



WHOLE OF GOVERNMENT ACCOUNTS 2020/21

Issued 27 October 2023

ICAEW welcomes the opportunity to respond to the consultation issued in September 2023 by the Committee of Public Accounts (PAC or the Committee) on the Whole of Government Accounts (“WGA”) for the year ended 31 March 2021, a copy of which is available from this [link](#).

We are disappointed that the WGA continues to be delayed and is incomplete

- We reiterate the main points in our submission last year, which unfortunately still apply
- One option to get back on track would be to publish 2021/22 and 2022/23 WGA together
- Using unaudited numbers for local authorities would be better than omitting them

WGA have yet to fulfil their potential

- WGA are not yet being used as the multi-purpose tool that they should be
- Accountability events would help Parliament hold the Government to account
- The performance report does not yet provide a strategic analysis of performance
- The three accounting frameworks used by government need further rationalisation

Matters in the 2020/21 WGA to bring to the attention of the PAC

- Covid-19 cost tracker highlights weaknesses in data collection and analysis
- Fraud and waste are rightly highlighted, but estimates could be clearer
- We have some specific suggestions for how future WGA could be improved

ICAEW is a world-leading professional body established under a Royal Charter to serve the public interest. In pursuit of its vision of a world of sustainable economies, ICAEW works with governments, regulators and businesses and it leads, connects, supports and regulates more than 166,000 chartered accountant members in over 146 countries. ICAEW members work in all types of private and public organisations, including public practice firms, and are trained to provide clarity and rigour and apply the highest professional, technical and ethical standards.

For questions on this response please contact us at representations@icaew.com quoting REP 111/23.

ICAEW 2023

All rights reserved.

This document may be reproduced without specific permission, in whole or part, free of charge and in any format or medium, subject to the conditions that:

- it is appropriately attributed, replicated accurately and is not used in a misleading context;
- the source of the extract or document is acknowledged and the title and ICAEW reference number are quoted.

Where third-party copyright material has been identified application for permission must be made to the copyright holder.

ICAEW

Chartered Accountants' Hall Moorgate Place London EC2R 6EA UK
icaew.com

KEY POINTS

Introduction

1. This response has been prepared by ICAEW's Public Sector team in consultation with ICAEW's Public Sector Advisory Group. ICAEW's Public Sector team supports members working in and with the public sector to deliver public priorities and sustainable public finances, including over 12,000 in ICAEW's Public Sector Community.
2. ICAEW engages with policy makers, public servants, and others to promote the need for effective financial management, audit and assurance, financial reporting and governance and ethics across the public sector to ensure public money is spent wisely.
3. We would be very happy to discuss our feedback in more detail if the Committee believes that would be of assistance.

We reiterate the main points in our submission last year, which unfortunately still apply

4. We are disappointed that the WGA continues to be delayed and is incomplete.
5. ICAEW [submitted evidence](#) to the PAC last year in [ICAEW Representation 47/22 Whole of Government Accounts](#). This focused on the process of preparation and recurring issues as the 2019/20 WGA was not available sufficiently in advance of our submission for us to comment on its content.
6. We reiterate the points we made last year as disappointingly they are still relevant:

We concur with the PAC on the critical importance of WGA

- 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 WGA is detrimental to good governance

- Delays in publication of this 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 27 months taken falls a long way short of the long-term target of nine months.
- Delays in one WGA lead to delays in subsequent WGA, 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.

One option to get back on track would be to publish 2021/22 and 2022/23 WGA together

7. One option that we believe HM Treasury might usefully consider is whether they could publish the 2021/22 and 2022/23 WGA at the same time.
8. Although logistically more complicated for both the preparer and audit teams, this would provide an opportunity to accelerate the process by not having to wait for the 2021/22 WGA to be complete before starting on the 2022/23 WGA.

Using unaudited numbers for local authorities would be better than omitting them

9. We believe it is extremely unfortunate that numbers for 158 public bodies were not included in the 2020/21 WGA, including for 102 local authorities in England.
10. Although it was highly likely that the financial reporting and audit crisis in local authorities in England would result in the Comptroller & Auditor General (C&AG) qualifying his audit opinion for a lack of assurance over the local authorities and other public bodies concerned,

the exclusion of these numbers harms the WGA to a much greater extent than the inclusion of unaudited balances would do. This is because the exclusion of unaudited numbers turns the consolidated financial statements from potentially not being accurate (because some balances used in compiling the 2020/21 WGA are not audited and could be incorrect) to definitely being inaccurate (because those balances are completely omitted).

