Presented pursuant to Acts 29 and 30 Vict., c39, s22, and 11 and 12 Geo. 5, c.52, ss.4 and 6

Financial Auditing and Reporting: 1998-99 General Report of the Comptroller and Auditor General

ORDERED BY
THE HOUSE OF COMMONS
TO BE PRINTED
20 MARCH 2000

LONDON: The Stationery Office
11-XIX

Foreword by the Comptroller and Auditor General

My General Report summarises the results of financial audit work undertaken by the National Audit Office over the last twelve months and highlights key issues arising from it. The objective of this work is to provide Parliament with independent assurance that accounts are properly prepared, and that income and expenditure has been applied for the purposes intended by Parliament.

In my report, I have described the progress made by departments on a number of important issues, including the introduction of resource accounting, developments in corporate governance and the development of performance measurement.

With regard to resource accounting, the deadlines for the Treasury's trigger point 2 and 3 milestones have now passed. At trigger point 2 (July 1999) a significant number of departments were still not fully prepared to produce reliable balance sheets at 1 April 1999 and published resource accounts. As well as problems with individual balances, such as fixed assets, debtors and creditors, the systems necessary to produce consolidated financial statements were not in place for a number of departments and not all departments had introduced systems for analysing their costs by objective. At trigger point 3 very few departments produced their 1998-99 dry run accounts by the mid-August 1999 timetable set by the Treasury. In some cases complete accounts were not received by the end of 1999, and audit work is therefore still continuing. I will make a separate report to Parliament on the results of the trigger point 3 audit work in due course.

A consequence of the pressures on departments and agencies that the introduction of resource accounting has produced is the continuation of the trend towards later submission of accounts, a trend which I drew attention to in my 1997-98 report. The continuing development of resource accounting, and beyond that the introduction of resource budgeting, is likely to add further pressure in this regard.

The most significant development in the area of corporate governance was the introduction for the 1998-99 accounting period of a requirement on departments, executive agencies and non-departmental public bodies to prepare and publish with their annual accounts statements on the system of internal financial control. Overall they have been introduced successfully with nearly all bodies preparing statements in the appropriate form required by the Treasury. The introduction of the statements also meant a change to my responsibilities as auditor, so that I have reviewed the statements for compliance with Treasury guidance and reported where the statements were inconsistent with the findings from my audit. Without exception I have been able to reach positive conclusions on both these questions for the bodies audited. It is also clear that the requirement to produce a statement, signed by the accounting officer and published with the financial statements, has raised awareness of corporate governance issues generally within many bodies.

For the future a key challenge is likely to be the extension of these statements to cover the generality of internal control within departments, not just financial controls, mirroring in substantial part the recommendations of the Turnbull Committee which examined these matters in the private sector. The Treasury are currently considering the implications of the Turnbull Committee recommendations for the central government sector. The adoption in the sector will present a major new challenge for audited bodies and for myself as external auditor.

Performance measurement is assuming a much greater importance for bodies in central government, as a means of improving accountability and achieving better value for money. Validating performance information is a key factor in achieving these objectives and the National Audit Office are continuing to work with the Treasury to secure a credible and effective system to do this. I have also continued to carry out independent validations of performance against key targets for individual agencies, including the Employment Service. In March 2000 I published a report highlighting some of the issues faced by agencies and non-departmental public bodies. Presenting case studies in support of good practice, the report focused on the factors agencies and non-departmental public bodies need to take into consideration in ensuring the reliability of performance information and in reporting clear and understandable performance information.

The National Audit Office continue to play a full part in the development of auditing and accounting standards in the public sector. Prominent in this regard is the work of the Public Audit Forum. The Forum was launched in October 1998 by the heads of the four national audit agencies. The main role of the Forum is consultative and advisory and over the past year it has published papers on the *Implications for Audit of the Modernising Government Agenda* and *What Public Sector Bodies can expect from their Auditors*. Public Audit Forum working groups are also working on issues of propriety and governance in the public sector, data matching and electronic service delivery. The Public Audit Forum is supported by a Consultative Forum with a wide representation drawn from key stakeholders in the audit process including central government departments; local authorities; the accountancy and audit profession; and the Consumers Association.

Although primarily aimed at the private sector, the output of the Auditing Practices Board is also relevant to the public sector. The National Audit Office continue to be represented on the Board and chair a public sector sub-committee, which was set up in 1997-98.

The National Audit Office need up to date powers to maintain their effective contribution under modern government. The Committee of Public Accounts recently considered this matter in responding to the Government Resources and Accounts Bill. They noted the need for audit access powers to reflect the delivery of public services through an increasingly diverse range of bodies, for audit and accountability arrangements in public bodies to be more consistent, and for independent validation of performance measurement to be placed on a systematic footing. In response the Government announced their intention to undertake with Parliament a study to recommend suitable audit and accountability arrangements for central government. I look forward to contributing to this review.

In these and other ways discussed in this report, we are continuing to enhance the assurance we provide to Parliament through our financial audit and related work, and to encourage further improvements in financial management and governance in the public sector.

John Bourn
Comptroller and Auditor General

13 March 2000

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Report contents

Part 1: Introduction

1.1 Parliament have given the Comptroller and Auditor General a dual responsibility. As Comptroller, he authorises the issue of public funds to government departments and other public bodies. As Auditor General, he is required to audit the accounts of all government departments, executive agencies and a wide range of other public sector bodies and to report the results to Parliament. He is also required to ensure that monies provided by Parliament have been used only for the purposes intended. In carrying out his work he also has regard to the propriety with which public funds and assets have been handled, and how public business has been conducted.

1.2 The Comptroller and Auditor General examines and certifies a variety of accounts, including:

- appropriation accounts of government departments;
- the financial statements of executive agencies;
- accounts of the receipt of revenue by the departments of HM Customs and Excise and Inland Revenue;
- National Loans Fund accounts;
- other financial statements audited under statute; and
- financial statements audited by agreement.

1.3 In addition to giving an audit opinion on the accounts and financial statements, the Comptroller and Auditor General may bring other matters to Parliament's attention, for example those which relate to the proper use of public funds and the proper conduct of public business.

1.4 The National Audit Office undertake the work necessary to support the duties and responsibilities of the Comptroller and Auditor General. During the past year they audited the accounts of a large number of bodies of varying size and complexity, operating a variety of accounting systems, producing cash or commercial style accounts and covering a range of central government spending programmes and other activities. In addition they carried out audit work for the Comptroller and Auditor General on the accounts of the receipt of revenue, as required under Section 2 of the Exchequer and Audit Departments Act 1921 (Part 4 of this Report), and on stock and store accounts under Section 4 of that Act (Part 5 of this Report). An analysis of the accounts audited by the Comptroller and Auditor General is set out in Table 1.

Accounts audited by the Comptroller and Auditor General

Table 1

Type of account (1997-98 figures in brackets)	**Number Audited**	**Opinion qualified [1]**	**Opinion not qualified but report attached [2]**
Appropriation Account	104 (107)	6 (5)	8 (7)
Executive Agency	96 (81)	2 (2)	0 (6)
National Loans Fund	28 (14)	0 (0)	0 (0)
Other UK accounts audited under statute or by agreement	302 (271)	5 (4)	5 (9)
Total 1998-99 Total 1997-98	530 (473)	13 (11)	13 (22)

1. Appendix 1 provides details of the accounts qualified
2. Appendix 2 lists reports issued by the Comptroller and Auditor General on financial audit matters

1.5 Appropriation accounts are the accounts of the expenditure and receipts of government departments and are produced on a cash basis. Under section 22 of the Exchequer and Audit Departments Act 1866, the Comptroller and Auditor General is required to report on the appropriation accounts. The fall in the number of appropriation accounts in recent years is due to a move to simplify financial reporting and the structure of the estimates on which the accounts are based. The actual payments and receipts in 1998-99 compared with those voted by Parliament are shown in Table 2.

1.6 Executive agencies have been established to undertake operational functions of departments. They are required to produce financial statements on an accruals basis and in compliance with the requirements of the Companies Acts, the Resource Accounting Manual issued by the Treasury and generally accepted accounting practice, insofar as these are appropriate.

Outturn of the Votes in all Classes

Table 2

This summary records the outturn of the Votes in all Classes as follows:

Gross expenditure	**£000**	**£000**
Estimates:		
Original Estimates	246,441,284	
Supplementary etc. Estimates	5,558,527	
		251,999,811
Actual		244,216,158
Saving		7,783,653
Appropriations in Aid		
Authorised:		
Original Estimates	31,262,986	
Supplementary etc. Estimates	1,708,892	
	32,971,878	
Applied	31,994,037	
Deficiency		977,841
Net saving before adjustment for excesses		6,805,812
Amount for which Parliamentary authority is required to make good excesses on certain Votes		44,108
Total of amounts to be surrendered being 3.1 per cent of Supply		6,849,920

Grants

The exact amount for surrender is £6,849,925,919.49. The figure stated above differs by £5,919.49 because of rounding within the Classes.

Extra receipts

Extra receipts payable to the Consolidated Fund recorded in the Appropriation Accounts of all Classes amount to £6,864,058,609.04.

Adjustment of balance on 1997-98 Votes

The surplus to be surrendered for 1997-98 amounted to £5,412,440,357.81. This balance has been duly surrendered to the Consolidated Fund. The excesses which occurred on two Votes in 1997-98 have been made good by Vote of Parliament.

1.7 The Comptroller and Auditor General also undertakes the audit of a large number of other accounts either under statute or by agreement. These include investment accounts, stewardship accounts, charity and pension fund accounts as well as receipts and payments and accruals accounts covering a variety of other activities and purposes.

1.8 This report summarises some of the issues arising from financial audit work undertaken by the National Audit Office on the appropriation accounts of government departments for 1998-99, and on the accounts of executive agencies and other United Kingdom bodies certified by the Comptroller and Auditor General during the year to 31 January 2000. The report contains the following sections:

Part 2: Resource accounting

A review of progress made by government departments in implementing resource accounting.

Part 3: Accounting and financial management

Issues relating to financial management and control noted by the National Audit Office during the course of their audits, the recommendations made, and the action taken by departments and other bodies to address the issues raised.

