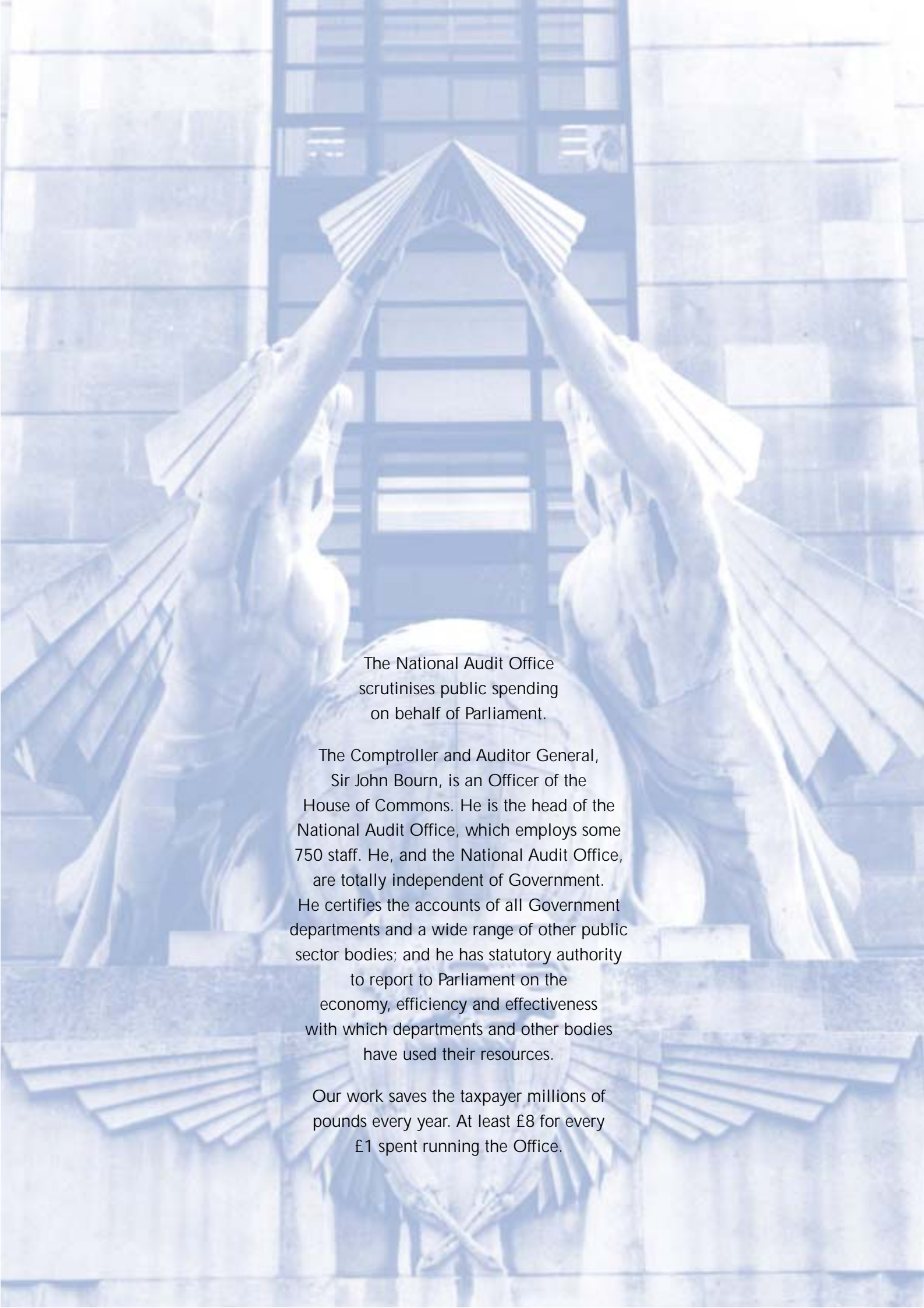


Financial Auditing and Reporting
2000-2001 General Report of the
Comptroller and Auditor General

REPORT BY THE COMPTROLLER AND AUDITOR GENERAL
HC 335-XIX Session 2001-2002: 27 March 2002





The National Audit Office
scrutinises public spending
on behalf of Parliament.

The Comptroller and Auditor General,
Sir John Bourn, is an Officer of the
House of Commons. He is the head of the
National Audit Office, which employs some
750 staff. He, and the National Audit Office,
are totally independent of Government.
He certifies the accounts of all Government
departments and a wide range of other public
sector bodies; and he has statutory authority
to report to Parliament on the
economy, efficiency and effectiveness
with which departments and other bodies
have used their resources.

Our work saves the taxpayer millions of
pounds every year. At least £8 for every
£1 spent running the Office.

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Foreword

My General Report to Parliament summarises the results of financial audit work undertaken by the National Audit Office over the last twelve months from 1 February 2001 to 31 January 2002 and highlights key issues arising from it. As Comptroller and Auditor General, I am Parliament's independent auditor, working for Parliament and funded by Parliament, totally independent of the Executive. 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.

This report provides an opportunity to report to Parliament developments affecting public sector accounting and auditing, including examples of areas in which the National Audit Office has contributed towards the development of best practice. It also provides a summary of progress made by audited bodies in adopting resource accounting, in embedding risk management systems in furtherance of corporate governance objectives and in developing systems to collate information for the compilation of whole of government accounts.

After 135 years, 2000-01 marks the final year of appropriation accounts, which were first introduced by Mr. Gladstone as a means of recording public expenditure and reporting it to Parliament.

Accounting and Financial Management

I certified over 500 sets of financial statements during 2000-01. In addition to expressing an opinion on whether the statements properly presented or gave a true and fair view of the income and expenditure of central government bodies, I also examined the regularity and propriety of transactions, to provide Parliament with assurances that public funds had been spent in accordance with parliamentary intention.