11. These omissions adversely affect the quality of the 2020/21 and subsequent WGA, distort trends in the numbers, and makes the 2020/21 WGA less useful as a tool with which to hold the Government to account.
12. Fortunately, these omissions are not fundamental to the 2020/21 WGA given the relative materiality of the amounts excluded, the inclusion of expenditure funded by central government (a significant proportion of local authority spending), and the disclosures included in the performance report, financial statements, and audit report on the nature of the exclusions. The performance report does a good job in setting out the estimated effect of the omissions and in explaining why the 2020/21 WGA still provides a useful portrayal of the overall public finances and remains capable of being used to hold the Government to account, even if incomplete.
13. We believe the Government should mandate local authorities and other public bodies to submit unaudited numbers for 2021/22 and subsequent financial years even if the local authorities have been unable to prepare audited or unaudited financial statements. All public bodies have a duty to maintain accounting records that are more than adequate to enable them to submit WGA returns, even if there are audit concerns or disagreements about specific balances and accounting treatments.
14. In very few cases would any potential errors or disagreements about accounting treatment in a local authority or other public body's accounts be individually material to the overall WGA (where a £1bn difference is a matter of rounding). Even if errors in aggregate were to be material, the scale of those errors would be unlikely to be as significant as omitting multiple public bodies from the WGA, or as significant as some of the other existing matters that are already subject to audit qualification.
15. Ideally, all the numbers for local authorities used in compiling the WGA should be audited and there is a need for urgent action to bring local authority audits in England up to date. ICAEW submitted [written evidence on 17 April 2023](#), and Iain Wright, Managing Director for Reputation and Influence at ICAEW, gave [oral evidence on 5 June 2023](#) to the Levelling Up, Housing and Communities Committee (LUHCC) addressing both the immediate crisis in local authority financial reporting and audit in England and how the quality and usefulness of financial statements can be improved.
16. We hope the Committee will support LUHCC in pushing DLUHC, HM Treasury and other government departments to play their part in resolving this crisis.

WGA are not yet being used as the multi-purpose tool that they should be

17. WGA have yet to fulfil their potential as neither the Government nor Parliament have fully embedded WGA into how they operate.
18. Annual financial reports are not just critical to accountability for most organisations (other than the very smallest), they are a multi-purpose tool that underpins effective financial management, strategic decision-making, risk management, governance processes, and regulatory and legal compliance. They are the apex of the system of internal financial control, and the vehicle through which external audit assurance is delivered.
19. The WGA has enabled progress to be made in many of the above areas. For example, the existence of WGA has enabled the Comptroller & Auditor General to be able to provide an audit opinion covering the whole of the public sector. Financial management and internal financial controls have been enhanced by the requirement to prepare consolidated disclosures on a range of financial matters, including public sector pension obligations and contingent liabilities. Strategic decision-making has benefited from the more comprehensive picture of the public finances provided by WGA, and the work of the PAC and other governance and oversight committees has benefited.

20. However, partly because of the delays in their preparation, WGA are not core to many financial processes operating within government. The Government uses incomplete monthly resource accounting data to manage the public finances during the course of each financial year, fiscal targets are based on National Accounts measures, the WGA is not built into most governance processes, and the use of the WGA as a tool for accountability remains limited.
21. On the basis that HM Treasury has a plan to bring down the reporting timescale to closer to its nine-month target over the next two to three years, we think there is an opportunity to start planning to further embed WGA into how both government and Parliament work.

Accountability events would help Parliament hold the Government to account

22. The primary purpose of annual financial reports that include audited financial statements is to enable organisations and their management teams to be held to account.
23. We believe that there is a need for accountability events that are distinct from the governance focus of the annual inquiry by the PAC. Such events should enable Parliament to better undertake its duty of holding the Government to account for its stewardship of public resources on behalf of the nation.
24. Firstly, we think members of both Houses of Parliament would benefit from an annual financial presentation in Westminster Hall by the Government, using the numbers in the most recent audited WGA. Similar to how listed companies present their annual financial results to shareholders and other stakeholders, such an event would provide an opportunity for officials (or potentially ministers and officials) to explain to Parliament how the Government has managed the public finances, the financial position at the end of the financial year, and the principal risks facing the public finances.
25. Secondly, we believe there is a need for an accountability event or events on the more detailed content of each WGA, providing an opportunity for MPs and peers to hear about and ask questions of HM Treasury on the detailed content of narrative reports, the primary financial statements, the notes to the financial statements, and the audit report.
26. Such events would (and should be) distinct from fiscal events such as the forward-looking Spring and Autumn Budgets and Statements, where the House of Commons' role is to approve or reject the Government's financial plans and priorities. They would also be distinct from the governance and oversight role exercised by the PAC and select committees in scrutinising accounts across government and individual departmental operational and financial performance.