Part 4: Audit of the receipts of revenue

The results of work undertaken by the National Audit Office, under section 2 of the Exchequer and Audit Departments Act 1921, at the Inland Revenue and HM Customs and Excise.

Part 5: Audit of assets

Issues arising from the audit of assets undertaken during work on financial statements, from work undertaken under section 4 of the Exchequer and Audit Departments Act 1921, and from other examinations of assets and stores.

Part 6: Inspection and other financial examinations

The results of visits to bodies in receipt of public monies where the Comptroller and Auditor General is not the appointed auditor, but where inspection rights have been granted; and of other financial examinations.

Part 7: Accounting and auditing developments

An overview of developments in accounting and auditing in the central government sector, including developments in the Private Finance Initiative; corporate governance issues, including the introduction of statements on the system of internal financial control and the development of audit committees; and the work of the Public Audit Forum.

Part 2: Resource accounting

Background

2.1 Resource accounting is an accruals-based commercial style of financial reporting being introduced in all government departments. Resource accounts will comprise financial statements similar to those found in commercial accounts but will additionally include a statement designed for parliamentary reporting purposes and a further statement analysing income and expenditure by objectives. The first sets of fully audited, published, resource accounts are planned for 1999-2000 and will initially run in parallel with departments' present 'cash based' appropriation accounts.

2.2 This new form of accounting by departments is intended to reinforce the planning and control of Government spending and help improve departmental management. It also has the potential to improve departments' accountability to Parliament through the more comprehensive financial information it will provide.

2.3 Parliament, at the same time, is being asked to agree to change the present wholly cash-based system of departmental funding ('Supply') to one in which it approves accruals-based current expenditure limits ('resources') as well as overall cash funding. A 'Government Resources and Accounts Bill' was introduced in November 1999 to provide the necessary statutory authority. The Government intends that, subject to Parliament's approval and after two years of parallel running, resource accounts should replace appropriation accounts from 2001-02 as the means of accounting for parliamentary funding.

2.4 Much, therefore, depends on the successful introduction of resource accounting.

Trigger points

2.5 In his General Report for 1997-98 the Comptroller and Auditor General noted that the Treasury had introduced 'trigger points' to monitor departmental progress. Trigger points were adopted following observations expressed by the Comptroller and Auditor General to the Procedure Committee about the tightness of the Treasury's proposed timetable for replacing the present cash based Supply system, and for replacing appropriation accounts with resource accounts from 2001-02. He noted that the construction of reliably based resource Estimates would depend on the availability of reliable information about departments' assets and liabilities. He also pointed out that the first fully audited accounts were to be for 1999-2000 and that this provided very little time for Parliament to examine resource accounts as the proposed replacement for appropriation accounts. The timetable allowed no scope for slippage by departments or for the fact that the first accounts might not be fully reliable.

2.6 The Treasury responded to the Comptroller and Auditor General's observations by suggesting to the Procedure Committee a series of 'trigger points' at which the Treasury would assess and 'approve' departments' progress and report on it to Parliament. If at any point in the process serious problems came to light, an extended period of dual running could then be introduced. They also noted that the National Audit Office, as well as the Treasury, would be monitoring departments' performance against the trigger points. The Committee, and subsequently the Committee of Public Accounts and the Treasury Committee, accepted the trigger point approach.

2.7 Three trigger points were established to track progress on resource accounting. A fourth was subsequently introduced to deal with the construction of resource based Estimates. The three accounting trigger points comprised:

- **trigger point 1** (April-December 1998). Departments' delivery to the Treasury of meaningful illustrative resource accounts, a Departmental Resource Accounting Manual (to translate the Treasury's Manual to the department's particular circumstances), a letter from departmental Principal Finance Officers confirming that systems could produce the necessary resource accounting information, a copy of the National Audit Office's preliminary view on the department's accounting policies and systems, and an updated project implementation plan.

- **trigger point 2** (April-June 1999). Departments' resolution of any issues (such as accounting policies) outstanding from trigger point 1, progress on introducing and testing accounting systems including fixed assets registers, identification and valuation of fixed assets, and the expected ability to produce reliable balance sheets at 1 April 1999 for the first published accounts. The Treasury's assessment would take account of the review of these issues and the audit of opening balance sheets at 1 April 1998 for the dry run accounts by the National Audit Office.

- **trigger point 3** (Autumn 1999). Departments' production of unpublished dry run accounts for 1998-99, the results of the audit of those accounts by the National Audit Office, and written assurances by departments' principal accounting officers about their department's ability to produce auditable accounts for 1999-2000 and reliable resource budgeting data. Successful achievement of trigger point 3 was to result in a statutory 'Accounts Direction' from the Treasury that the department should prepare accounts for 1999-2000 which would then have to be audited and laid before the House of Commons.

Progress

Trigger point 1

2.8 In his 1997-98 General Report the Comptroller and Auditor General summarised the results of work carried out by the National Audit Office at trigger point 1. The work was designed to give a preliminary view on departments' accounting systems and policies and identify any significant risks to implementation. His report identified a number of problems facing some departments. It indicated a risk that some might find difficulty in delivering their dry run accounts for 1998-99 in sufficient time to allow completion of their audit by Autumn 1999 in line with the trigger point 3 timetable.

Trigger point 2

2.9 In Spring 1999, at trigger point 2, the National Audit Office reviewed the progress made by departments in resolving issues outstanding from trigger point 1. They also conducted an audit of departments' assets and liabilities at 1 April 1998 that would form the 'opening balance sheet' for their 1998-99 dry run accounts.

2.10 The National Audit Office found that a significant number of departments were still not fully prepared and seemed unlikely to meet the Treasury's 31 October 1999 target date for audited 1998-99 dry run accounts for trigger point 3. For fixed assets, problems ranged from the incompleteness of some departments' fixed asset registers to inadequate or untested transaction recording procedures, the lack of audit trails or the inability of systems to cope with annual revaluations. Errors or inadequate audit trails to substantiate opening balances for debtors or creditors were found in a significant number of cases. The systems necessary to provide consolidated financial statements were not in place for a number of departments and not all departments had introduced systems and procedures for analysing their costs by objective (to support the financial statement intended to provide that information).

Trigger point 3

2.11 The timetable set by the Treasury and agreed with the National Audit Office for trigger point 3 required departments to produce their 1998-99 dry run accounts and submit them for audit by mid August 1999. Very few departments delivered their accounts by then or within the following two months. At the end of October 1999, when the audit of all the accounts was due to have been finalised, the National Audit Office had still to receive complete accounts from 31 of the 53 departments concerned and were in a position to express opinions on only six. In one case complete accounts had not been received by the end of February 2000. Audit work for trigger point 3 therefore is still continuing and the Comptroller and Auditor General plans to make a separate report to Parliament on the results of that work.

2.12 The extent of departments' progress was noted by the Committee of Public Accounts in connection with the Government's Resources and Accounts Bill. The Committee welcomed an assurance given to it by the Chief Secretary to the Treasury in December 1999 that the Government would not implement resource accounting and resource based Supply fully without the agreement of the Committee and other parliamentary Committees. It also welcomed a further assurance in January 2000 that the Government did not rule out keeping the existing system going if something unforeseen went wrong and the resource accounting systems did not operate properly.

Wider role of the National Audit Office

2.13 In addition to its role in relation to trigger points the National Audit Office have continued to make a wider contribution to the resource accounting initiative. They have continued to be represented by an Assistant Auditor General on the Financial Reporting Advisory Board to the Treasury, a body established to provide an independent element in setting the accounting standards to be adopted in resource accounts. The National Audit Office have also continued their dialogue with the Treasury on detailed accounting issues and on the impacts of changes that would result from the introduction of resource based Supply.

Performance Reporting

2.14 In December 1998, as part of the Comprehensive Spending Review, the Government published Public Service Agreements. These are statements of the aims and objectives of the various parts of government, together with a statement of the resources available and targets for the performance expected of them. The White Paper committed the Government to report to Parliament and the public annually on progress the Government has made in meeting Public Service Agreement targets and for individual departments to publish further details in their departmental reports.

2.15 In May 1999, the Treasury Select Committee published their report on Public Service Agreements. They concluded that if Parliament and the public are to judge progress on Public Service Agreement targets independently, the figures reported need to be made credible by external validation. They concluded that the best body to do this would be the National Audit Office. In response, the Treasury have noted the Committee's view, and will keep the issue under review. The Treasury stated that, at such an early stage in the new Public Service Agreement process, a formal role for validation would be very resource intensive with doubtful benefits either for transparency or the robustness of the departments' data. The Treasury also stated that they will continue to work closely with the National Audit Office to assess the impact of the new system and in devising standards that the information Departments collect should meet.

2.16 The Committee of Public Accounts have also considered the issue of performance reporting as part of their examination of the Government Resources and Accounts Bill. In their fourth report of 1999-2000, the Committee welcomed the Government's decision to report annually on progress against Public Service Agreement targets. They stated that such reporting would aid accountability to Parliament by demonstrating on a systematic basis what departments have achieved with their funding. The Committee added, however, that they were disappointed that such reporting will be at the Government's initiative rather than as a statutory requirement set out in the Bill, and that the Bill does not require performance information to be independently validated.

2.17 In January 2000, following evidence taken from the Chief Secretary to the Treasury, the Committee issued a further report on the Government Resources and Accounts Bill (Ninth Report 1999-2000). The Committee stated that they were encouraged that the Chief Secretary shares with them the view that performance measures should be legitimate, credible and objective. The Committee said that for these qualities to be achieved they consider that performance measures need to be subject to independent external validation. In order to minimise the burdens on departments arising from the need for independent validation, the Committee recommended that the Comptroller and Auditor General should carry out this work unless there were particular circumstances in which Parliament agreed that another, equally independent body would be more appropriate.

Whole of Government Accounts

2.18 The Government's Code for Fiscal Stability places a requirement on the Government to prepare consolidated accounts for the public sector. This is a wider development of the principles of resource accounting. The National Audit Office contributed to preliminary research carried out by the Treasury into the feasibility of such an account, and presented a joint memorandum on their findings to the Committee of Public Accounts in July 1998. The National Audit Office concluded on the basis of work done so far that it should be practical to consolidate the accounts of central government. The Treasury concluded that further research was needed on the costs, benefits and practicalities of additionally consolidating local authorities and public sector bodies into a broader Whole of Government Account. The memorandum also noted the findings of the Treasury's Scoping Study Report which observed that a Whole of Government Account should be capable of being audited, and that the Comptroller and Auditor General would be best placed to conduct the audit.

