ICAEW
REPRESENTATION 1/25

WHOLE OF GOVERNMENT ACCOUNTS 2022/23

Issued 9 January 2025

ICAEW welcomes the opportunity to submit written evidence to the Committee of Public Accounts (PAC)'s inquiry into the Whole of Government Accounts (WGA) 2022/23 published by HM Treasury on 26 November 2024.

Disclaimer of audit opinion emphasises importance of resolving the local audit crisis

- The backstop process will help, but underlying issues need to be addressed.
- Incorporating draft numbers for local authorities would be far better than their omission.

We welcome improvements in the latest WGA

- Reduction in time taken is positive, but more than a year and a half is still much too long.
- The streamlining of the performance report is welcome, but further improvement is needed.
- We are pleased by the improved commentary on how overdue receivables are managed.
- We are disappointed that fraud and waste disclosures have been dropped.

Points of note from our reading of the WGA 2022/23

- The £1.2tn fall in pension obligations should not be misunderstood or mischaracterised.
- The presentation of the discount rate gain of £215bn on provisions could be improved.
- Despite the reduction in net liabilities, the government spent £200bn more than it earned.
- We could not replicate the reconciliation between the WGA and the National Accounts.

Points brought forward from previous submissions and other suggestions

- We concur with the PAC on the critical importance of WGA, but delays are detrimental.
- WGA are not yet being used as effectively as they could; accountability events would help.
- The multiple accounting frameworks used by government need further rationalisation.
- Provisions and contingent liabilities deserve more in-depth consideration by the PAC.
- We have other suggestions for improvements.

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KEY POINTS

INTRODUCTION

1. 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 175,000 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.
2. 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 14,000 in ICAEW's Public Sector Community.
3. 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.
4. We have submitted evidence to the PAC on previous WGA, including ICAEW Representation 47/22 Whole of Government Accounts 2019/20 in 2022, ICAEW Representation 111/23 Whole of Government Accounts 2020/21 in 2023 and ICAEW Representation 40/24 Whole of Government Accounts 2021/22 in 2024. In each of these we reiterated our disappointment that the WGA continues to be delayed, expressed our concerns about the omission of local authorities, and highlighted how WGA have yet to fulfil their potential. We also made several suggestions for improvement, many of which remain relevant.
5. We would be very happy to discuss our feedback in more detail if the Committee believes that would be of assistance.
6. For questions on this response please contact us at representations@icaew.com quoting REP 1/25.

DISCLAIMER OF AUDIT OPINION EMPHASISES IMPORTANCE OF RESOLVING THE LOCAL AUDIT CRISIS

The backstop process will help, but underlying issues still need to be addressed

7. We support the backstop process as a 'least-worst' option to resetting the local audit system. We hope that it will be successful in enabling councils and their auditors to return to timely reporting of local authority finances, and that it will provide an opportunity for audit issues to be resolved over the next two to three years.
8. There remain several significant underlying issues that need to be resolved if local authority financial statements are to be used to properly hold local authorities to account, and to provide the information needed to support effective corporate governance, sound financial management, and the delivery of value for taxpayers' money.
9. These include resolving the issues identified by the Redmond Review in 2020 that recommended improving the oversight of local audit and the transparency of local authority financial reporting. This included addressing capacity issues in the local audit market and the 'impenetrable' nature of local authority financial statements among other recommendations.
10. We therefore welcome the decision of the Ministry of Housing, Communities and Local Government (MHCLG) to establish a new audit oversight body and its proposals to address capacity issues in the local audit market. We also welcome the government's commitment to improve the quality and insightfulness of local authority financial statements, and the work of the CIPFA-LASAAC Better Reporting Group that is looking at how this can be achieved.

