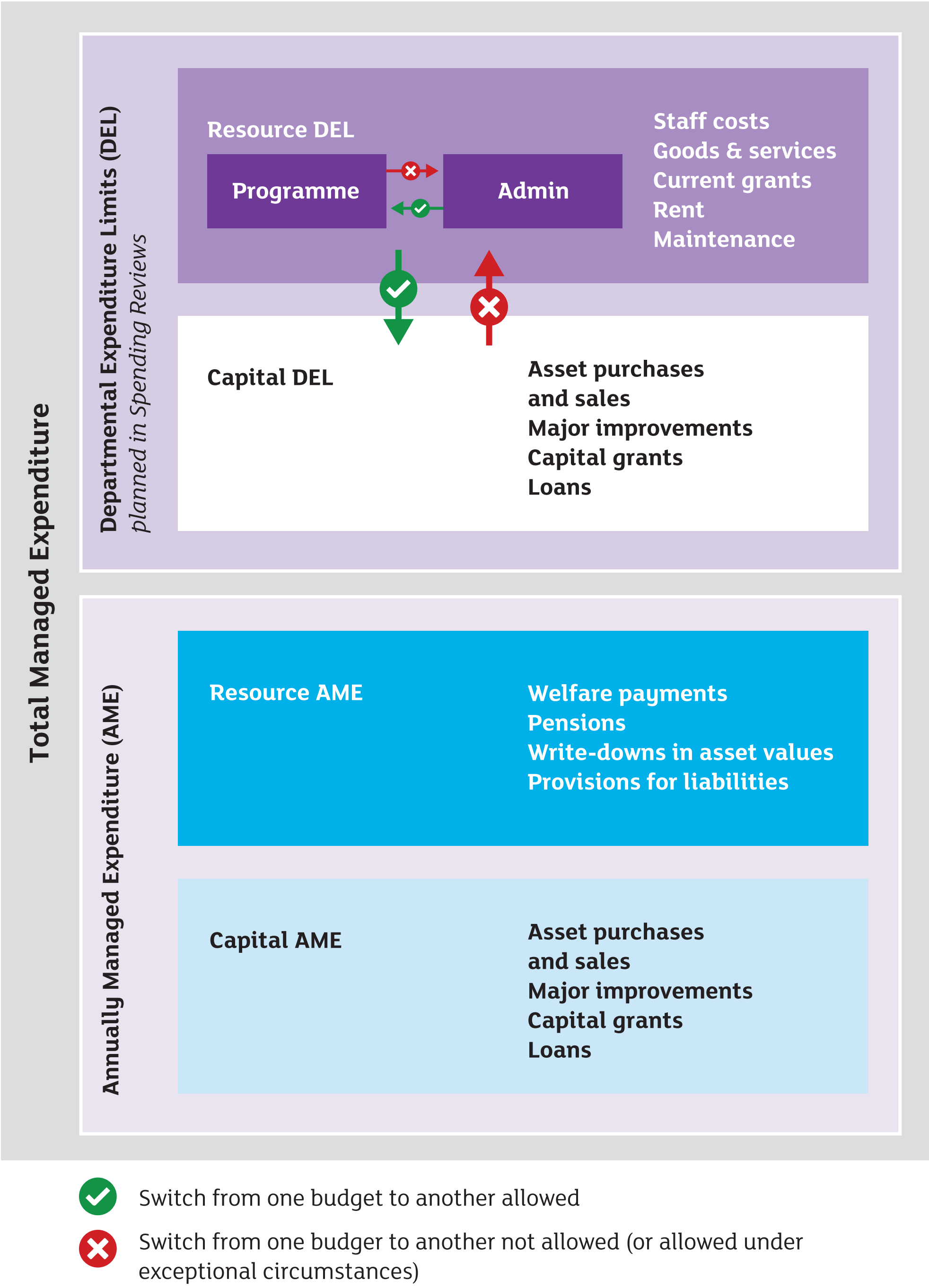
Government departments are free to switch or 'vire' funding between spending limits during the year. They do not have to seek Parliament's permission to do so as long as they keep within the overall spending limits already approved (by Parliament). More information is available in the Consolidated Budgeting Guidance (updated annually).

RESTRICTIONS ON SWITCHES

Departments are restricted in the switches they may make between the control totals.

The diagram below shows the interaction between the different control totals and where switched between budgets are allowed or not.

Figure 2.2: Total managed expenditure



Source: House of Commons Briefing Paper: The Estimates Process and 2017-18 Main Estimates

Protected budgets

In some areas, the government made a commitment to 'protect' spending from the cuts made to public sector spending, including the NHS, schools and foreign aid. This means that these departmental budgets will not be cut during this government. As a consequence, other areas of the public sector/areas of spend have had to deliver higher levels of cuts to reach the overall TME spend control totals.

The ambit

The ambit is defined as the rules governing what the department is allowed to spend money on or the income it can use to offset spending. If the spending is outside the ambit, then the accounts will be automatically qualified (as excess vote) by the C&AG as the government department did not have the authority from Parliament to spend the money. This is a very important control and many central governments have had their accounts qualified over the years for relatively small amounts spent outside the 'ambit'.

However, in exceptional cases, this may not always result in an audit qualification. For example, in the Department for Environment, Food and Rural Affairs (Defra) Annual Report and Accounts 2017/18, the C&AG gave an unqualified opinion on regularity – financial penalties arising from the European Commission funded scheme, stating:

The value of disallowance penalties accrued in year was £51.8 million (2016-17: £11.7 million). Whilst this level of cost to the taxpayer is significant, I do not consider this to be material in the context of the department's gross expenditure of £6 billion. I have therefore issued an unqualified opinion on the regularity of the department's 2017-18 financial statements.

In the case where government income is higher than the amount forecast, the 'extra income' must be surrendered as a Consolidated Fund Extra Receipt (CFER).

Supplementary Estimates

The Supplementary Estimate process is used where departments wish to draw down additional funding, higher than previously authorised in the Main Estimates. There are several reasons why this may be the case, including:

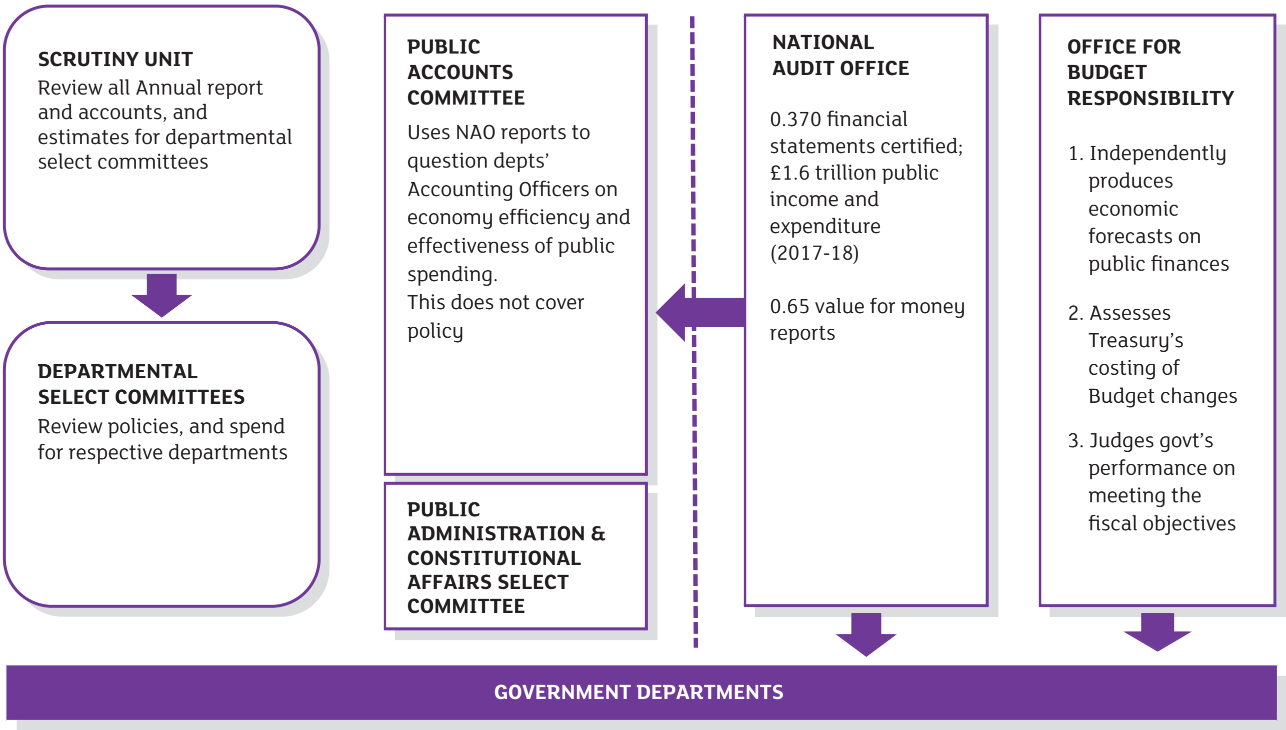
- machinery of government changes – where a department takes on new functions/ responsibilities during the financial year it may need extra funding to meet these
- changes to forecasts where spend areas are difficult to predict (eg welfare spending)
- claims on the reserve – the reserve is money held by the Treasury for emergency unforeseen expenditure
- to move money between budgets (ie from resource to capital) – note departments are not allowed to switch budgets the other way round (ie between capital and resource)
- transfers between government departments – this would be in the case of departments working together on joint programmes
- underspends – where departments do not think they will use all the funds by the end of the financial year, the amounts are given back to the Treasury – they may be able to use this amount the next year under the 'budget exchange' provision, although this is not guaranteed.

It is worth noting that the process is far more streamlined following the Clear Line of Sight (Alignment) Project. Prior to the project, there were over 11 different reporting events that were reduced to only three – the Main Estimate, one supplementary estimate and the accounts. Therefore, there is now only one opportunity to make any amendments to the amount voted by Parliament.

Statement of excesses

The statement of excesses is an opportunity for Parliament to consider any requests for retrospective approval of any spending beyond the level (control totals) or coverage (ambit) previously approved by Parliament. Examples include where inevitable expenditure is incurred or exceptional mistakes have arisen.

Figure 2.3: Parliamentary scrutiny of financial management



Source: Scrutiny Unit

Departmental select committees

Each of the main government spending departments has its own departmental select committee. The membership reflects the party proportions of the House of Commons. The House of Commons as a whole elects select committee chairs based on party allocations. Members within each party elect committee members. Information on the composition of the select committees is available on the Parliament website.

One of the core tasks of select committees is to examine the spending and performance of government departments. Committees conduct inquiries, leading to reports which often make recommendations to the departments. These often receive press coverage and are an important means by which Parliament can influence government and so the government is held accountable to Parliament.

The Public Accounts Committee (PAC)

The PAC examines reports from the C&AG. The PAC looks at the efficiency and effectiveness with which government departments and other bodies have used their resources to meet their objectives. It also examines some accounts where the C&AG has qualified their audit certificate or made a specific report to the House of Commons.

Unlike departmental select committees, the PAC usually takes oral evidence from departmental officials rather than ministers because the PAC does not generally question policy. Instead, it examines the way in which policy is implemented (further information is provided in the Other sources of information section).

The Treasury Select Committee

The Treasury Select Committee's responsibilities include scrutinising the Treasury, HRMC, the Bank of England, the OBR, the Financial Conduct Authority and the government's overall fiscal policies and management of the economy, including the government's fiscal mandates, borrowing, taxation, spending reviews, Budgets and Spring Statements (previously Autumn Statements).

SCRUTINY UNIT

The Procedure Committee recommended the creation of a new unit to help to select committees to examine the government's spending plans following the introduction of resource accounting and budgeting and, in 1998/99, three-year spending plans and departmental reports.

This recommendation was developed further with the need to establish a special unit to support committees in pre-legislative scrutiny as well as financial scrutiny (Liaison Committee report). This lead to the creation of the Scrutiny Unit in 2002.

The Scrutiny Unit provides support to MPs by:

- supporting departmental select committees in scrutinising draft bills
- co-ordinating the evidence-taking sessions of public bill committees
- providing financial expertise to departmental select committees, including:
  - Main and Supplementary Estimates
  - departmental annual report and accounts
  - spending review settlements, Budget Statements, Autumn Statements, etc
- debates on public spending (estimate days).

The Scrutiny Unit provides interactive guidance. Although these presentations/guides are designed primarily for parliamentarians, they are available and accessible to all and are an important tool for delivering better understanding on what happens and why, as well as signposting specific areas which may be of interest.

Spending review

The spending review is defined as:

Internal Government reviews of future spending plans held every few years. The outcome of a Spending Review is announced in Parliament, and sets out the proposed Resource and Capital DEL limits for each department for each of a number of years ahead, The Spending Review totals form the basis of subsequent Main Estimates voted by Parliament.

Source: *Scrutiny Unit's Finance Glossary*

This is updated regularly and the next spending review is in autumn 2018 as announced by the chancellor of the exchequer at the Spring Statement 2018.

There is considerable analysis and guidance to support the reader to understand impact across all government departments and what is happening to budgets, impact on policies etc.

Summary

To effectively scrutinise central government spending, the first step is to understand how funding is allocated to government departments. The spending review sets out the overall aims for the government over a hree to four year period. The detailed spending limits are provided in the Main Estimates that are approved by Parliament in the annual Supply and Appropriations Acts (updated each year). Parliamentary debates on the estimates provide an opportunity for ministers to question the policy and spending priorities. During the year there is a final opportunity to review the amounts required through the Supplementary Estimates process. Parliament is able to scrutinise spending through departmental select committees.

To help make sense of this information, there are many guides and interactive analyses provided by the Scrutiny Unit.

FURTHER SUGGESTED READING

- House of Commons Procedure Committee Authorising Government Expenditure: Steps to More Effective Scrutiny (Fifth Report of Session 2016–17)
- The Estimates Process and 2017–18 Main Estimates
- Liaison Committee, First Report of Session 2000-01, Shifting the Balance: Unfinished Business (HC 321, paras 76–77)
- HM Treasury's The Clear Line of Sight (Alignment) Project
- HM Treasury Guidance: How to Understand Public Sector Spending
- Scrutiny Unit briefing guides on the Spending Review, Estimates: Main Estimates and Supplementary Estimates (updated annually)
- Scrutiny Unit Interactive Analysis of the Estimates

CHAPTER 3

Top areas to examine in a set of central government accounts

Annual report and accounts often seem to be impenetrable and only decipherable by a select few. However, the key aim of the financial statements is to provide greater transparency, accountability and comparability for the users of the accounts.

In the public sector, as there are a number of stakeholders that are interested in government income and spending, the challenge is to know:

- where to start what questions to ask
- where to look to find the answers.

The Treasury publishes illustrative financial statements and other guidance to aid accounts preparers following the financial reporting manual (FReM), as shown in Figure 3.1.

Figure 3.1: The Treasury's illustrative guides (these are referred to using their respective colours)

Department	Yellow
Agency	Pink
Non-Departmental Public Body	Green
Pension Scheme	Magenta
Trust Statement	Purple

Source: HM Treasury Government Financial Reporting Manual

The annual report and accounts are split into three main areas:

- performance – telling the story
- accountability
- financial statements.

This breakdown was introduced following HM Treasury's *Simplifying and Streamlining Statutory Reports and Accounts* (CM 8905, July 2014) review of central government financial statements. The review highlighted that:

Anecdotal evidence has suggested that users of these documents find them inaccessible and difficult to understand, limiting their use not just from an external accountability perspective but also for improving financial management more broadly.

Source: *Simplifying and Streamlining Statutory Reports and Accounts*

PERFORMANCE REPORT

The performance report provides a narrative overview of the key activities and outcomes. Treasury set out the high level structure for this section to ensure consistency and comparability across all government departments and should include:

- clear statement of the purpose and activities of the organisation
- high-level financial information with cross references to the audited accounts
- trend information based upon segmental/management information data
- commentary against trends and performance against policy
- expected future policy changes.

The Ministry of Justice was highly commended in the NAO and PwC Excellence in Reporting Public Sector Awards 2016/17, receiving special recognition for clarity:

The annual report sets out its overall mission and strategic objectives up front, and follows up with a frank evaluation of its performance. The judges noted the MOJ's readiness to be open about its challenges and areas of underperformance, and the disclosures on actions taken to address them.

SINGLE DEPARTMENTAL PLAN (SDP)

In 2016, the Cabinet Office introduced SDPs "as the basis for the government's planning and performance framework"*.* The latest iteration is seen as an improvement on previous versions, but commentators question the number of performance measures and prioritisation.

Each department sets out its key departmental objectives and how it will achieve these, performance against these objectives and total finances to achieve the objectives. The Department for Work and Pensions' (DWP) SDP is a good model, with clear trend information and good explanations, and all performance data reported is consistent with the SDP and priorities and offers an honest assessment on progress.

SDPs were introduced to improve performance management within central government departments by showing key outputs and make these transparent by making these available on GOV.UK (note that the SDPs presented on the government's website are the high-level overview of the key deliverables). Departments will have detailed plans to effectively plan and manage day-to-day performance against the objectives.

Question 1: Has the department achieved what it set out to achieve? Is there a relationship between the performance report in the annual report and accounts and the SDP in terms of targets reported against?

When analysing performance, the first question to consider is whether the government department achieved what it said it was going to. If so, how, and if not, then why not?

For example, HMRC states the following three objectives in its SDP:

1. maximise revenues due and bear down on avoidance and evasion
2. transform tax and payments for our customers
3. design and deliver a professional, efficient and engaged organisation.

Detailed measures to achieve the objectives are also stated.

The HMRC Annual Report and Accounts 2017/18 performance section summary assesses actual performance against the high-level objectives, providing a 'red, amber, green' (RAG) rating where green is commitment is on track or complete, amber is some risk to deliver and red means the commitment is not on track. The RAG rating method is widely used across government departments to assess performance and provide a good visualisation/ infographics on progress.

Question 2: Is there any information on capability and efficiencies? Does the performance report provide information on efficiencies made by the department and or its capability to deliver?

The performance section should also provide an honest assessment on progress on efficiencies. There are a number of measures – one measure is the number of whole time equivalent staff. Staff cost is often a large component of the running costs of any organisation and the public sector is no different. Therefore, there should be some information on progress.

For example, in the DWP Annual Report and Accounts 2017/18, the number of full-time equivalents (FTEs) has decreased to 74,080, a reduction of 14,500 FTEs since 2012. This should be assessed in light of the deliverables and whether these are achievable based on the performance targets set and other evidence in the media which either supports or raises concerns on the department's ability to deliver.

Another measure may be the employee engagement score – this is an important indicator collected as part of a raft of data in the annual staff surveys completed across all government departments. Since 2011, the employee engagement score has increased from 44% to 60% in 2017. This is comparable to the civil service average of 61% published by the Cabinet Office Civil Service People Survey 2017.

Another measure may be the number of complaints. If these are increasing, this may indicate a reduction in the quality of service. As ever, the reader should always question the statistics that are used to highlight progress, as all organisations will highlight those statistics that present their performance in the best light.

ACCOUNTABILITY REPORT

The 'accountability' reporting requirement was introduced by the *Streamlining and Simplifying Statutory Annual Reports and Accounts* document, produced by Treasury because the primary user of the annual report and accounts is Parliament, and there are a number of key accountability requirements resulting from this that "must be met and be seen to be met".

The accountability section includes:

- The Governance Statement and information on strategic risks to the entity
- the remuneration report
- information on Parliamentary accountability – including the Statement of Parliamentary Supply (SoPS).

The Department for Communities and Local Government (DCLG now the MHCLG) annual report and accounts 2016/17 extract clearly signposts what is included in the accountability report, why it is needed and where to find more information in the annual report and accounts.

Question 3: Is there anything unusual in the lead NED report?

As part of the reforms to strengthen financial management in government, there was a renewed drive to secure high profile senior leaders from the private sector with commercial experience to join central government departmental boards – the 2010 Ministerial Code stipulated that they should be "largely drawn from the commercial private sector".

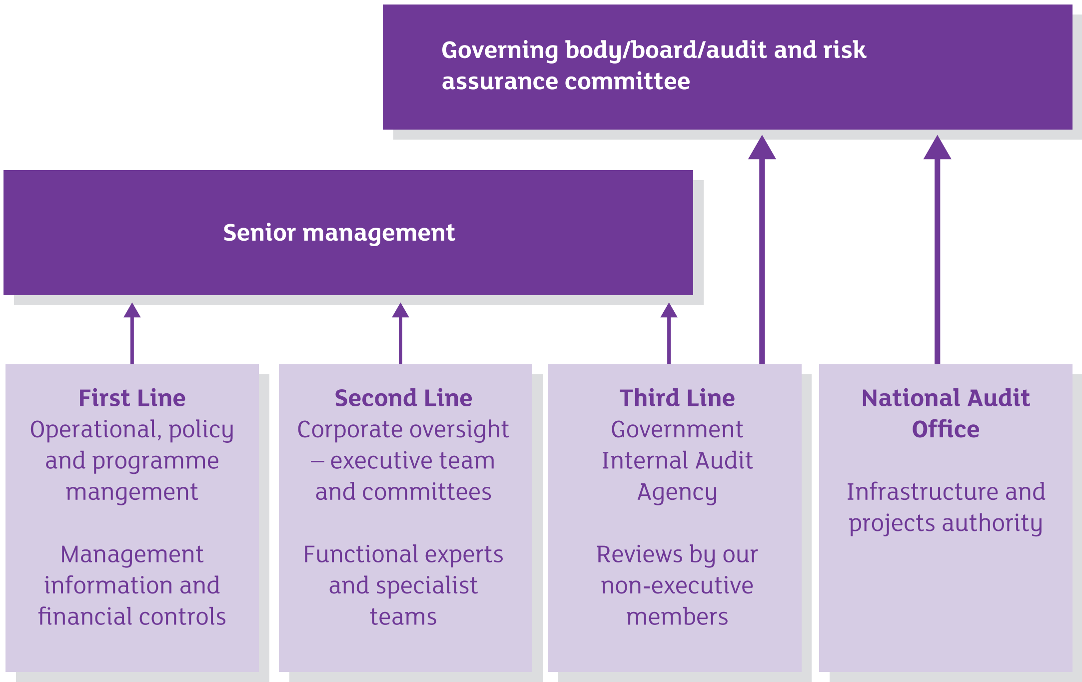
Lead NEDs provide a report on the effectiveness of the board and other significant issues. While the Treasury's Simplifying and Streamlining Statutory Annual Report and Accounts provided a guide as to what should be included in this report, it leaves it to the discretion of the lead NED as to how the information is presented.

Note, in addition to individual NED reports per department, the Corporate Governance in Central Government Departments: Code for Good Practice states that the government lead NED will publish a report on progress every year. This report sets out progress across the government on key cross-cutting issues. This is a very informative report to review for any systemic issues, what the plans are to address these and whether these are on track.

Question 4: What is the government department's risk management process? *Do internal audit make any specific comments on the entity's control environment?*

The internal audit function is an important part of the 'three lines of defence' best practice model to managing risk, as outlined in Figure 3.4 below.

Figure 3.2: Three lines of defence model



Source: The DWP Annual Report and Accounts 2017/18

It is important to see what the internal audit's judgement is on the control environment and then compare this to the accounting officer's assessment.

REMUNERATION AND STAFF REPORT

Remuneration is a very sensitive area hat attracts a lot of interest across all sectors. In fact, this tends to be one of the few areas, if not the only area, that is scrutinised by various stakeholders. Remuneration levels in the public sector have a higher level of scrutiny as they need to show how they balance the needs of the taxpayer to deliver value for money and ensure salaries remain attractive to draw top talent. The general rule of thumb often used is the comparison to the prime minister's salary. The guidance is set out in Treasury's Guidance for Approval of Senior Pay: Applicable from 1 January 2018. Any remuneration packages over £150,000 will need prior approval from the chief secretary to the Treasury having followed a seven step process.

The remuneration disclosure in central government is higher than applied to the private sector (as set out in the Companies Act 2006). These are:

1. details of staffing (numbers) and use of non-payroll staff (consultants) number and amount paid
2. salary of the most highly paid director compared to median earnings (to work out how many times more is the highest paid director paid)
3. details of exit packages.