2.19 The Treasury aims to produce the first audited Whole of Government Accounts for 2005-06. To facilitate this the Government Resources and Accounts Bill includes provisions that enable the Treasury to designate the bodies that are to be consolidated and appoints the Comptroller and Auditor General as auditor of the consolidated account. However, the Bill also includes provisions that may limit the auditability of the account. Those provisions entitle the Comptroller and Auditor General to seek information and explanations regarding the consolidated bodies from the auditors of those bodies but not from the bodies themselves. This contrasts with the comparable situation for companies, where the auditor of group accounts is statutorily entitled to seek such information and explanations directly from subsidiary companies as well as their auditors.

Part 3: Accounting and financial management

Introduction

3.1 The maintenance of proper financial systems is the responsibility of an organisation's management. This involves keeping appropriate financial records and complying with the requirements of Government Accounting and, where applicable, following generally accepted accounting practices. It also involves designing, implementing and maintaining effective financial controls, which meet the fundamental requirement that public funds are used properly and, where appropriate, only to the extent and for the purposes authorised by Parliament. In exercising their responsibilities, management may draw on advice and assistance from a number of sources, including their internal auditors and the external auditors of their financial statements.

3.2 The Comptroller and Auditor General's annual examination of financial statements includes an assessment of the adequacy of audited bodies' accounting systems, procedures and records to the extent he considers necessary for the effective performance of his audit. This assessment and the other audit work carried out on the accounting records may reveal limitations in the ability of audited bodies to prepare proper financial statements and identify weaknesses in the controls and procedures exercised within the accounting, management and administrative functions. Weaknesses may also become apparent during the course of additional work undertaken to assess specific risks to regularity or propriety.

3.3 Where the Comptroller and Auditor General considers that a significant breakdown in financial control has occurred, he will report this matter to Parliament by means of a qualified audit opinion or a report on the accounts concerned. Other weaknesses identified during the Comptroller and Auditor General's examination are brought to the attention of management and the action necessary to achieve improvements is agreed with them.

3.4 The standards of financial control in bodies audited by the National Audit Office remain generally satisfactory and, as Table 1 in the introduction to this report shows, only a small proportion of accounts are qualified – less than three per cent in 1998-99 compared with two per cent in the previous year, although the qualification of accounts covering a large part of Social Security benefit spend means that qualifications cover a much greater proportion of government expenditure. Nevertheless, there continues to be a small but significant minority of organisations whose lack of proper controls causes concern. There is also clear evidence that a significant number of bodies are experiencing difficulty in preparing good quality accounts for audit on a timely basis, particularly with the need to develop resource accounts, as Part 2 of this report noted.

3.5 The following paragraphs draw together the matters reported to Parliament and some of the issues raised with management in respect of financial statements audited in the period covered by this report. They are summarised under the following headings:

- financial management;
- regularity and propriety; and
- issues reported to Parliament or management in previous years.

Financial management

3.6 In order to fulfil their responsibilities to Parliament, management need to ensure that financial statements are prepared properly and in good time; are supported by sound financial controls and accounting systems; and that the accounting process is managed and regularly monitored.

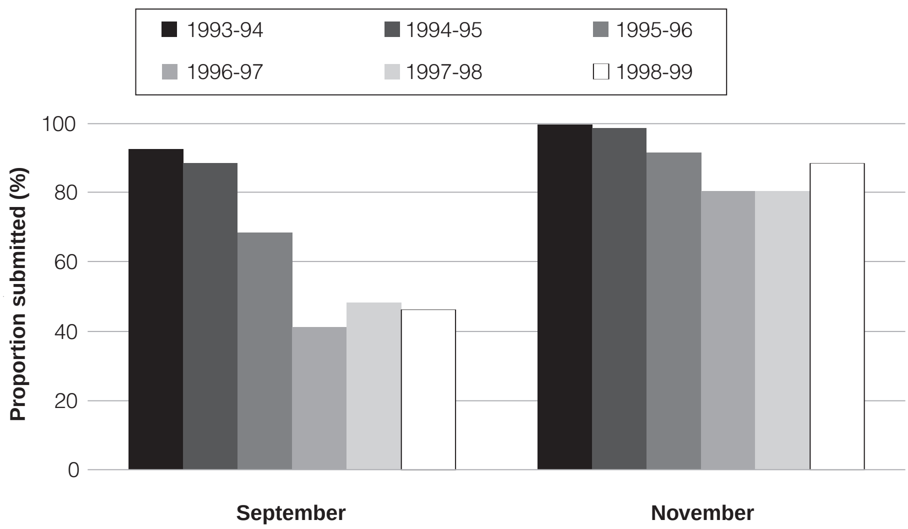
Preparation of financial statements

3.7 Management should prepare financial statements and supporting accounting information on a timely basis in order to demonstrate accountability and to allow for the audit of the financial statements. It is increasingly a concern that a significant number of government departments and executive agencies are not managing to meet this requirement, which will become even more important with the introduction of resource accounts.

3.8 Government departments are required by statute to submit final signed appropriation accounts for audit by 30 November for the financial year ending 31 March. In practice, however, and to meet a commitment given to the Committee of Public Accounts to publish most accounts by the end of October, the Treasury expect departments to submit final accounts signed by the Accounting Officer by 30 September. However, by the end of September 1999 only some 46 per cent of signed accounts had been received of the 104 expected and some 14 per cent were submitted after the statutory deadline. Nevertheless all appropriation accounts for 1998-99 were audited and laid before Parliament by the end of January 2000, the statutory deadline. Notwithstanding a slight improvement in the submission of accounts meeting the statutory deadline in 1998-99, the overall trend since the mid-1990s, as Figure 1 shows, is towards later submission.

Date of submission of signed appropriation accounts 1993-94 to 1998-99

Figure 1



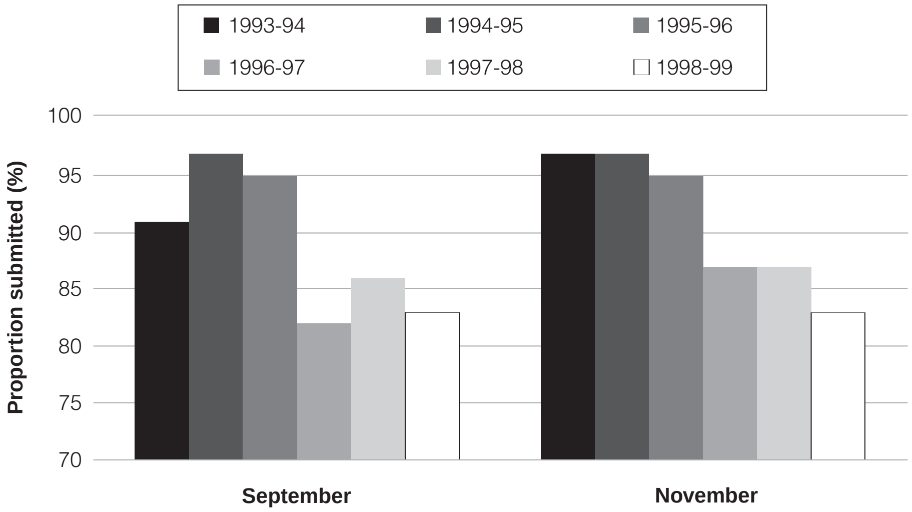
Source: National Audit Office

3.9 Executive agencies are subject to the same statutory deadlines as government departments. However some 17 per cent, of the 96 expected, missed the statutory deadline for submission of 1998-99 accounts compared with 14 per cent in 1997-98 and only 3 per cent in 1993-94 (Figure 2).

3.10 The late submission of financial statements inevitably has an impact on the timing of the certification of accounts, and was an important factor in delays in certifying financial statements. An additional factor that leads to difficulties for the audit process and delays in the certification of accounts is the poor quality of some financial statements. This has been apparent for some time, but has been exacerbated by the move to more complex accruals-based accounts and the development of resource accounting.

Date of submission of signed Executive Agency accounts 1993-94 to 1998-99

Figure 2



Source: National Audit Office

3.11 There are a number of reasons for poor quality accounts, but the most common comes down to management not preparing or reviewing accounts with sufficient scrutiny or attention to detail. This leads to the audit process being unduly taken up with identifying and correcting errors which management should have prevented or detected in the first instance. Examples of this include:

- an error on one agency account of some £161 million due to correcting items identified during the bank reconciliation process not being posted;

- adjustments to the financial statements identified by the National Audit Office that should have been detected by the management review process, and evidence of management leaving decisions on major accounting issues to the final stages of the audit;

- a cash flow statement prepared using different prior year figures from those certified in the previous year's accounts;

- weaknesses in bank reconciliation procedures resulting in a failure to detect duplicate postings amounting to some £336,000; and

- no evidence of communication between the headquarters part of an agency and outstations leading to difficulties with completeness and consistency of treatment of notional charges, debtors and creditors.

Regularity and propriety

3.12 Weaknesses in financial management may reduce departments' ability to account properly for the use of public funds and increase the risk of error, impropriety and fraud. Such weaknesses can undermine the integrity of financial transactions that result in income or expenditure not being applied for the purposes authorised by Parliament or which do not conform to the authorities which govern them – that is they are irregular. Propriety goes wider and is concerned more with Parliament's expectation as to the way in which public business should be conducted, and can involve standards of conduct, behaviour and corporate governance.

3.13 Cases where financial statements are qualified or reported on because of concerns about the regularity or propriety of transactions are summarised below, together with issues raised with management. In a number of cases, the Comptroller and Auditor General has qualified financial statements on a similar basis in previous years.

