



WHOLE OF GOVERNMENT ACCOUNTS

Issued 6 June 2022

ICAEW welcomes the opportunity to comment on the inquiry into the Whole of Government Accounts (WGA) launched by the Committee of Public Accounts (PAC) on 26 April 2022, details of which are available from [this link](#).

We are disappointed that the 2019/20 WGA had not been published by 12:00pm 6 June 2022, preventing us from commenting on its contents within this submission.

We concur with the PAC on the critical importance of Whole of Government Accounts

- WGA are vital for accountability and for informing strategic decision-making
- Despite the challenges, WGA increase transparency about public sector finances
- WGA are driving improvements in public financial management

The extended delay in publishing the 2019/20 WGA is detrimental to good governance

- Delays in the publication of the 2019/20 and subsequent WGA undermine their usefulness
- Preparing financial statements is a core financial control in any organisation
- Delaying the audit means audit findings remain unresolved for longer

Action is needed to get WGA back on track

- The 26 months taken falls a long way short of the long-term target of nine months
- Delays lead to further delays, compounding the problem
- The crisis in local audit and reporting is a key cause of delays that needs to be addressed
- The pandemic has exposed issues in underlying financial reporting processes
- Finance teams are under increasing pressure and need support

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INTRODUCTION

1. We are responding to the inquiry into the Whole of Government Accounts (WGA) launched on 26 April 2022 by the Committee of Public Accounts (PAC).
2. Our comments are solely intended to support the PAC with its inquiry and in its questioning of officials and others providing evidence.
3. ICAEW is a body that acts in the public interest and whose members are accountable under a code of ethics. In that context, we seek to play a constructive role in supporting the government and Parliament in assessing the value for money of government projects, programmes, and service delivery. We would welcome the opportunity to meet with members of the committee to discuss the points we have raised in more detail.

KEY POINTS

WE CONCUR WITH THE PAC ON THE CRITICAL IMPORTANCE OF WHOLE OF GOVERNMENT ACCOUNTS

WGA are vital for accountability and for informing strategic decision-making

4. WGA are audited accruals-based accounts that provide the most comprehensive report on the financial performance and financial position of the UK public sector and hence the best tool for providing accountability to Parliament and citizens. They provide the most complete overview of assets and liabilities and of the long-term costs of financial decisions.
5. WGA and the accruals-based financial statements of the 10,000 or so public bodies that consolidate into WGA are also an important tool in helping to improve financial management within the public sector at all levels. High quality financial information including annual financial statements is essential to effective decision making and improving value for money.
6. ICAEW strongly supports the use of International Financial Reporting Standards (IFRS) in both central and local government in the UK. IFRS is globally recognised for its high standards in financial reporting and permits comparisons with the private sector and with an increasing number of governments and public bodies around the world. The production since 2010 of an audited IFRS-based WGA, which incorporates central government, devolved governments, the NHS, local government, and public corporations, contributes to the UK's reputation as a global leader in public sector financial reporting.
7. WGA provide government ministers and civil servants with the most complete picture of the country's financial position, which it is essential to understand when taking major taxation and spending decisions and in developing long-term fiscal strategy. WGA include assets and liabilities such as operational property, public sector pension obligations and nuclear decommissioning liabilities that are not included in net public sector debt as reported in the statistics-based National Accounts.
8. WGA provide Parliament and its committees, including the PAC, with one of the best sources of financial information with which to hold government to account. Not only do WGA provide extensive detail within the financial statements on public sector revenue,

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expenditure, assets, liabilities, contingencies, and commitments, but they also contain narrative commentary on financial performance during each financial year and the financial position at each balance sheet date that is not available from other sources.

Despite the challenges, WGA increase transparency about public sector finances

9. WGA have provided substantially greater transparency on the financial performance and position of the UK public sector since their introduction from 2009/10 onwards, which in turn has supported greater accountability to Parliament and to citizens.
10. Transparency has been enhanced through the adoption of international financial reporting standards as used by millions of entities around the world. Their use enables a much wider audience to access information on the public finances, in contrast with the bespoke reporting formats traditionally used by governments that only a small number of people are familiar with and know how to navigate.
11. WGA also contain narrative commentaries that provide the 'story' of each financial year, supplying insights and analysis on the performance and position of the government reported in the financial statements, as well as on governance and financial control. There is an opportunity to improve the commentary provided in WGAs to match best practice in the private sector to provide an in-depth perspective of the strategic challenges facing the public finances and how the government intends to address them.