In addition, central government departments must provide a breakdown of the individual components of their remuneration including pension (CETV) and any bonuses as well as the basic salary. This approach is deemed to enhance accountability. This requirement is different to the Companies Act 2006 requirement where providing a single remuneration figure (including salary, share options etc) was considered to provide greater clarity to the reader of the financial statements.

This section is subject to audit (as the information is disclosed in the notes to the financial statements).

In addition, there is also information drawn from the civil service annual staff survey – where the department is relative to the civil service mean for the year as well as trend information. There is also information on diversity, number and grades, and gender pay difference.

Question 5: What is the split between permanent staff and others in terms of wage costs, consultancy and temporary staff costs?

Guidance was introduced in 2014 on spending controls to help government departments to reduce wasteful expenditure and help reduce the fiscal deficit. Of the eight areas, one area is consultancy.

The example of the Department for Culture, Media and Sport (DCMS) Annual Report and Accounts 2016/17 shows consultancy spend as £32,135,000 (representing 2% of the total).

Figure 3.3: DCMS Annual Report and Accounts 2016/17

Total staff costs comprise:	2016/17						2015/16
	Permanently employed staff	Others	Contract and agency	Ministers	Special advisers	Total	Restated
	£000	£000	£000	£000	£000	£000	£000
Wages & salaries	1,376,177	4,394	32,135	143	92	1,412,941	1,387,260
Social security costs	141,958	579	–	14	15	42,566	128,281
Pensions	320,224	171	–	–	20	320,415	285,616
Total costs	1,838,359	5,144	32,135	157	127	1,875,922	1,801,157
Less: Recoveries in respect of outward secondments	–1,146	–	–	–	–	–1,146	–1,189
Total net costs	1,837,213	5,144	32,135	157	127	1,874,776	1,799,968
Of which:							
Core Department	35,462	1,082	6,050	157	127	42,878	40,334
Agency	4,957	409	914	–	–	6,280	5,993
Arms length body	1,796,794	3,653	25171	–	–	1,825,618	1,753,641
Total Net Costs	1,837,213	5,144	32,135	157	127	1,874,776	1,799,968

Source: DCMS Annual Report and Accounts 2016/17

Higher spend on consultancy may indicate an issue, such as the department using consultancy spend to offset the reduction in permanent staff (which may be part of the efficiency targets).

This note is subject to audit review; therefore, we can place assurance on the completeness and accuracy in the information provided. Not all of the performance section is subject to audit review. Often readers of the financial statements make the (not unjustified) assumption that all the information in the accounts is audited. However, this is not the case. Where the information has been subject to audit it will be clearly marked as such.

STATEMENT OF PARLIAMENTARY SUPPLY (SOPS)

The SoPS is unique to central government in terms of accountability for the money 'voted' to it. It reports the total spend for the departmental group compared with the amount approved ('voted') by Parliament in the estimate.

Core tables set out current and future planned expenditure in a table. They set out the four prior years, along with the planned expenditure for the next three years as required by 'PES 2016 (12)'. The outturn and planned expenditure is recorded on the same basis as the SoPS. The spending review in autumn 2015 set the overall departmental budget up to 2019/20 for resource and to 2020/21 for capital expenditure.

Losses and special payments and fruitless payments

When Parliament votes money or passes specific legislation (ie standing orders), it does not make any provision for any losses or special payments.

Any losses and special payments made by the government are subject to a higher degree of disclosure to make sure the government is being transparent about what is happening to taxpayers' money. This is the reason why the losses and special payments note has been brought into the accountability section to give it greater prominence; however, these disclosures were previously required by the Treasury's *Managing Public Money* as a note in the financial statements and audited.

Losses include cash losses, bookkeeping losses, exchange rate fluctuation, and losses through fraud and error.

Special payments

Special payments are defined in *Managing Public Money* as payments "outside the normal range of departmental activity" which have been set in vote process or other legislation (ie standing orders) stating what the amounts allocated to departments are to be used for.

Specific examples of special payments are set out in the guidance and typically include extra-contractual payments, extra-statutory or extra-regulatory payments, compensation and special severance payments or other ex-gratia payments.

Fruitless payments

A fruitless payment is defined as a payment which cannot be avoided because the recipient is legally entitled to it even though nothing of use to the department will be received in return (Annex 4.10 Losses and Write Offs – *Managing Public Money*).

These are not regarded as special payments as these payments are legally due. However, as benefit has not been received in return, they should be treated as losses and have to be brought to the attention of parliament in the same way as stores losses.

For example, in its 2016/17 annual report and accounts, the DfE has clearly labelled this section as Parliamentary accountability disclosure. It has been audited. The number of cases have significantly increased between 2016–17, but the total value of the losses has halved over the two years (although claims waived have largely remained the same).

This may warrant additional scrutiny. For example, why have the number of cases have increased from 264 cases in 2015/16 to 33,031 in 2016/17 – does this highlight a bigger issue?

In the Nuclear Decommissioning Authority Annual Report and Accounts 2016/17, extract fruitless payments in 2017 totalled £67,315 (121 cases) compared to £5,850 (50 cases) in 2016. This may warrant some questions.

COMPTROLLER AND AUDITOR GENERAL’S CERTIFICATE

The C&AG, head of the NAO, will complete a review of the accounts prepared by government bodies. The Local Audit and Accountability Act 2014 requires the C&AG to prepare a code setting out how local auditors are to carry out their functions (NAO Code of Audit Practice). The Code is principles-based and Chapter 2 provides details on the audit of the financial statements.

One of the most important questions – and therefore areas to look at in a set of financial statements – is the audit opinion. For almost all public bodies, the C&AG will provide an opinion on the accounts following a detailed examination of the financial statements (the audit may be sub-contracted out for some government entities).

Audit qualification

All public sector financial statements are subject to independent audit review. This is a statutory requirement and the auditor will examine whether the financial statements provide a true and fair view of the accounts and that these have been properly prepared in accordance with the appropriate legislation (eg Government Resources and Accounts Act 2000 for most departments, Exchequer and Audit Departments Act 1921 and HM Treasury directions issued thereunder for HMRC’s Energy Act 2004 and secretary of state directions issued thereunder for the nuclear decommissioning authority).

In addition, the C&AG is required to provide:

- an opinion on financial statements
- an opinion on other matters
- matters by which they report by exception

- an opinion on regularity.

Clean audit opinion

The majority of public bodies will receive a 'clean' audit opinion (ie that the financial statements and the supporting notes are true and fair).

QUALIFIED AUDIT OPINION

The auditor shall express a qualified opinion when:

- the auditor, having obtained sufficient appropriate audit evidence, concludes that misstatements, individually or in the aggregate, are material, but not pervasive, to the financial statements
- the auditor is unable to obtain sufficient appropriate audit evidence on which to base the opinion, but the auditor concludes that the possible effects on the financial statements of undetected misstatements, if any, could be material but not pervasive.

In addition, in government, the auditor can qualify their opinion based on regularity (ie did the government have appropriate authority to incur the spend?). One of the ways that Parliament can exercise its authority over government spending is to ensure that the rules set out governing spend should be met. If this is not the case, then the financial statements are qualified.

EXCESS VOTE

Technically the government body does not have the appropriate authority to spend the money – although the department can retrospectively ask for the money such as the DfE (approved by the PAC) – although this is not always granted.

Adverse opinion

The auditor shall express an adverse opinion when the auditor, having obtained sufficient appropriate audit evidence, concludes that misstatements, individually or in the aggregate, are both material and pervasive to the financial statements.

Question 6: Have the accounts been qualified by the C&AG? If so, what does the qualification relate to? What action does the department intend to undertake to ensure the qualification does not recur?

The 2017/18 Ministry of Defence (MOD) accounts were qualified as they were not 'true and fair'. The MOD does not apply the Treasury mandated financial reporting manual/accounting standard in respect of leases (International Accounting Standard 17).

As the potential value of this qualification is so high, this also transfers through to the WGA.

Disclaimer of opinion

The auditor will disclaim their opinion where the auditor is unable to obtain sufficient appropriate audit evidence to base the opinion, and the auditor concludes that the possible effects on the financial statements of undetected misstatements, if any, could be both material and pervasive.

The auditor will also disclaim their opinion when, in extremely rare cases where there are a number of uncertainties, the auditor concludes that, even though sufficient appropriate audit evidence was available regarding each of the individual uncertainties, it is not possible to form an opinion on the financial statements due to the potential interaction of the uncertainties and their possible cumulative effect on the financial statements.

Since the introduction of resource accounts in 2000/01, there has only been one instance where a large central government department's annual accounts have been disclaimed – ie Home Office 2004/05.

Comptroller and Auditor General's opinion on other matters

The C&AG is also required to provide their opinion and separately set this out to confirm whether the information that has to be audited in the performance and accountability sections has been completed. The statement usually reads as follows:

In my opinion:

- *the parts of the Accountability Report to be audited have been properly prepared in accordance with HM Treasury directions made under the Government Resources and Accounts Act 2000;*
- *in the light of the knowledge and understanding of the group and the parent and its environment obtained in the course of the audit, I have not identified any material misstatements in the Performance Report or the Accountability Report; and*
- *the information given in the Performance and Accountability Reports for the financial year for which the financial statements are prepared is consistent with the financial statements.*

Source: *DEFRA Annual Report and Accounts 2017/18*

Matters on which the C&AG reports by exception

The C&AG is required to make a report by exception. This will typically include:

I have nothing to report in respect of the following matters which I report to you if, in my opinion:

- *adequate accounting records have not been kept or returns adequate for my audit have not been received from branches not visited by my staff; or*
- *the financial statements and the parts of the Accountability Report to be audited are not in agreement with the accounting records and returns; or*
- *I have not received all of the information and explanations I require for my audit; or*
- *the Governance Statement does not reflect compliance with HM Treasury's guidance.*

Source: *DEFRA Annual Report and Accounts 2017/18*

It is unusual for the C&AG to make any specific observations on the accounts, hence these would pique the reader's interest.

FINANCIAL REPORT

The financial statements comprise of:

- the Statement of Parliamentary Supply
- the consolidated statement of comprehensive net expenditure
- the consolidated statement of financial position
- the consolidated position of cash flows
- the consolidated statement of changes in taxpayers' equity
- supporting notes.

Statement of Parliamentary Supply (SoPS)

This is the primary parliamentary accountability statement and is unique to central government financial reporting.

The purpose of the SoPS is to show outturn (actual expenditure and income) against spending limits (also referred to as 'control totals') authorised by Parliament. Note any spending that is higher than the control total is deemed to be irregular and would lead to an automatic qualification of the accounts (as seen previously).

Unlike all the other primary statements, the SoPS does not follow International Financial Reporting Standards (IFRSs) because these align to the national accounts rules (under the European System of Accounts ESA 2010, which is derived from the UN System of National Accounts SNA 2008) and the government budgeting under the Treasury's *Consolidated Budgeting Guidance*.

The SoPS is split into three sections:

- summary of resource and capital outturn
- net cash requirement
- actual administration costs.

Summary of resource and capital outturn

Treasury's Consolidated Budgeting Guidance (updated annually to reflect updates to accounting standards) sets out how total government spending (known as totally managed expenditure) is analysed between:

- DEL – the government budget that is allocated to and spent by government departments
- AME – this is money spent in areas outside budgetary control – all spending that is not controlled by a government department and includes welfare, pensions and debt interest payments.

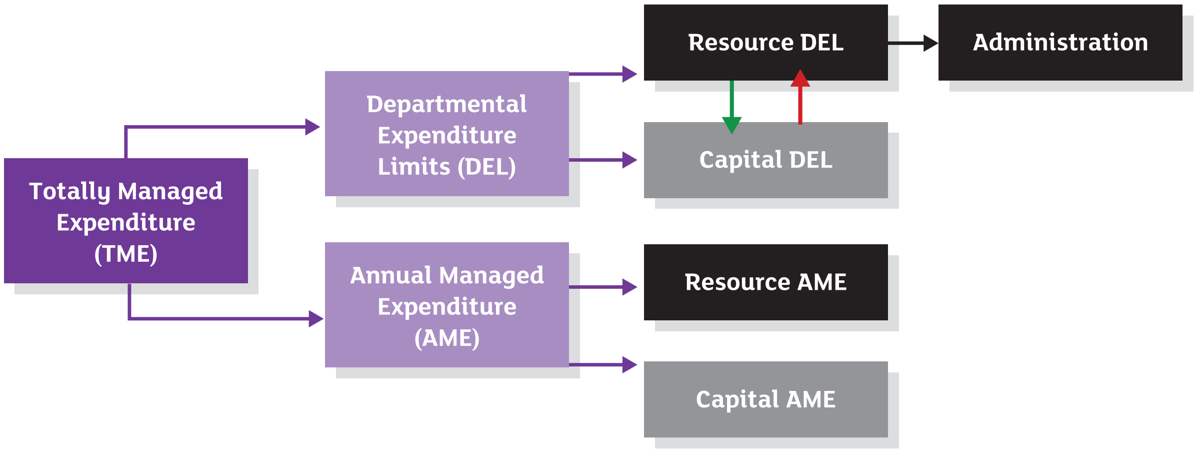
Control totals are further split between resource spending and capital spending.

Resource spending is money that is spent on day-to-day resources and administration costs. Capital spending is money that is spent on investment and things that will create growth in the future.

Resource DELs also include the administration total. The aim is to ensure most of government spend is focused on front line services (programme costs) rather than paying for back office costs (IT, finance etc).

There are strict rules as to whether money can be moved between the control totals.

Figure 3.4: Breakdown of totally managed expenditure (TME) into its constituent parts



The former DCLG helpfully presented the control totals in its 2016/17 annual report and accounts.

Net cash requirement

The net cash requirement is the amount of cash that the department requires in order to support the above expenditure. If the department overspend against any of these voted control totals, this is an excess on the SoPS and would result in an audit qualification by the C&AG.

Consolidated statement of comprehensive net expenditure

The consolidated statement of comprehensive net (SoCNE) is a summary of the departmental group's expenditure and income for the financial year, and any gains and losses. This is equivalent to the profit and loss account and the statement of total recognised gains and losses for private sector companies. As government departments mainly spend money, it is the statement of net expenditure that is net of any income.

The consolidated SoCNE shows the department's expenditure and income for the financial year split between:

- the core department
- the core department and its executive agencies
- the departmental group.

All departments will set out which other bodies are included in the departmental group in the notes to the accounts (under 'basis of consolidation', although most departments will include this as part of the performance (part of who we are) or the accountability section).

Question 7: Are there any significant movements in expenditure?

A key question in the section is to review any large movements or trends – do these align with government policy announcements or the users understanding/knowledge of what is happening in the department? This may indicate other areas for further investigation and/or questions to ask of the department.

Consolidated statement of financial position

The statement of financial position (SoFP) represents a financial snapshot of the organisation. This is prepared based on international financial reporting standards (as adapted for the public sector) and so is largely the same as the private sector financial statements.

The SoFP used to be known as the balance sheet and includes all the assets and liabilities, analysed between short term (less than one year) and long term (more than one year) and equity at a specific point in time: the accounting year end (31 March).

Key issues to assess are any changes in the assets and liabilities in particular.

Question 8: What are the levels of the liabilities and levels of the current liabilities when compared with departmental spends and what are the trends?

When considering liabilities, the following questions might be useful:

- What are these when compared with departmental spend?
- Are these increasing from the previous year?
- What is the level of current liabilities? This is important to consider as it shows how much of next year's budget is already committed.

Using the example from the Ministry of Justice's SoFP for 2017/18 (HC 1285), the level of current liabilities has largely remained the same when compared to the previous year. They comprise of trade and other payables and provisions (£2.2bn) which is almost one-quarter of total operating expenditure (at £9.3bn), which is obtained from the SoCNE. Armed with this information, the reader can assess whether this is sustainable (especially if there is more pressure on the departmental budget) or conduct some comparisons with other departments.

Question 9: Liabilities: what are the commitments under PFI and non-PFI leases?

PFIS and PF2s have been widely used as a means to finance long-term infrastructure investment in the government estate and other services. This area has been brought under the spotlight in recent years where questions have been raised as to whether these have delivered value for taxpayers' money.

One of the key questions to ask is the size of the PFI commitments in the notes to the accounts. In particular:

- What is the commitment for one year compared to expenditure – as this would limit how much money is available for other spending?
- What is the total commitment over the rest of the PFI?
- What is the capital element?
- What is the interest element?

Question 10: Provisions: what are these? Are there any unusual, new or major changes in provisions?

One of the main advantages of implementing commercial style accounts in central government is that it highlights the long-term affordability of government spending – through the availability of information on PFI and other long term commitments and provisions.

As required by the accounting standard, it is important to set aside money ('provide') for an amount the department thinks it may have to pay out due to certain criteria. For the government this may include HMRC's legal claims or clinical negligence claims made against the NHS. (Note the NHS accounts are consolidated into the DHSC, formerly the Department of Health (DH).)

In the DHSC Annual Report and Accounts 2017/18, the note on provisions is very detailed as it includes provisions for medical negligence which has been going up significantly over the last few years. Any major increase in provisions would need to be met in the future limiting future spending as it is committed.

Question 11: Contingent liabilities: what are these? Are there any unusual, new or major changes in contingent liabilities?

In addition to the level of provisions, the contingent liabilities note is worth reviewing to assess what these are and if there are any unusual contingent liabilities or any major changes.

If the non-remote contingent liabilities are increasing, this will indicate a potential issue for the future. The reader should check this note in particular and consider what is the long-term trend and if the non-remote contingent liabilities were to crystallise and the department were to need to provide for this, then what would the impact be on future affordability of the department's spending commitments and priorities?

RELATED PARTY TRANSACTIONS

Another important note in the financial statements is the related party disclosure about transactions and outstanding balances with an entity's related parties.

IAS 24.9 defines a related party as "a person or entity that is related to the entity that is preparing its financial statements (referred to as the 'reporting entity')".

SUMMARY

The financial statements of an organisation are critical to delivering scrutiny of the organisation's financial health and long-term prospects. However, the size and terminology in a set of accounts can be a deterrent to many. This section provides a list of key questions to ask when looking at central government annual report and accounts, with examples of what the relevant information looks like based on the 2017/18 central government departments' annual report and accounts and where to access the annual report and accounts.

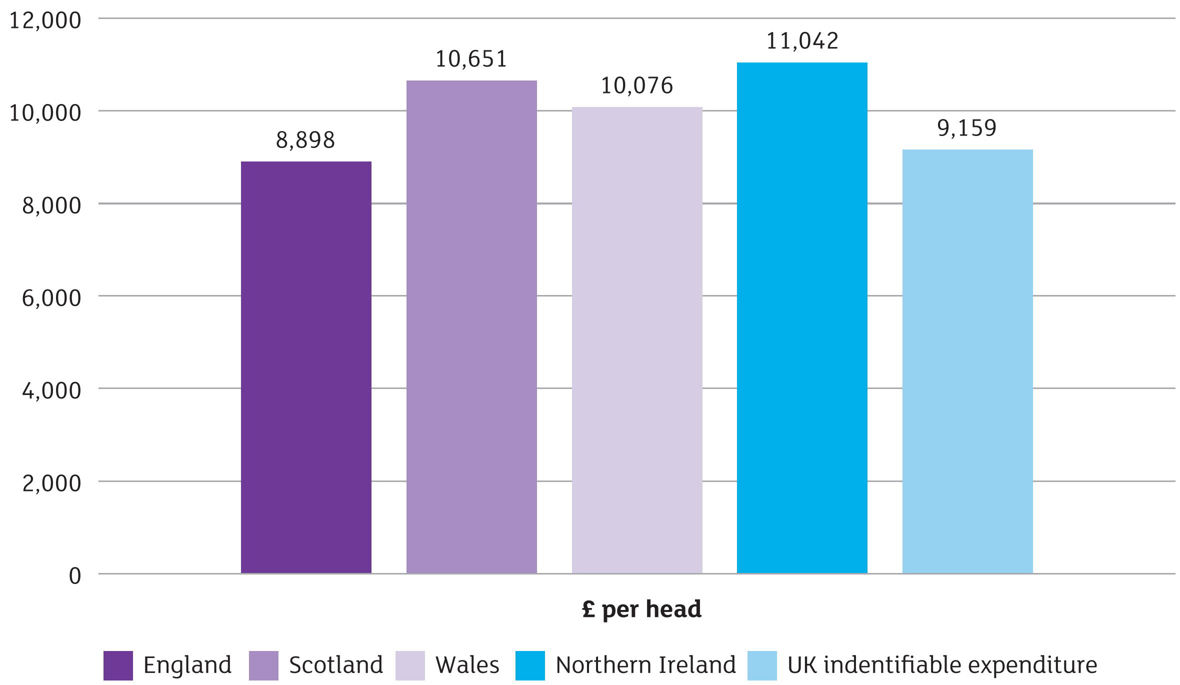
CHAPTER 4

Devolved administrations

Since 1998 there has been increasing devolution of powers to Scotland, Wales and Northern Ireland. This section covers the funding arrangements and where the user should look to find out what funding each of the devolved governments receive and what they have spent it on.

How much is spent in Scotland, Wales, Northern Ireland and England is subject to much debate. As seen in the spending per head analysis (by country and region) in Figure 4.1, there are regional differences – why is this the case?

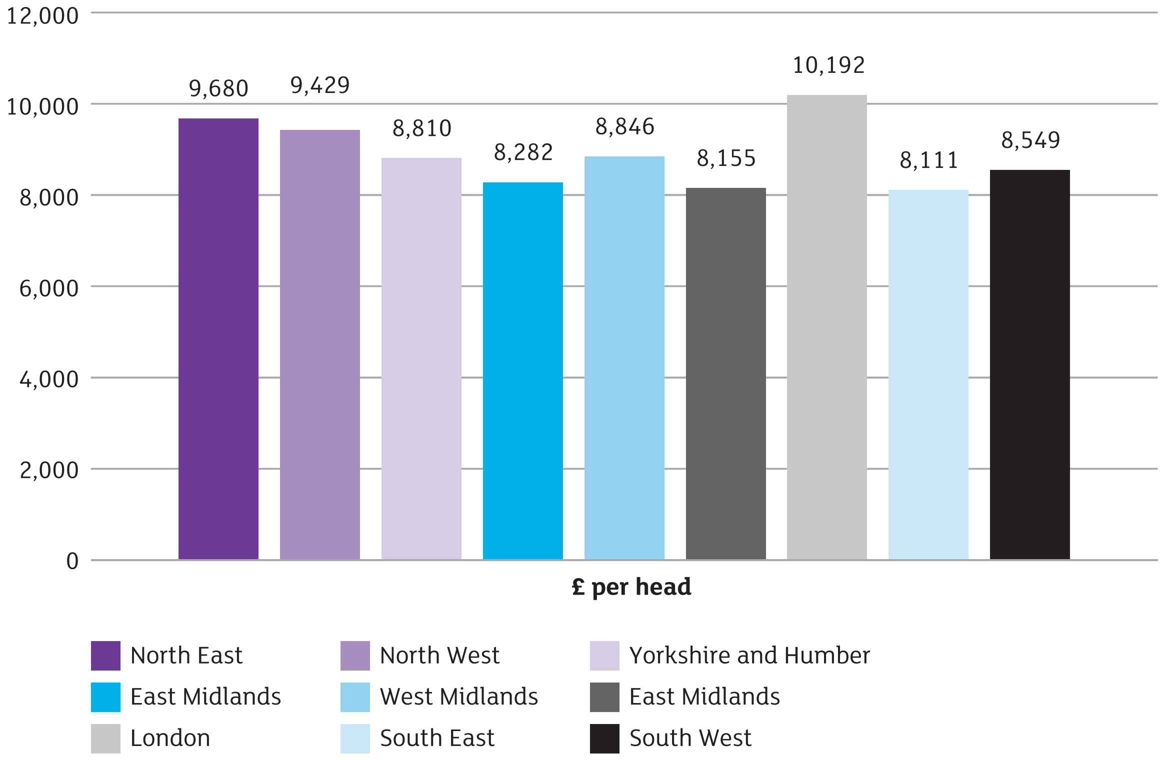
Figure 4.1: Public spend per head by country



Source: House of Commons Library Briefing Paper: Public Spending by Country and Region (November 2017)

Northern Ireland receives the most per head public spending (£11,042) and England receives the least (£8,898). England is further broken down into the different regions and public spending per head is highest in London at £10,192 and lowest in the South East at £8,111.