3.14 The Comptroller and Auditor General qualified his opinion on the Child Support Agency Client Funds Account once again because 35 per cent of receipts from non-resident parents were for the wrong amount and 79 per cent of full maintenance, and 62 per cent of interim maintenance, balances examined were incorrectly stated. These errors were primarily due to mistakes in the underlying maintenance assessments. The National Audit Office estimated that the £410 million received from non-resident parents in 1998-99 contained overpayments of £23.8 million and underpayments of £6.2 million. Of the £512 million shown as collectable full maintenance outstanding at 31 March 1999 the National Audit Office estimated that there were overstatements of £79.4 million and understatements of £53.4 million. Of the corresponding balance of £179 million for interim maintenance, overstatements were estimated at £28.6 million and understatements at £1.2 million.

3.15 Although the Child Support Agency have reported improved accuracy for 1998-99, the audit revealed that mistakes were still being made. In addition, there remains a legacy of error due to the Agency's poor past performance. This continues to affect amounts being paid in respect of child maintenance and the maintenance balances due.

3.16 The Comptroller and Auditor General qualified his opinion on both the National Insurance Fund Account and on the Central Government Administered Social Security Benefits and Other Payments Appropriation Account (Class XII, Vote 1) for 1998-99 because of fraudulent benefit claims and fraudulent encashment of orderbooks, girocheques and other means of payment. Regarding those benefits charged to the National Insurance Fund account, Interim findings from area benefit reviews of contribution based jobseeeker's allowance estimated that some £47 million had been fraudulently claimed, representing some 9.3 per cent of claims for this benefit. Separate area benefit reviews of income support and income based jobseeker's allowance (which are charged to the Class XII, Vote 1 Appropriation Account) estimated the annual loss to fraud to be £1.53 billion. In addition, estimated losses arising from fraudulent encashment of orderbooks, girocheques and other means of payment could be up to £102.6 million, affecting both accounts.

3.17 The Comptroller and Auditor General further qualified the Class XII, Vote 1 Appropriation Account because of the overall level of error in benefit awards, principally income support and jobseeker's allowance. This is the eleventh successive year that the account has been qualified. The Comptroller and Auditor General noted that whilst there has been some improvement in accuracy, and the Benefits Agency have taken a number of initiatives, it is clear that the Agency face a significant and continuing challenge in seeking to improve the accuracy of benefit awards. The trend of improving accuracy to date suggests that significant improvement will take some years to achieve.

3.18 The Comptroller and Auditor General again qualified his opinion on the Lord Chancellor's Department Appropriation Account (Class VIII, Vote 1). As in previous years, there remained limited evidence available to give reasonable assurance of full compliance with the regulations relating to the award of criminal legal aid and the determination of contribution orders. There were no other audit procedures that could be adopted to confirm that all criminal legal aid payments had been applied for the purposes intended by Parliament.

3.19 The Legal Aid Fund (Northern Ireland) account for 1997-98 was qualified for the second year running, on the grounds that the account contained irregular payments for legal advice and assistance. The eligibility conditions for free or reduced rate advice and assistance require applicants to satisfy certain income conditions, which most applicants satisfy by being entitled to certain social security benefits. On the basis of their examination, auditors estimated that 8 per cent of applicants were improperly claiming to be in receipt of an appropriate benefit at the time of the claim and that in 1997-98 about £0.5 million of irregular payments were made.

3.20 The Funds in Court England and Wales Accounts Part A for 1996-97 and 1997-98 were qualified in November 1999 due to the Court Funds Office being unable to fully substantiate the balance on the Unclaimed Balances Account as at 28 February 1997 and 28 February 1998. These balances exceeded £30 million at each date, and no ready analysis of the balance by individual case was maintained by the Court Funds Office. A key function of the Court Funds Office is the custody of money or assets on behalf of others. The Office must therefore be able to attribute money or assets to the persons on whose behalf they are held, and to agree the total of such individual amounts to the total funds held.

3.21 A number of other instances of errors and potential irregularities were found which were significant even though they did not lead to a report or qualification. These included:

- share dividends were declared and paid by a privatised company but were collected by the Registrars and not paid over to the department holding the shares. The amount involved was some £407,000; and

- failure to reclaim tax credits on dividends and interest from the Inland Revenue on a timely basis, involving some £1.5 million.

Developments in issues raised in previous years

3.22 Where bodies have agreed action to address matters that have been reported to Parliament, the Comptroller and Auditor General looks again at the areas in question to review the action taken. In general, management respond positively to recommendations made by the Comptroller and Auditor General, and improvements in financial management are achieved.

3.23 The Comptroller and Auditor General qualified his opinion on one of the 1996-97 NHS Summarised Accounts for England on the grounds that over 50 per cent of the underlying NHS Funds Held on Trust accounts were qualified because charities had not clearly identified the point where received donations should be accounted for as income. Following this qualification guidance was produced by the Charities Commission and the Audit Commission and the resulting improvement in controls led to a reduction in the number of qualifications of the underlying accounts in 1997-98. This enabled the Comptroller and Auditor General to give an unqualified opinion on the 1997-98 Summarised Accounts.

3.24 In his report on the Ministry of Defence's 1997-98 appropriation accounts, the Comptroller and Auditor General referred to the Department's control of suspense accounts. The Department recognised that the overall management of suspense accounts needed to be improved and have taken action to improve the position. In his report on the 1998-99 Defence appropriation accounts, the Comptroller and Auditor General noted that whilst some weaknesses remained, there had been some improvement in suspense account controls.

3.25 The Comptroller and Auditor General's reports on the National Health Service (NHS) in the English, Scottish and Welsh Summarised Accounts have noted in recent years, amongst other matters, the costs of clinical negligence to health authorities and NHS Trusts and concern that not all clinical negligence liabilities are identified. The 1997-98 Summarised Accounts for the NHS in England disclosed total potential liabilities of £1.8 billion, with a further £1 billion estimated as the cost of clinical incidents that have occurred but have not been reported by the balance sheet date. In his report on these Summarised Accounts the Comptroller and Auditor General welcomed the steps taken to minimise the likely future costs of clinical negligence claims through enhancing the standards of health care. These measures include the introduction of National Service Frameworks, the creation of the National Institute for Clinical Excellence, the introduction of a new statutory duty of quality and the monitoring of standards of service provision.

3.26 The Comptroller and Auditor General qualified his opinion on the 1995-96 and 1996-97 National Debt Commissioner's Gilt Edged Official Operations Account because the National Audit Office had not been able to obtain all the information needed. This was because the National Debt Commissioner had not requested access to the Bank of England's records of transactions including supporting documentary evidence. In addition the National Debt Commissioner had not assessed the adequacy nor monitored the operation of the Bank's systems and controls over transactions. In response the National Debt Commissioner has developed appropriate procedures for monitoring the Bank's transactions and has requested and received extensive documentation regarding the Bank's systems and procedures for Gilt issuance. Consequently the 1996-97, 1997-98 and 1998-99 accounts were certified in March and June 1999 with a clear audit opinion.

3.27 The National Audit Office review progress where limitations in controls and other issues have been raised with management. The following are examples of the positive response to their recommendations that the National Audit Office received:

- One body reorganised their accounting arrangements and introduced a new accounting system from 1 April 1997. During 1998-99 it became apparent that due to accounting system design and operational problems the body was unable to complete full bank reconciliations on a monthly basis. The National Audit Office raised their concerns with the body, who accepted the importance of regular reconciliations. They plan to reorganise their procedures to ensure that monthly bank reconciliations are carried out.

- The National Audit Office raised concerns in 1997-98 about the value for money of a £3.1million contract payment made by a department to a service provider. Following negotiation with the service provider the department secured agreement that just over £1 million would be repaid in stages over a period of two years.

- Concerns were raised over the inability of an Agency to reconcile properly their record of advances to staff for house purchase with records on the parent department's pay system. The result was that some £3 million of the original account figure of £13 million could not be substantiated. In response reconciliations of the advances made to those in respect of which recoveries are in progress, were carried out and the unexplained difference was reduced to an insignificant level.

Part 4: Audit of receipts of revenue

Introduction

4.1 The accounts of the receipts of revenue by government departments are examined under section 2 of the Exchequer and Audit Departments Act 1921. The Comptroller and Auditor General is required to examine these accounts on behalf of the House of Commons in order to ascertain that adequate regulations and procedures have been framed to secure an effective check on the assessment, collection and proper allocation of revenue. He also examines whether such regulations and procedures are being duly carried out. In addition, he is required to carry out any such examination as he thinks fit with respect to the correctness of sums brought to account and, together with a report on the appropriation accounts of the department concerned, report to the House of Commons. The results of the examination for this reporting year were satisfactory for HM Customs and Excise (Class XVI, Vote 3) and Inland Revenue (Class XVI, Vote 4).

4.2 In accordance with directions given by the Treasury, summarised financial statements of receipts and payments are published in the respective annual reports of HM Customs and Excise and the Board of Inland Revenue. The Comptroller and Auditor General audits these financial statements and issued an unqualified opinion on each department's accounts for 1998-99.

4.3 The review of the work of HM Customs and Excise and Inland Revenue is reported in more detail in Volume 16 of the 1998-99 appropriation accounts. A summary of the main points is set out below.

HM Customs and Excise

Performance

4.4 Net revenue receipts rose by 4.3 per cent over the previous year. The main increases were in the two largest taxes (VAT and Hydrocarbon Oils) and in two of the newest taxes (Insurance Premium Tax and Air Passenger Duty). Net VAT receipts rose by 2.8 per cent to £52,312 million. This was less than the Department's forecast in March 1998, although the outturn was within the Department's forecast accuracy target of plus or minus 3 per cent. The shortfall of more than £1,000 million compares with an excess of £354 million in the previous year, when a new forecasting model was introduced. Changes to the way in which the Department manages debt have resulted in tighter control over overdue amounts; VAT liabilities outstanding for more than six months had decreased by 14.1 per cent at 31 March 1999 compared with the previous year.

4.5 There have been significant increases in revenue receipts from Air Passenger Duty and Insurance Premium Tax. Revenues from Air Passenger Duty rose by 69.6 per cent over the previous year to £837 million. 1998-99 was the first full year of the higher rates of duty, and the number of passengers in respect of whom tax was paid rose by 7.7 per cent over the previous year. The increase of 19.3 per cent, to £1,245 million, in Insurance Premium Tax revenues received is also largely due to this being the first full year of taxes collected at the higher rates and widened scope introduced in 1997-98.

