



Financial Reporting Advisory Board Paper

Whole of Government Accounts 2013-14: Action being taken on qualifications, use of the accounts and WGA developments

Issue:	Audited Whole of Government Accounts (WGA) for the financial year 2013-14 were published on 24 March 2015. This paper provides the Board with an overview of the accounts, the actions being taken to remove qualifications, and how the accounts are being used in public finance management.
Impact on guidance:	None
IAS/IFRS adaptation?	Not applicable
Impact on WGA?	Not applicable
IPSAS compliant?	Not applicable
Interpretation for the public sector context?	Not applicable
Impact on budgetary regime?	Not applicable
Alignment with National Accounts	Not applicable
Impact on Estimates?	Not applicable
Recommendation:	The Board notes the publication of audited Whole of Government Accounts (WGA) for the financial year 2013-14, the efforts that are being made to reduce the qualifications of the account, and the direct use that is being made of WGA as part of the Treasury's wider approach to public finance management.
Timing:	For information only

DETAIL

Background

1. Audited Whole of Government Accounts (WGA) for the financial year 2013-14 were published on 24 March 2015. This was a significant improvement in timeliness with the accounts being published three months earlier than the previous year.

3. This paper provides the Board with a summary of the actions being taken to reduce the qualifications to the accounts, how the accounts are being used by the Treasury as part of its approach to public finance management and our strategy for developing the accounts.

Addressing qualifications

11. The 2013-14 accounts were qualified on six grounds. The WGA team in HM Treasury continues to work with colleagues from across the public sector in order to address qualification issues, with the hope of resolving them either in part or fully. HM Treasury is aware that fewer qualifications will increase the trust that can be placed in the accounts by users, and this will ultimately make the document more useful for accountability and decision-making purposes.

12. The qualifications the actions being taken to address them are as follows:

(i) The Boundary and the non-inclusion of all public sector entities within WGA

Qualification - In determining the boundary for the whole of government accounts, the Treasury has adopted the classifications of public bodies used by the Office for National Statistics, rather than applying accounting standards which require including bodies that are subject to government control, where control is defined as 'the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities'. This leads to the non-consolidation of a number of entities, the most material of which are Network Rail and the Royal Bank of Scotland (RBS).

Steps to address the qualification – The 2013-14 accounts included those banks that will remain in the public sector as part of UK Asset Resolution Ltd. This leaves a remaining issue with RBS, where it is still the government's intention to sell its shares as soon as is practicable and it is deemed inclusion in WGA would distort the accounts. Network Rail will be included in the 2014-15 accounts following its reclassification to the public sector by ONS under the European System of Accounts 2010, which came into force in September 2014.

There is currently no intention to change from the approach of using the ONS classification of public bodies to determine the boundary as this provides comparability and consistency with other publications. This is a key part of ensuring the WGA complements existing information and provides insight for readers of the accounts.

(ii) Accounting policies/frameworks

Qualification - there is an outstanding material misalignment on highways infrastructure assets. Highways infrastructure assets remains the material outstanding issue where central government uses depreciated replacement cost, and local authorities use historic cost.

Steps to address the qualification - Unaudited depreciated replacement cost data has been requested from local authorities for highways infrastructure assets for 2014-15, but concerns about the completeness and data quality will remain until the CIPFA Code requires consistent treatment. We are working closely with CIPFA on the implementation of the new accounting policy.

(iii) 3G/4G

Qualification - there is a remaining disagreement with the NAO about the application of accounting standards related to this sale.

Steps to address the qualification – The Treasury will continue to work with the NAO in an attempt to agree the treatment of 3G/4G, drawing on developments to IFRS revenue recognition standards and private sector advice where appropriate.

(iv) Intra-government transactions and balances

Qualification - whilst the vast majority of these transactions and balances were eliminated and the Treasury were below the threshold, the qualification remains until we can demonstrate this improvement can be sustained in 2014-15.

Steps to address the qualification - Continued work to improve the quality of the underlying data led to a more complete elimination of counterparty transactions in 2013-14 (the outstanding eliminations fell from £9.1 billion to £7.3 billion in 2013-14, a reduction of 20%). This was below the £8 billion threshold set by the NAO, but needs to be replicated in 2014-15 before the qualification will be removed. HM Treasury continues to take steps to improve the quality of guidance and controls in the 2014-15 data collection packs and expects to deliver further improvements. There is a good chance of removing this qualification in 2014-15.

(v) Academies/school assets

Qualification - there was data missing from foundation and voluntary aided schools and voluntary controlled schools, insufficient evidence to establish the correct value of academy land and building assets, and insufficient evidence to support the academy income and expenditure reported.

Steps to address the qualification - Considerable work has been carried out with the Department for Education, and in particular the Education Funding Agency to improve the quality of academies data. Until a steady, lower rate of Academy conversion develops this issue is likely to continue to adversely impact the earlier publication of Department for Education resource accounts and WGA. The Treasury are working with the Department on options for how the academy consolidation can be improved going forwards.

(vi) Underlying qualifications

Qualification - In 2013-14 the MOD qualification on lease recognition and the qualification to the Department for Education relating to academy schools were material to WGA.

Steps to address the qualification - Treasury works with central government bodies to support them as they resolve their qualifications, but the primary responsibility lies with each individual entity. Treasury officials are proactively working with both MoD and the Department for Education to resolve qualification issues. The Treasury does not have a direct relationship with bodies outside of central government e.g. local authorities and devolved administrations. To date qualifications in these sectors have not impacted WGA.

Use of accounts by the Treasury as part of its approach to public finance management

13. The Treasury is actively using WGA as part of its wider approach to public finance management. While national accounts measures remain the primary focus as this is how fiscal performance and position are measured, WGA as noted by Sir Nicholas Macpherson at the recent

PAC hearing adds a lot of value to the interpretation of the Government's fiscal position especially in the area of long-term liabilities, provisions and other "off-balance sheet" items.

14. In areas like clinical negligence, the additional profile that WGA has given to underlying figures published in individual entity accounts has led to a greater focus by the Treasury in managing the provisions.

15. Furthermore, the accounts are being used by key external stakeholders to raise understanding of the public finances. In addition to the interest taken by the PAC, the OBR for example have used WGA as a key source to produce their fiscal sustainability report, evaluating the potential future fiscal impact of activities already undertaken by Government and comparing the Government's financial position and performance on a national accounts versus IFRS basis.

Developing WGA

16. The Treasury has an active programme to manage the qualification issues and our focus is moving towards making better use of the information in WGA to help provide insight and analysis to the public finances. In 2013-14 we developed the performance report to provide a more structured and informative macro analysis of the public sector. This enhanced performance report received positive feedback from the Audit Committee and external commentators and we will look to develop this further in 2014-15.

17. Now the account production cycle is established we are moving our focus towards business analysis and looking at ways of exploiting the data contained in WGA to further support decision makers and policy makers. We have sought the support of Cranfield University and the ICAEW to undertake micro level analysis to see what useful insight can be extracted from the data returns.

18. We are continuing to explore ways of delivering faster closing for WGA, working closely with departments and the local government community. We recognise that further improvements may only be realised alongside wider changes to the financial reporting framework, such as the statutory reporting deadlines.

Recommendation

18. The Treasury requests that the Board notes the publication of audited Whole of Government Accounts (WGA) for the financial year 2013-14, the efforts that are being made to reduce the qualifications of the account, and the direct use that is being made of WGA as part of the Treasury's wider approach to public finance management.

HM Treasury

18th June 2015