Figure 4.2: Public spending per head in the region



Source: House of Commons Library Briefing Paper: Public Spending by Country and Region (November 2017)

CONTEXT

The Scottish Parliament, the National Assembly for Wales and the Northern Ireland Assembly were established and took control in 1999. As the history and administrative structures are different so are the funding arrangements for each.

The UK government is responsible for government policy in England on all the matters that have been devolved to Scotland, Wales or Northern Ireland.

The UK government retains responsibility for national policy on all matters that have not been devolved, such as foreign affairs, defence, social security, trade and. macro-economic management.

Within the UK government, the secretaries of state for Scotland, Wales and Northern Ireland are responsible for the Scotland Office, the Wales Office and the Northern Ireland Office respectively.

FUNDING

The Scottish, Welsh and Northern Irish governments receive most of their funding in the form of block grants. The amounts are included in the estimates voted on by the Westminster Parliament.

The amounts are based on calculations set out in HM Treasury: Statement of Funding Policy: Funding the Scottish Parliament, National Assembly for Wales and Northern Ireland Assembly.

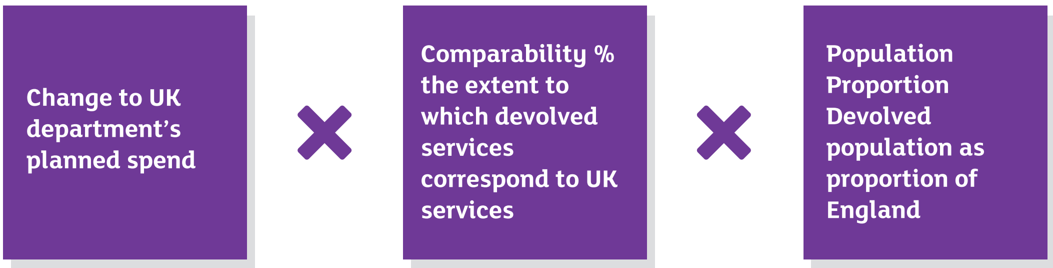
This guidance also sets out the inter-administration financial relations, including:

- accountability – the Scottish Government, Welsh Government and Northern Ireland Executive make decisions on managing and investing the resources available to them, and are accountable to their respective Parliament or Assembly
- transparency – the system is readily understood and its operation is open to scrutiny.

The Barnett formula

The Barnett formula is synonymous with funding, but it is only a part of the funding calculation – it is used to calculate the yearly change in the devolved administration's block grant. The total is based on changes in UK department funding, the extent to which that UK department's funding is devolved and each country's population.

Figure 4.3: The Barnett formula



Source: House of Commons Briefing Paper: The Barnett Formula (January 2018)

If spending is increased, then the block grant also increases. However, if the devolved administrations use their tax raising powers then the block grant is reduced. The net effect is to ensure that neither the UK government or the devolved administrations are affected by any changes in powers.

Comparability percentages capture the extent to which spending by a UK government department corresponds to services provided by devolved administrations. It measures the extent to which the UK department's services have been devolved.

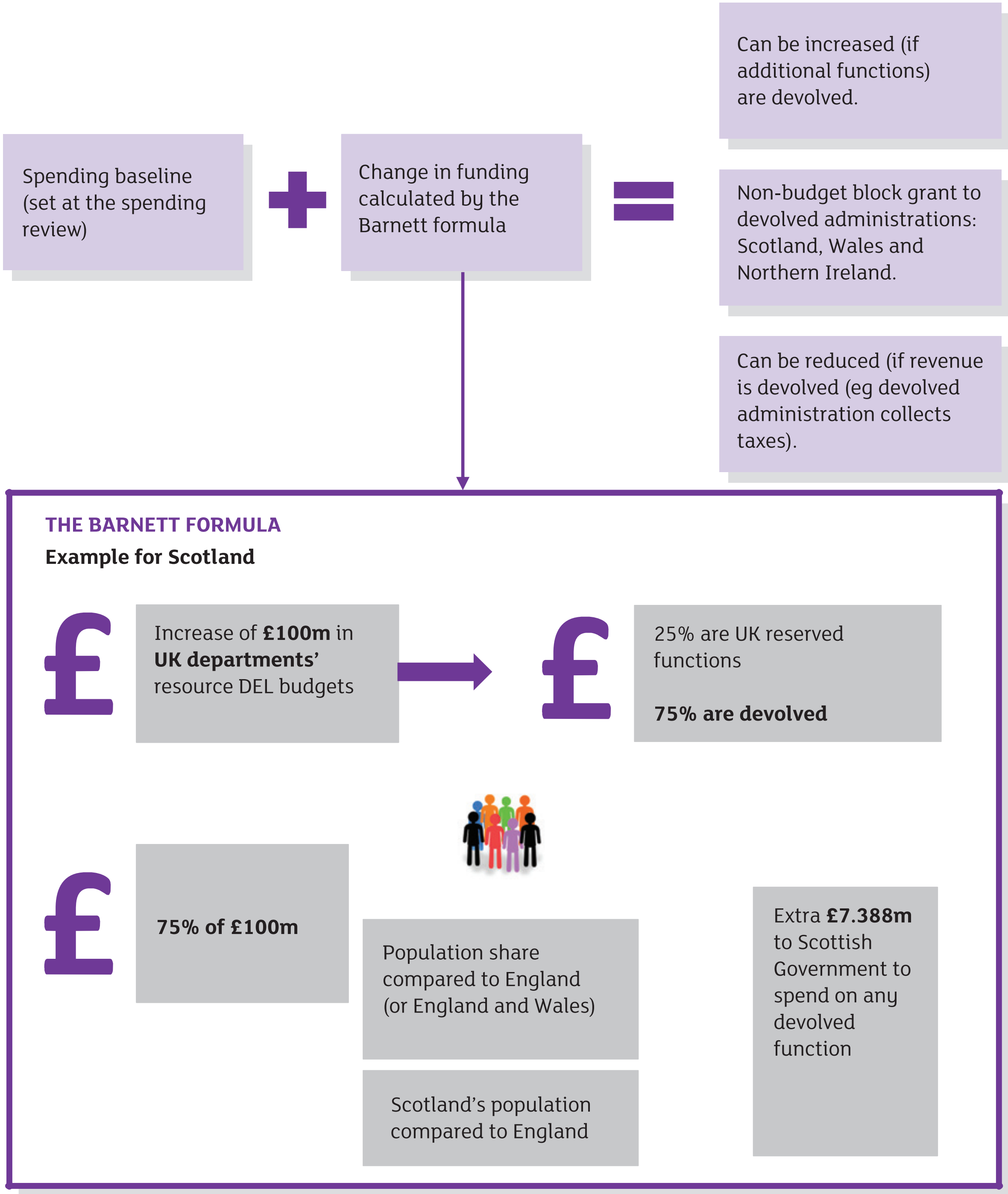
Comparability percentages range from 0%–100%, where 0% represents none of its services have been devolved to the devolved administration and 100% if all of its services have been devolved. Figure 4.4 shows the comparability percentages. For instance, education is fully devolved across all devolved governments as it is 100% on the comparability index.

Figure 4.4: Comparability percentages

Spend area	Scotland	Wales	Northern Ireland
Business, Innovation and Skills	66.4%	66.3%	66.7%
Business Rates	100%	100.0%	100.0%
Cabinet Office and SIA	6.5%	6.5%	10.3%
Chancellor's Departments	0.4%	0.0%	0.3%
CLG: Communities	99.7%	99.7%	99.7%
CLG: Local Government	100%	100.0%	100.0%
Culture, Media & Sport	76.9%	76.9%	77.6%
Education	100%	100.0%	100.0%
Energy & Climate Change	1.8%	1.8%	15.3%
Environment, Food & Rural Affairs	99.8%	99.0%	99.8%
Health	99.4%	99.4%	99.4%
Home Office	91.7%	0.0%	91.7%
Justice	100.0%	0.0%	99.9%
Law Officers' Departments	100.0%	0.0%	91.6%
Transport	91.0%	80.9%	91.3%
Work & Pensions	1.4%	1.4%	100.0%

Source: HM Treasury Statement of Funding Policy

Figure 4.5: Determining spending for devolved administrations (adapted from Scrutiny Unit guidance)



Source: Adapted from the Scrutiny Unit's 2017/18 Main Estimates: Overview of Government Spending Plans for 2017/18

The Treasury also publishes the block grant transparency document providing an annual update on the amount allocated in the estimates to each of the devolved administrations.

Details of the Main Estimates, the block grant and adjustments for the devolved governments are included in the Scrutiny Unit's analysis.

Taxes

Historically, the UK government has been responsible for raising the vast majority of its taxes and making decisions on tax policy. The taxes are collected by HMRC.

Recently, the devolved governments have been given legal powers to control some of their taxes. The extent to which powers have been delegated are all slightly different: for example, the Scottish Government has freedom to set its different rates of income tax. Agreements are in place to devolve half the VAT receipts for Scotland to commence in 2019.

The table summarises all the taxes to be devolved announced in legislation between 2012–2017.

Figure 4.6: Taxes to be devolved, 2012–2017

Taxes to be devolved	Scotland	Wales	Northern Ireland
Stap duty and landfill tax	Scotland Act 2012 Implemention 2015	Wales Act 2014 Implementation: 2018	
Income tax	Scotland Act 2016 Implementation 2017	Wales Act 2017 Implementation 2019	
Air passenger duty	Scotland Act 2016 To be implemented in the future		APD Act (NI) 2012 (Long haul APD) Implementation 2013
Corporation tax			Corporation Act (NI) 2015 Implementation TBC
VAT	Scotland Act 2016 50% of VAT revenues assigned		
Aggregates levy	Scotland Act 2016 To be implemented in the future		

Source: Based on analysis from UK Legislation, House of Commons briefing papers and the Institute for Government

THE REPORTING REQUIREMENTS OF THE DEVOLVED ADMINISTRATIONS

Northern Ireland

The Northern Ireland Office prepares its annual report and accounts under the relevant accounts directions issued by HM Treasury and in accordance with the financial reporting manual (FReM).

The accounts are audited by the Comptroller and Auditor General (C&AG) for Northern Ireland. The C&AG is wholly independent of the government and is appointed by the Crown.

The status, functions and main duties of the C&AG and the Northern Ireland Audit Office are set down in the following legislation:

- The Audit (Northern Ireland) Order 1987
- Northern Ireland Act 1998
- Government Resources and Accounts Act (Northern Ireland) 2001
- The Audit and Accountability (Northern Ireland) Order 2003
- The Local Government (Northern Ireland) Order 2005
- Local Government (Accounts and Audit) Regulations (Northern Ireland) 2006
- Local Government (Northern Ireland) Act 2014.

Scottish Government

The Scottish Government is required to produce its consolidated statement of accounts in accordance with Section 19(4) of the Public Finance and Accountability (Scotland) Act 2000. The consolidated statement of accounts for the Scottish Government is prepared in accordance with the accounting principles and disclosure requirements of the FReM for the relevant year.

The consolidated statement of accounts also includes a performance report and an accountability report.

The accounts are audited by the auditor general for Scotland. The auditor general is appointed by the Crown, on the recommendation of the Scottish Parliament. This independent post was created under the Scotland Act 1998, prior to devolution in 2000, to help ensure that public money is spent properly, efficiently and effectively.

The auditor general will also prepare an audit report for the public audit and Post-Legislative Scrutiny Committee made under Section 22 of the Public Finance and Accountability (Scotland) Act 2000.

Welsh Government

The Welsh Government produces consolidated accounts in accordance with the HM Treasury directions issued under the Government of Wales Act 2006 and the FReM. This includes the reporting requirements for an annual report.

The accounts are audited by the auditor general for Wales. The auditor general is appointed by the Crown. The independent post of the office of auditor general for Wales was created in 2005 and the post can be held by an individual for a maximum of eight years.

Further information is provided in CIPFA's *An Introductory Guide to Financial Reporting*.

SUMMARY

The funding of the devolved governments is largely through the block grant and yearly adjustments made according to the Barnett formula. Increasingly, income raising powers (taxes) are being devolved from the UK government to the devolved governments, depending on the different agreements with Scotland, Wales and Northern Ireland.

The same process for government spending control through the budgeting and estimates procedure and by and large financial reporting applies. Each jurisdiction has its own independent auditor general appointed by the Crown who provides their opinion on the financial accounts.

FURTHER READING

- CIPFA's *An Introductory Guide to Financial Reporting* (2018)
- Scrutiny Unit Guidance on the Barnett Formula
- HM Treasury Statement of Funding Policy

CHAPTER 5

Top areas to examine in local government accounts

Local authorities must prepare their financial statements in accordance with the rules set out in the CIPFA/LASAAC **Code of Practice on Local Authority Accounting in the United Kingdom (the Code)**. The Code is updated annually to take account of any changes to accounting standards. This update process is conducted with reference to the changes in the central government FReM which is agreed with the independent FRAB. This is to ensure that the financial statements are prepared on the same basis and accounting standards are all interpreted and applied the same way (for example where there is a choice in the standard). This is essential to complete the WGA consolidation.

There have been considerable concerns raised recently about the financial sustainability of some local government bodies. The following was highlighted in the 2018 NAO report on the Financial Sustainability of Local Authorities (March 2018):

- 49.1% reduction in government funding for local authorities between 2010/11–2017/18
- 28.6% reduction in real terms spending power (government funding and council tax) between 2010/11–2017/18
- Northamptonshire County Council was the first local authority to issue a Section 114 notice – this is equivalent of a vote breach for local government, where the local authority is unable to prepare a balanced budget (as it is required to under the Local Government Finance Act 1988) and is formally announcing that it is at risk of spending more than the resources it has available.

Since the NAO report was issued, Northamptonshire County Council has issued an unprecedented second Section 114 notice for the 2018/19 financial year. Other local authorities have indicated the same, such as Sussex County Council (July 2018), proposing to prioritise core services focused on people in 'most urgent need' due to rising budget pressures.

Ten questions to ask when reviewing a set of local government accounts:

1. Have the financial statements been qualified by the auditors?
2. What are the changes in assets?
3. What are the changes in liabilities?
4. What are the changes in income?
5. What are the changes in expenditure?
6. What is the movement in reserves? What is the trend information? What is the movement in usable reserves?

7. What is the level of provisions? Have there been any increases? Are there full explanations as to the reasons why?
8. What is the level of contingent liabilities? In particular, non-remote contingent liabilities?
9. What is the auditor's opinion on the value for money audit?
10. Have other reports of financial distress been made?

Audit qualification

As with any set of financial statements, whether in the public or the private sector, if the auditors have qualified the accounts this is a major concern and one of the first areas to be examined.

There are different types of non-standard opinions issued, ranging from qualified except for opinion, to a disclaimed audit opinion – which is the worse-case scenario.

Figure 5.1: Audit opinions

Type of audit opinion	Description
Unqualified	The financial statements give a true and fair view, in all material respects, in accordance with the identified financial reporting framework.
Non-standard opinions:	
Qualified 'except for' opinion – limitation of scope	The financial statements give a true and fair view, except for the effect of a matter where the auditor was unable to obtain sufficient evidence. For example, the auditor considers the accounting records for a material transaction or balance in the accounts to be inadequate.
Qualified 'except for' opinion – disagreement	The financial statements give a true and fair view, except for the effect of a matter where there was a material disagreement between the auditor and audited body about how the matter was treated in the financial statements.
Adverse opinion	There was a disagreement that was so material, or pervasive, the financial statements as a whole were misleading or incomplete.
Disclaimer of opinion	The auditor was not able to express an opinion, because they could not obtain evidence to such an extent that the financial statements as a whole could be misleading or incomplete.

Source: Public Sector Audit Appointments (December 2017)

Each year the Public Sector Audit Appointments Ltd compiles a summary report on the results of auditors' work for local government bodies. This provides a good overview on the quality, timeliness, completeness and accuracy of local government bodies' financial statements.

As at December 2017, no local authorities received an unqualified audit report for the financial year ended 31 March 2017. At the time of writing it is still too early to assess what the picture will be for 2017/18 local authority accounts as these are the first since the deadline for completing audited statement of accounts has been brought forward from 30 September to 31 July. This earlier closing of the accounts will support earlier availability of the financial statements for the users of the accounts and the timely completion of the whole of government accounts consolidation.

What is the change in assets?

Another measure of financial health of the authority is the number of debtors. If these are increasing, they may mask an underlying issue such as council taxpayers' arrears and possible financial difficulties. If these are not managed effectively, they may result in non-payment.

What is the change in liabilities?

The government changed rules following the financial crisis to ensure public sector entities paid all bills on a timely basis with the aim of reducing hardship on smaller and medium sized entities. Is this trend reversing? If current liabilities are increasing this may indicate financial pressures.

The same is true for long-term liabilities. Although local government bodies must adhere to strict borrowing rules, any marked increases in long-term liabilities would warrant further investigation.

What is the change in revenue?

Local government bodies receive income from a combination of:

- central government through the block grant, although this has almost halved between 2010/11 and 2017/18
- council tax, although the annual increase is limited by the MHCLG – the increase was limited to 2% (without the need for a referendum), but in 2016/17, an additional 2% increase was allowed to cover social care costs (this was raised to 3% (up to a maximum of 6% increase overall) from 2017/18–2019/20)
- income from fees and charges, ranging from planning permission applications to car park charges.

Local government bodies must prepare a balanced budget, balancing income to increasing demand for local public services, some of which a local authority has a statutory obligation to provide such as core services (adult social care, children's services, schools etc). Failure to achieve a balanced budget should automatically give rise to a Section 114 notice being raised.

Unlike central government bodies, local government bodies cannot retrospectively claim funds from the Treasury for any overspends and must manage their resources in house. In this regard, they are more like commercial entities, although in the UK we have not seen a situation like Detroit, Michigan, USA where the municipal government was declared bankrupt.

Trend information on income is a good indicator to the financial health and sustainability of the local government body.

What is the change in expenditure?

Although all analyses indicate that front line service delivery has not been impacted too drastically, other measures can be seen as a potential indicator of worsening financial health. These include reduction in the road maintenance budgets that can be seen in the increasing number of potholes in the local roads, or changes to the local refuse collection from weekly to fortnightly (although some may argue this is more efficient hence delivers savings for local authorities).

What is the Movement in Reserves Statement?

The Movement in Reserves Statement is an important statement that the user of the financial statements should prioritise as part of the review.

The Comprehensive Income and Expenditure Statement shows the income and expenditure on the authority's services in the year in accordance with International Financial Reporting Standards as adopted by the Code. However, the amount chargeable to council tax and an authority's general fund is limited by statutory requirements and requires a number of adjustments. These movements are shown in the Movement in Reserves Statement. The statutory adjustments largely relate to arrangements for funding local authority capital expenditure or the timing with which some items are charged to council tax. The reserves of the authority represent its net worth; the usable reserves show the resources currently available to spend on services.

Reserves are broken down into:

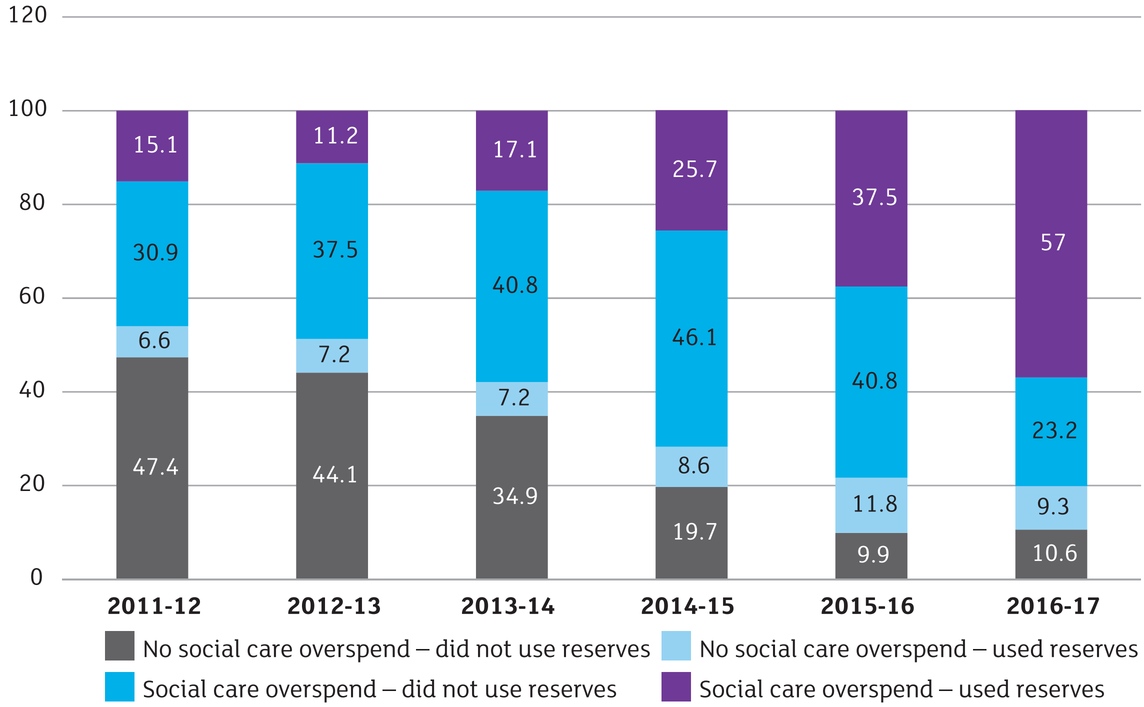
- usable reserves which can be either:
  - ear-marked reserves (for a specific project, such as a new library centre – although the council can agree not to use funds for the specific project at a future date and move the funds into)
  - general reserves
- unusable reserves (such as revaluation reserves and the capital adjustment account).

Trend information as to what is happening to usable reserves, such as:

- Are these decreasing?
- Are earmarked reserves being maintained or are the funds associated with specific projects being cancelled and moved into general reserves?
- Is there an explanation as to why general reserves are reducing? Are these to fund core activities?

In Figure 5.2 which summarises analysis from the NAO review of local authorities, it is clear to see the scale of the financial challenge.

Figure 5.2: Social care overspends and use of total reserves: single-tier and county councils in England, 2011/12–2016/17



Source: The NAO report: Financial Stability of Local Authorities 2018

Over half of single-tier and county councils in England are using reserves combined with social care overspend. This would strongly suggest there are concerns over the financial sustainability of the local authority.

Provisions

The level of and any changes to the level of provisions is a key area to explore when looking at the annual accounts.

Have there been any new provisions or significant movements in provisions in the year? If yes, have the reasons for making these provisions been set out in the financial statements or any material movements been explained?

Contingent liabilities

Linked to provisions, it is worth assessing what is happening to the level of non-remote contingent liabilities in particular. Any marked increases could indicate future restrictions on funds available if these crystallise. Examples include litigation for pothole damage to vehicles.

What is the auditor's opinion on the value for money audit?

In addition to the audit of the financial statements, auditors will also complete a value for money assessment. Before the change to the current audit framework, the Audit Commission used to complete audits of the local government bodies' financial statements, as well as completng value for money audits.

These reports are very insightful and delve deeper into the operation of the entity, the risk environment, whether previous reports have been acted upon etc. For example, the 2018 KPMG interim value for money report on Northamptonshire County Council, Illustrative Disclosures: Guide to Condensed Interim Financial Statements, found the following:

- In respect of both 2015/16 and 2016/17, KPMG concluded that the authority did not have adequate arrangements in place and issued adverse value for money arrangements conclusions.
- The issue of a further Section 114 notice does not bode well for the audit opinion in 2018/19.
- The first risk identified is financial resilience.

Seven further risks were identified in the value for money report:

1. capital strategy
2. cost savings plans
3. transformational plans and capital flexibilities
4. risk management
5. off-payroll working through an intermediary (IR35)
6. chief executive payment
7. financial peer review and action plans.