4.6 The main contributor to the increase in receipts from alcohol related duties was the continuing increase in the consumption of wine; the volume of releases rose by 3.7 per cent. Beer duty receipts rose only slightly (0.2 per cent), despite duty rate rises, reflecting the continuing problem of cross border smuggling of beer. Revenues from customs duties and agricultural levies continued to decline (9.3 per cent) as international trade agreements take effect. Receipts from tobacco duties fell, despite duty rate increases, mainly because of the effects of smuggling which contributed to a decline in the number of cigarettes released for consumption of 7.5 per cent over the previous year. A decline in stakes on the National Lottery contributed to a fall in receipts from betting and gaming duties. Landfill Tax, in its second full year, yielded 7.6 per cent less than in the previous year, reflecting a drop in the amount of reported taxable waste.

4.7 Write-offs and remissions rose by 20.6 per cent over the previous year to £631.3 million.

Fraud and evasion

4.8 The Department's general assurance work continues to detect additional net revenues, and they continue to put considerable effort into tackling fraud and evasion. They identified a total of £2,569 million VAT and Insurance Premium Tax under-declaration errors during the year, and the VAT Avoidance Unit identified £142.7 million of VAT avoided in 1998-99. The Shadow Economy Teams were responsible for securing nearly 4,000 VAT new registrations, providing £34.3 million additional revenue.

4.9 In the customs area, the Department have investigated the increase in the reclaim of Hydrocarbon Oil duty, which has risen from £21.3 million in 1996-97 to £36.4 million in 1998-99. This rise is attributed to the increase in the manufacture and use of ultra low sulphur diesel in the United Kingdom, leading to higher exports of conventional diesel. Exporters reclaim the duty paid, which is at a higher duty rate than on ultra low sulphur diesel. The Department have allocated additional resources to combating alcohol and tobacco fraud in general and particularly cross channel smuggling, and will further increase resources in the current year.

Departmental costs

4.10 The Department's total expenditure in 1998-99 was £859.7 million, £9 million lower than in the previous year in real terms. The number of staff years deployed decreased by 572. This fall contributed to the reduction in current expenditure, although the decrease was offset by increases in costs associated with operational activities - legal, investigative and the storage of seized goods. Capital expenditure also fell, mainly as a result of rescheduling or postponement of estates projects.

Inland Revenue

Performance

4.11 Net receipts of revenue in 1998-99 amounted to £128.1 billion, some nine per cent higher than in the previous year. Net receipts of income tax and stamp duties increased by £9.8 billion and £1.2 billion respectively. The increases were due to a variety of factors, but in particular to the continuing growth in earnings; the abolition of payments of dividend tax credits for pension funds and life company pension business; an increase in equity values and volume of share disposals; and the strength of the housing market, combined with a rise in the rate of stamp duty on properties worth £250,000 or more.

PAYE processing

4.12 To assess and improve the quality of PAYE processing work in local offices, the Inland Revenue carry out an annual quality monitoring exercise involving in-depth checks on all work done during the year on samples of non self assessment PAYE tax cases. The results of this exercise are validated by the department's internal audit office. The National Audit Office also accompanied the quality monitoring officers on three visits to confirm that the work was being performed to an acceptable standard.

4.13 For 1998-99 the Department exceeded their overall target of handling 87 per cent of manually processed cases accurately in every respect first time, although three of their Regional Executive Offices failed to achieve their individual target. The Department estimated that there was a net undercharge of £21 million, representing 0.03 per cent of the £72.7 billion collected through PAYE in the year.

4.14 The National Audit Office also carried out a separate sample of PAYE taxpayer records to obtain assurance on the Department's management of other risks, such as the handling of receipts. They found that delays in processing end of year returns for 1997-98 had arisen due to difficulties with the introduction of the Contributions Agency's National Insurance Recording System. The Department had only been able to finalise the tax position of some 83 per cent of taxpayers by 31 March 1999 against a target of 88 per cent. The difficulties limited the Department's ability to provide an effective service and any over or under-payments of tax would remain uncorrected for longer than normal.

Income tax self assessment

4.15 In 1998-99 the Department piloted a system of quality monitoring for processing income tax returns filed under the self assessment system. The exercise was designed to provide assurance about the consistency of processing and decision-making in more than 500 offices throughout the country and to produce reliable statistics at a national level. The Department reviewed a nationwide sample of some 3,400 tax returns against 15 criteria. The results showed that while 94 per cent of returns had been logged and input without any errors that would affect the tax liability by more than £1, some aspects of processing work, such as the amendment of PAYE tax codes was less reliable, with an accuracy rate of 65 per cent. Action has been taken to determine the cause of processing errors and to identify corrective measures.

4.16 Under self assessment, non-compliant taxpayers are targeted through enquiry procedures. The Department does not have the resources to check all self assessment returns nor would it be cost effective to do so. Enquiries are therefore carried out on a sample of cases. The Department opened inquiries into some 369,000 tax returns (around 4 per cent of cases) and by the year end had identified some £179 million additional yield from completed investigations.

Corporation tax self assessment

4.17 The Comptroller and Auditor General also examined preparations for the introduction of self assessment for corporation tax. As corporation tax self assessment is an evolution of the existing pay and file system, its impact will not be as significant as the introduction of income tax self assessment. Nevertheless it will affect around one million taxpayers, including 40,000 public limited companies, 936,000 private limited companies and 54,000 clubs and unincorporated associations involving receipts of some £30 billion a year.

4.18 In order to reduce costs and to provide maximum continuity with the current arrangements for administering corporation tax, the Department adopted a minimum change approach which included re-engineering of existing computer systems. This strategy should help minimise the risk of disruption and increase the prospects of a successful transition to the new self assessment system. They have taken steps to manage the risks associated with the introduction of the new COTAX computer system by checking the transfer of data from the old system and by trialling the operation of the new system with live cases at selected offices. In the longer-term the Department plan to develop a risk assessment system for compliance work similar to that for income tax self assessment and it is also examining the feasibility of electronic filing of company tax returns.

Experimental call centre

4.19 The Department established an experimental call centre at East Kilbride in August 1998 as part of their programme to implement the Modernising Government initiative. The call centre employs some 200 staff, of whom 130 are telephone advisers, to deal with the 2 million employees and pensioners whose tax affairs are handled by the Centre 1 district. It is intended to provide improved customer service and assistance to taxpayers to help them comply with tax laws, while delivering cost savings and better management information. Call centre staff can process changes of address, claims for personal allowances and requests for repayments of tax. Up to October 1999 the total costs of the call centre were £11.8 million.

4.20 The experiment has been successful in identifying issues which will need to be evaluated before extending of this type of service nationally, such as managing significant peaks in demand and measuring the quality of advice and service provided. The Department have assembled a range of evidence from various sources to evaluate the experiment and intend to decide on the way forward early in 2000.

Departmental costs

4.21 In 1998-99, the Department spent £1,702 million on assessing and collecting tax, £48 million more than in the previous year. The cost of collection, as a percentage of net receipts, was 1.33 per cent, considerably lower than the 1.41 per cent for the previous year and the lowest level since 1952-53.

Part 5: Audit of assets

Introduction

5.1 Examination of assets held by public bodies takes a number of forms. Where public bodies produce accounts on an accrual basis, assets included in the balance sheet are covered by the National Audit Office's normal audit procedures and the associated opinion on the financial statements. In addition, Section 4 of the Exchequer and Audit Departments Act 1921 requires the Comptroller and Auditor General to examine stock and store accounts on behalf of the House of Commons. This examination enables him to confirm whether adequate regulations have been made and enforced for control and stocktaking, and whether Treasury requirements have been met. The National Audit Office also undertake reviews of the custody and control of assets with particular reference to risks to propriety and regularity. Where weaknesses or risks are identified, these are notified to management. The Comptroller and Auditor General made an unqualified stores report under Section 4 of the Act for 1998-99 (see Appendix 3) although the National Audit Office's work identified a number of specific matters which were reported to management.

5.2 The development of resource accounting, and the growing number of executive agencies and other bodies required to produce accrual accounts, has increased the importance of accounting for fixed assets within central government bodies.

5.3 As part of their work to assist departments prepare for resource accounting, the National Audit Office are reviewing the arrangements for accounting for assets. Many departments are making good progress in implementing fixed asset accounting systems. However, others need to make further progress before their systems can be used to support the valuations to be disclosed in financial statements, and in some cases there are doubts whether this part of the financial statements will support an unqualified audit opinion. Where the National Audit Office have raised concerns, departments have responded positively and are considering how they might be addressed.

Asset registers and inventories

5.4 The existence and maintenance of asset registers and inventories are a critical prerequisite in enabling bodies to exercise effective control of their assets. They are also an important source of evidence for the amounts shown in the financial statements. As in previous years the National Audit Office identified a number of cases where effective asset registers and inventories were not being maintained and made positive recommendations to audited bodies on how improvements could be made. These included the need for:

- *Up to date, accurate and complete records.*

  Accurate recording of assets held is a key factor in ensuring proper stewardship and an accurate value of assets in the financial statements. The National Audit Office found a number of problems in this regard, including a failure to update the asset register on a timely basis, leading to an understatement of £2 million; failure to record all asset disposals, leading to an overstatement of assets; and general problems with asset registers being inaccurate and incomplete.

- *Clear information to locate and identify assets.*

  Asset registers should contain sufficient information to enable the existence of individual assets to be confirmed. Examples of weaknesses include the failure to label assets or the sporadic labelling of assets; and changes in the location of assets not being recorded on the asset register.

- *Regular and timely reconciliation of asset registers and inventories with accounting information.*

  Reconciliation of information on assets held on accounting systems and asset registers is a basic control that helps to confirm that both sources are accurate and complete. In a number of cases this reconciliation was either not carried out at all or not carried out on a timely basis (to support asset figures in the financial statements) or where discrepancies identified were not properly followed up and resolved.

Custody and verification of assets

5.5 A comprehensive and regular verification of actual assets and stores against those recorded on asset registers and inventories is a critical management control. This control helps ensure the accuracy of the value of assets recorded in the accounts, for example by identifying recorded assets that no longer exist or have been lost or disposed of. An additional benefit is that weaknesses in the custody of assets can be highlighted, either in general or in relation to particular locations or asset types.