Incorporating draft numbers for local authorities would be far better than their omission

11. A total of 198 local government entities, 11 central government entities and 2 public corporations were excluded from WGA in 2022/23, resulting in the omission of an estimated £72bn in expenditure, £41bn in revenue, £172bn in assets and £140bn in liabilities from the consolidated totals.[1]
12. Although these omissions are not fundamental to the WGA, and are well explained, the quality of the WGA would be significantly improved if unaudited accounts or even draft numbers extracted from underlying accounting systems were to be incorporated instead.
13. This is because the potential inaccuracy of incorporating numbers lacking audit assurance is several degrees of magnitude less significant than the definite inaccuracy caused by excluding them completely.
14. We believe HM Treasury should work with MHCLG and local authorities to obtain WGA submissions irrespective of whether audited or unaudited financial statements have been prepared. All local authorities will have sufficient data to prepare such a submission even if there is uncertainty about the ultimate determination of currently unresolved audit issues.
15. We also believe HM Treasury should take further steps to obtain WGA submissions from the 11 central government entities and 2 public corporations that were also omitted in 2022/23, again even if those submissions are based on unaudited accounts or draft numbers extracted from underlying accounting systems.
16. While the incorporation of unaudited or draft numbers will not address the lack of audit assurance that has led the Comptroller & Auditor General to disclaim his audit opinion, doing so would significantly improve the usefulness of the WGA as a comprehensive report on the public finances.

WE WELCOME THE IMPROVEMENTS IN THE LATEST WGA

Reduction in time taken is positive, but more than a year and a half is still much too long

17. We are pleased that the time taken to produce the latest WGA has improved from just under 24 months for WGA 2021/22 to just under 20 months for WGA 2022/23.
18. However, this is still substantially longer than the 14 months achieved by the WGA for 2017/18, and the nine-month target set by HM Treasury for itself. It is also significantly longer than the six months or less that the Commonwealth of Australia typically achieves for example.
19. Bringing the preparation time down to less than 12 months is important as this would avoid the complications currently experienced through having more than one set of WGA in the process of preparation at any one time. It would also enable the WGA team to shift from recovery of the process to investing more time in evolving the WGA to improve the quality and understandability of both the performance report and the financial statements.
20. For example, the performance report in the WGA 2022/23 discusses the current government's fiscal targets rather than those of the government at the time. While understandable given that time has moved on, a timelier report would enable Parliament to use WGA to understand how the government 'of the day' managed the public finances during the financial year concerned.
21. One of the practical issues hampering the ability of HM Treasury's ability to prepare the WGA on a timely basis is the lack of a monthly or quarterly financial consolidation covering both central and local government. Not only would in-year financial consolidations significantly improve the quality and richness of the financial data available to the government as it seeks to manage the public finances, they would also enable accounting and audit issues to be addressed as they appear, rather than waiting until the end of the financial year to be dealt with.

[1] WGA 2022/23 pages 18 to 31: 'Data omitted from the WGA'.

22. Monthly financial consolidations would also improve the quality of the public sector finances release published each month by the Office for National Statistics that currently rely on estimates rather than actual financial data in many areas and are subject to a higher-than-desirable frequency of error-related revisions.

The streamlining of the performance report is welcome, but further improvement is needed

23. We welcome the streamlining of the performance report in the WGA 2022/23 compared with the WGA 2021/22. It is much more readable and – as a consequence – much more informative and accessible to Parliament and other users.
24. We are particularly pleased by the inclusion of improved commentaries on the fiscal risk framework, the spotlight on significant accounting items, and the discussion of key matters of interest such as net zero and climate related financial disclosures.
25. Despite these improvements, there is still significant room for development in analysing the operating and financial performance of the government during each financial year in line with best practice narrative reporting. Such an approach would provide a clearer linkage to the strategic, operational and financial objectives set out (in this case) by the then Chancellor in the Autumn Budget 2021 and Spring Statement 2022 and to the wider strategic objectives of the government that was in office during the 2022/23 financial year.
26. One option for improvement would be to move much of the 'explainer' material that is currently included in the performance report into separate sections within the WGA so that the performance report can focus on strategic, operational and financial performance against objectives and the overall state of the public finances. While we concur with including a significant element of explanatory commentary to assist Parliament and other readers to better understand the WGA and its basis of preparation, the current approach of mixing these two elements makes it more difficult to understand how the government has performed against its own objectives.
27. We also think that a more focused section on performance would benefit from commenting on a wider range of key performance indicators and financial objectives from across government. For example, there is very little commentary on the outputs and outcomes that were – or were not – achieved in return for spending in excess of £1.1tn of public money during 2022/23.