Northamptonshire is an extreme and unfortunate example where many warning signs would have alerted individuals to the severe challenges, financial and otherwise. The review of KPMG's value for money report should be an integral part of the review to assess the financial health and should offer other insights to the risk management framework and any other concerns raided by the external auditors, as they are required to under the ISA260 reporting requirements.

Does the information in the financial statements correlate with other reports and information available?

The financial statements for local government bodies are different to central government. Although the main statements are the same, the different funding and local accountability requirements determine the different reporting requirements. The areas to question are largely the same as for central government bodies, but there are some differences and the value for money report in particular provides many insights on potential issues.

FURTHER READING

- Financial Sustainability of Local Authorities, NAO, 2018
- CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom

CHAPTER 6

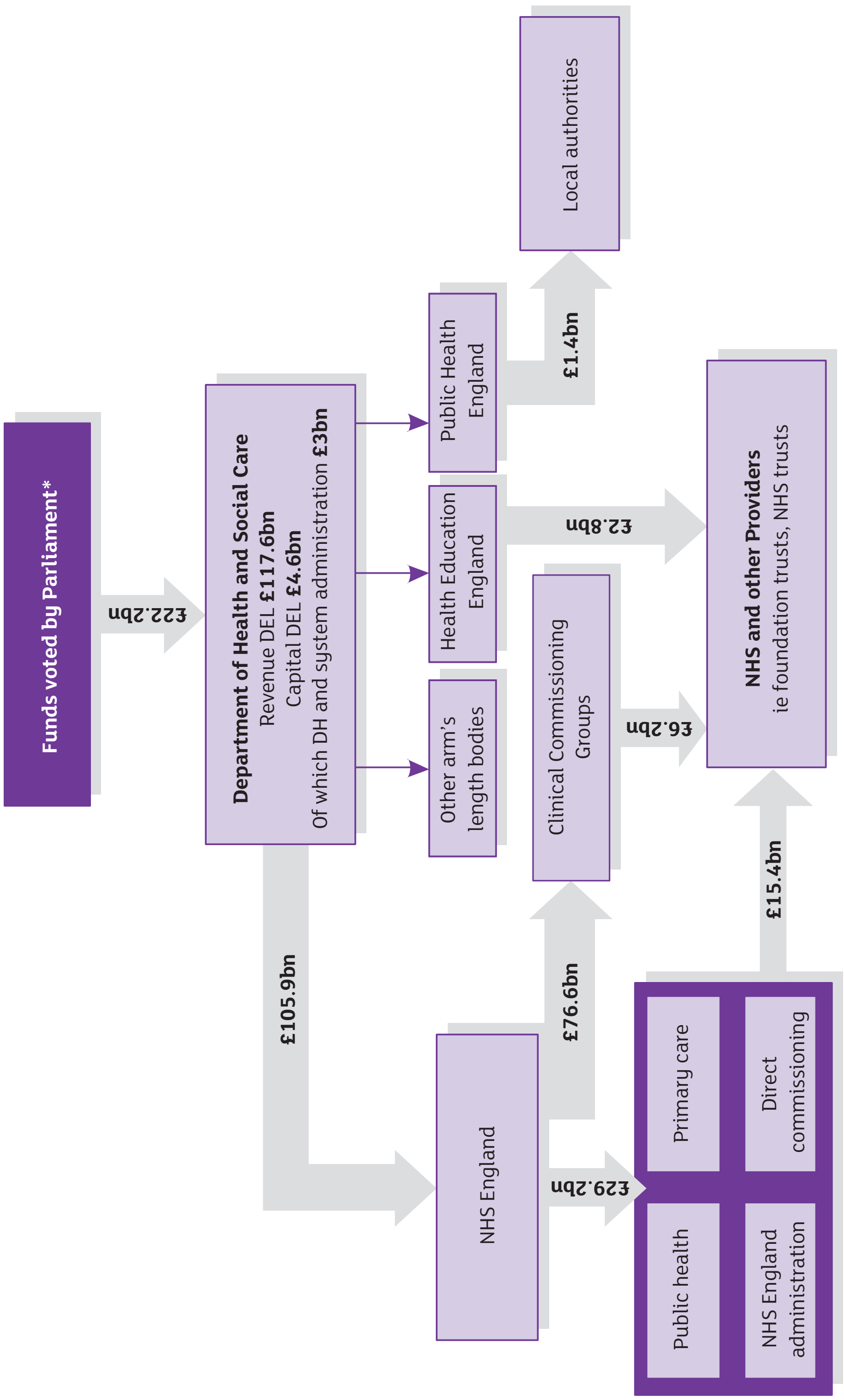
Top areas to examine in health

No other public service is as revered by the UK citizen as the NHS. The former chancellor Nigel Lawson famously said: “The NHS is the closest thing the English people have to a religion”.

Almost one in every £5 of government spending (18%) is consumed by the NHS. This is second only to the total spend on state pensions (20%). It is the biggest employer in the UK, employing over 1.2m people and ranks in the top ten employers globally.

The NHS is comprised of many organisations with different accountabilities, as illustrated in Figure 6.1.

Figure 6.1: Flow of funding in the health and care system, 2016/17 (budgeted position)

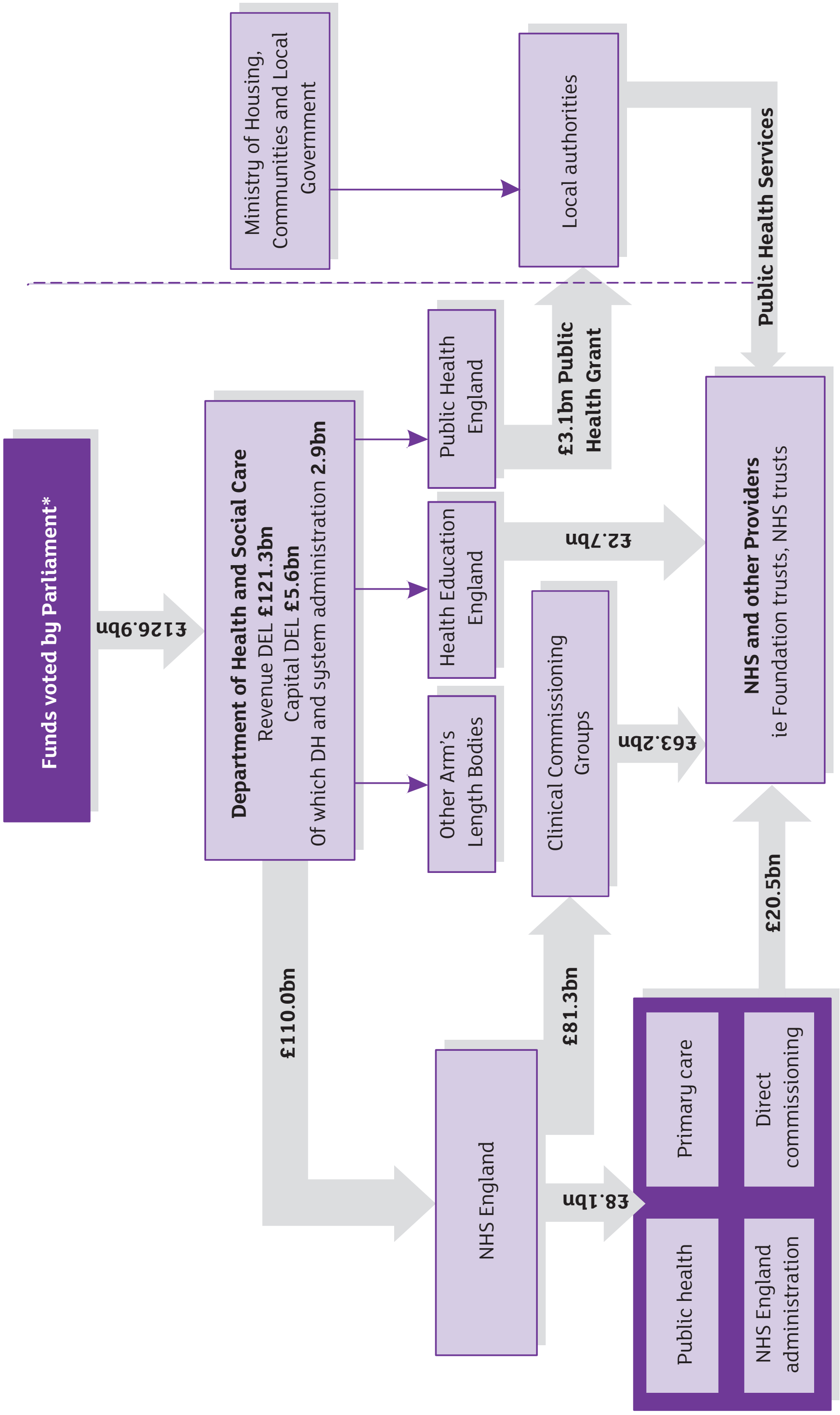


** This includes National Insurance contribution funding not voted by Parliament. Note: Budget figures above may not reconcile directly with financial outturn in the Statement of Parliamentary Supply.*

Source: Department of Health Accounts 2016/17

The Department of Health and Social Care (DHSC) consolidates all the NHS bodies in England and provide an overall picture of the finances. Therefore, the departmental annual report and accounts are a good starting point to get an overview of flow of the funding in the health and care system.

Figure 6.2: Flow of funding in the health and care system, 2017/18 (budgeted provision)



** This includes funding from National Insurance contribution that are not included in the parliamentary vote on DHSC budget. The funding is received directly from HMRC via National Insurance Fund which is provided for in legislation. Dashed line indicates boundary of consolidation for DHSC and shows local authority funding to health.*

Source: DHSC Accounts 2017/18

Figure 6.2 demonstrates how complex the health and social care delivery landscape is and the sheer number of different organisations involved. Each of the organisations will have its own accountabilities and be required to prepare annual accounts.

To assess how the department has performed over the reporting year, the same questions and areas as suggested in Chapter 3 are applicable here as the information is presented in the same way (as required by the Treasury guidance) .

In particular, the user of the financial statements should ask the following questions:

- **Have the financial statements been qualified by the auditors?**

  Any qualification would automatically point to a problem. Linked to this is the C&AG report as there may be additional comments or concerns that do not warrant a qualification but may indicate other issues.

- **What are the changes in assets?**

  In the 2017/18 accounts, non-current assets (long-term assets such as property, plant and equipment, investment properties etc) all increased from the previous year, rising from £53bn to £56bn.

- **What are the changes in liabilities?**

  In the 2017/18 accounts, both current liabilities (less than one year) and non-current (more than one year) have increased, especially the latter (from £77.5bn to £89.8bn). This major increase in one year would merit further investigation. The major component driving the increase is provisions – see below for more.

- **What are the changes in trend income?**

  Trend information on the level of income is a good indicator whether there are potential financial issues. For example, if the department is collecting more income to supplement higher expenditure this shows pressures in the system. This information should be considered with other publicly available information, such as hospital trusts increasingly relying on car parking income and subletting areas to major retail chains or coffee chains within the hospital complex.

- **What are the changes in expenditure?**

  In the 2017/18 SoPS, the underspend on voted resource spend was only £692m (which is 0.7% of total allocation). This indicates good financial management to ensure that the budget was not exceeded as this would have resulted in an excess vote qualification. However, this highlights the pressures on the departmental budget as the margins between under and overspend are so tight.

- **What has happened to the level and type of provisions?**

  As highlighted by the change in liabilities analysis (from an assessment of the balance sheet, also referred to as the statement of financial position), there has been a significant increase in provisions.

  Any increase in provisions is not good for the financial outlook of the organisation as it means that due to a past event the department is effectively required to put some money aside ('provide') to be able to cover the future liability. This will commit future funds. While this is not good news, it is always better to know so that remedial action can be taken and the situation be effectively managed. This was one of the main reasons why commercial style accounts were implemented in central government (the last part of government to do so).

Further breakdown on provision information is provided in the notes to the accounts. In the DHSC's Annual Report and Accounts 2017/18, Note 16 states that a further £1.4bn was added to the amount that needed to be provided for (in 2016/17 it was £924m). Over £1bn of the provision was used in year (if the amount transferred to accrual is added), and there was a change in the discount rate that applies to clinical negligence claims. The impact of the change in the discount rate is explained further in the WGA section.

- **What has happened to the level of contingent liabilities – in particular clinical negligence claims?**

  Contingent liabilities are important to monitor as these may crystallise (may have to make future payments to satisfy a liability – such as clinical negligence claim) and so put pressure on budgets. In the DHSC's Annual Report and Accounts 2017/18, Note 17 provides information on contingent liabilities.

  During the reporting period, the total clinical negligence claims which make up the majority of the contingent liabilities were £46,119.2m (2016/17: £35,254.9m). This is a significant one-year increase and an area to keep a close eye on.

LOCAL NHS TRUSTS

Individual trusts are required under Schedule 7, paragraph 25 (4) (a) of the National Health Service Act 2006 to provide a performance report. The performance report for a NHS trust should include the following: an overview, clinical performance, financial performance, sustainability and environmental.

The performance review is similar to that required from central government bodies. The presentation of these can vary across the different organisations. Some trusts opt for more narrative information while others provide many charts with little narrative to accompany the data, and a whole range in between. The quality and user-friendliness is quite varied as a result. Typically, an NHS Trust will include the following information:

- accountability section
- staff
- structure
- director report
- remuneration report
- oversight
- statement of accounting officer responsibilities
- quality report
- annual accounts.

Many of the questions asked in the department's annual report and accounts should be examined here to highlight any specific issues locally. In addition, the reader should also question the following:

- Going concern assessment – do the auditors support the view that the trust is financially viable? There are several trusts that are now in financial distress requiring support from the department. According to King's Fund analysis, 44% of trusts still overspent their budgets in 2017/18, with acute hospitals accounting for just under 90% of all providers in deficit. This was despite the additional funding for the NHS in the form of a £1.8bn annual Sustainability and Transformation Fund. The NHS provider sector as a whole ended 2017/18 with a deficit of £960m.
- Spend on consultancy – what is the trend for spend on consultancy and agency spend and what is it as a percentage of total spend on NHS staff and how does this compare to the vacancy rate? These are all important indicators to the productivity and performance of the hospital trust, both financial and clinical.
- Summary financial table – individual trusts will usually include a summary financial table. For example, the Blackpool NHS teaching hospital trust accounts for 2016/17 are examined in Figure 6.3.

Figure 6.3: Comparison of the 2016/17 actual performance to the 2016/17 plan

	Plan £m	Actuals £m	Variance £m
Total Income	399.7	410.7	11.0
Expenses	(387.8)	(397.4)	(9.6)
EBITDA*	**11.9**	**13.3**	**1.4**
Depreciation	(7.4)	(6.0)	1.4
Dividend**	(3.4)	(2.8)	0.6
Loss of Revaluation	0.0	(8.0)	(8.0)
Interest income	(1.1)	(1.2)	(0.1)
Deficit	**(0.0)**	**(4.7)**	**(4.7)**

** Earnings before interest, tax, depreciation and loss on asset disposal and amortisation.*

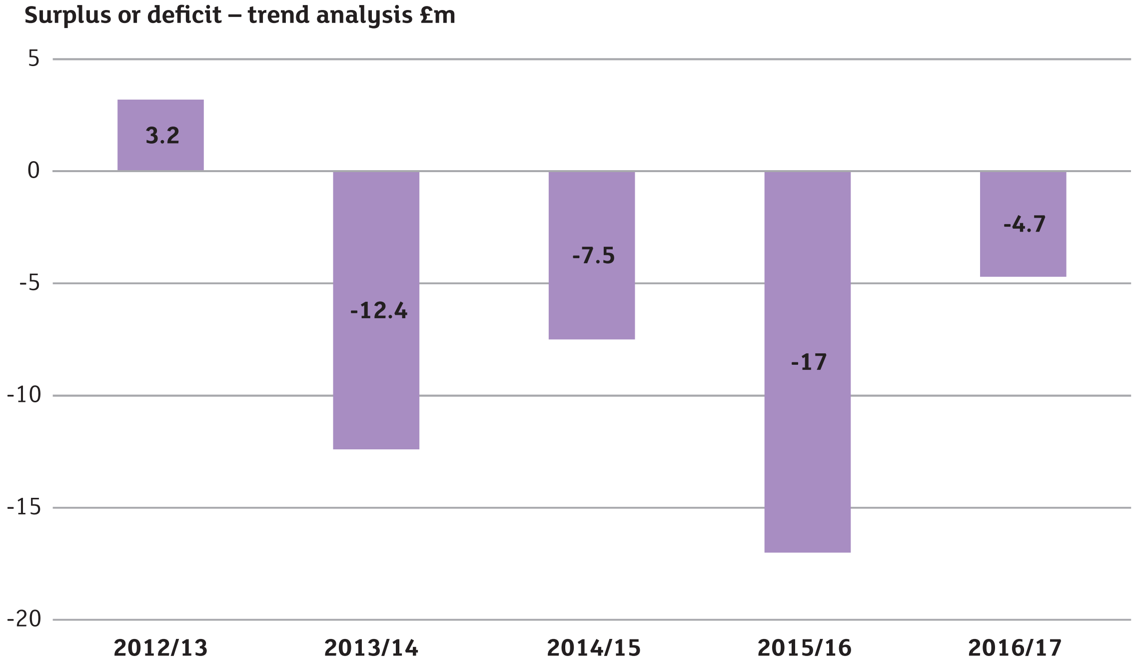
***Public Dividend Capital*

Source: Blackpool NHS Teaching Hospitals Annual Report and Accounts 2016/17

Are there clear explanations for the variances? Does the trust know why there was an issue? What was the positon compared to last year?

Blackpool also provided a surplus/deficit performance trend analysis for the last five years which is very insightful, with information provided in Figure 6.4.

Figure 6.4: Surplus/deficit performance trend analysis 2012/13–2016/17



Source: NHS Blackpool Teaching Hospitals Annual Report and Accounts 2016/17

This is not a long-term financially sustainable position. One year data is useful but trend analysis can provide more insight and add value.

Another area to check is whether planned savings have been achieved as this can provide confidence in the likelihood of further efficiency targets being achieved.

Many of the trusts are required to achieve efficiency targets. It is worth assessing whether these have been achieved and the likelihood of further efficiencies continuing to be achieved.

SUMMARY

The health sector is complex and diverse. In England alone there are:

- 207 clinical commissioning groups
- 135 acute non-specialist trusts (including 84 foundation trusts)
- 17 acute specialist trusts (including 16 foundation trusts)
- 54 mental health trusts (including 42 foundation trusts)
- 35 community providers (11 NHS trusts, six foundation trusts, 17 social enterprises and one limited company)
- ten ambulance trusts (including five foundation trusts)
- 7,454 GP practices
- 853 for-profit and not-for-profit independent sector organisations, providing care to NHS patients from 7,331 locations.

Source: ***NHS Confederation Analysis (July 2017)***

There are different accountabilities and each organisation will prepare their own accounts. These provide a great source of information and insight at the national level and at the local level.

FURTHER READING

- Department for Health and Social Care Annual Report and Accounts
- NHS Further Explained: for Local Government and Beyond (CIPFA, 2017)

CHAPTER 7

Whole of Government Accounts (WGA)

The Whole of Government Accounts (WGA) is the most comprehensive set of government consolidated accounts in the world. It brings together the audited financial statements for over 7,000 government bodies. The first WGA was published in 2009/10 providing, for the first time, a whole of public sector view of government income (ie taxes and other sources), expenditure, assets and liabilities. It has now been published for a number of years, providing trend information that gives invaluable information and insight.

This section provides an overview of the WGA, where it fits with other government financial reporting frameworks and highlights key areas to explore further to deliver scrutiny to public finances.

WHAT IS THE WGA?

The Treasury sets out what is to be included in the accounts in the GRAA 2000:

9. (1) The Treasury shall prepare in respect of each financial year a set of accounts for a group of bodies each of which appears to the Treasury—

(a) to exercise functions of a public nature, or

(b) to be entirely or substantially funded from public money.

The government entities that are included in the WGA are the same as in the national accounts. The national accounts are based on statistical framework, based on the European System of Accounts (ESA 2010), which in turn is based on the UN System of National Accounts (SNA 2008). In the UK, these are prepared and published by the ONS in the Blue Book.

The first Blue Book was published in 1952 and presents a full set of economic accounts (national accounts) for the UK.

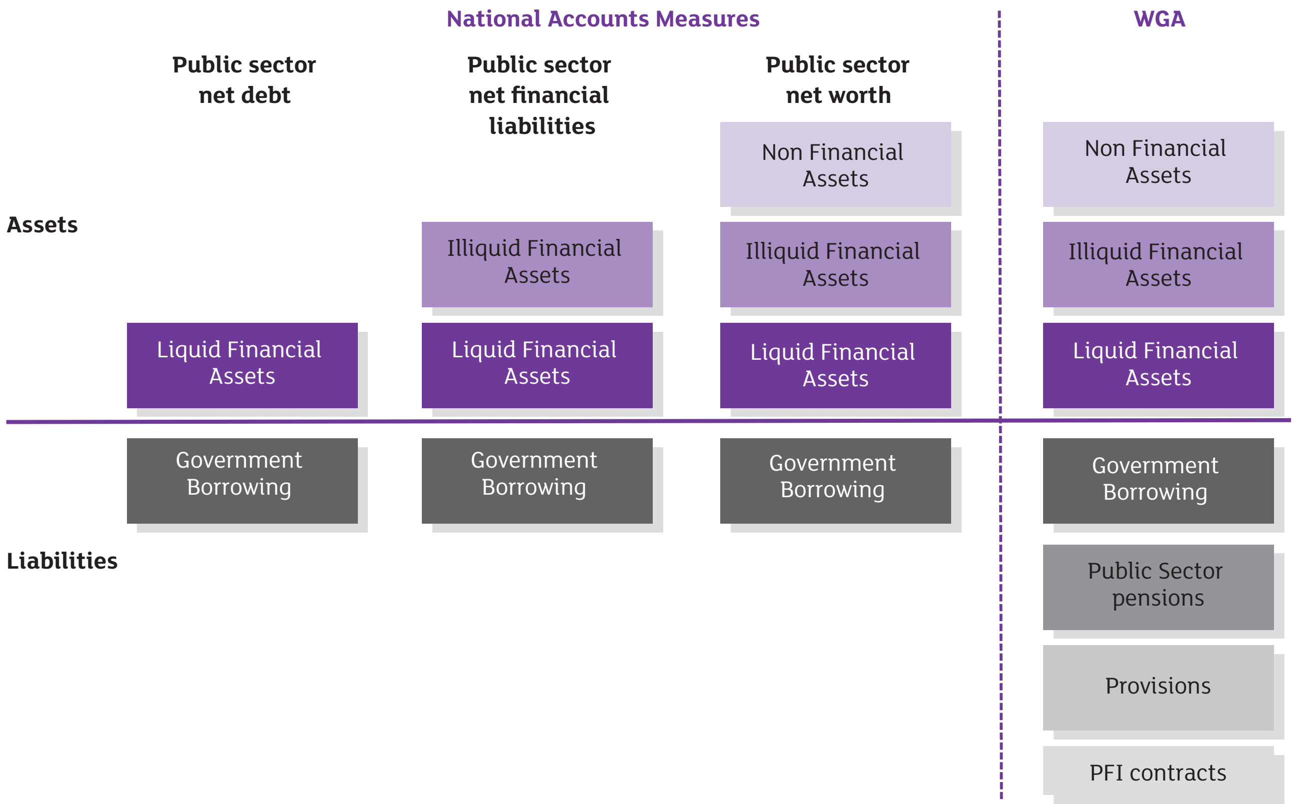
Source: *ONS: An Introduction to the UK National Accounts*

The national accounts record and describe economic activity in the UK covering all sectors including the general government sector.

The national accounts are economic accounts based on a statistical framework and the WGA is based on international accounting standards. The WGA is complementary to the national accounts, but it does not conform to the accounting standards' definition of entities that should be consolidated. This is one of the reasons why the WGA is qualified by the C&AG.