5.6 The National Audit Office identified a number of weaknesses in the verification of assets and made recommendations on how the process could be strengthened:

- *There should be clear guidance on how the verification process should be performed, and those involved in the process should have a clear understanding of their roles and responsibilities.*

  In some instances the staff responsible for stocktaking checks were not independent of those responsible for stock keeping; exclusion of a whole category of assets from the verification exercise.

- *Verification of assets and stocktakes should be performed regularly and discrepancies should be investigated promptly.*

  Verification exercises should be conducted on at least an annual basis, and preferably more frequently. This enables discrepancies to be investigated earlier and any systematic problems to be addressed before the consequences become more significant. At one agency poor controls over additions and disposals led to over 2400 individual discrepancies being identified in the verification exercise. In other instances annual verification exercises were not carried out at all, raising questions over the value of assets recorded in the financial statements and depriving management of a key assurance about the safe custody of assets.

5.7 Several significant losses of assets and stores were discovered when carrying out verification exercises. Those losses exceeding £100,000 are recorded in 1998-99, and included:

- stores losses caused by a failure to comply with stores accounting procedures and incomplete documentation (£2,385,000);
- theft of material from a stores, due to opportunism and poor management (£518,000);
- equipment issued for an overseas operation could not be found (£164,000); and
- withdrawal from an overseas location revealed missing stores items (£102,000);

Valuation of assets

5.8 For those bodies that prepare commercial-style accruals accounts assets are generally valued in accordance with Treasury guidance, with reference to current costs. This necessitates an annual exercise to restate the value of assets based on a number of alternatives, for example professional valuations by an appropriately qualified person such as a surveyor, the use of appropriate cost indices or reference to replacement cost from suppliers' price lists. The requirement to value assets on a current cost basis can give rise to problems, particularly the treatment of depreciation. Other problems arise from inappropriate accounting policies for assets and a failure to apply accounting policies on a consistent basis.

5.9 The National Audit Office made a number of recommendations for strengthening controls and procedures over the accounting for, and valuation of, assets. The more important ones included the need to:

- ensure that land is valued correctly, and is not (in accordance with generally accepted accounting practice) depreciated. With regard to the former issue, one agency incorrectly valued land on an alternative use basis rather than an existing use basis as required by the Treasury's Resource Accounting Manual;

- use appropriate indices when revaluing assets on a current cost basis. At one body this led, in combination with inconsistent policies for the treatment of depreciation, to the value of assets being misstated by £5 million;

- capitalise irrecoverable VAT in asset values. One body failed to apply this generally accepted accounting practice in their draft accounts;

- take account of depreciation when re-valuing assets. One body failed to do this correctly, leading to an error of £259,000; and

- review asset lives where assets continue in use. A number of bodies recorded assets at nil value where the asset continued in use, casting doubt on the appropriateness of the useful economic life and the annual depreciation charge.

Part 6: Inspection and other financial examinations

Introduction

6.1 In addition to providing an opinion or report on financial statements, the Comptroller and Auditor General has wider responsibilities to provide Parliament with assurance on propriety, regularity, governance and financial control. This extends not just to the bodies audited by the Comptroller and Auditor General but also to many other bodies in receipt of public money.

6.2 Where the Comptroller and Auditor General is not the appointed auditor he may have rights of access to bodies whose major source of income is public money. These inspection rights enable him to review financial procedures and confirm that public funds have been used appropriately. Where the Comptroller and Auditor General is the appointed auditor, his general responsibility to examine, certify and report allows the National Audit Office to address risks to public funds in detail and to comment on financial control systems, as well as to consider regularity and propriety.

Inspection visits

6.3 The National Audit Office undertake a regular cycle of inspection visits to bodies where the Comptroller and Auditor General is not the auditor for financial audit purposes. In addition other visits are made for the purpose of value for money investigations.

6.4 The National Audit Office undertook a review of organisations that receive funding from a department in respect of training. These visits allowed the National Audit Office to estimate that errors in payments by the Department were some £11.7 million. The National Audit Office work is expected to lead to financial recoveries of some £1.1 million. This is the fourth time that the National Audit Office have reported on weaknesses in financial control in these organisations. Visits became possible only after access had been negotiated with the Department and the bodies themselves.

6.5 The National Audit Office also visited local offices of one body to examine financial controls. Whilst they were generally satisfied with the controls, a number of weaknesses were found. These included the failure to raise purchase orders in all cases and to properly authorise purchase orders; orders for travel cards authorised by staff not authorised to do so; and a lack of formal contracts to support some services.

6.6 Other inspection visits carried out during the year revealed a range of other issues:

- funding received in advance of need;
- incorrect accounting of year-end transactions;
- failure to comply with European Union procurement rules;
- unauthorised use of capital allocations to fund running costs and
- non-compliance with contractual obligations.

Prompt Payment

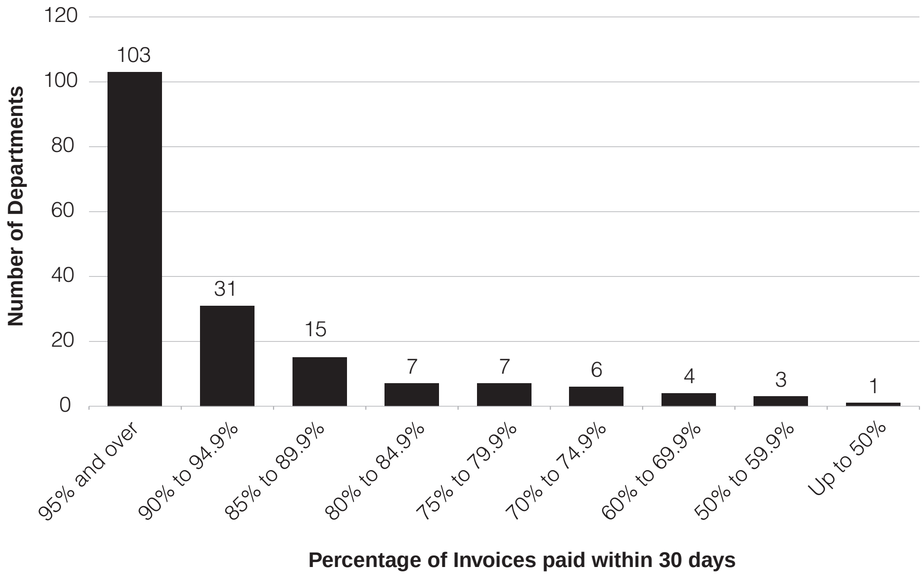
6.7 Most government departments and other bodies are required to disclose details of their performance regarding the payment of bills in the foreword to their accounts. The standard target for most bodies in 1998-99 was that 95 per cent of payments to suppliers were made within 30 days of receipt of the invoice. This has become a more important area for agencies and departments following the introduction of The Late Payments of Commercial Debts (Interest) Act 1998 giving small companies the statutory right to claim interest for invoices that are overdue. Figure 3 shows the performance of a sample of government departments and agencies against this target.

6.8 Only some 58 per cent of the organisations in the sample met the target of paying 95 per cent of their invoices within 30 days of receipt. More significantly, nearly one in four organisations failed to ensure that 90 per cent of payments were on time presenting a genuine risk of incurring interest on late payments.

6.9 As prompt payment performance is only disclosed in the foreword to the accounts, it is not directly covered by the audit. However, given that there is now a risk that organisations could face interest charges for late payments, the National Audit Office reviewed the systems and procedures relating to prompt payment to identify areas of weakness, focussing on those organisations that had recorded

Prompt Payment Performance

Figure 3



Source: National Audit Office

poor payment performance. Although they found no cases where interest charges for late payments had been incurred, the review did reveal a number of factors, which had prevented prompt payment. Some of the more significant factors were:

- the lack of suitable systems or procedures for monitoring the payment of invoices;
- certain bodies had cash limits forcing them to balance payments to creditors with receipts from debtors;
- staff turnover problems within the creditor payment sections led to delays in the payment of some invoices;
- invoices were being passed through regional offices for approval before being passed on to finance sections for payment;
- the failure of purchase ledgers to record the date of receipt of an invoice; and
- invoices for one authority are required to be reviewed by external agencies, which caused a resultant delay in payment.

Risk Audits

6.10 In order to meet the wider responsibilities of the Comptroller and Auditor General reporting to Parliament via the Committee of Public Accounts, the National Audit Office undertake a programme of financial examinations. These examinations examine risks to regularity, propriety and financial control and go beyond the work necessary to form an opinion on financial statements.

6.11 One risk audit looked at a department's stock, fixed assets and licensing management systems. The National Audit Office identified discrepancies in the department's stock records, confirmed by a stocktake subsequently undertaken. This led to a further recommendation that continuous stocktaking is implemented as soon as possible.

6.12 The audit also revealed that obsolete assets were still being held in the balance sheet when they should have been fully depreciated and removed. It was also noted that the existing fixed asset systems had difficulties in dealing with revisions to assets' useful economic lives.

6.13 The licensing management system was incorrectly posting revenues in respect of prior periods to the current year ledgers. The National Audit Office recommended that the department should identify all such cases and assess the impact of these cases on revenue and year-end debtors. We also recommended that the department implement controls to confirm the accuracy of the automated fees calculation system.

6.14 Other significant recommendations arising from other financial examinations included:

- a review of the requirements of corporate governance issues and in particular the requirement by Accounting Officers to provide a statement on the system of internal financial control;
- improvements to the disclosure of pension arrangements in the annual accounts;
- introducing bank reconciliation procedures;
- enhanced controls to reduce the risk of fraudulent or incorrect travel claims from members of the public;
- tougher procedures for the recovery of identified overpayments.

Performance indicators

6.15 Many bodies publish details of their achievement against performance targets in their annual report and accounts. These often form the basis for bonuses paid to management and staff. In such cases, the Treasury require these performance indictors to be independently verified.

6.16 The Comptroller and Auditor General has continued to work with a number of executive agencies by carrying out independent validations of performance against key targets. In 1998-99 he examined the Employment Service's performance against targets for placing unemployed people into work. The Comptroller and Auditor General found that the reporting of Employment Service performance against these targets was at a higher level of accuracy than 1997-98.

