FRAB 146 (02)
31 March 2022

HM Treasury

Financial Reporting Advisory Board Paper

20-21 Central government ARA reporting cycle summary and forward look

Issue:	The ongoing impact of the COVID-19 pandemic has caused significant delay to departments laying their annual report and accounts before the administrative deadline. HM Treasury has reviewed which departmental accounts received a qualified audit opinion, which were attributable to COVID-19 and the progress departments are making toward a timelier reporting cycle in 2021-22.
Impact on guidance:	N/A
IAS/IFRS adaptation?	N/A
Impact on WGA?	N/A
IPSAS compliant?	N/A
Interpretation for the public-sector context?	N/A
Impact on budgetary regime and Estimates?	N/A
Alignment with National Accounts	N/A
Recommendation:	None – for the Board's information only
Timing:	Ongoing

Background

1. At the FRAB 145 meeting (November 2021), the Board received an update on progress of the laying timetable of the 2020-21 annual reporting cycle for central government departments as well as on the quality of financial reporting. At that time, not all departments had completed the annual report and accounts (ARAs) and the Treasury agreed to provide the Board with details of both the audit qualifications and final timeliness of laying. This paper provides a summary of the qualifications, highlighting those a result of the pandemic, along with the laying dates for those that received a qualification. It also offers a forward look into the expected timetable to be achieved in 2021-22.

2. The administrative deadline for laying 2020-21 ARAs before Parliament, was in many cases, extended to 30 September 2021 to recognise the ongoing challenge faced by departments in preparing their ARAs mainly as a result of the pandemic.

Detail

3. All the main departments were able to lay their ARAs on or before the statutory deadline of 31 January 2022, as have all other bodies with Supply Estimates. Sixteen of the fifty-one bodies were able to lay their ARAs before the parliamentary summer recess.

4. 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.

5. Whilst the ongoing challenges of the pandemic affected some departments in meeting an earlier timetable for laying ARAs, the delays to local government reporting similarly impacted on the ability of some departments to lay before recess. For those departments that rely on assurance over the valuation of local government pension schemes, (notably the Ministry of Justice, Department for Digital, Culture, Media and Sport and the Department for Education), their ability to lay was hindered until the pension scheme audits were completed sufficiently.

6. In addition, the ARAs of some departments were delayed due to the time taken to resolve and audit complex accounting issues such as in respect of asset valuations, machinery of government changes and virement approvals.

7. 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.

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

8. DHSC laid its ARA on 31st January 2021, the statutory deadline for doing so. The Department received five qualifications of its financial statements; these being:
    i. A limitation of scope over accruals due to insufficient evidence to demonstrate accruals were free from material misstatement. No underlying account in the DHSC Group (including the Core Department) received a similar qualification, however the aggregation of known and extrapolated errors (including classification errors) and assurance gaps was considered material at Group level.
    ii. A limitation of scope over COVID inventory existence due to the inability to physically count and observe at year-end COVID inventory stored in locations subject to access restrictions; for example sealed stacked containers.
    iii. A related regularity limitation of scope relating to fraud risk. This limitation was driven by the inventory existence limitation of scope but does not suggest DHSC inventory purchases were subject to material levels of fraud, rather that there was insufficient evidence as the inventory purchased could not be observed by auditors at financial year-end due to the above mentioned access restrictions.
    iv. 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.
    v. 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. These issues arose in the context of Department's

emergency response to COVID-19, where the priority was to ensure that critical services were sufficiently resourced. The pace and volume of this activity meant that, in these cases, while information was often shared with HM Treasury, it was only after the spend had been incurred that the Department concluded it should have sought formal approval. Tom Scholar, Permanent Secretary to the Treasury, wrote to the Treasury Select Committee (TSC) in 2021 detailing the assistance HM Treasury provided DHSC in establishing a programme of work to improve its financial management and restore some pre-pandemic controls and assurance. These cover a number of areas including regular spending, forecasting and modelling as well as risk management and the more robust and timely collection of financial data.

9. The unprecedented circumstance in which the Department purchased this inventory during the pandemic and its future plans and expectations were set out in the Minister of Health's, Edward Argar's, written ministerial statement of 31 January 2022.

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

10. BEIS received two qualifications on regularity; material levels of fraud and error estimated in the COVID-19 loan schemes for which the Department provided guarantees (£4.9 billion) and 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)

11. HMRC received 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.

12. The 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

13. 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)

14. 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)

15. 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.

Laying post-recess:

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

16. 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.

17. 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.

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

18. FCDO received a 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)

19. 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.

20. 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.

Review of reporting COVID-19 and EU Exit related spend

21. The Treasury is evaluating departmental reporting on COVID-19 and EU Exit, to check compliance with the performance reporting requirements as requested by Cat Little (DG Public Spending) in a letter to Accounting Officers. Details were set out in our PES paper guidance for preparing 2019-20 and 2020-21 annual reports and accounts. The review is ongoing, however, 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.

Forward Look

22. 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.

23. 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.

IFRS 16 Leases implementation

24. The Treasury has supported departments with the adoption of IFRS 16 and has provided training and guidance to all departments.

25. In addition to written guidance published alongside the FReM, we ran live training on OneFinance in partnership with the Government Finance Function (GFF) which was attended by over three-hundred finance professionals across the public sector and has since been made available on demand accessed by more than 200 colleagues. We also ran a joint event with PwC and two departments to share their experienced of adoption to help those implementing from April.

26. A bid to run a IFRS 16 implementation workshop at the upcoming Government Finance Function Conference in June 2022 has been made to continue this support.

31st March 2022