The extract (Figure 7.1) from the WGA 2016/17 highlights the additional information available from the WGA compared to the national accounts.

Figure 7.1: Difference between the information provided by the national accounts and the WGA



Source: WGA 2016/17

Annex A to the WGA includes detailed analysis as to the different treatment under the two different bases. Figure 7.2 illustrates the difference between the two measures.

Figure 7.2: Annex A to the WGA

National Accounts	2015/16	2015/16	2014/15	2013/14
	£/Bn	£/Bn	£/Bn	£/Bn
Public Sector Net Debt (National Accounts)	1727	1606	1554	1458
Add liabilities not recognised in National Accounts:	2190	1764	1701	1491
Adjust assets measured differently in national accounts	-100	-42	-64	-91
Add assets and liabilities excluded from measure of PSND:	-1311	-1245	-1219	-919
Deduct liabilities not yet recognised in WGA	-70	-64	-60	-56
Other adjustments including eliminations	-15	-31	-39	-43
Net liabilities (WGA)	2421	1988	1873	1840

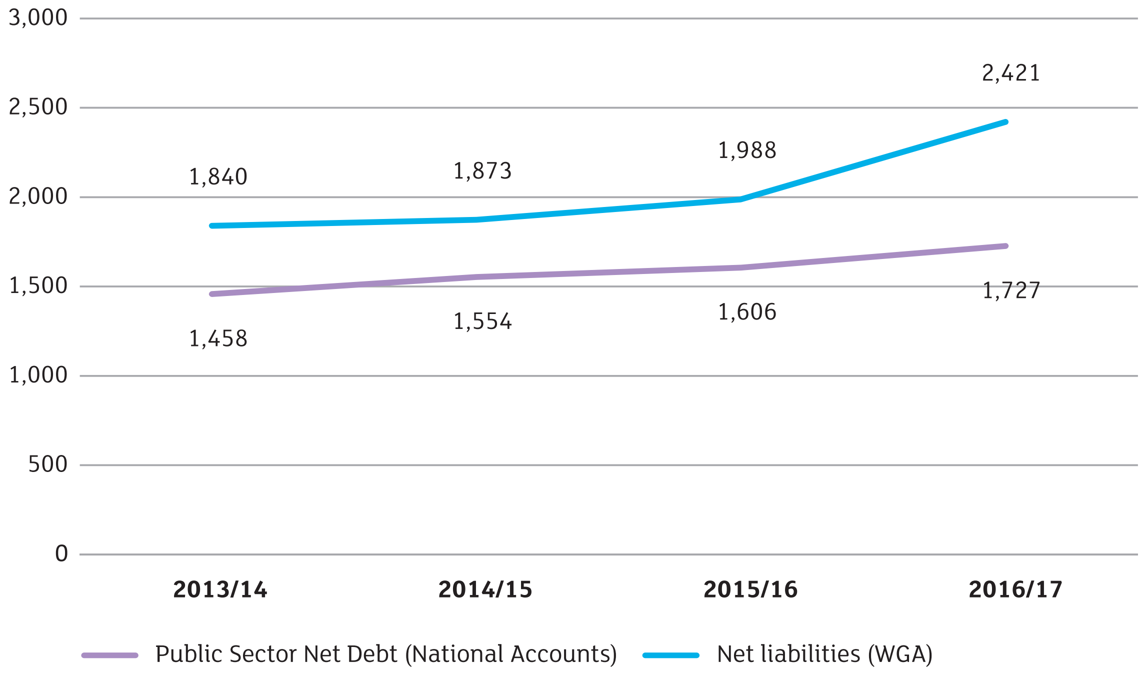
Source: WGA 2016/17

The WGA measure for net liabilities is considerably higher (almost £700bn) than the national accounts measure for public sector net debt, although the amount government owes has been increasing under both measures.

Trend data

The first WGA was published for the financial year ending 2009/10 providing several years of trend data. The WGA includes several charts and provides explanations to identify what has changed and why. For example, the comparison of public sector net debt and net liabilities in Figure 7.3 shows that the values have been in a similar range but there was a marked difference in 2016/17, largely due to pension liabilities.

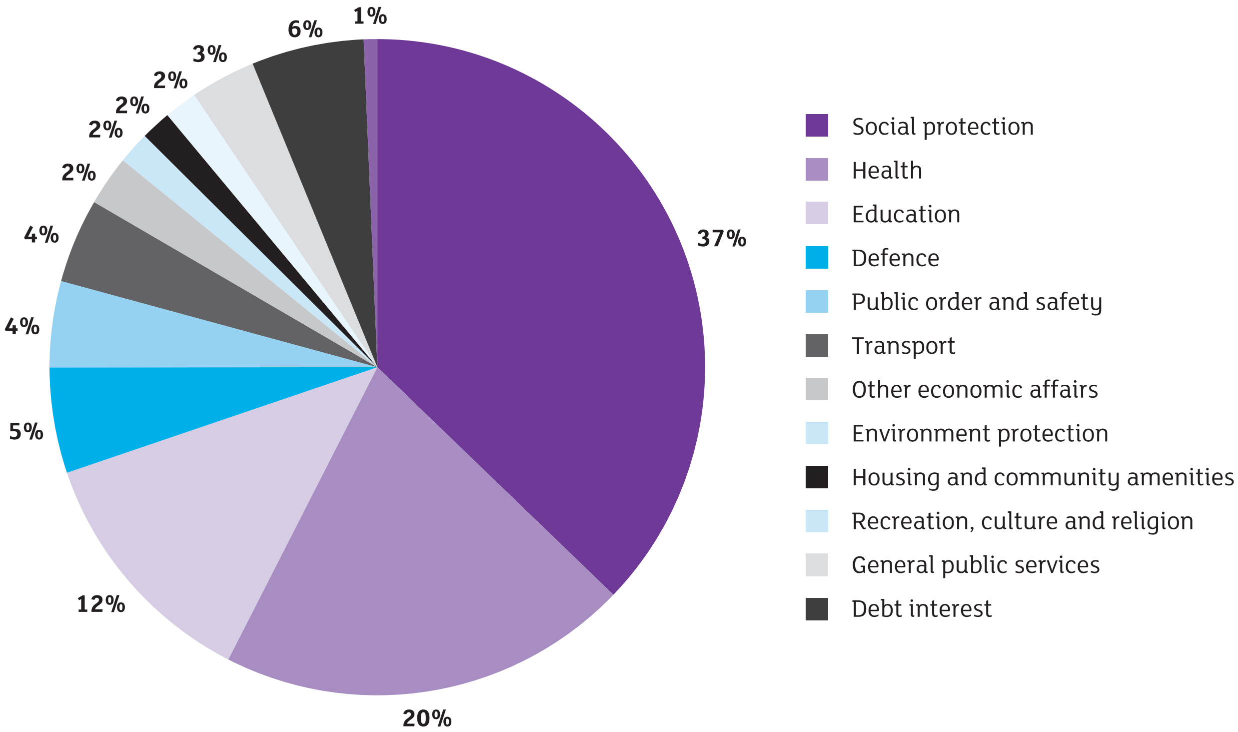
Figure 7.3: National accounts public sector net debt (PSND) and WGA net liabilities



Source: WGA 2016/17

In addition, for the first time, the 2016/17 WGA includes a breakdown of public sector expenditure, including a functional analysis and prior year comparators.

Figure 7.4: Public sector expenditure breakdown - functional analysis



Source: WGA 2016/17

As shown in Figure 7.4, it gives a country and a regional analysis of public sector expenditure (also including trend data for prior years). This provides a wealth of data that can be used to inform future decision making.

What is included?

The WGA is like any financial statement prepared by any central government department and largely includes similar information.

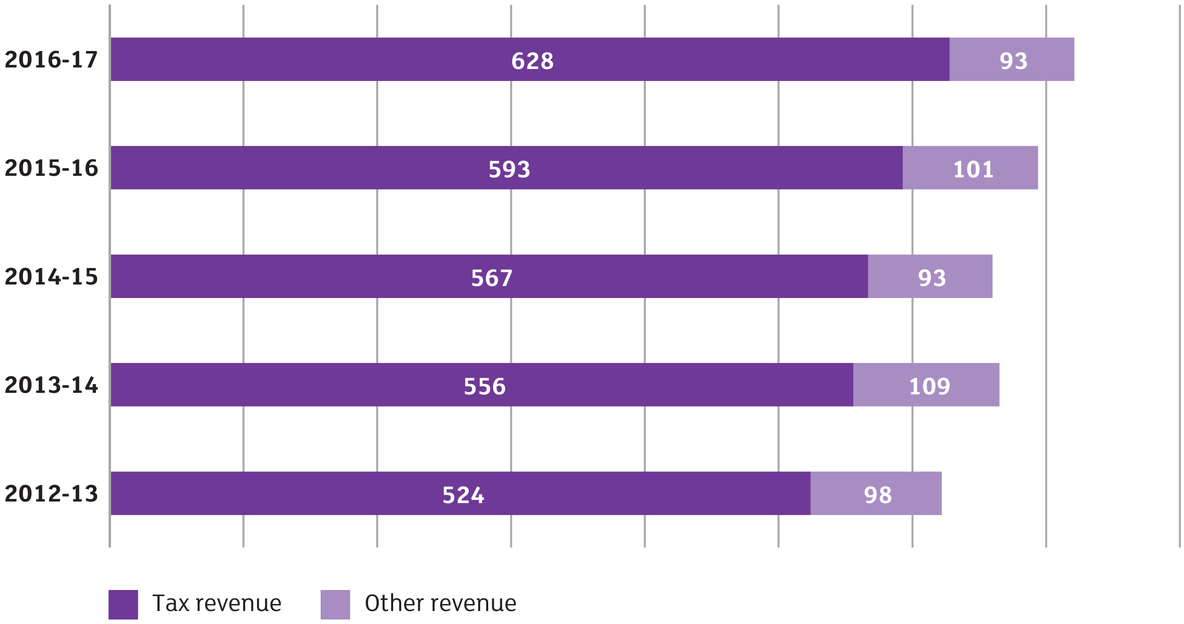
The 2016/17 WGA (latest available) includes information on:

- overview and performance analysis
- statement of accounting officer's responsibilities
- governance statement
- remuneration and staff report
- financial statements
  - statement of revenue and expenditure
  - statement of comprehensive income and expenditure
  - statement of financial position
  - statement of changes in taxpayers' equity
  - statement of cash flows
  - notes to the accounts
- certificate and report of the C&AG
- annex: comparison to the national accounts.

Each of these areas will be examined, focusing on the specific areas for the reader to consider:

- **overview and performance analysis** – not quite the same as the individual performance sections of the underlying bodies included in the WGA, this section provides a summary of performance and an explanation on trend information
- **income** – the UK government income is comprised mainly of tax revenue and other income that includes sales of goods and services (35%), fees levies and charges (13%), rental income (11%) and interest income (10%) and other income.

Figure 7.5: Total government income



Source: WGA 2016/17

There is a clear upward trend in tax revenue collected by government, rising from £524bn in 2012/13 to £628bn in 2016/17, and other revenue has remained largely similar over the five years' trend data (ranging from £93bn in 2014/15 at the lowest and £109bn in 2013/14 at the highest).

Tax income is further analysed according to the individual tax regimes and the tax gap (which is the difference between the amount of tax collected and that which could have theoretically been collected by HMRC). In 2015/16, the tax gap was 6% and is stated as being one of the lowest globally.

Expenditure

Similar to the information on government income there is a comprehensive breakdown on government expenditure in Figure 7.6.

Figure 7.6: Government spending on providing services and running costs

Government spending on providing services and running costs	2016/17	2015/16
	£bn	£bn
Social security	223.7	222.5
Staff costs	191.1	193.3
Purchase of goods and services	194.8	192.1
Other operating expenditure	100.7	96.8
Interest costs of govt borrowing	31.8	28.3
Increase in provisions	18.6	9.3
Total	**760.7**	**742.3**

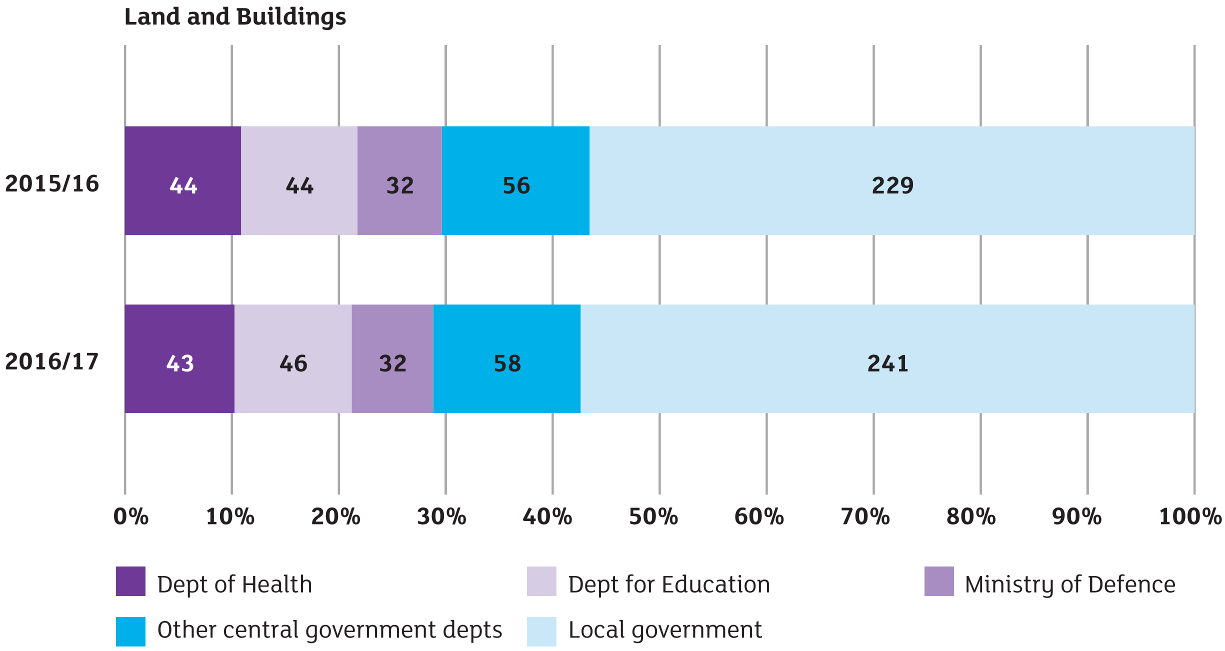
The main area of spending was social security benefits, followed by staff costs and purchases of goods and services (making up over four-fifths of total government spending).

There is further detail as to what is included in each section. For example, the spending on social security benefits comprises of the state pension (44% of the total), working age, disability, housing and other. Taken in isolation, it is informative but the impact of wider socioeconomic and government policy factors can be better seen in the trend information.

Assets

The major component of the government's total assets is property, plant and equipment (£1,168bn of the total £1,903 bn or 61% in 2016/17). Of the total government assets, more than half are infrastructure assets and land and buildings.

Figure 7.7: Land and buildings



Source: WGA 2016/17

Infrastructure assets include Network Rail (which represents half of the total) and highways assets, ie motorways and local road network and others.

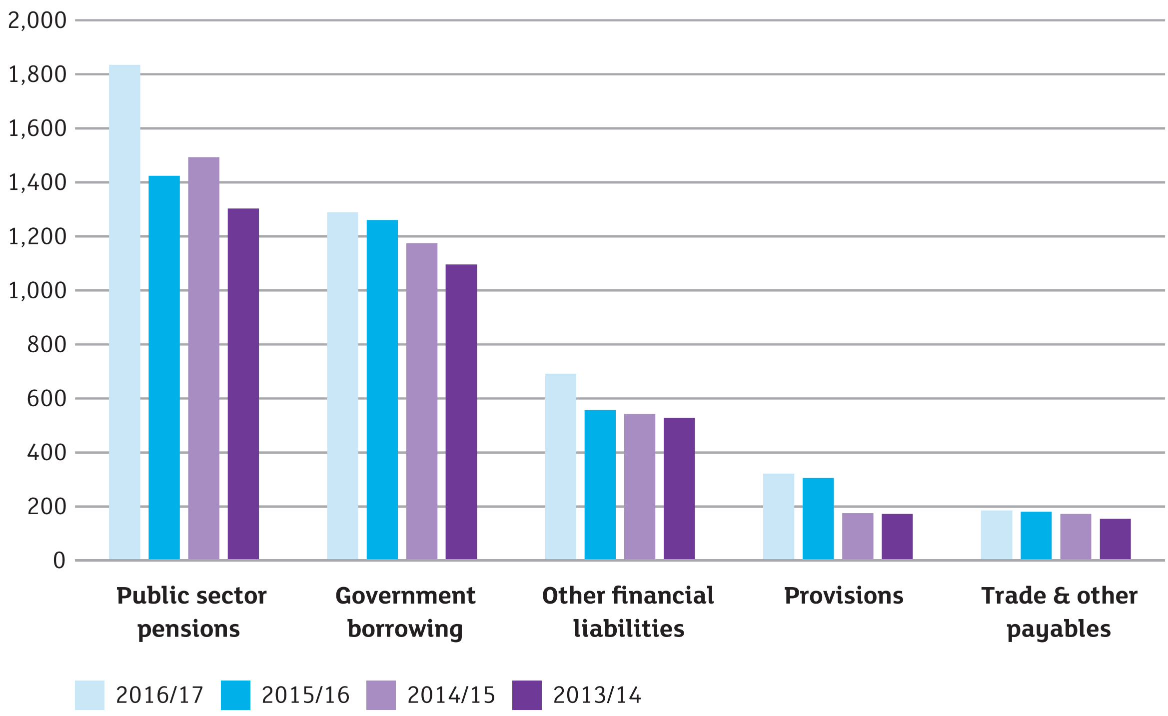
The value of highway assets is understated as local government values the road network differently to central government. Local government includes highway assets at historic cost – what it cost to build at the time, whereas central government (Department for Transport) values the road network at depreciated replacement cost – what it would cost today to replace the road at the current time and road condition. Both of these are allowable under the accounting standards. In a consolidated set of accounts the accounting bases should be the same. It is for this reason that the WGA has one of the long running audit qualifications. CIPFA/LASAAC, as the accounting standard setter for local government, have been working closely with the Treasury and local authorities to move to the depreciated replacement cost basis of valuing the road network.

Liabilities

Government liabilities comprise of public sector pension schemes (42%), government borrowing (30%), other financial liabilities (16%), provisions (7%) and trade and other payables (4%).

Government liabilities have increased considerably since the publication of the first WGA for the year 2009/10 in November 2011.

Figure 7.8: Government liabilities



Source: WGA 2016/17

Over the last four years, while the overall trend has been upwards in all categories, the largest increase is in public sector pension liabilities (although there was a decrease in 2015/16).

While the media coverage for the WGA is limited, one area that often causes commentary is the size of the public sector pension liability.

The public sector pension liability is the total pension payable for public sector employees in the armed forces, civil service, teachers and the NHS. This includes all public sector workers, from those who fully retired to those who have recently started working in the public sector. Note that the local government pension scheme is funded by local government employees.

Increasing life expectancy will add further liabilities to the pension liability. According to the Office for National Statistics, the average life expectancy has risen to 79.2 years for males and 82.9 years for females, though the rate of increase has slowed down.

However, this does not provide the full explanation as to why the increase has been so dramatic. The pension liability is very sensitive to changes in the discount rate applied because the liability is paid many decades into the future, and it is difficult to accurately forecast what will happen to corporate yields, which in turn impacts the discount rate. An increase in the discount rate will lower the pension liability because future benefit payments are discounted by a higher amount.

The time series analysis of the change in the discount rate and how this will impact on the pension liability and other analysis is included for the reader to understand what is driving the changes.

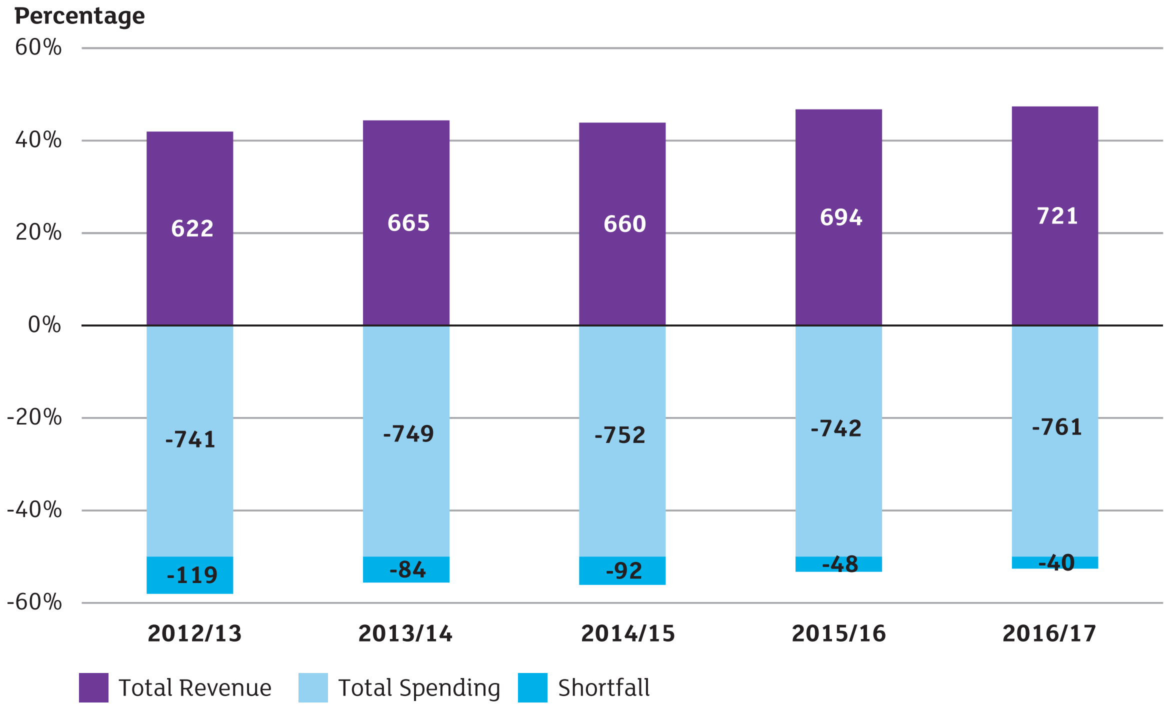
There has been a significant increase in the pension liability from 2015/16 to 2016/17 and a major component (£361bn) is due to the discount rate having fallen to 0.24% (a decrease from 1.37%). This relatively small fall in the discount rate had a huge impact on the estimated public sector pension liability.

The fall in 2015/16 public sector pension liability is explained in part by changes to the pension scheme – it is no longer final salary but based on career average salary, changing indexation arrangements from the higher retail price index (RPI) to consumer price index (CPI) and contributions made by public sector workers have increased.

Government borrowing

Government borrowing has been increasing (as can be seen in Figure 7.8) over the last few years. Borrowing increased dramatically in the aftermath of the financial crisis in 2008. Since 2010 government policy has been to lower public spending; however, government income has been lower than expenditure. This shortfall has been funded through borrowing (referred to as the deficit). This has added to the total debt.

Figure 7.9: Total income and spending



Source: WGA 2016/17

Provisions

A provision is defined as a liability of uncertain timing or amount, where a liability is a present obligation as a result of past events and the settlement is expected to result in an outflow of resources (ie payment) (IAS 37 Provisions – Contingent liabilities and contingent assets).