6.17 At one organisation the Comptroller and Auditor General reserved his opinion on performance indicators as a result of doubts over the adequacy of controls in place to ensure the integrity and reliability of the data provided to support one of the indicators. In the case of one executive agency where performance is assessed against a number of indicators affecting bonus payments, the National Audit Office review assisted the agency in identifying the further work and actions necessary to determine the actual level of performance.

6.18 In March 2000 the Comptroller and Auditor General published a report on good practice in performance reporting in Executive Agencies and Non-Departmental Public Bodies. This Report, which draws on the result of the National Audit Office's validation of agency performance information, is designed to assist agencies to improve further their performance reporting by setting out suggestions based on their own good practice in collecting and reporting performance information.

Part 7: Accounting and auditing developments

Devolution in Scotland and Wales

7.1 In 1998 legislation was passed to devolve government in Scotland and Wales[1]. Elections to the Scottish Parliament and the National Assembly for Wales took place in May 1999. They took up their powers in July 1999. The Devolution arrangements in the two countries are different. A full Parliament and separate executive have been set up in Scotland, whilst in Wales the executive functions of the Secretary of State have been transferred to the National Assembly. Correspondingly the audit arrangements differ, although both countries have an Auditor General. The Comptroller and Auditor General was appointed as the Auditor General for Wales in June 1999 for a period of two years. The Auditor General for Scotland was appointed in February 2000, and will take over responsibility for the audit of devolved Scottish matters in April 2000.

7.2 From April 2000 the Auditor General for Scotland will report to the Scottish Parliament and, in carrying out his functions, will be independent of both the Scottish Parliament and the Executive. The Auditor General will be responsible for the commissioning of financial and value for money audit across much of the public sector in Scotland. His responsibilities will include commissioning audits in the National Health Service. Local authority audits will continue to be secured by the Accounts Commission and resulting reports will not be laid in the Scottish Parliament. The Scottish Parliament has established an Audit Committee that operates along similar lines to the Committee of Public Accounts. In April 2000 the staff of the National Audit Office in Scotland and the staff of the Accounts Commission will merge to form a new audit institution known as Audit Scotland which will provide audit services and support to the Auditor General and the Accounts Commission.

7.3 The Comptroller and Auditor General will continue to audit matters in Scotland that remain "reserved" to the United Kingdom Government. These include defence, foreign affairs, monetary policy, central government taxation, customs and excise and social security. Devolved matters include health, education

1 The Scotland Act 1998, the Government of Wales Act 1998

and economic development. These will pass out of the Comptroller and Auditor General's remit and into the audit arrangements established by the Scottish Parliament.

7.4 The Auditor General for Wales is appointed by the Crown and is independent of the Assembly. He is responsible for the audit of the accounts of the Assembly and its sponsored public bodies and may also carry out economy, efficiency and effectiveness examinations. The Auditor General has made arrangements under the Government of Wales Act 1998 for the National Audit Office in Wales to provide a full administrative, professional and technical service in support of his statutory functions. He reports to the Welsh Assembly which has its own Audit Committee with powers to operate in a similar manner to the Committee of Public Accounts. The 1998 Act provides for the Comptroller and Auditor General to have rights of access to the Assembly and public bodies in Wales for the purposes of reporting to Parliament.

Accounting for Private Finance Initiative transactions

7.5 Accounting for projects put forward under the Private Finance Initiative can be complex as the parties involved may acquire or retain various interests, obligations and risks associated with the assets. A key question for many projects is whether the assets employed in providing the services required by the public sector belong on the public sector balance sheet or that of the private sector supplier.

7.6 The Comptroller and Auditor General's General Report for 1997-98 noted the publication in September 1998 of new accounting guidance to help with the balance sheet decision, in the form of the Accounting Standards Board's Application Note, 'Private Finance Initiative and Similar Contracts', and that the Treasury were developing further guidance to provide a practical methodology for its application in the public sector.

7.7 The National Audit Office was extensively consulted in the development of this further Treasury guidance that was issued in June 1999. At the same time the Treasury agreed, after representations from the National Audit Office and the Financial Reporting Advisory Board to the Treasury, that the new guidance should be applied to existing projects and those in negotiation as well as to future projects. This avoids the potential for inconsistent treatment of similar projects, and the National Audit Office have liased closely with the Treasury to ensure that the application of the new guidance to existing projects has been carried out in as cost effective manner as possible, realising that some of the early accounting opinions would require reassessment.

7.8 Whatever the balance sheet treatment adopted for individual projects, it is a feature of the Private Finance Initiative that contracts involve the government in long-term future expenditure commitments of up to 30 years from contract signature. The National Audit Office have been concerned that the full scale of such commitments, and any government guarantees contained with contracts, are readily apparent to Parliament. From 1999-2000 onwards, this can be achieved for individual departments through the disclosures in their resource accounts of commitments and contingencies as required by the Resource Accounting Manual. With regard to disclosures at an aggregated expenditure level the National Audit Office have liaised closely with the Treasury's Private Finance Taskforce over the development of its Policy Statement Number 5 "Provision of Information to Parliament" issued in January 2000 which requires summarised reporting of estimated PFI commitments to Parliament every six months. This should ensure that Parliament is kept informed of the scale of long term spending commitments incurred under the Private Finance Initiative.

Auditing standards

7.9 In his 1997-98 General Report, the Comptroller and Auditor General referred to the establishment of a public sector sub-committee of the Auditing Practices Board, chaired by an Assistant Auditor General from the National Audit Office. Its role is to assess the need for specific standards and guidance on audit issues in the public sector, and to advise the Auditing Practices Board generally on matters relating to the public sector.

7.10 The Sub-Committee has built on the earlier publication (September 1998) of a Practice Note on the audit of regularity in the financial statements of Central Government Bodies. The Sub-Committee is now developing a revised Public Sector Practice Note that will consolidate the guidance provided in the Auditing Practices Board's Practice Note 10 on the audit of central government financial statements and the guidance in Practice Note 17 on the audit of regularity, and extend the guidance to cover the public sector as a whole, including local authorities and the Health sector. The Sub-Committee is also preparing guidance for public sector auditors on other assurance assignments. These assignments include, for example, the examination of performance indicators.

Corporate governance – internal control

Statements on the System of Internal Financial Control

7.11 The Comptroller and Auditor General's 1997-98 General Report noted that a significant development in corporate governance in 1998-99 would be the Treasury requirement for central government bodies to include within their accounts a statement by the Accounting Officer concerning the system of internal financial control. The statements are broadly derived from equivalent statements used within the private sector. As part of the Comptroller and Auditor General's audit of the financial statements, his responsibility is to review whether the internal financial control statements comply with the requirements laid down by Treasury and to report where they do not. His standard audit opinion has been amended to reflect this additional responsibility.

7.12 The vast majority of government departments and agencies have complied fully with the requirements of the statement on the system of internal financial control. During their review of the statements, the National Audit Office observed that departments and agencies adopted a variety of approaches towards meeting this requirement. Some of the most common issues arising were:

- a lack of awareness of the requirements of this statement and a lack of any significant work on the statement prior to audit;
- failure to tailor the wording of the statement to the circumstances of the individual body, relying on the draft wording provided by the Treasury. In many cases, draft statements had to be amended following initial review by the National Audit Office;
- failure to gather sufficient evidence to support the assertions made in the statements, many of which were revised once the evidence was subsequently obtained;
- the roles played by the organisations' internal audit departments ranged from little or no involvement at some organisations through to extensive discussion and review at others;
- the lack of appreciation and involvement of the roles of internal audit departments in monitoring and reporting on the systems of internal financial control.

7.13 While major departments and organisations were largely aware of the issues and needs of the statement on the system of internal financial control, smaller government departments and agencies were somewhat overwhelmed by the amount of information needed to meet the statement's requirements. Many required advice and guidance from the National Audit Office in completing the statement.

7.14 The addition of the statement on the system of internal financial control to the annual financial statements has not had a significant overall impact on the level of audit work carried by the National Audit Office during their annual audit. The work carried out to gain an understanding of the adequacy of the systems of internal financial control is largely covered by standard audit procedures either in assessing the overall control environment or in reviewing the work of the internal audit department. The only significant additional work carried out has been in providing assistance and advice to departments towards meeting their requirements under this statement. This is expected to reduce considerably in future years as departments become more familiar with the requirements of the statement.

7.15 The requirement to prepare statements on the system of internal financial control, and the work of the National Audit Office in reviewing the statements has led to several benefits in terms of improved accountability and standards of corporate governance. Those include:

- increased awareness of weaknesses identified by review of internal financial controls;
- closer working relations between the department or agency and internal audit and a better appreciation of the value of internal audit;
- an increased profile of the statement on the system of internal financial control among Chief Executives, audit committees and internal audit departments;
- the setting up of working parties and steering groups to either address the weaknesses brought to light by the review of internal financial controls or simply to ensure that they gather relevant evidence to support information disclosed in the statement.

7.16 The role of corporate governance statements has continued to develop, however, with the publication for the private sector of the 'Turnbull' guidance for directors on internal control. The Stock Exchange Combined Code embracing this guidance requires corporate governance statements for listed companies to encompass internal controls generally, not just internal financial controls. The Treasury consider that the principles behind the new guidance can also be usefully applied to central government bodies and the National Audit Office are currently exploring with the Treasury how best to adapt the Turnbull recommendations for application in the public sector.

Audit Committees

7.17 An audit committee is an advisory body aimed at providing a forum for senior management to discuss internal and external audit matters and to promote the understanding of the role of internal audit within an organisation. It also provides high level assurance on matters relating to the systems, controls and matters of corporate governance.

7.18 It was evident from review of corporate governance issues that the role of the audit committee within an organisation is wide ranging. Many of the larger departments and organisations have well established audit committees making a positive contribution to the stewardship of resources and the strengthening of internal controls. Many of these committees took a proactive role in the preparation of the statement on the system of internal financial controls. Examples of their involvement include:

- regular briefings on the statements and the work being done to support them;
- presentation of the statement to audit committees for approval prior to signing by the Accounting Officer;
- regular liaison with internal audit to mark progress on the work carried out;
- the audit committee being used as the primary vehicle for delivering all corporate governance issues.

