HM Treasury

ARA Reporting Cycle

2020-21 central government reporting summary and forward look

Laying of Annual Reports and Accounts (ARAs)

Time Table:

- Sixteen of the fifty-one bodies were able to lay their ARAs before the parliamentary summer recess
- All departments and other bodies with Supply Estimates were able to lay their ARAs on or before the statutory deadline of 31 January 2022
- Eight departmental ARAs received a qualified audit opinion; two departments laid pre-recess and six laid post-recess of which qualifications for three departments were directly attributable to COVID-19
- For departments that rely on assurance over the valuation of local government pension schemes, (notably MoJ, DCMS and DfE), their ability to lay was delayed until the pension scheme audits were completed sufficiently.
- Details of the three departments receiving an audit qualification directly linked to the COVID-19 pandemic are set out below, followed by a summary of the others. Full details of laying dates and links to departmental ARAs may be found here.

Qualifications attributed to the Covid-19 pandemic

Department of Health and Social Care (DHSC) (laid 31st January 2021)

- A limitation of scope over accruals due to insufficient evidence to demonstrate accruals were free from material misstatement.
- A limitation of scope over COVID inventory existence due to the inability to physically count and observe at year-end COVID inventory
- A related regularity limitation of scope relating to fraud risk. Driven by the above inability to physically count and observe
- A qualification relating to the valuation of opening balances (as at 31 March 2020) of loans issued by the core department to NHS Trusts and Foundation Trusts. This £2.2 billion issue carried forward from the 2019-20 account and resulted from a fundamental disagreement between DHSC and its auditors regarding whether loans that had been fully repaid in cash should be credit impaired.
- A regularity qualification arising from £1.3 billion spent on projects during 20-21 that did not have explicit approval from HM Treasury or breached previous conditions agreed with HM Treasury.

Qualifications attributed to the Covid-19 pandemic

Department for Business, Energy & Industrial Strategy (BEIS) (laid 25th November 2021)

- Regularity qualification: material levels of fraud & error estimated in the COVID-19 loan schemes for which the Department provided guarantees (£4.9 billion)
- Regularity qualification: material levels of fraud & error estimated in the COVID-19 business support grants funded by the Department and issued to local authorities (£0.5 billion to £1.6 billion)

HM Revenue and Customs (HMRC) (laid 4th November 2021)

- Regularity qualifications due to fraud and error in its COVID-19 support schemes, material fraud and error in Personal Tax over and underpayments, and overpayments of Corporation Tax R&D reliefs, though it is not yet clear what impact the COVID-19 pandemic had on these two latter qualifications, if any.
- Material level of fraud and error identified in COVID-19 schemes was £5,279 million for the Coronavirus Job Retention Scheme, £493 million for the Self-Employment Income Support Scheme and £71million for Eat Out to Help Out. However, the Taxpayer Protection Taskforce at HMRC is expected to recover £800 million to £1 billion from fraudulent or erroneous payments by the end of 22-23, building on the Taskforce's 20-21 recoveries of £536 million.

Summary of other audit qualifications

Of the remaining five departments that received a qualified audit report, two laid before recess and three did not meet this deadline.

Laying pre-recess:

Department for Work and Pensions (laid 15th July 2021)

- DWP received a qualified opinion on regularity due to fraud and error for benefits overpayments (excluding state pension) of £8.3 billion (7.5% of related expenditure)

Serious Fraud Office (laid 15th July 2021)

- The SFO breached a parliamentary control total of £1 million by £2.55 million due to the recognition of a provision for legal costs arising from a SFO prosecution following a judgement which directed SFO to settle legal costs. The matter was discussed at the Excess votes 20-21: Serious Fraud Office hearing on 21st February.

Summary of other audit qualifications

Laying post-recess:

Department for Environment, Food and Rural Affairs (DEFRA) (laid 30th November 2021)

- DEFRA received a qualified opinion on regularity due to breaching a non-budget provision of £10 million by £141.9 million due to the correction of a prior period error in valuing the liability arising from the Reservoir Operating Agreements.
- A qualified opinion on the financial statements was received due to insufficient appropriate evidence being presented for the valuation of Property, Plant and Equipment, specifically infrastructure assets, consolidated into the Departmental Group from the Environment Agency. The valuation of PPE in relation to the application of the Depreciated Replacement Cost method could not be deemed free from material misstatement. This was the second year of qualification due to the valuation methodology applied to infrastructure assets.

Summary of other audit qualifications

Foreign, Commonwealth and Development Office: Overseas Superannuation (previously DfID) (laid 30th November 2021)

- Limitation of scope in relation to regularity of benefit payments. The Scheme had to suspend key controls during COVID-19 lockdown as it became unfeasible to require pensioners to physically verify their entitlement.

Ministry of Defence (laid 20th January 2021)

- MOD received a qualified opinion on the financial statements due to not undertaking sufficient work and supplying appropriate documentation resulting in the omission of material leased asset balances under IAS 17. This is the twelfth consecutive year of the qualification.
- The C&AG also highlighted the importance of timeliness of reporting in his Report on the 2020-21 financial statements due to the delay between the completion of the audit and publication of the ARA. This followed time taken for clearance of the Performance Report within the Department including obtaining ministerial sign off.

Forward Look

The Treasury is evaluating departmental reporting on COVID-19 and EU Exit, to check compliance with the performance reporting requirements and the Treasury plans to discuss the level of disclosures with departments where relevant, with the aim continuing improvement on the quality of the ARAs going forward.

The Treasury is committed to supporting departments return to more timely laying of ARAs and is regularly engaging with the Finance Leadership Group to identify and help resolve issues that may hinder doing so. We are also working with the National Audit Office to achieve pre-recess laying timetables as effectively as possible.

All departments are looking to make improvements to timeliness and twenty-nine bodies have proposed a pre-recess laying date for their 21-22 ARAs, with fourteen having not yet given an indicative date. To date, only eight bodies (of which 6 are main departments) have indicated they will not be able to achieve a pre-recess laying date for 2021-22. Of these, all eight laid their accounts post-recess in 20-21 and have legacy issues related to the prior year financial reporting to resolve or are still affected by local government pension assurance.

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Questions