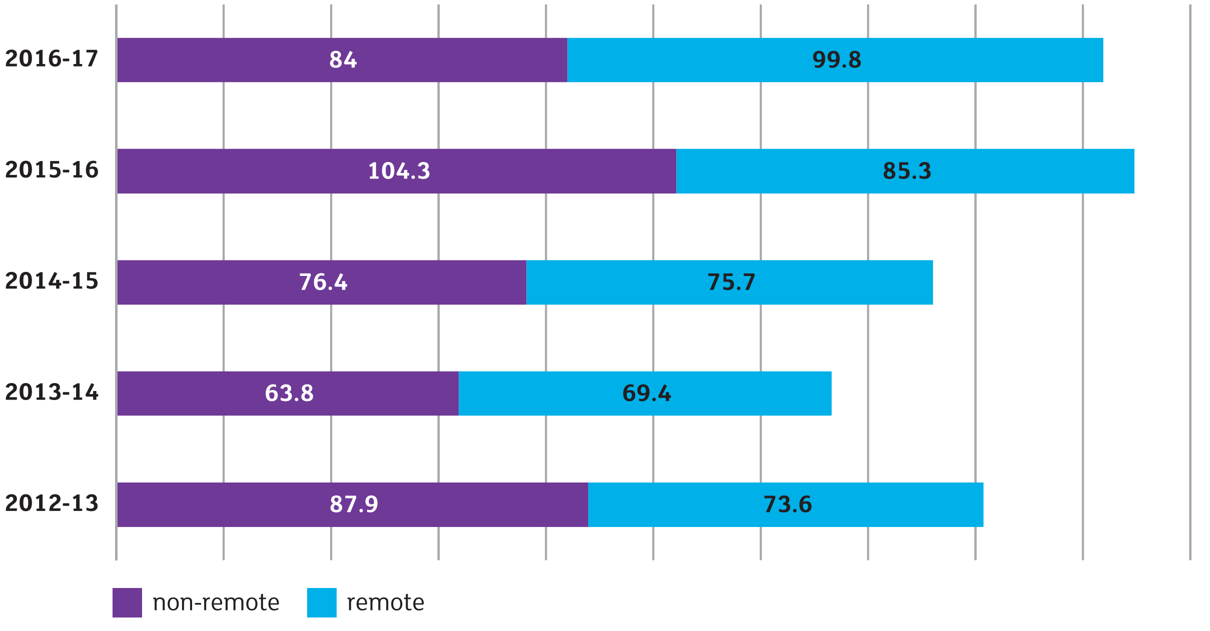
The main categories of provisions are nuclear decommissioning costs (over half of the total), clinical negligence, pension protection fund and others.

Over the past few years there has been an increase in provisions, in part explained by changes in the discount rate (due to the long term nature of when the payments are likely to be made – for example the costs for Sellafield, which is the largest component of nuclear decommissioning costs, have been estimated up to 2127).

Contingent liabilities

Provisions should always be considered with what is happening to contingent liabilities. These are broken down into remote and non-remote. The reader should analyse what is happening to non-remote contingent liabilities as these are more likely to crystallise – ie there is a higher chance of the government having to pay money.

Figure 7.10: Contingent liabilities



Source: WGA 2016/17

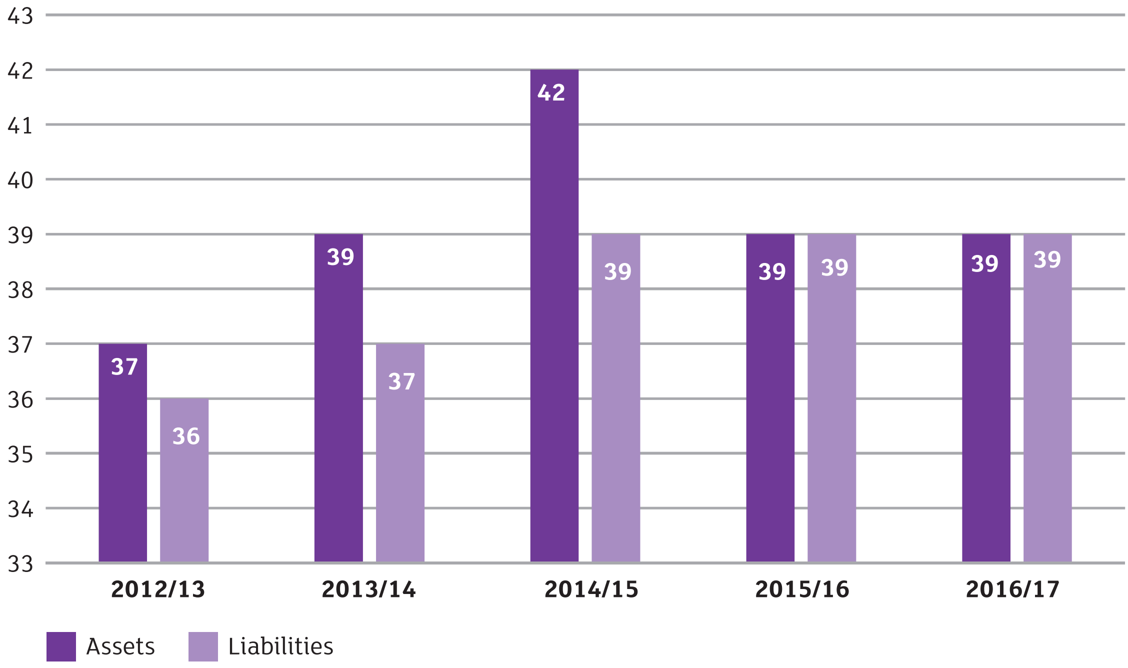
Figure 7.10 plots the change in contingent liabilities broken down into remote and non-remote over the last five years. The overall trend shows an increase in the number of contingent liabilities; the proportion between remote and non-remote has been changing. This is largely due to an increase in clinical negligence cases (non-remote contingent liabilities).

Public Finance Initiative

Another area of considerable debate over the last few years concerns the number of PFIs and its successor PF2 and whether these have delivered value for money.

In the 2016/17 WGA, there is a detailed analysis on public finance commitment and what they are (ie a means of bringing in private sector investment into the public sector). Originally the accounting of PFIs meant that they were not recorded on the government's balance sheet. However, with the move to accrual accounting, the asset was brought on to the balance sheet, as was the liability – the total cost to pay for the asset and the service charge (ie the cost of maintaining the asset).

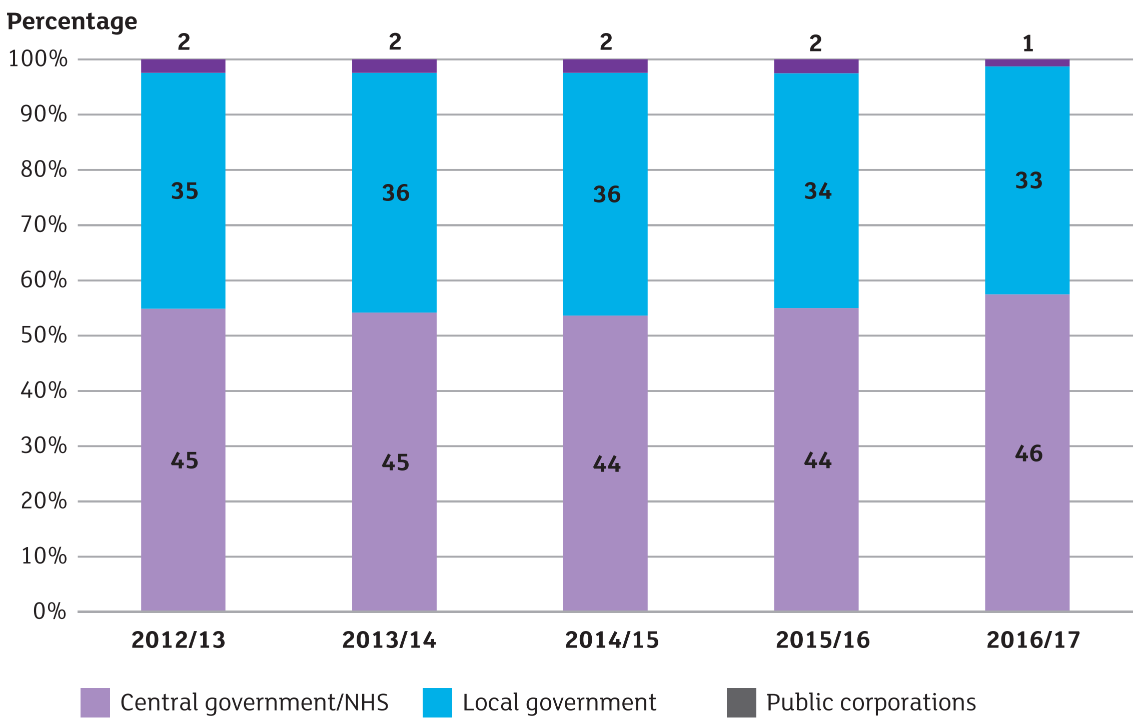
Figure 7.11: PFI assets and liabilities



Source: WGA 2016/17

Figure 7.12 shows the total PFI obligations analysed into the different sectors: central government and health, local government and public corporations (such as the BBC).

Figure 7.12: PFI split by sector



Source: WGA 2016/17

The debate will continue regarding whether the use of PFI and now PF2 has delivered value for money. For example, if the government had borrowed the money to invest in government buildings and other infrastructure, it could have done so at a cheaper rate than the private sector. It is inevitable that the private sector companies would need to cover their costs as well as deliver a return on the investments they have made on behalf of their shareholders. Having access to the information on the value of assets, the corresponding liabilities, both in the short term and what the government is committed to long term, is very important to help assess the effectiveness of different government infrastructure financing options.

THE STATEMENT OF ACCOUNTING OFFICER'S RESPONSIBILITIES

The statement of accounting officer's responsibilities sets out the legislation (GRAA 2000), accounting standards (EU adopted IFRS, as adapted for public sector) and presents a true and fair view. The accounting standards should be applied consistently, make judgements and estimates, explain any material departures from the disclosures required and present the accounts as a going concern.

In addition the WGA, the accounting officer is required to ensure there are processes and controls to collect the information. Individual departmental accounting officers are personally accountable and answerable for ensuring value for money for the funds allocated by Parliament, as set out in Treasury's *Managing Public Money* guidance.

GOVERNANCE STATEMENT

The WGA governance statement is a little different from the individual government departments' governance statements insofar as this statement is focused on the control and risk management framework developed to support the preparation of the WGA.

The statement also includes information on:

- the improvements made since the previous year
- the use of the WGA
- any significant governance issues in the underlying accounts and action taken to address these and in the consolidation exercise.

REMUNERATION AND STAFF REPORT

This section provides a breakdown on the remuneration policies across the wider public sector and the total salaries paid, pensions and exit packages, among other analyses. The tables in this section have been independently checked by the auditors, who confirm that these are the same as those reported in the financial statements.

The remuneration disclosures remain one of the most read sections, in some cases the only section of the accounts that is read by users. The same is true in the private sector as well as the public sector, perhaps more so in the latter as it is taxpayers' money.

FINANCIAL STATEMENTS

The main financial statements, notes to the accounts and disclosures are required by the FReM.

These provide an invaluable overview of what has happened over the year along with prior years' information for comparison.

The performance and overview section provides:

- more information/further investigation than the overview
- where to look
- detailed disclosures and notes – which may highlight where to look in individual departmental accounts.

CERTIFICATE AND REPORT OF THE COMPTROLLER AND AUDITOR GENERAL

The C&AG certificate and report is an important component in the overall scrutiny of public finances. The independent review and testing of the processes, testing of the completeness and accuracy of the information provide assurance to the user of the WGA.

Since the publication of the first WGA for the year 2009/10 (November 2011), there have been several improvements in the presentation, timeliness, completeness and quality of the information in the WGA. However, challenges remain and there are still several audit qualifications remaining, as shown in Figure 7.13.

Figure 7.13: WGA 2016/17 qualifications

Reason for qualification	Comments
Definition and the application of the accounting boundary	The Treasury defines the accounting boundary for the accounts by reference to those bodies classified as being in the public sector the ONS. The C&AG considers that it would be more appropriate to assess the accounting boundary with reference to the rules defined in the accounting standards.
Inconsistent application of accounting policies	The principal area refers to the difference in the measurement of road network by central government (on depreciated replacement cost for major trunk roads/motorways) and local government (which measures local roads on the historic cost basis). These are both allowable under the accounting standards but in a consolidated set of accounts the same accounting policies must be applied.
Qualification of underlying statutory audits of bodies falling within the accounts	There are two areas that are of significance in the WGA: The Ministry of Defence – this relates to the lack of information in relation to the leases standard (IAS 17 Leases). The DfE– this relates to the lack of measurement of academy schools land and buildings.

This represents a marked improvement, as illustrated in Figure 7.14.

Figure 7.14: Progress in the timeliness and quality of the WGA since first publication in 2009/10–2016/17

WGA year of publication	Date of publication	Time taken	Types of audit qualifications	No of audit qualifications
WGA 2009/10	Nov 2011	19 months	Accounting boundary; inconsistent application of accounting policies; accounting for 3G licence; underlying accounts qualifications; limitation of scope; intragovernmental eliminations.	Six
WGA 2010/11	Oct 2012	18 months	Accounting boundary; inconsistent application of accounting policies; accounting for 3G licence; underlying accounts qualifications; limitation of scope; intragovernmental eliminations.	Six
WGA 2011/12	July 2013	16 months	Accounting boundary; inconsistent application of accounting policies; accounting for 3G licence; underlying accounts qualifications; limitation of scope; intragovernmental eliminations; schools assets valuations.	Six
WGA 2012/13	June 2014	15 months	Accounting boundary; inconsistent application of accounting policies; accounting for 3G licence; underlying accounts qualifications; limitation of scope; intragovernmental eliminations	Six
WGA 2013/14	Mar 2015	12 months	Accounting boundary; inconsistent application of accounting policies; accounting for 3G licence; underlying accounts qualifications; limitation of scope; intragovernmental eliminations; schools assets valuations.	Six
WGA 2014/15	May 2016	14 months	Accounting boundary; inconsistent application of accounting policies; accounting for 3G licence; underlying accounts qualifications; limitation of scope; intragovernmental eliminations.	Six
WGA 2015/16	July 2017	16 months	Accounting boundary; inconsistent application of accounting policies; accounting for 3G licence; underlying accounts qualifications; limitation of scope; intragovernmental eliminations (for 2014/15 impact the prior year comparisons).	Six
WGA 2016/17	June 2018	15 months	Accounting boundary; inconsistent application of accounting policies; underlying accounts qualifications.	Three

Timeliness

Figure 7.14 highlights the progress on the timeliness in preparing the WGA but progress has reversed from 2014/15 onwards. The aim is to publish the accounts within nine months of the year end (ie by December following the year end in March).

This aim is unlikely to be achieved until the processes to collect the academy sector accounts are improved. This point was re-emphasised in the C&AG's report.

The delay to the publication of the WGA diminishes its usefulness. Analysis and action to address issues arising (as seen in the trend analysis) is delayed, potentially making the situation worse in the short term. For example, if the level of contingent liabilities that are not remote are increasing, some of these may crystallise and government may have to pay out some money in the future. The earlier this trend is identified, the quicker any action to try to understand the reasons why and take remedial action to address it, such as a change in policy.

Number of qualifications

The number of audit qualifications has improved and highlights the significant improvements made over the years. The C&AG's report recognises the improvements and there is a dedicated section each year highlighting these.

In 2016/17 the following improvements had been achieved:

- The WGA is the most complete and accurate picture of financial performance and position of the UK public sector.
- The WGA is increasingly important to the ongoing management of public finances, including the use of the WGA by the OBR in its long-term fiscal sustainability report and the IMF's evaluation of the UK government's transparency and accountability. In the 2018 Spring Statement, the chancellor of the exchequer signalled a review of the government balance sheet. The Treasury has already been using the government WGA to assess contingent liabilities as part of the balance sheet review announced in Spring Statement 2018.
- The Treasury has improved the presentation and provided better quality analysis.

Finally, the C&AG's report highlights some high level recommendations to further improve the usefulness of the WGA to the reader.

Limitations

There are limitations to the information in the WGA: the lack of detailed breakdown hinders further analysis. For example, total spend on 'purchases of goods and services' in 2016/17 was almost £200bn, or one-quarter of total government spend, but the only analysis is the split according to whether it is central government (£114bn), local government (£70bn) or public corporations (£8bn). In addition, the breakdown is provided from the ONS statistical estimated data and not from actual audited accounts information.

More information as to what the limitations relate to could help generate meaningful insights on what goods and services are bought across government, so that cross-government procurement strategies could be developed potentially saving more or where there is duplication. For instance, the 2010 Phillip Green Efficiency Review focused on procurement spending across central government. Better information from all parts of government would provide greater opportunity to take a holistic assessment of spending, providing opportunities to improve procurement and make savings.

KEY QUESTIONS TO CONSIDER

The WGA is a huge document (almost 190 pages, although it has slimmed down from over 250 pages when the first WGA was published). There is a lot of information which can seem overwhelming to the uninitiated.

The key areas to look at as a starting point would be:

1. What is happening to assets/liabilities/income and expenditure?
2. What is happening to the trends for all these areas?
3. Is there is a significant change in any area? If so, is there a full explanation?
4. Do the accounts fit with wider information?
5. What has the C&AG highlighted in their report?
6. What progress has been made to reduce/remove the audit qualifications?
7. What is the debt figure according to the National Accounts compared to the net liabilities in the WGA?

SUMMARY

The UK WGA is the most comprehensive set of government accounts globally as acknowledged by the C&AG and is intended to be the jewel in the crown to deliver greater transparency, accountability and scrutiny of public money.

The wealth of information provides a high-level view and users can look into the detail of the individual government bodies' accounts. Although there are still a number of challenges to overcome in terms of the audit qualifications that have yet to be addressed, the WGA has come a long way in a few short years.

The greater challenge is to encourage greater use of the WGA so that it delivers its aim to provide scrutiny in public spending.

CHAPTER 8

Performance management in central government

Managing performance across central government departments and bodies is complex. It can be difficult in the public sector to directly link inputs (or government spend) to outputs and outcomes. For example, how does one directly measure the output from one additional teacher to the overall education results? This is even harder in the context of central government as they are largely the policy making arm and not the front line delivery vehicle for public services.

Within this context, where can the layperson find out what government is planning to do and how this fits into individual government departments' plans? How do the plans compare to the actuals? Where should one look to find this information?

GOVERNMENT'S PLANNING AND PERFORMANCE FRAMEWORK

The UK government planning and performance framework has developed and evolved over time to "meet the need for greater accountability and transparency" (extract from the Government's Planning and Performance Framework guidance).

The government's planning and performance framework includes the following processes:

- SDPs set out a department's objectives, how it will use its resources to achieve them and how its performance should be measured.
- Spending reviews, the Budget and supply estimates determine and set out publicly a department's funding and how it will allocate its budget.
- The annual report and accounts present a department's performance in a financial year, accountability and the outcomes it has achieved as a result of its spending and activity.
- WGAs and the public expenditure statistical analysis set out public spending as a whole, giving a comprehensive picture of what the government receives, spends, owns and owes.

This section focuses on the first step in this process – the SDP.

SINGLE DEPARTMENTAL PLANS (SDPS)

The government introduced SDPs in 2015 to improve the quality of planning across government. Before the introduction of SDPs departmental performance management and reporting was managed under departmental plans; these in turn replaced public service agreements (PSA) introduced in the Comprehensive Spending Review 1998. By 2007, 30 PSAs were established, setting out the highest priority outcomes for the spending review period

(2008/09–2010/11). Further information is provided in the 2000 Spending Review: Public Service Agreements July 2000 (CM 4808 July 2000.)

Each PSA is underpinned by a single delivery agreement, shared across all contributing departments, and developed in consultation with delivery partners and frontline workers. This was designed to provide a holistic assessment of each core activity regardless of departmental boundaries.

SDPs set out:

- the department's objectives for the duration of the Parliament
- who is responsible – lead minister (or secretary of state) and the ministerial team and the lead official (called the permanent secretary, who is also the accounting officer), and in a public sector organisation it is the person who Parliament calls to account for stewardship of its resource, as set out in *Managing Public Money*
- how it will use its resources to achieve the objectives
- how its performance can be measured
- finances – split into total capital and resource budget and links to the estimates.

SDPs are revised annually, in line with a department's own internal planning, to reflect new or changes in priorities/responsibilities.

For areas that involve more than one department, the SDPs show what each department is responsible for and where there is joint responsibility between departments.

To manage day-to-day activities, departments have more detailed versions of the SDPs. These medium-term business plans are based on the department's own planning process and are designed to be flexible to accommodate changes, set priorities and allocate resources to achieve its outputs and outcomes.

The SDPs are agreed with the Cabinet Office and HM Treasury to ensure they reflect the whole of the government's priorities and can be achieved within the finances allocated to the department.

Departments will report how they have performed against the objectives in their SDP at the end of the financial year in their annual report and accounts.

The annual report and accounts is the primary source of information to assess departmental performance but there are various other sources. For example, one of the key deliverables for the Department for Transport (DfT) is to improve journeys, so a good measure is journey time statistics.

One note of caution when different statistics are presented is that there is the potential for those statistics that present performance in the best light may be used. The reader needs to be discerning and look for trend information to provide an accurate assessment on performance and corroborate this with other sources of information. It is best to apply common sense and compare this information with what we know. In the case of transport's performance, what has been reported in the media? What are the figures reported by the train operating companies?

OTHER SOURCES OF INFORMATION

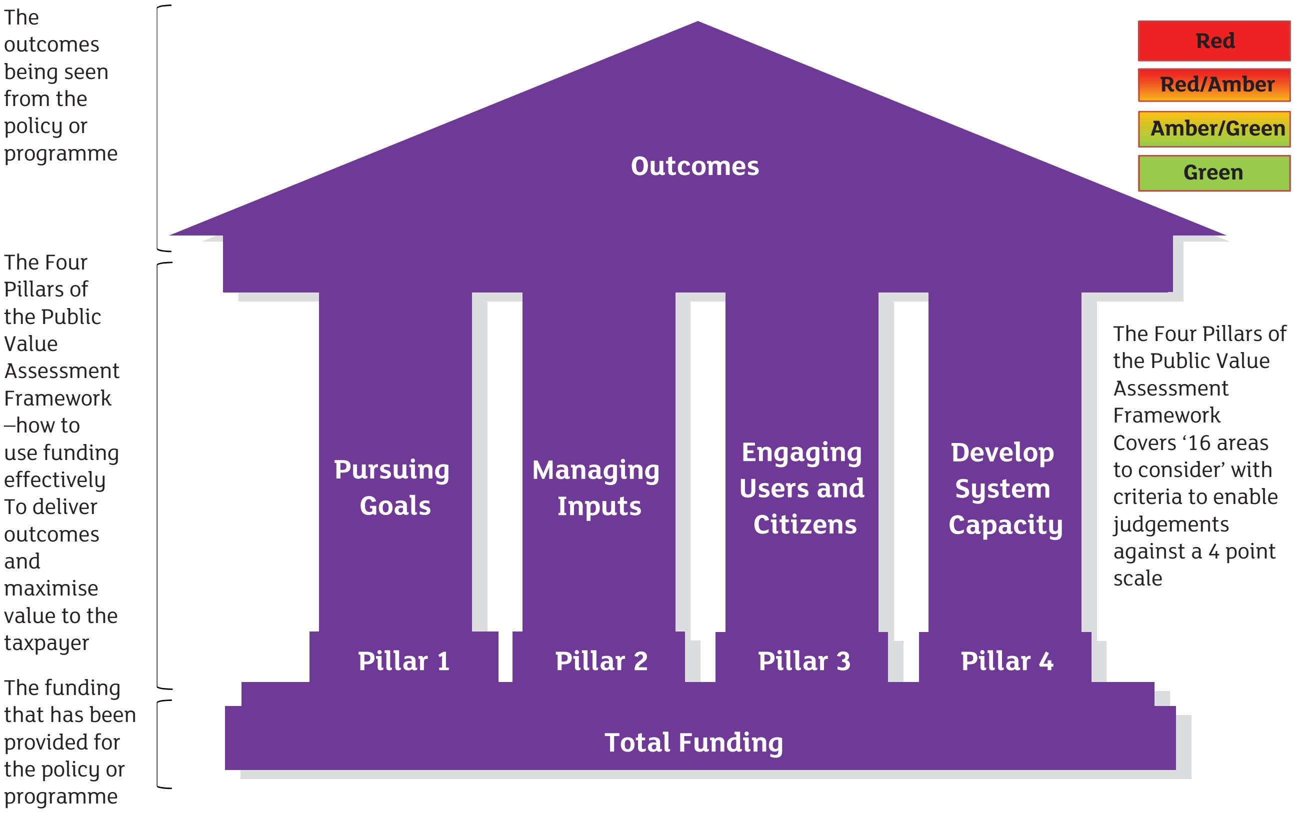
Performance data on government services is also provided. There are over 800 service and other dashboards. Users of the information should bear in mind what is reported and assess what other information would help provide better/different performance data. Better data will result in better insights and more informed decision making, hopefully leading to better outcomes.