The improved commentary on how overdue receivables are managed is welcome

28. We are pleased to see an improved commentary within the performance report on how debt owed to government is managed and the linkage to the 2023-26 Government Debt Strategy. This is an item that we had identified as a potential improvement in our submission to the PAC on WGA 2021/22.
29. The commentary provides useful insight into the level of receivables identified as being overdue, with £54bn in this category on 31 March 2023, up £5bn from the year before. It also sets out some of the actions that are being taken to improve the collection of outstanding amounts, as well as the government's commitment to proportionate treatment for the vulnerable and those in financial difficulty.

We are disappointed that fraud and waste disclosures have been dropped

30. In previous years there has been a section within the performance report on the actions being taken by the government to address fraud and waste.
31. We criticised these in our submission to the PAC on the WGA 2021/22 as the high-level numerical disclosures included were not sufficiently specific to that financial year, and we suggested improvements could be made.
32. We understand that given the backlog in preparing WGA that it may not have been possible to obtain sufficient data on fraud and waste incurred during 2022/23 from across the public sector to be provide a sufficiently improved analysis. However, we hope that this will be possible in 2023/24 and subsequent years.

WE DRAW THE FOLLOWING ITEMS IN THE WGA 2022/23 TO THE ATTENTION OF THE PAC

The £1.2tn fall in pension obligations should not be misunderstood or mischaracterised

33. The most significant change in the balance sheet position between 31 March 2022 and 31 March 2023 relates to a £1.2tn reduction in the net pension obligation from £2,639bn to £1,415bn. The closing balance comprises a pension obligation of £1,419bn for unfunded pension schemes less a net pension asset of £4bn for funded pension schemes (being £308bn of investments less £304bn in pension liabilities).
34. The main reason for the reduction was an actuarial gain of £1,357bn that was primarily driven by an increase in the discount rates used to translate future pension payments into current values.
35. It is important to understand that this change occurred because of how obligations to pay cash to pensioners in the future are reported in 'today's money'. Pension entitlements in cash terms are not directly affected by changes in discount rates and so this accounting gain does not represent a windfall to the exchequer, as some have attempted to claim.
36. In reality, the government's obligation to pay pensions to employees in retirement continues to increase each year, with £117bn (in today's money) added in 2022/23 for the entitlements earned by public sector employees during the year.
37. The lack of funding for the majority of public sector pension schemes means most public servants are reliant on taxpayers to fund the payment of their pensions for decades into the future. This is a significant and growing cash commitment that must be met before the government is able to able to use tax receipts to pay for its other priorities, whether that be to fund public services or to invest in infrastructure or other assets for example.
38. In contrast local government and other funded schemes in the public sector are able to utilise money put aside and invested to fund pension payments as they fall due.

The presentation of the exceptional discount rate gain of £215bn could be improved

39. The discount rates used to calculate the current value of provisions (liabilities of uncertain timing and amount) also increased during 2022/23, resulting in a reduction in the calculated value of these liabilities in 'today's money' of £215bn before taking account of other movements. Unlike the actuarial gain on pension obligations that is recorded in other comprehensive income and expenditure, this gain was recorded in the main revenue and expenditure statement.
40. As a consequence, what would have otherwise been an accounting loss (net expenditure) of £200bn at the bottom of the statement of revenue and expenditure was converted into an accounting surplus (net income) of £15bn.
41. Best practice for reporting a very large 'lumpy item' such as this would normally be to report it as an exceptional item on the face of the revenue and expenditure statement, ideally with additional subtotals to provide insight on how key numbers such as the overall surplus or loss are affected. This is so readers are able to understand the significant effect that such items have on the financial picture presented by the revenue and expenditure statement.
42. While there is extensive commentary within the performance report on how changes in discount rates have affected the 2022/23 financial statements, we think that future WGA would benefit from reporting materially distortive gains or losses such as this on the face of the revenue and expenditure statement.