WGA are driving improvements in public financial management

12. WGA have been key to driving improvements in financial data collection, providing HM Treasury and government ministers with better financial information on which to base decisions. Recent developments, including the implementation of OSCAR 2 that streamlines the WGA preparation process, have had the consequence of significantly improving the quality and extent of the financial information available at year-ends and during the course of the year.
13. Further progress is needed to take full advantage of the power of financial consolidation and planning systems that are typically used in the private sector to support both the production of financial statements and as a core component of internal financial reporting, business planning and financial management. One example is local government in England, where the challenges DLUHC have in understanding the financial sustainability of individual local authorities is exacerbated by the absence of up to date and accurate financial information that consolidated monthly financial reporting through systems such as OSCAR 2 should eventually enable.
14. WGA have helped HM Treasury in managing public assets and liabilities by, for example, providing the starting point for its balance review team in seeking to identify how the greater value can be derived from public assets and how liabilities can be minimised or better mitigated. Another example is the recent establishment of the government's contingent liabilities team to drive improvements in the way financial exposures are managed.
15. The Office for Budget Responsibility (OBR) has been able to use WGA and supporting information in its medium- and long-term projections of the public finances. These are crucial to the government's ability to develop and deliver fiscal strategy.

THE EXTENDED DELAY IN PUBLISHING THE 2019/20 WGA IS DETRIMENTAL TO GOOD GOVERNANCE

Delays to the 2019-20 and subsequent WGA undermine their usefulness

16. The extended length of time taken to publish the 2019/20 WGA and the consequential delays to the expected publication of subsequent WGA reduce their usefulness in providing information to government to support decision-making and to Parliament in holding the government to account.
17. This would be an issue at any time but is now more important than ever with the 2019/20 WGA providing a baseline of the government's position at the start of the pandemic, while

the 2020/21 WGA and 2021/22 WGA will both provide extremely important analysis on the development of the public finances over the course of the pandemic.

Preparing financial statements is a core financial control in any organisation

18. The process of accounts preparation involves the operation of multiple controls over the quality of financial records and the underlying transactions, assets, and liabilities they represent. Amongst numerous other controls they include internal reviews and analysis of the balances reported, detailed reconciliations back to underlying records, a re-evaluation of the appropriateness of accounting policies and methodologies, and recalculation of or other checks on accounting estimates, together with verification of narrative disclosures.
19. These checks performed as part of the year-end process are an essential part of ensuring the accuracy and transparency not only of the published report and accounts, but also of the underlying financial records that are used to supply numbers used internally for day-to-day decision-making and governance during the course of each financial year. Delaying the preparation of the WGA means that some of these controls are not operated at the earliest possible opportunity, creating a risk that significant accounting or operational issues may not be resolved when they should have been.

Delaying the audit means audit findings remain unresolved for longer

20. Delays in the completion of the audit on the financial statements mean that audit findings and recommendations for improvement will not be identified, communicated, and resolved as quickly as they could be.
21. This may mean that matters affecting the value for money of expenditure incurred by the government on behalf of citizens are not addressed on a timely basis.

ACTION IS NEEDED TO GET WGA BACK ON TRACK

The 26 months taken falls a long way short of the long-term target of nine months

22. We understand the reasons why HM Treasury decided to delay and then further delay the production of the 2019/20 WGA. However, the consequence is that publication will be more than two years after the balance sheet. This reflects poorly on the government and its credibility as a promoter of transparency and good governance.
23. Publication more than 26 months after the balance sheet date contrasts unfavourably with the maximum of four months required by the Financial Conduct Authority for UK listed companies to file their audited financial statements.
24. ICAEW believes that the government's long-term target of nine months to complete the WGA is both reasonable and achievable and that it is disappointing that the government continues to defer when it might expect to be able to meet this objective.