The performance report does not yet provide a strategic overview of performance

27. The performance report in the most recent WGA provides an excellent explainer of the contents of the financial statements, going into some detail on what is included in the main components of income, expenditure, assets, liabilities, and contingent liabilities. It also provides an extensive analysis of the accounting frameworks used in the UK public sector and how they fit together.
28. This is extremely helpful to users in navigating the financial statements and in providing an overview of the public finances as portrayed in the WGA. There are also some very useful sections on the fiscal risk management framework, debt profile and refinancing requirements, spending on Covid-19, transactions and balances with the EU, net zero and government emissions, and the cross-government fraud landscape.
29. However, the performance report does not yet meet best practice in providing a comprehensive strategic, operational and financial review of the financial year. For example, there is a lot more than could be done to explain how public spending has been used to meet policy objectives and the needs of the population, as well as on what progress has been made during the year in delivering the government's economic and fiscal strategy.
30. In addition, performance report uses numbers reported in the Public Sector Expenditure Analysis (PESA) for 2020/21 to comment on financial performance even though these are materially different from the numbers reported in the WGA and are not clearly and

understandably reconciled to the WGA. This makes these parts of the expenditure analysis difficult to follow when read in conjunction with the WGA.

31. There is also limited or no commentary on non-financial key performance indicators (KPIs) used by the government to measure its progress on its policy objectives, whether that be in national wellbeing, educational achievement, levelling up, tackling poverty, crime levels, progress on major strategic infrastructure projects, illegal migration or many other key government priorities, both short- and long-term. Although there are of course details of many KPIs in departmental accounts, the WGA presents an opportunity to provide an overview of the government's performance in delivering on its most important KPIs, as well as making it clear to readers which KPIs the government considers to be the most important when it is assessing its own performance.
32. We would suggest separating the 'process' elements of the performance report into a separate section in the WGA and re-ordering the remaining content. For example, detailed analysis on omitted data and explanations on the fiscal risk management framework provide important information that readers need to know, but in their current location they detract from the flow of the commentary on performance. We would also suggest moving the report on income and expenditure to before the analysis of the balance sheet.

The three accounting frameworks used by government need further rationalisation

33. Changes implemented following the [Accountancy for Democracy](#) review by the Public Administration and Constitutional Affairs Committee (PACAC) in 2016 saw the number of differences between resource accounting and IFRS-based financial accounting reduced and improvements made in the way those differences are presented in departmental annual financial reports. These and other changes made have generally been acknowledged as successfully enhancing the understandability of departmental financial reports and their usefulness to the relevant select committees, as well as improving the 'line of sight' on how the numbers fit together.
34. Despite these improvements, 'line of sight' is still obscured by the continuing use of three different accounting frameworks: resource accounting for budgeting, supply and performance management; the National Accounts for strategic fiscal targets; and IFRS-based departmental accounts and WGA for financial reporting. These make it difficult for decision-makers and Parliament to understand clearly how the numbers reported each year in the financial statements compare with the budgets set using resource accounting and how both tie to the fiscal targets set based on the statistics-based National Accounts.
35. An example of this problem is exhibited by the performance report which uses numbers reported in PESA to comment on financial performance even those these are different from the numbers reported in the WGA.
36. We believe there are further improvements that can be made to further align the resource accounting framework with IFRS to enable a single accounting framework for budgeting, supply, performance management and financial reporting. This should aid the integration of the statement of outturn against parliamentary supply into departmental financial statements, adopting an approach close to how corporates report non-GAAP¹ and segmental results.
37. We also believe there is a strong case for the Government to consider adopting fiscal targets based on the amounts reported in the WGA instead of the National Accounts, in line with the approach adopted by Canada, Australia and New Zealand.
38. While the National Accounts will continue to be an important tool in making international comparisons with other nations, the adoption of non-standard National Accounts measures for setting fiscal targets² indicates that the UK has already diverged from the fiscal measures used by other countries. There is an opportunity to move to also based fiscal targets on

¹ Non-generally accepted accounting practice, a term referring to financial performance measures that differ from the standard subtotals reported under IFRS. Listing rules require these to be given equal prominence with the equivalent IFRS measures and to provide clear reconciliations between non-GAAP and IFRS measures.

² UK: public sector net borrowing excluding banks and public sector net debt excluding Bank of England and banks. Many other countries including EU member states: general government gross borrowing and general government gross debt.

IFRS-based measures which, if combined with a reform to resource accounting, would enable a much more consistent approach to be adopted.