Despite the reduction in net liabilities, the government spent £200bn more than it earned

43. Net liabilities reported in the WGA reduced by £1,486bn from £3,875bn to £2,389bn during 2022/23. This reflected a £1,572bn reduction in pension and provision liabilities from changes in discount rates (being the actuarial gain of £1,357bn and gain on provisions of £215bn discussed above), upward asset revaluations of £106bn and £101bn in other movements, less a £200bn accounting loss excluding the discount rate gain on provisions and other actuarial losses of £93bn.

44. While each of these movements is important, the accounting loss of £200bn excluding discount rate gains is probably the most concerning as it highlights how much more the government spent than it earned during 2022/23.

45. This is equivalent to more than 20% of revenue of £975bn and is substantially greater than the £77bn current budget deficit reported in the National Accounts for the same period. The difference reflects the longer-term financial liabilities that the government continues to incur each year in addition to the primarily cash-based current budget deficit.

46. This also emphasises how important the WGA is in helping to understand the overall financial position of the UK public sector, and the importance of the government developing a long-term fiscal strategy to put the public finances onto a sustainable path.

We could not replicate the reconciliation between the WGA and the National Accounts

47. One of the difficulties for both Parliament and others in fully understanding the public finances are the differences between the amounts reported in the WGA in accordance with IFRS (accruals-based accounting standards used by millions of organisations around the world) and the National Accounts (government-specific statistical standards used by two hundred or so countries and territories).

48. Annex A ‘Comparison to the National Accounts’ is therefore important in assisting readers in understanding the main differences between the measures used by the UK in setting fiscal targets and the amounts reported in the WGA.

49. Unfortunately, we were unable to replicate the amounts reported in the reconciliation between the current budget deficit reported within the National Accounts for 2022/23 and the net income reported in the WGA. In particular, we could not come close to the nil amount reported for differences between expenditure on public sector pensions between the two frameworks.

50. We think this reconciliation could also be improved by analysing differences for revenue and expenditure as well as net expenditure to make it easier for Parliament and other readers to understand how receipts and spending in the National Accounts differ from their equivalents in the WGA.

POINTS BROUGHT FORWARD FROM PREVIOUS SUBMISSIONS AND OTHER SUGGESTIONS

We concur with the PAC on the critical importance of WGA, but delays are detrimental

51. WGA are a vital tool for accountability to Parliament and to the public and for informing strategic decision-making by government. Despite the delays and other challenges, the publication of WGA each year has significantly improved the transparency of the public sector finances.

52. WGA are also helping to drive improvements in public financial management, for example in how debt receivables and contingent liabilities are being managed.

53. However, delays in the preparation, audit and publication of this and subsequent WGA undermine their usefulness, while audit findings are identified later than they ideally should be and so remain unresolved for longer.

WGA are not yet being used as effectively as they could; accountability events would help

54. The primary purpose of an annual financial report is to support stakeholders in holding an organisation to account. In the private and third sectors the process of accountability is centred around accountability events. These typically comprise an annual (and sometimes half-year and quarterly) results presentation by management to stakeholders and by annual general meetings at which the audited financial statements are formally provided to stakeholders to be adopted.

55. We think that accountability to Parliament would be enhanced by similar accountability events to Parliament including an annual results presentation by ministers and/or officials

following the conclusion of each financial year and the formal adoption of WGA and consideration of the report of the Comptroller & Auditor General once they are available.