Delays lead to further delays, compounding the problem

25. The delays in producing the 2019/20 WGA have led to further work being required as disclosures including the post-balance sheet event note have to be updated, only to become out of date again each time there is a further delay.
26. The delays have had a knock-on impact on the preparation of subsequent WGAs with data collection for both the 2020/21 and the 2021/22 WGA not starting on time, leading to delays in their production too.
27. HM Treasury requires timely data from central and devolved government bodies but there have been delays in the accounts in some entities. For example, the Welsh Government's 2020/21 audited consolidated financial statements have still not been published, while the Department for Business, Energy and Industrial Strategy's (BEIS) 2020/21 audited financial statements were published in November 2021 in contrast with a typical July publication date prior to the pandemic.

28. Delays in departmental and other public body accounts also delay the starting point for finance teams to prepare their WGA return schedules, or to agree intra-government balances with each other. HM Treasury has set a deadline for submission of audited 2020/21 returns by central government bodies of 31 August 2022, which is 17 months after the year end. For 2018/19, the deadline was 13 September 2019, less than six months after the year end.

The crisis in local audit is one of the causes of delay and needs to be addressed

29. The situation with local government accounts has severely worsened. Only 9% of English local authority 2020/21 audited accounts were published by the 30 September 2021 deadline and over half remain outstanding. Furthermore, there are still accounts outstanding from 2018/19 and 2019/20.
30. ICAEW believes that it will take time and much more concerted action to address the crisis in local audit and ensure local authority audited accounts are published on time.
31. We welcome the recent announcement by the Department for Levelling Up, Housing and Communities (DLUHC) that all local authorities in England will be required to have an audit committee with at least one independent member, which we believe will strengthen local authority governance. However, we believe the overall package of measures recently announced by DLUHC in response to the consultation on the local audit framework falls short of the radical action that is needed to put audit timetables back on track. We are disappointed that the Audit, Reporting and Governance Authority (ARGA) will have no direct powers over the quality and timeliness of financial reporting of local authorities themselves. This will limit ARGA's ability to take the whole-system approach needed to ensure the local audit system operates effectively.
32. The recent decision to postpone to 2024/25 the full adoption of IFRS 16 (Leases) in local authority accounts will also create issues for the preparation of the 2022/23 WGA given that central government departments and most other public sector organisations have already adopted this standard as of 1 April 2022.

The pandemic has exposed issues in the underlying financial reporting process

33. ICAEW believes that the delays to the publication of audited accounts and the increased number of qualifications cannot fully be ascribed to the impact of COVID-19. For example, the Comptroller and Auditor General in his report on the Department of Health & Social Care (DHSC) 2020/21 accounts stated that the demands COVID-19 has placed on the DHSC finance team *"has exposed weaknesses in the underlying financial systems and controls which pre-date the pandemic"*.

Finance teams are under increasing pressure and need support

34. We believe this it is unfortunate that reporting timelines continue to be extended for public sector bodies. While we understand the pressures that finance teams across central and local government are under, it suggests that financial reporting is not as high a priority as it should be.
35. Many of the pressures facing finance teams include challenges that pre-date the pandemic. For example, 43% of local authority 2018/19 audited financial statements were not published before the statutory deadline, one of the reasons for the commissioning of the Redmond Review. ICAEW recently commented in its [evidence to support the inquiry into the local government finance system](#) that the *"pandemic has exacerbated an existing issue with capacity in the market"*.
36. Finance teams across all levels of government have been stretched by the pandemic and in meeting challenges such as net zero and levelling up, with all that means for their ability to deliver and protect value for money. For example, finance teams play a key role in preventing, detecting, and investigating fraud and error arising in pandemic-related support schemes.

37. They will also be critical in helping departments and public bodies to identify and calculate potential savings in headcount and costs necessary to meet the government's desired future shape of the civil service without damaging public service delivery. Delays in the financial reporting process hamper their ability to deliver on these and other critical priorities and so it is important that they are adequately resourced to ensure losses are minimised and value is maximised.
38. We also believe that the government can do more to reduce unnecessary burdens on stretched finance teams so they can focus on the most important matters, such as preparing timely and accurate accounts. For example, simplification of local authority funding and a reduction in inefficient competitive bidding would greatly assist local authority finance teams in achieving improvements in financial management.