Covid-19 cost tracker highlights potential weaknesses in data collection and analysis

39. The Covid-19 cost tracker analysis on pages 39 to 44 is extremely helpful, providing an insight in the material impact on the public finances of the government's response to pandemic.
40. However, reliance on a cost tracker analysis compiled by the NAO rather than utilising numbers reported in the WGA could indicate that the opportunity to use WGA as a means of collecting and validating the costs of a material event have not been grasped.
41. Although many of the numbers included in the Covid-19 cost tracker were reported in departmental and other public body financial statements that have been incorporated into the WGA, the consolidated financial statements themselves do not themselves provide a summary by expenditure category of the amounts spent nor is there a reconciliation between the cost tracker amounts discussed in the performance report and the amounts recorded in the financial statements in 2020/21. This is potentially indicative of weaknesses in controls over financial reporting, given the material impact of Covid-19 on the numbers reported.
42. The transfer of responsibility for the Covid-19 cost tracker to HM Treasury provides an opportunity for the numbers reported in the WGA and the cost tracker to be reconciled and disclosed in a more consistent way.

Fraud and waste are quite rightly highlighted, but estimates could be clearer

43. We are pleased with the Government's commitment to be the most transparent in the world in how it deals with fraud against the public sector (as stated on page 91 of the 2020/21 WGA). The establishment of the Public Sector Fraud Authority and the Cabinet Office Counter Fraud Function have also been very positive steps towards tackling weaknesses in systems and processes that make fraud a possibility.
44. Despite this commitment, we felt the discussion of fraud and waste in the performance report could have been clearer and more specific to 2020/21. For example, it would have been helpful to have a more definitive estimate of fraud and waste incurred during this specific financial year as opposed to a very broad estimate of between £33.2bn and £58.8bn 'per year' excluding Covid-19. It would also have been helpful to have included a summary table bringing together estimates of Covid-19 fraud and waste from across government to present an overall picture of the potential exposure to fraud and waste in 2020/21 before and after recovery actions.
45. We hope that it will be possible to further develop the disclosures on waste and fraud in the 2021/22 and 2022/23 WGA.

We also have some detailed suggestions for how future WGA could be improved

46. We have identified several more detailed suggestions for improvements that HM Treasury might wish to consider in addition to our perspective on the performance report in paragraphs 27 to 32 above.
47. In the case of the performance report, we believe there is a lot of work needed for these to meet best practice to provide an engaging 'story' of the financial year that users can follow more easily.
48. Our suggestions for the consolidated financial statements are more about how best to present disclosures in a less cluttered and more understandable way, although we do have a few technical suggestions as well.
49. We have not repeated all the suggestions we have identified in this response as they are perhaps better communicated directly to the WGA team within HM Treasury. However, we have included a few of them below to give a flavour of some of the ways we think the WGA could be improved.
50. For example, we think the WGA could better address:

- How trends over multiple years are presented. Some trends are presented going horizontally from right to left,³ some vertically from bottom to top,⁴ and some horizontally from left to right.⁵ A consistent approach would be helpful to reader understanding.
- How the interest rate profile of debt is affected by quantitative easing and how it is expected to change as quantitative tightening progresses.⁶ (A previous [ICAEW chart of the week](#) from 2021 on this topic could be a potential template for such a disclosure.)
- How the liability for public sector pensions is expected to reduce significantly as inflation falls and real interest rates rise.⁷
- The extent to which the liability for the Pension Protection Fund is matched by ring-fenced investment assets.⁸
- How debt is presented in the statement of financial position.⁹ We think the “Government borrowings” and “Other financial liabilities” should be combined into a single “Debt and other financial liabilities” line item in each of current and non-current liabilities given that most of the liabilities included in other financial liabilities are debt-like in nature and a combined number would be more helpful in understanding the level of debt in the balance sheet.
- Note 4 would be enhanced by analysing National Insurance Contributions (NICs) between employee NICs and employer NICs in the text supporting the table.¹⁰
- How the notes to the financial statements are structured and presented to aid reader understanding and improve the flow of the document.

³ Examples include 2020/21 WGA pages 8 to 13 and page 48.

⁴ Examples include 2020/21 WGA pages 57 and 81.

⁵ Examples include 2020/21 WGA pages 13, 14, 73 and 85.

⁶ 2020/21 WGA pages 56 to 59.

⁷ 2020/21 WGA pages 65 to 71.

⁸ 2020/21 WGA pages 59 and 60.

⁹ 2020/21 WGA pages 112 and 113.

¹⁰ 2020/21 WGA page 152.