56. Formal accountability events, we believe, strengthen and complement existing accountability processes including the PAC's inquiries into each WGA by focusing the attention of both the government and Parliament on the financial position of the public sector and the sustainability of the public finances. This is particularly important given the Office for Budget Responsibility's conclusion that they are not sustainable in the longer term.

57. In addition to accountability, financial statements, and the financial processes that are used to put them together, are also critical to good governance, to effective financial and risk management, to the operation of internal controls, to strategic decision making and to provide transparency to stakeholders.

58. While WGA have helped improve how government operates in each of these areas, they are still not fully embedded and so are yet to fully deliver the benefits that a comprehensive set of financial statements and associated reporting processes can provide.

59. We therefore support HM Treasury in its efforts to further embed WGA into how government operates despite many other demands on its time and resources. The UK public sector now takes in and spends substantially in excess of a trillion pounds each year and so it is important that it does not underinvest in how it accounts for and manages such large sums of public money.

The multiple accounting frameworks used by government need further rationalisation

60. Central government and local government between them currently use four different accounting frameworks.

61. While formal accounting, financial reporting and external audits are based on accruals accounting in accordance with IFRS, budgeting and performance monitoring in central government is based on 'resource accounting', a hybrid form of accruals accounting unique to the UK, and in local government on a unique but different form of accruals accounting modified by statutory overrides. Meanwhile, forecasting and fiscal targets are based on the statistics-based National Accounts.

62. The use of multiple different accounting frameworks is a contributing factor to the lack of a clear line of sight between the supply estimates that are authorised by Parliament and the budgets set by local authorities and the reporting of how those funds are utilised.

63. We believe that there are further improvements that could be made to minimise the number of differences between the four frameworks and to streamline reporting to improve line of sight. Examples include reporting the amounts actually spent by local government within the National Accounts rather than netting off external income, reducing the number of statutory overrides in local government accounting, and introducing streamlined reporting of expenditure by public service to replace the complexities of DEL, AME, PGCE and PGSI that make it very difficult to drill down into how much money is being spent on individual government priorities. Such improvements would assist in enabling both the National Accounts and the WGA to be more effective in reporting on where and how public money is being spent in addition to what it is being spent on, as well as in reporting on outputs and outcomes and not just inputs.

64. It would also help the government to eventually move to fiscal targets based on accounting measures similar to the approach now adopted by countries such as Canada, Australia and New Zealand, in addition to making it easier for the Cabinet and Parliament in being able to understand how the government is, or is not, delivering on its financial objectives.

Provisions and contingent liabilities deserve more in-depth consideration by the PAC

65. We think that the PAC may want to consider initiating a thematic review on the quality and nature of cost estimates as at 31 March 2023 for provisions of £307bn, for non-remote contingent liabilities of £67bn, and for remote contingent liabilities of £149bn, potentially in conjunction with the other select committees concerned.

66. The WGA is the one place that brings together estimates from across the public sector of the many uncertain financial obligations and exposures that are expected to, or could potentially turn into, significant financial outflows.

67. The ability of government departments and other public bodies to accurately assess and quantify these obligations and risks is not only important to the quality of financial statements, but also to how the government seeks to manage and address financial risk.

We have other suggestions for improvements

68. In addition to the above points, we identified several areas where we think the narrative commentary and the consolidated financial statements included within the WGA 2022/23 could be improved in future WGA.

69. One example is the reporting of lease liabilities:

- Lease liabilities were reported in three different locations in the balance sheet depending on whether they were finance leases in entities yet to adopt IFRS 16 (the recent accounting standard for leases that was adopted by central government during the financial year), were former operating leases brought onto the balance sheet as required by IFRS 16 together with existing finance leases, or were embedded lease liabilities within private finance initiative (PFI) contracts.
- We think there is an opportunity to both simplify the presentation of lease liabilities by bringing them to together into one line item within financial liabilities, enabling the supporting footnotes to provide a clearer overview of lease obligations while retaining useful information relating to PFI contracts.

70. We would be happy to discuss further suggestions for improvements with HM Treasury if they think doing so would be helpful.