PUBLIC VALUE

A recent Treasury report led by Sir Michael Barber proposes a new public value approach into how central government can ensure it is delivering maximum value for every pound spent on our hospitals, schools and other essential services.

It provides a practical, new approach to the understanding of public sector productivity and how it can be addressed in government. It aims to ensure that ongoing improvements in the delivery of public services become firmly embedded in daily working practice.

Figure 8.1: Public value framework



Source: Delivering Better Outcomes for Ctizens: Practical Steps for Unlocking Public Value led by Sir Michael Barber (November 2017)

SUMMARY

Increasing transparency and accountability is a key aim for the government and part of this is the introduction and evolution of the SDPs. The SDPs provide high level information on the core objectives for the department, who is responsible and finances agreed to deliver the priorities.

How departments have performed against these priorities is provided in the department's annual report and accounts. However, this is not the only source of performance information as there are various sources of information depending on the departmental priority.

FURTHER READING

- Delivering Better Outcomes for Citizens: Practical Steps for Unlocking Public Value
- All central government department's SDPs

CHAPTER 9

Other sources of information

The main focus of this publication has been on financial information that is publicly available to the reader, identifying where to look and the questions to ask. However, there are many other sources of information available to the interested individual. This chapter highlights the main sources of, largely, financial information, although this is not an exhaustive list.

Sources included in this section are acknowledged as independent of political bias: the information is a factual presentation of the data available.

OFFICE FOR NATIONAL STATISTICS (ONS)

The ONS is the UK's largest independent "producer of official statistics and the recognised national statistical institute".

The ONS' main responsibilities are collecting, analysing and disseminating statistics about the UK's economy, society and population. This covers both private and public sector data and comparisons between sectors. For example, the workforce statistics release covers private and public sector statistics and is further analysed between UK central and local government.

All other government bodies rely on the data provided by the ONS, and it is subject to the statisticians' code of ethics so that the information presented is factually accurate and not misinterpreted.

As the UK's official independent producer of statistical information, whether it is the monthly inflation figures, or productivity or economic growth, no one questions the numbers produced by the ONS. These can be subject to revisions but there are strict rules on how to do this and revisions are usually to reflect better information available later on.

Data published by the ONS is used nationally by the OBR, think tanks such as the Institute for Fiscal Studies and the Institute for Government, as well as media and internationally.

DATA GOV UK WEBSITE

Under the Open Data White Paper: Unleashing the Potential (June 2012), the UK government made a commitment the under increasing transparency and building trust agenda to open data and make it public, allowing wider society access to data so it might be turned into insight and information.

Initially some of the data published was not meaningful and informative to the general debate on where and how public money was being used. For example, as part of the transparency agenda in 2010, the requirement for all central and local government bodies to publish all items of spending over £500 (although some publish everything) and all contracts over £10,000 were made available. The Treasury provides guidance and set templates for what is to be disclosed and how it should be presented. This is part of the commitment to publishing many types of core transparency information, known collectively as the 'central government corporate transparency commitments'.

These include:

- central government contracts over £10,000
- central government spending over £25,000
- gender pay gap data
- Government Major Projects Portfolio (GMPP) data
- Government Major Projects Portfolio (GMPP) senior responsible owners
- ministerial gifts, hospitality, travel and meetings
- monthly payment card data over £500
- non-consolidated performance related pay
- prompt payment data
- senior civil servants' business appointment applications
- senior officials' business expenses, hospitality and meetings
- special advisers' gifts, hospitality and meetings
- spend control data
- workforce management information.

The GOV.UK website brings together data published by government departments and agencies, public bodies and local authorities. It is designed to be used to learn more about how government works, carry out research or build applications and services. The information is split into 12 different themes including business and economy, crime and justice, defence, education, government, government spending, transport and others. As at October 2018, there are over 40,000 published datasets available to all.

As well as providing more transparency by making public data public, the aim was to allow greater analysis (either inside government or externally).

Under this initiative, more data has been made available, but the value of this information is reduced. Without any supporting narrative and explanation as to what the spending was for and what benefit was achieved, the question as to how the spending impacts on the outputs and outcomes remains unanswered.

Government procurement card spending over £500 for each department is available from the GOV.UK website. This is available as an Excel file, a CSV file and in other formats which can be requested. This is designed to allow further analysis of the data (as required by Treasury guidance to promote consistency across government departments).

INSTITUTE FOR GOVERNMENT (IfG)

The Institute for Government (IfG) is a leading independent think tank "working to make government more effective" by providing rigorous research and analysis on the effectiveness of government.

The IfG produces data sets and analysis and publishes reports, guides and thought pieces. Two major reports that provide comprehensive data analysis and insight include the Whitehall Monitor and, in partnership with CIPFA, the Performance Tracker.

Whitehall Monitor

The Whitehall Monitor is the IfG's data-informed analysis of the size, shape and performance of government. The IfG publishes an annual report, topical commentary and regularly updated 'explainers' on different areas of government.

In the latest Whitehall Monitor (2018), the IfG brought together over 500 datasets into 94 infographics in areas such as:

- workforce
- government finances
- managing public spending
- delivering major projects
- measuring performance
- communications and transparency
- political leadership
- passing legislation.

Information is presented in an easily accessible and understandable way so the reader can assess how central government departments are relative to one another in each of the above areas.

One note of caution when comparing statistics from different sources is to check what is included in the definition to make sure to be comparing like with like.

For example, in the workforce analysis, the IfG shows the number of civil servants as nearly 400,000. However, the ONS data set states that the number of civil servants is just over 300,000. The difference is explained by different departments being included in the ONS list and the IfG's list, for instance non-departmental public bodies (NDPBs) and agencies.

There are also many explainers and commentaries provided to help the user to have a cross central government view of the many other data sets; in this case it is looking at workforce information. For example, in the commentary accompanying the chart, the IfG further breaks down the data into insights, such as the fact that the top four departments account for 65% of the total number of civil servants working in central government and the majority work in the 'core' department, rather than in executive agencies or non-ministerial government bodies.

Performance Tracker

The Performance Tracker, published by CIPFA and the IfG looks at datasets across key public services to provide a comprehensive picture of the performance of government. Areas covered include:

- health and social care
  - general practitioners

  - hospitals
  - adult social care
- schools
- law and order
  - police
  - criminal courts
  - prisons
- local neighbourhood services
- UK visas and immigration.

The Performance Tracker shows what has happened to spending, scope and quality across the five public services since 2010, drawing on publicly available information and data on different indicators.

For example, the IfG presented a chart showing the change in spending on NHS providers (in real terms, after taking into account the effectives of inflation) from 2009/10–2016/17. This data is derived from the former DH (renamed the DHSC in the 2017 Autumn Budget).

By bringing together these different metrics, the Performance Tracker adds to the debate on the impact of inputs (ie government funding) to outputs (specific government policy/delivery areas). There is more analysis and insight provided in the report for this area, and it has been simplified here to show the reader what is available and examples of how the information is presented and analysed.

However, as discussed previously, performance management remains an issue within government, and it is often difficult to assess the impact of changing government spending in one area and comparing this to another area to consider if it would be better to spend the money elsewhere, or where it is best to spend any additional funding in the system. This remains a difficult question to answer due to the lack of performance data.

INSTITUTE FOR FISCAL STUDIES (IFS)

The independent Institute for Fiscal Studies (IFS) was launched in 1969 with the "principal aim of better informing public debate on economics in order to promote the development of effective fiscal policy". Today, the IFS is seen as Britain's leading independent microeconomic research institute. Its remit covers many areas including tax, benefits, education policy and labour supply.

One area it is renowned for is its public finances analysis including on the Budget, spending review and the Spring Statement. All analysis, video explainers and presentations are freely available from the IFS website, as well as commentary in the national press.

There are numerous other think tanks producing valuable analysis and insights on government data, some focusing on a particular sector such as The Kings Fund and the Nuffield Trust focusing on health, or the Local Government Association (LGA) focusing on local government issues and others focusing on improvement to delivery of public services, such as Reform, or reform of public finances, specifically tax levels such as the Taxpayers Alliance and other functions or professional commentators, such as the professional accountancy organisations, HR professionals and the 'Big Four' accountancy bodies – PwC, Deloitte, EY and KPMG.

OFFICE FOR BUDGET RESPONSIBILITY (OBR)

The OBR was created in 2010 to provide independent and authoritative analysis of the UK's public finances.

The OBR has five main roles:

1. Economic and fiscal forecasting – the OBR produces detailed five-year forecasts on economic and public finances twice a year. These are to accompany the Budget (usually late November) and the Spring Statement (usually March). The forecasts model the likely impact of the chancellor's Budget and/or Spring Statement. The Economic and Fiscal Outlook report sets out details of the forecasts.
2. Evaluating performance against targets – the OBR uses its public finance forecasts to judge the government's performance against its fiscal targets. This is set out in the Economic and Fiscal Outlook report. The OBR also assesses the government's performance on welfare spending and this is set out in the Welfare Trends report.
3. Sustainability and balance sheet analysis – the OBR assesses the long-term sustainability of public finances, evaluating the impact of current policies based on demographic and other changes. This is presented in the Fiscal Sustainability Report produced bi-annually to tie in with ONS update population projection. The OBR also uses the information published in both the WGA and the national accounts. As seen in Chapter 5, the government balance sheet under the national accounts measure is significantly lower than under the commercial style accounting standards measures in the WGA.
4. Evaluation of financial risks – every two years the OBR publishes a comprehensive assessment of the risks facing the economy, the financial system, tax revenues, public spending, the government balance sheet and a fiscal stress test. This is published in the Fiscal Risks Report.
5. Scrutinising tax and welfare policy costing – the OBR scrutinises the government's costing of individual tax and welfare spending measures at each Budget. The government provides the OBR with draft costings in the run-up to each statement, and the OBR will subject these to detailed scrutiny and challenge.

The outcome of this evaluation is included as an annex to the Economic Fiscal Outlook report.

The OBR has also developed an accessible Brief Guide to UK Public Finances. This is updated following every Budget or the Spring Statement.

This covers four key areas:

1. How much money does the UK government raise through taxes and other revenues?
2. How much money it will spend?
3. Will it spend more than it raises (so will it need to borrow money to make up the shortfall) or will it spend less?
4. How much will be added to (or paid off) the national debt?

Each of these areas is explained in clear, understandable language.

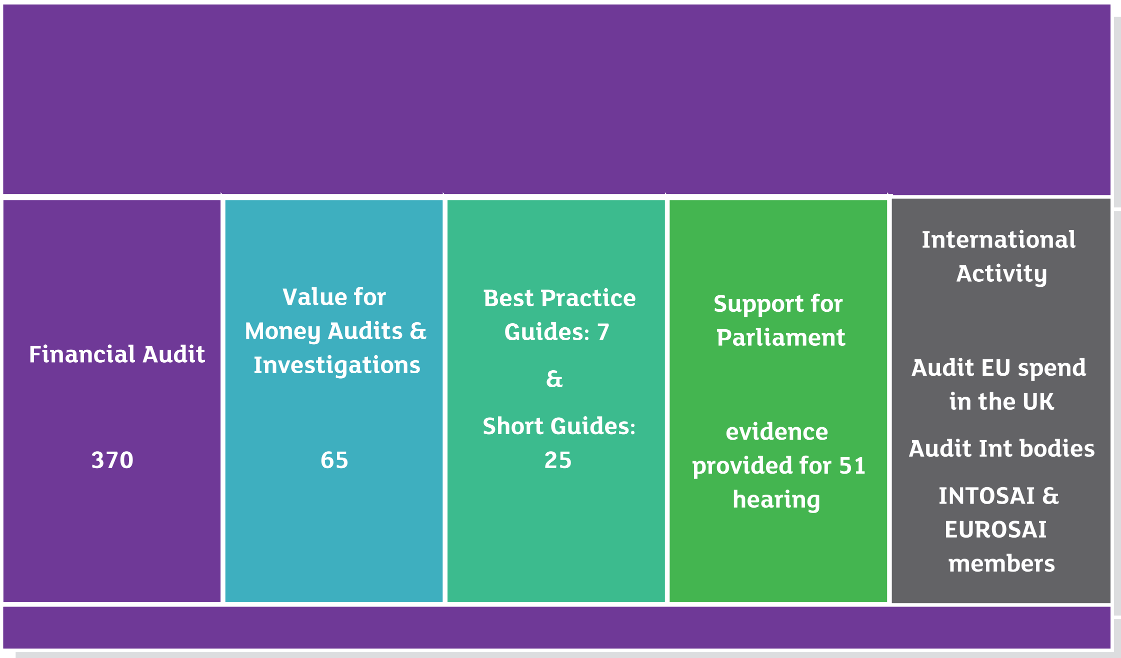
NATIONAL AUDIT OFFICE (NAO)

The NAO is a key source of information on government spending and whether the taxpayer has received value for money for the total government spending. The NAO is not limited to auditing the financial statements of central government bodies' accounts and their agencies and non-departmental public bodies, although this remains a key deliverable for the NAO.

The NAO is led by the C&AG. Both the C&AG and the NAO staff are independent of the government. The NAO's budget is set by the Public Accounts Committee which also oversees the work. The governance of the NAO is led by a board comprising of NEDs.

There are five main areas of the NAO's work, as illustrated in Figure 9.1.

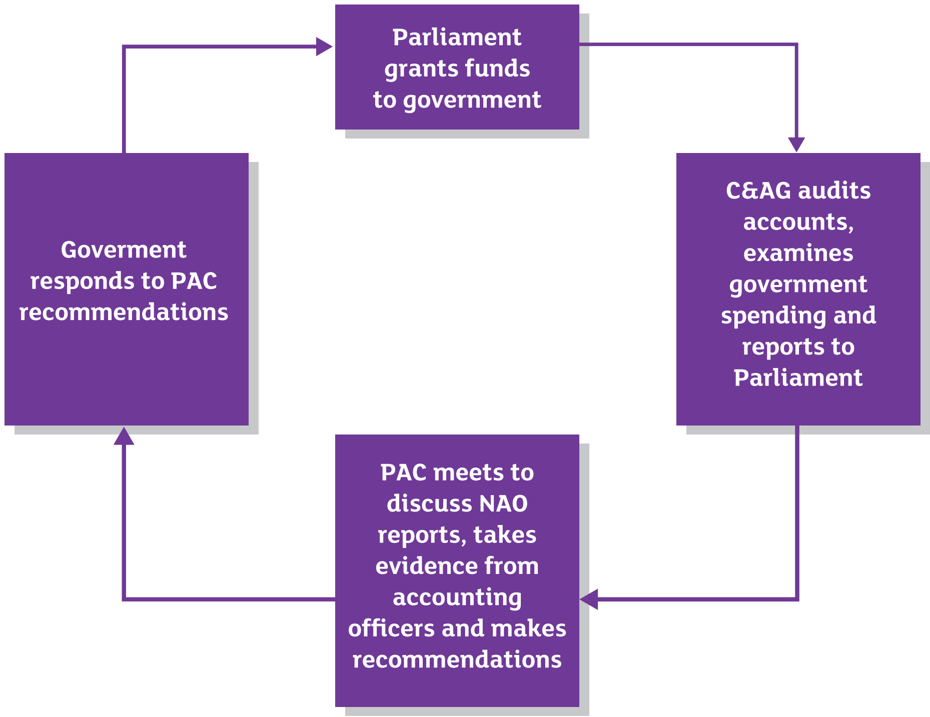
Figure 9.1: The NAO's work 2017/18



Source: The NAO Annual Report and Accounts 2017/18

The financial audit has been discussed in detail throughout this publication. This section highlights the other important role that the NAO and the C&AG perform to provide accountability for public finances, as is illustrated in Figure 9.2.

Figure 9.2: The accountability process



Source: Extract from An Introduction to the NAO PowerPoint presentation

To help deliver accountability, the NAO produces many helpful documents including the following outlined below.

Guides

The NAO has developed guides to help the reader have a better understanding of the different government departments, what each department does, how much it spends, recent and planned changes and what to look out for across its main business areas and services.

The NAO brings together insights from all its work on the particular department, including value for money audits, financial audit, investigations and other information used to help support the Committee of Public Accounts hearings.

For example, the Short Guide to the Department of Health and NHS England is split into the following sections: key facts, an overview of the department, key trends, an analysis on where the DH (now DHSC) and NHS England spend the money, spending pressures, major programmes and development, key themes from the NAO reports and accountability to Parliament. The interactive guide also refers the reader to other reports that are mentioned in the analysis, such as the previous issues identified in the audit of the financial statements.

This appears to be the standard format for the short reviews. The NAO has also developed a guide to help those with an oversight role to understand central government accounts (NAO 2014). The guide runs from the funding cycle to the annual report, providing an overview of the accounts and explaining each of the core statements (with supporting extracts from departments' accounts), the notes and the trust statement.

It also has numerous 'challenge' boxes guiding the reader to look at specific areas in the accounts to consider where there could be an issue. For example, in relation to leases and PFI commitments, the NAO proposes the following challenge in Figure 9.3.

Figure 9.3: 'Challenge'

Challenge

Are there any significant commitments which are at risk from potential changes in policy or plans? For example, are any leased buildings likely to become unused before the end of the lease period?

Have management clearly explained the rationale behind any additional obligations entered into during the year?

Source: The NAO's Guide to Understanding Departmental Accounts (2014), page 33

Value for money (VfM) reports

The NAO conducts over 60 value for money (VfM) audits each year. These provide a rich source of information and are an important tool to provide better accountability.

According to the NAO:

A value for money study focuses on a specific area of government expenditure, and seeks to reach a judgement on whether value for money has been achieved. We define good value for money as the optimal use of resources to achieve the intended outcomes.

Source: *The NAO's What Is a Value for Money Study*

The VfM audit is a wide-ranging review that looks at financial analysis; analysis of management information; documentary review; interviews or focus groups with departmental and other staff; literature review; surveys of practitioners or service users; and benchmarking with other organisations or other countries.

The outcome is a report that is presented to Parliament and the PAC, which consider the report. The PAC often holds hearings, supported by the NAO, asking further questions of the senior officials on the issues identified in the VfM audit. The outcome from this is that the PAC drafts its own reports and the government must respond to these. Therefore, this is a powerful tool to deliver accountability and ensure the optimal use of resources.

The NAO report on Accountability to Parliament for Taxpayers' Money highlighted the challenge faced by the lead government official for each government body to effectively complete its dual role: to ensure effective policy implementation and deliver value for money. Changes have "tilted the balance so that Accounting Officers have greater pressures to give weight to political drivers rather than public value" (*Accountability to Parliament for Taxpayers' Money*, February 2016, para 5).

The report made a number of recommendations and, as a result, HM Treasury changed guidance for the accounting officer in *Managing Public Money*, Chapter 3. In addition to the other requirements, the accounting officer is now required to prepare:

- an accounting officer system statement
- an accounting officer assessment of major projects.

The aim is to give the accounting officer firmer ownership of the whole system of accountability – this has become an increasing issue with a number of delivery partners, with the question as to who retains overall individual responsibility/accountability being important.

One of the best examples that was cited by the NAO is the former DCLG (now MHCLG). Figure 9.4 is an extract from the DCLG's Accounting Officer Accountability System Statements for Local Government and for Fire and Rescue Authorities (September 2013).

Figure 9.4: Accountability systems within the former DCLG

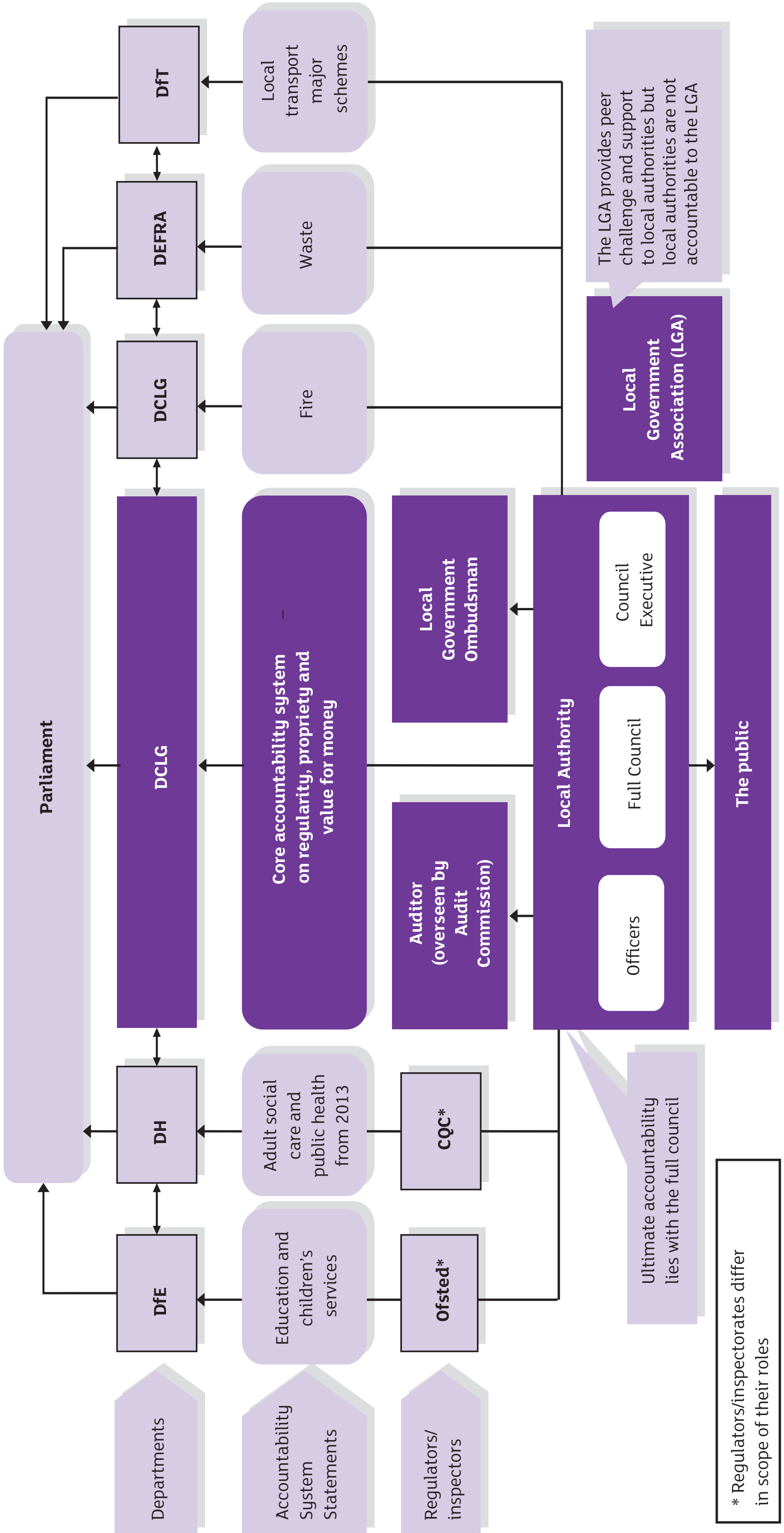


Diagram showing the accountability system statements relevant to local government and the main organisations involved in them.

Source: Accounting Officer Accountability System Statements for Local Government and for Fire and Rescue Authorities (DCLG, September 2013)

Investigations

The NAO also conducts detailed investigations into specific areas to establish the facts. These are based on a rapid assessment of the issue to consider whether it is a failure in service quality or financial management or something else, targeted to deliver timely findings.

A high-profile example was the NAO's investigation into the government funding of the failed Kids Company. This high profile investigation found:

[T]hat on at least six occasions between 2002 and 2015 officials had raised concerns about the finances of the children's charity, Kids Company*. Yet the charity continued to receive public funding – totalling at least £46 million.*

This investigation shed light on cases of ministers making funding decisions despite official recommendations to the contrary, particularly as the final £3 million grant was made on the basis of a 'Ministerial directive'.