7.19 However, smaller organisations often did not have the same level of involvement from their audit committees. Many committees, even where they existed, did not actively consider corporate governance issues and were not involved in the preparation of the statement on the system of internal financial control, relying on the work carried out either by internal audit or finance staff.

7.20 A more positive impact of the need for a statement on the system of internal financial control, as well as the emergence of other corporate governance issues, has been that a number of organisations have set up audit committees. These now deal with the issues surrounding the preparation of the statement and to monitor progress against action plans to address weaknesses identified.

Public Audit Forum

7.21 In his 1997-98 General Report the Comptroller and Auditor General referred to the establishment of the Public Audit Forum which was launched in October 1998 to provide a focus for developmental work on public audit. The Forum comprises the heads of the four national audit agencies (the National Audit Office, the Audit Commission, the Accounts Commission, and the Northern Ireland Audit Office). It is intended that in the near future the Auditor General for Scotland and the Auditor General for Wales should be invited to join the Forum. The Forum is supported by a Consultative Forum which has a wide representation drawn from key stakeholders in the public audit process. The Consultative Forum is responsible for delivering the agreed programme of work and for proposing future subjects for consideration by the Forum.

7.22 Public Audit Forum publications to date include:

- *The Principles of Public Audit;*
- *Implications for Audit of the Modernising Government Agenda;*
- *What Public Sector Bodies can expect from their Auditors* (consultation paper);
- *What Public Sector Bodies can expect from their Auditors* (final paper).

7.23 The paper *Implications for Audit of the Modernising Government Agenda* was published in March 1999, and represented an immediate response by the Forum to the Government's White Paper on Modernising Government. The

Forum's paper, which was warmly welcomed by the Government, made clear that the need for accountability should not be used as an excuse for missing opportunities to deliver better value for money, and that managers must ensure that fear of the risks of change does not stifle worthwhile innovation. The paper also emphasised that auditors can support and encourage worthwhile change without compromising their independence and statutory role, and that auditors should work in collaboration with each other in the audit of joined up initiatives. The Forum working group responsible for drafting the paper has been re-convened to monitor how public sector bodies and their auditors are taking forward the commitments set out in the paper.

7.24 The consultation paper *What Public Sector Bodies can expect from their Auditors* was published in June 1999. It addressed issues related to:

- co-operation in the planning of audits;
- public auditors, regulators and inspectors working together to best effect;
- arrangements for discussing draft reports;
- opportunities for public auditors to add value;
- published coverage of the principles of integrity, objectivity and independence of public auditors, professional competence and behaviour, and confidentiality.

Responses to the consultation paper were mainly supportive and constructive, and the Forum used these in its preparation of the final paper, which it published in March 2000. The published paper retains the coverage listed above but takes account of suggestions concerning, among other things, the advisory status of the paper, the importance of auditors' independence and the role of audit committees.

7.25 Public Audit Forum working groups are also working on issues of propriety and governance in the public sector, data matching, and electronic service delivery.

"Whistleblowing" – The Public Interest Disclosure Act 1998

7.26 The Public Interest Disclosure Act 1998 came into force on 2 July 1999, and provides protection from dismissal or other sanction for individuals ("whistleblowers") who make disclosures relating to malpractice in the workplace. The Act aims to encourage responsible disclosures and encourages internal disclosures in the first instance. However, where an individual reasonably believes they would be victimised or there would be a cover up, the Act provides for them to make protected disclosures externally to prescribed persons. The Comptroller and Auditor General is one of several prescribed persons under the Act. His responsibility as a prescribed person is to investigate allegations made to him by individuals relating to the proper conduct of public business, value for money, fraud and corruption in relation to the provision of centrally funded public services.

7.27 It is too early to say how many allegations the Comptroller and Auditor General will receive as a result of the Act. However, as the external auditor of government departments, agencies and many other public bodies, he is likely to be seen as the appropriate prescribed person for individuals in these organisations. The Comptroller and Auditor General will follow up thoroughly any allegations made to him that are relevant to his statutory duties. The National Audit Office have set up a dedicated telephone line[2] to receive disclosures and may also receive allegations in the course of their work. The National Audit Office have established procedures to ensure that appropriate and reasonable steps are taken to investigate allegations that fall within the criteria for disclosures laid down in the Act. These procedures include liasing with the individual making disclosures, respecting confidentiality where this is requested, and ensuring that they receive a detailed reply on the outcome of an investigation. The Comptroller and Auditor General's ability to follow up allegations swiftly where they concern the use of public money by private contractors is not guaranteed. His staff have to negotiate with departments and their funding bodies to gain access to information held by contractors.

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Year 2000 threat

7.28 The millennium threat or Year 2000 problem arose because some computers and other electronic equipment refer to years by their last two digits, and in processing dates assume that "00" means 1900 rather than 2000. In 1999 the Comptroller and Auditor General published two further reports on managing the millennium threat (The Millennium Threat: 221 Days and Counting, HC 436 1998-99, May 1999 and The Millennium Threat: Are We Ready? HC 871 1998-99, November 1999).

7.29 Both reports examined progress in dealing with the millennium threat in the UK national infrastructure overall, in central government departments and agencies, how emergency planning arrangements had been enhanced to deal with the potential effects of the threat, and the position overseas which could cause problems in the UK if supply chains were disrupted. They concluded that Great Britain had undertaken a significant amount of work to counter the threat, that the prospects of material disruption were diminishing, and that attention must continue to be focused on assessing and addressing remaining risks through business continuity plans.

7.30 Subsequently, on 19 November 1999, Action 2000 announced that all processes and organisations covered by the UK national infrastructure arrangements (around 10,000 organisations, and 1,000 processes within 25 sectors) had been independently assessed and rated as having no identified risk of material disruption as a result of the millennium threat. On 15 December 1999, the Leader of the House of Commons announced that all central government departments and agencies had millennium compliant business critical systems and had completed work on business continuity plans and millennium operating regimes.

7.31 On 20 January 2000, the Leader of the House of Commons reported to the House that there had been a smooth transition over the millennium date change period; that the Government's objective of no material disruption to essential services had been achieved; and that no government department had reported any significant problems.

7.32 The National Audit Office plan a further report in 2000 looking at the outcome of millennium threat work, including wider benefits of the work and lessons learnt for future cross-department or nation wide projects.

The euro

7.33 In his 1997-98 General Report the Comptroller and Auditor General noted the steps being taken by public bodies to prepare for joining the European Monetary Union, should the United Kingdom decide to join.

Preparations for the euro: the national changeover plans

7.34 In February 1999 the Government published the first Outline National Changeover Plan, which was designed to deal with the practical aspects of entry, the work done so far, and the work planned for the future. In respect of the public sector the plan stated that it was essential for both central government and the wider public sector to develop a coherent approach to the changeover. All central government departments have nominated a euro co-ordinator and asked other public bodies which they sponsor to do so. The Treasury subsequently reported progress in preparations throughout the public sector in November 1999[3].

7.35 The Second National Changeover Plan was published in March 2000. The plan noted that all government departments have produced individual outline changeover plans, considering what services they would provide during a changeover, how they would convert their systems to the euro and identifying lead times and key planning activities. The plan also set out the next steps in preparing for any changeover. For government departments this includes how to involve external stakeholders in the next phase of planning and drawing up strategies for the internal conversion of systems. The plan noted that the Government will provide updates on changeover planning through regular progress reports.

3 Third report on euro preparations, HM Treasury November 1999

Appendix 1
Accounts qualified by the Comptroller and Auditor General

Appropriation Accounts 1998-99		
Class I	Vote 1	Defence: Excess Vote
Class I	Vote 2	Defence: Excess Vote
Class VIII	Vote 1	Lord Chancellor's Department: breach of running costs control limit and regularity of awards of criminal legal aid
Class VIII	Vote 5	Serious Fraud Office: Excess Vote
Class XII	Vote 1	Central Government Administered Social Security Benefits and Other Payments
Class XVI	Vote 11	Office for National Statistics: Excess Vote due to defective Ambit in the Appropriation Act

Other Accounts qualified
Funds in Court in Northern Ireland (Supreme Court Account) 1996-97
Funds in Court in Northern Ireland (County Court Account) 1996-97
Legal Aid Fund (Northern Ireland) 1997-98
Child Support Agency Client Funds Account 1998-99
National Insurance Fund Account 1998-99
Fire Service College 1996-97
Fire Service College 1997-98

Appendix 2
Reports of the Comptroller and Auditor General

Appropriation Accounts 1998-99

Class I	Votes A	Defence (report on the number of personnel serving in the armed forces)
Class I	Vote 3	Defence: Losses on IT projects
Class I	Vote 4	Defence: Loss from alleged pension fraud
Class II	Vote 1	Foreign and Commonwealth Office: Irregularities in accounting for visa fees at the Deputy High Commission in Calcutta
Class VI	Vote 7	Department of the Environment, Transport and the Regions (report on the delay in production of completion accounts for the Building Research Establishment for 1996-97)
Class VI	Vote 9	Driver and Vehicle Licensing Agency: Vehicle Excise Duty collection
Class XVI	Vote 3	HM Customs and Excise: administration (report on the revenue accounts)
Class XVI	Vote 4	Inland Revenue: administration (report on the revenue accounts)

Other Reports

Millennium Commission 1998-99

NHS (England) Summarised Accounts 1997-98

NHS (Scotland) Summarised Accounts 1997-98

Council for the Central Laboratory of the Research Councils 1997-98

Exchange Equalisation Account: Accounts 1997-98

Appendix 3
Examination of Stock and Store Accounts

Report of the Comptroller and Auditor General to the House of Commons

I am required under section 4 of the Exchequer and Audit Departments Act 1921 to examine, on behalf of the House of Commons, stock and store accounts to ascertain whether adequate regulations have been made and enforced for control and stocktaking, and whether the requirements of the Treasury have been complied with.

The frequency of the audit cycle of department stock and store systems depends upon the sensitivity and risk of the systems involved. Work undertaken by my staff during 1998-99 concluded that in most instances systems operated satisfactorily and there were no errors of significant volume or value. A number of matters have been raised directly with the organisations concerned.

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13 March 2000