The ministerial directive is an important measure where the lead government official, the permanent secretary, is required by the minister to implement policy initiative regardless of whether they agree with it. The permanent secretary is also the accounting officer and so must ensure that the spending meets the requirements set out in *Managing Public Money* (ie regularity, propriety, value for money and feasibility).

Best practice

Through the extensive work that the NAO does, it has a unique overview of public sector issues and is able to identify and showcase best practice. The NAO regularly celebrates excellence in public sector reporting through its publication of the annual Public Sector Awards. The latest Good Practice from the Excellence in Reporting in the Public Sector Award – Building Public Trust Awards highlight good examples and highlight these for other public sector bodies to emulate.

This is an interactive guide assessing over 50 reports from both the public, private and charity sector.

The assessment criteria are set out in Figure 9.5.

Figure 9.5: The NAO principles of a good annual report

Accountability	Transparency
■ 'Telling the story' of the organisation in a fair and balanced way. ■ Compliance with the relevant reporting. ■ Clear action points to take forward.	■ Frank and honest analysis. ■ Consideration of the challenges an organisation is facing. ■ Appropriate use of data. ■ Quantification of risks and performance measures.
Accessibility	**Understandable**
■ Highlights key trends in the financial statements. ■ Concise summaries of key points. ■ Consideration of how the organisation engages with key stakeholders and meets their needs.	Use of: ■ Plain English to explain difficult concepts. ■ Infographics and diagrams to communicate important messages. ■ Clearly integrated structure to help users navigate it effectively.

Source: Good Practice in Annual Reports (NAO, 2016/17)

Since the award was launched in 2002, there have been over 18 awards presented. This fulfils the NAO's aim to raise the standards in reporting in the public sector.

HM TREASURY

HM Treasury is the government's economic and finance ministry, maintaining control over public spending, setting the direction of the UK's economic policy and working to achieve strong and sustainable economic growth (What HM Treasury Does).

As a department, it is also responsible for:

- public spending policy (including departmental spending)
- financial services policy (including banking and financial services regulation)
- strategic oversight of the UK tax system (including, for example, income tax, personal allowance and National Insurance)
- ensuring the economy is growing sustainably
- setting guidance for accountability and financial reporting in government departments
- the production of the WGA, consolidating the audited accounts of more than 6,000 organisations across the UK public sector, including central and local government (A Short Guide to HM Treasury, NAO, 2017).

Since 1866, the House of Common's historic function of controlling expenditure has been delegated to the Treasury and to departmental accounting officers. The Treasury prepares guidance that Departments must follow. This includes:

the Consolidated Budgeting Guidance contains the guidance for government departments on the budgeting framework that applies for expenditure control and is updated annually

Managing Public Money

the FReM which sets out the financial reporting standards that must be followed by the preparers of the accounts.

The Treasury also sets out the standard templates for central government departments, agencies and other bodies to follow. This is updated annually to reflect any changes in the accounting standards.

The Treasury also publishes various other guides on projects. These are a series of colours.

The Green Book covers appraisal and evaluation in central government. The Green Book gives guidance to civil servants on how to appraise and evaluate policies, projects and programmes. To support the Green Book there is a raft of supplementary guidance covering:

- specific contexts (ranging from asset valuation to risk to optimism bias and sectors such as health and transport)
- public sector business cases using the five case business model: guidance, templates, checklist and training.

This helps the preparers and evaluators of business cases in central government to understand the standards and expectations. In addition, there is a short plain English guide on business cases available too.

The Magenta Book is guidance on what to think about when designing an evaluation. It explains how results can be interpreted and presented, and what should be considered in this process.

The Magenta Book outlines how thinking about evaluation before and during policy-making can improve the quality of results produced to evaluate that policy.

The guidance is mostly used by central government, but is also useful for policy-makers in local government, charities and the voluntary sectors.

The Aqua Book provides guidance on producing quality analysis for government. It is a good practice guide to those working with analysis and analytical models.

Additional tools, guidance and templates to support the Aqua Book are also available.

There is more guidance – open data, eg rules on budgeting and financial reporting, are available on the GOV.UK website, as well as other documents on procurement rules in central government. With such a wide remit, the Treasury make all the guidance and resources publicly available on the GOV.UK website.

CABINET OFFICE

In addition to the information that the Treasury requires government departments to publish, the Cabinet Office also centrally publishes transparency data. This includes information on:

- Civil Service sickness and absence data
- ministers' interest declarations
- ministers' salary data
- senior civil servants' names, grades, job titles and annual pay rates
- special advisers' names, grades and annual pay.

This information is provided under the government efficiency policy.

SELECT COMMITTEE REPORTS

Parliamentary select committees publish numerous reports in any Parliamentary session covering a wider range of issues including health, the police and education. This is an important means to assess scrutiny and accountability of government policy and public finances.

It may not be possible to assess all the reports and committee meeting hearings, oral and written evidence (although this is available through Hansard unless there is a specific policy area of interest). In may be worth focussing on cross-government select committees including the PAC.

The PAC is appointed by the House of Commons to examine:

The accounts showing the appropriation of the sums granted to Parliament to meet the public expenditure, and of such other accounts laid before Parliament as the Committee may think fit (Standing Order No 148).

This committee scrutinises the VfM – the economy, efficiency and effectiveness – of public spending and generally holds the government and its civil servants to account for the delivery of public services.

As delivery models for public services have changed, so the reach of the committee, in following the taxpayer's pound, has spread beyond government departments to also examine public bodies and, increasingly, private companies providing public services. It is for this reason that the PAC is seen as one of the most important committees.

Note the committee looks at how rather than why public money has been spent and does not examine the merits of government policy. This is in the remit of individual departmental select committees.

The reports are prepared by the NAO.

The Public Administration and Constitutional Affairs Committee (PACAC)

The PACAC examines constitutional issues and the quality and standards of administration within the Civil Service. It also scrutinises the reports of the Parliamentary and Health Service Ombudsman.

The Committee of Public Accounts (PAC)

The PAC is the oldest select committee in the House of Commons.

Lord Hennessy described the PAC as:

The queen of the select committees … [which] … by its very existence exerted a cleansing effect in all government departments.

Source: *History – Public Accounts Committee*

More information on the history of the PAC – how it came into existence in 1861 when the then chancellor of the exchequer, William Gladstone, moved to implement Sir Francis Baring's recommendation to set up a Select Committee on Public Monies – is provided in Holding Government to Account:150 Years of History.

Two key themes and strategic priorities for the PAC's programme of work during this Parliament are:

1. the UK's changing constitution
2. the efficacy of the civil service and machinery of government.

There are some obvious overlaps between the areas the PAC and PACAC review, and it is not uncommon for the two select committees to work together on cross-cutting issues.

These are only two of the different select committees. The following lists all (as at April 2018)

- Administration Committee
- Armed Forces Bill Select Committee 2015
- Arms Export Controls (Committees on)
- Artificial Intelligence Committee
- Audit Committee (Lords)
- Backbench Business Committee
- Business, Energy and Industrial Strategy Committee
- Citizenship and Civic Engagement Committee
- Commons Reference Group on Representation and Inclusion
- Communications Committee
- Consolidation Bills
- Constitution Committee
- Court of Referees
- Defence Committee
- Defence Sub-Committee

- Delegated Legislation Committee
- Delegated Powers and Regulatory Reform Committee
- Digital, Culture, Media and Sport Committee
- Draft Investigatory Powers Bill
- Draft Protection of Charities Bill
- Ecclesiastical Committee
- Economic Affairs Committee
- Economic Affairs Finance Bill Sub-Committee
- Education Committee
- Environment, Food and Rural Affairs Committee
- Environment, Food and Rural Affairs Sub-Committee
- Environmental Audit Committee
- Estimate Audit Committees
- EU Energy and Environment Sub-Committee
- EU External Affairs Sub-Committee
- EU Financial Affairs Sub-Committee
- EU Home Affairs Sub-Committee
- EU Internal Market Sub-Committee
- EU Justice Sub-Committee
- EU Select Committee
- European Committee
- European Scrutiny Committee
- Exiting the European Union Committee
- Finance Committee
- Finance Committee (Lords)
- Foreign Affairs Committee
- Health and Social Care Committee
- High Speed Rail (London - West Midlands) Bill Select Committee (Commons)
- High Speed Rail (London - West Midlands) Bill Select Committee (Lords)
- High Speed Rail (West Midlands – Crewe) Bill Select Committee
- Home Affairs Committee
- House Committee
- House of Commons Commission
- House of Lords Commission
- Housing, Communities and Local Government Committee
- Human Rights

- Hybrid Instruments Committee
- Information Committee (Lords)
- Intellectual Property (Unjustified Threats) Bill Committee
- Intelligence and Security Committee of Parliament
- International Development Committee
- International Relations Committee
- International Trade Committee
- Justice Committee
- Leader's Group on Governance
- Liaison Committee (Commons)
- Liaison Committee (Lords)
- Long-Term Sustainability of the NHS Committee
- Lord Speaker's committee on the size of the House
- Lords' Conduct (Sub-Committee)
- Members Estimate Committee
- Members' Expenses Committee
- National Security Strategy
- NERC Act 2006 Committee
- Northern Ireland Affairs Committee
- Northern Ireland Grand Committee
- Palace of Westminster
- Panel of Chairs
- Petitions Committee
- Political Polling and Digital Media
- Privileges and Conduct (Committee for)
- Privileges Committee
- Procedure Committee (Commons)
- Procedure Committee (Lords)
- Public Accounts Commission
- Public Accounts Committee
- Public Administration and Constitutional Affairs Committee
- Refreshment Committee
- Regulatory Reform Committee
- Science and Technology Committee (Commons)
- Science and Technology Committee (Lords)
- Science and Technology Sub-Committee I

- Scottish Affairs Committee
- Scrutiny Unit
- Secondary Legislation Scrutiny Committee
- Selection (Committee of) (Lords)
- Selection (Commons)
- Services Committee
- Speaker's Committee for IPSA
- Speaker's Committee on the Electoral Commission
- Standards Committee
- Standards in Public Life Committee
- Standards Review Sub-Committee
- Standing Orders (Private Bills) (Commons)
- Standing Orders (Private Bills) (Lords)
- Statutory Instruments (Joint Committee)
- Statutory Instruments Committee (Commons)
- Sub-Committee on Education, Skills and the Economy
- Sub-Committee on the Work of the Independent Commission for Aid Impact
- Transport Committee
- Treasury Committee
- Treasury Sub-Committee
- Welsh Affairs Committee
- Welsh Grand Committee
- Women and Equalities Committee
- Work and Pensions Committee
- Works of Art (Speaker's Advisory Committee)
- Works of Art Advisory Panel (Lords)

FREEDOM OF INFORMATION (FOI) REQUESTS

The Information Commissioners Office (ICO) sets out the freedom of information (FOI) requirements and the Freedom of Information Act 2000.

Another means to ascertain specific information about public sector bodies is to use the freedom of information process. Most departments have established processes for this and usually provide a dedicated email address to contact the department with the specific request.

Anyone may request any information that is held by a public authority. However, this does not mean that the public authority is always obliged to provide the information. In fact, there are some provisions in the Act to prevent certain disclosure such as details of individual court cases or issues of security.

There are three specific practical reasons where public bodies can refuse an entire request:

1. It would cost too much or take too much staff time to deal with the request.
2. The request is vexatious.
3. The request repeats a previous request from the same person.

Central government departments often cite the high cost/too much time reason to refuse FOI requests. In fact, research from the IfG shows that over the last few years the number of unanswered FOIs has increased. In the period July to September 2017, central government departments received over 8,000 requests. Of these, three-quarters were resolvable (for the other requests information was either not held or advice was provided), one-third were granted in full and a further 28% were withheld in full (half of these were due to cost limit or exemption).

CONCLUSION

There is a wealth of information available and through demands for greater transparency and accessibility (including understandability) both the volume and importantly quality of the information has improved considerably in a few short years. The UK is ranked eighth in TI's global CPI 2017 and is recognised for the significant improvements it has made in the index scores since 2012.

There are gaps in the information that is currently openly available. In some cases this is understandable, such as in the interest of national security, but this is not the case for all data and information central government does not make available. There is more that could and should be made available. This would enhance transparency, accountability and potentially help with developing options and solutions – this can be seen with the number of apps being developed, or how think tanks evaluate the data to offer new and innovative insights and solutions to provide public services that deliver value for public money.

There is an increased appetite for greater transparency. Therefore, if the public and other stakeholders want better information on government finances, or what the spend is on particular policies and other information, then the public needs to ask for this. The first step is to know what information is already publicly available.

Are we there yet? No, but there is a lot of information readily available. The starting point is knowing what is out there, where to look and the questions to ask.

CHAPTER 10

Opportunities/areas for further improvements

In a few short years, the level of government data that is made public has increased dramatically, from the transition to commercial-style financial reporting to information on individual contracts over £10,000 and reporting to information on ministerial gifts, hospitality, travel and meetings. However, there is more that could be done to fully exploit the data.

ACCESS TO THE INFORMATION AND MAKE PUBLIC DATA PUBLIC

Access to the information would be enhanced if government departments made Excel file versions of the data available (similar to data sets made available by the ONS and the OBR) allowing greater external analysis of the information by think tanks or others able to translate into visualisation/info-graphics. While some of the data is available in these formats, this is not universally the case.

For example, the central government departments' annual report and accounts are presented on the website as well as in printable versions, but they are not available in as Excel or CSV files. The PACAC Report on Accounting for Democracy also raised this issue.

There should be a list of all the public accounts and the audit opinion. For example, the NAO completes almost 400 audit reviews annually. The NAO publishes a vast array of information on the various reviews and audits completed, but there is no overall summary of the outcomes including information on qualifications for all to see. It would be helpful to have this information and to be able to track it over years to identify any trends which could indicate other underlying issues.

For example, for the accounting year 2016/17, the following central government departments and their bodies' accounts were qualified as illustrated in Figure 10.1

Figure 10.1: Central government bodies' annual report and accounts where the audit opinion was qualified in 2016/17

Account	Type	Period	Audit Qualification: reason
Ministry of Defence	Resource account	2016/17	**Financial Statements (True and Fair)**
HMRC	Resource account	2016/17	**Regularity (Other)**
Department for Work and Pensions	Resource account	2016/17	**Regularity (Other)**
National Offender Management service	Executive agency	2016/17	**Regularity (other)**
Transport Focus	Executive agency	2016/17	**Regularity (Other)**
High Speed 2	Resource account	2016/17	**Regularity (Other)**
Competition and Markets Authority	Resource account	2016/17	**Regularity (Excess vote)**
House of Commons Members	Resource account	2016/17	**Regularity (Excess vote)**
Academy Schools Sector in England	Resource account	2015/16	**Financial Statements (True and Fair)**

This information can be extracted through a thorough review of the NAO website or by examining the individual department's annual report and accounts, but this is extremely time-consuming. A summary of all government bodies' audit opinions would be very helpful, with trend information to help identify trends and information regarding which departments/departmental bodies regularly have their accounts qualified and why. For example, the DWP accounts are always qualified due to regularity.

The reason for the DWP accounts' perennial qualification is that the budgetary process does not allow for any loss through fraud or error. Unfortunately, fraud and error in the benefit system is a reality. Therefore, there is a need for the regularity qualification. In the 2017/18 period of the C&AG's audit opinion (qualification) on the regularity of benefit expenditure, there is additional analysis providing trend data on the overpayments and underpayments for the key benefits, as illustrated in Figure 10.2 and 10.3.

Figure 10.2: Overpayments and underpayments in benefit expenditure due to fraud and error, 2017/18 compared to 2016/17

The levels of overpayments and underpayments, as a percentage of benefit expenditure, have increased in 2017/18.

	2017/18 (£bn)	2016/17 (£bn)	Change (£bn)	2017/18 (%)	2016/17 (%)	Change (%)
Total overpayments	3.8	3.5	0.3 ▲	2.1	2.0	0.1 ▲
Total underpayments	1.7	1.6	0.1 ▲	1.0	0.9	0.1 ▲
State Pension overpayments	0.1	0.1	0.0 ◀▶	0.1	0.1	0.0 ◀▶
State Pension underpayments	0.0	0.1	-0.1 ▼	0.1	0.1	-0.1 ▼
Overpayments excluding State Pension	3.7	3.4	0.3 ▲	4.4	4.2	0.3 ▲
Underpayments excluded State Pension	1.7	1.5	0.2 ▲	2.0	1.9	0.1 ▲

Source: The DWP Annual Report and Accounts 2017/18 and C&AG report

Figure 10.3: Percentage of overpayments and underpayments in continuously measured benefits, 2016/17–2017/18

	Overpayments			Underpayments		
	Change (£bn)	2017/18 (£bn)	2016/17 (£bn)	Change (£bn)	2017/18 (£bn)	2016/17 (£bn)
Housing Benefit	0.1 ▲	6.5	6.4	0.1 ▲	1.4	1.3
Employment and Support Allowance	0.4 ▲	4.3	3.9	-0.2 ▼	2.6	2.8
Pension Credit	0.6 ▲	5.8	5.2	0.1 ▲	2.4	2.3
Jobseeker's Allowance	07 ▲	6.3	5.6	0.7 ▲	1.3	0.6
Universal Credit	2,4 ▲	7.2*	4.8	0.1 ▲	1.3	1.2
Personal Independent Payment	N/A	N/A	N/A	N/A	3.7	N/A

Source: The DWP Annual Report and Accounts 2017/18 and C&AG report

Therefore, it is imperative to review the information in the round.

TIMELINESS AND OPPORTUNITY TO REVIEW

The opportunity to fully scrutinise the financial information is significantly hampered by:

- the timeliness of the availability of the information
- the amount of time available for review in the select committee review.

Currently, the annual report and accounts are required to be presented by 30 November under the GRAA 2000. In practice, most central government bodies will try to publish their annual report and accounts prior to the summer recess period. This is a significant achievement as the resource accounts and their predecessors, the appropriation accounts, were required to be laid and published by 31 January after the year end.

However, given that the PAC is only able to review these when the House of Commons is in session this effectively means that these are not looked at until October. This is seven months after the year end and more than half way through the next financial year. Therefore, this limits the impact of any meaningful review/opportunity to learn lessons.

For example, only 13 of the 17 main central government departments' annual report and accounts for 2014/15 were assessed in oral evidence in 2015/16 (Accounting for Democracy, para 105, PACAC).

Suggestions to improve the timeliness of the information so that it is an aid to greater accountability for public spend include the following:

Explore in-year reporting – this was a recommendation made by the Scrutiny Unit in the Parliamentary Control over Government Budgets 2009. The recommendation was implemented in part – that is, the in-year accounts were not subject to audit review. In 2013/14, the first year departments were required to produce the accounts, all but one department (the DH) published their reports on or before 23 January. All but two departments, HM Treasury and DfE, did not supply the 2014/15 mid-year reports. No mid-year reports have been provided after this date. Mid-year reports that were subject to audit review would provide better accountability for public spend and allow for earlier review of progress on deliverables and an opportunity to identify and address any potential worrying risks or trends during the year, so that these do not crystallise and become wider issues after the financial year end when it is too late to impact the outcome.

Bring forward the financial reporting publication timescales to allow for proper review and discussion by select committees. This would mean that the annual report and accounts will need to be finalised by mid-June to allow one month for scrutiny before the House rests for the summer recess period.

Provide clearer, more user-friendly information by thinking about how the information is presented (ie plain language and better use of data visualisation). Some departments are very good at this and have been recognised in the NAO awards for their accessibility and plain language. For example, the IfG makes excellent use of and provides invaluable interpretation of data that the government makes available. This is not limited to the accounts but other measures such as the Civil Service annual staff survey amongst others in the comprehensive Whitehall Monitor.

Further improvement to performance management – performance management has been seen as a perennial issue in government. The challenge is to link inputs to outputs and outcomes to answer the question – where best to spend the marginal pound to get the best value for (public) money? Central government departments have made huge improvements in this area but there is more to do.

This is a complex area, especially in policy making departments where it may be difficult to assess the impact of the policies. However, this should not prevent departments from looking into ways to do this and gather the information needed. For instance, the finance director general at the former DH told the PAC there was a gap between the allocation of funding by his department and accounting for how it is spent at a local level. He stated:

Within any fixed budget for capital, whatever the value, the direct line of sight between the department and how that money gets spent at the local level is quite a complex chain – but that is the system within which we operate... Line of sight through the system on the core capital budget is quite opaque.

Source: *The DH Finance Chief Says Whitehall Oversight of Local NHS Spending is "too opaque", Tamsin Rutter, Civil Service World, 17 October 2017*

Improvements have been made to the accounts. These include: splitting the accounts into three interlinked sections on performance, accountability and the financial statements through the Treasury's Simplifying and Streamlining Statutory Annual Report and Accounts. However, there is more to be done to make accounts and reports more user-friendly.

SUMMARY

The UK government has made huge strides in making more data openly available. Data is valuable but only when it is refined will it have value:

Data is the new oil. It's valuable, but if unrefined it cannot really be used. It has to be changed into gas, plastic, chemicals, etc. to create a valuable entity that drives profitable activity; so must data be broken down, analysed for it to have value.

Source: *Clive Humby, UK mathemetician and architect of Tesco's Clubcard, 2006*

There is more to do to make the data more valuable including greater availability of the information held so that it is publicly available, such as the list of audit qualifications of central government departments and more timely availability of the information. This includes the reintroduction of interim accounts that have been audited, and more accessibility such as through providing Excel/CSV versions of all information, or becoming more user-friendly through greater use of data visualisation infographics.

Some departments are already providing more, better, clearer information and demonstrate real thought for the reader of the annual report and accounts or other reports as recognised in the PwC/NAO annual excellence awards. These provide best practice examples for others to learn and apply.

ANNEX:

Checklist of key questions/ areas to examine in a set of central government annual report and accounts

CHECKLIST	
Performance report	
1	Has the department achieved what it set out to achieve? Is there a relationship between the performance report in the annual report and accounts and the SDP in terms of targets reported against?
2	Is it possible to track performance measures? Can the account lines be tied to these performance indicators?
3	What does the performance data trend show? Are there trends in the performance data which are important?
4	Is there any information on capability and efficiencies? Does the performance report report on efficiencies made by the department and/or their capability to deliver?
Accountability	
5	How informative is the governance statement? Does it clearly set out the governance framework?
6	What was the attendance of the various boards charged with governance?
7	Is there anything unusual in the lead NED report?
8	**Risk assessment:** Are there any comments from the accounting officer on risk to the business? Is it in line with the internal audit report on risk?
9	**Risk management** : Have internal audit made any comments on the entity's control environment?
10	What is the split between permanent staff and others in terms of wage costs, consultancy and temporary staff costs?
11	Is there any data on redundancy payments and levels?
12	Off-payroll arrangements – disclosure included if so what is the trend?
13	Remuneration report – is there any sense of conflicts of interest and gifts

The C&AG's report and opinion	
14	Have the accounts been qualified? If so, why?
15	Are there any comments on matters on which the C&AG reports by exception?
16	Is any C&AG report included with the accounts/further observations by the C&AG on the accounts?
17	Are there any matter of emphasis noted by the C&AG?
Financial statements	
18	SoPS: How much is spent on staff expenditure?
19	SoPS: What is the staff costs balance between department and departmental group? How does this compare to last year?
20	SoCNE: Are there any significant movements in expenditure?
21	SoFP: What are the level of liabilities and level of current liabilities when compared with departmental spend and what are the trends?
22	SoFP: Commitments under PFI and non-PFI leases – are there any changes from the previous year?
23	Notes: Segmental report – what information is included in the report ?
24	Notes: Provisions – are there any large changes? What is the scale of provision compared to expenditure? Are there any unusual provisions?
25	Notes: Contingent liabilities – what are these? Are there any unusual, new or major changes in contingent liabilities?
26	Notes: Related parties – are there any disclosures omitted (based on knowledge of the department)? Are there any potential conflicts that warrant questioning/checking to ensure there are appropriate counter measures in place to negate any potential or perception of conflict?

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