I found that in most organisations the quality of accounting and financial management was improving, but note my concern at the time taken by many bodies to prepare and render accounts for audit. Where the results of financial audit identified errors or problems, the National Audit Office provided advice and guidance to strengthen procedures and increase the assurance provided to Parliament. This report provides a number of illustrative examples.

Resource Accounting and Budgeting

In November 2001 I reported to the Committee of Public Accounts on the further progress made by departments in implementing resource accounting, particularly with respect to the 1999-2000 accounts, and on the issues remaining to be addressed. Since then the audit of the majority of the 2000-01 resource accounts has been completed. A synopsis of the current position is included in this report.

In brief, departments have made further good progress in producing quality accounts in line with the statutory timetable. But for a minority there is more still to be done both in terms of the timeliness of submission and the quality of accounts rendered. The National Audit Office has noted an over-reliance on too few key personnel and a lack of technically competent supporting staff as a key factor contributing to delays. Some departments have still to develop the accruals-based management information systems required to embed both resource budgeting and resource accounting into routine financial management. This is the key challenge still facing government departments. The progress made to date, however, reflects the considerable work undertaken both by departments and the National Audit Office.

Corporate Governance

Organisations across the central government sector are making progress in refining corporate governance arrangements, and developing arrangements for risk management more generally. The Treasury requires that Accounting Officers at government bodies are in a position to produce a full 'Statement of Internal Control' for 2003-04 at the latest. Some organisations are, however, well ahead of this timetable and have recognised the real business benefits, which integrated and proactive risk management can bring.

For my part, I will continue to work closely with audited bodies to advise on the development of corporate governance arrangements and risk management processes. I wholeheartedly support the developing use of risk management, and have been quite clear in stating my support for well thought through risk-taking. This is a subject to which I expect to return in future years' general reports, as departments' and other government bodies' arrangements develop.



The Government's response to the Sharman Report

Lord Sharman's report on audit and accountability arrangements in central government, 'Holding to Account', was published on 13 February 2001, and subsequently endorsed by the Committee of Public Accounts. The report recognised the importance of strong and comprehensive accountability regimes for public money and considered issues such as audit cost and the effect of audit on risk taking. It put forward a range of recommendations to improve the ability of Parliament to hold the Executive to account, in part through updating my powers to audit or have formal access to a range of public bodies outside my current remit. The Government's response to the report, published on 13 March 2002, accepts many of the recommendations made by Lord Sharman. It states that:

- as a matter of principle, I should be the auditor, on behalf of Parliament, of all non-departmental public bodies.
- my access rights should be formalised where they are currently based on negotiated agreement or convention. I will also be provided with statutory access to documents held by grant recipients, registered social landlords, train operating companies and Private Finance Initiative contractors and to documents held by contractors and subcontractors in relation to contracts they have with organisations where I am the statutory auditor.
- I will be appointed as the auditor of non-departmental public bodies and their subsidiaries, which are companies, and has undertaken to explore with my staff how this could be put into effect.
- there should be external validation of departmental information systems as a first step in a process towards the validation of published data.

A more detailed series of observations is included within Part 6 of this report.



The Wider Profession

The National Audit Office continues to play a leading role in the wider auditing and accounting profession, and contributes towards the development of best practice within the public sector. Staff from the Office play a full part in the work of the Auditing Practices Board, the Accounting Standards Board, the Financial Reporting Advisory Board, the ICAEW and CIPFA. In addition, the Office is represented on the ICAEW's Fraud Advisory Panel, Education and Training Working Party, and Working Party on Research, Information and Intelligence.

The Public Audit Forum, which is a forum for the heads of all United Kingdom National Audit agencies, publishes papers as a result of its developmental work. In 2001-02, it published *'Audit Implications of Electronic Service Delivery in the Public Sector'*, *'Propriety and Audit in the Public Sector'* and *'Central Government Audit in the United Kingdom after Devolution'*. There are currently four active Public Audit Forum working groups which are looking at a range of issues: the relationship between auditors, inspectors and regulators; the benefits of accruals-based accounting in the public sector; the implications for audit of freedom of information legislation and developments in corporate governance.

Performance Measurement

The National Audit Office has continued to work to develop best practice in performance measurement and the independent validation of performance information, both of which are key factors in improving accountability and achieving better value for money. In March 2001, the National Audit Office published, jointly with the Treasury, Cabinet Office, the Office for National Statistics and the Audit Commission, new guidance on producing high quality performance information (Choosing the Right FABRIC). The National Audit Office has also been actively involved with these organisations and others, in developing proposals for the practical implementation of a system for external validation of the data systems underlying Public Service Agreement targets. This will enable my staff to follow through Lord Sharman's recommendation on the audit of these systems as set out above.

Looking forward

The future agenda for change for central government in the financial arena is a challenging one. My role and that of the National Audit Office, both in providing assurance to Parliament on the bodies' use of resources and in providing an efficient and effective audit service to the bodies themselves, is crucial. In a period of change, which sees the end of appropriation accounts, and a full transition to resource based supply, I am pleased to welcome the further significant changes heralded in the Government's response to the Sharman Report. I particularly welcome the fact that I will be able to provide assurance to Parliament on how public funds are spent in a greater number of public bodies than ever before. I also welcome the fact that the National Audit Office will be able to audit the systems underlying the data reported in Public Service Agreements on a regular basis.

Departments have made progress in adapting to the challenges of accruals based accounting and reporting, and are becoming increasingly responsive towards developing enhanced internal control and risk management procedures. The National Audit Office will continue to work with audited bodies to deliver further improvements in the quality of financial management and reporting.

More broadly, the National Audit Office will continue its active participation in the development of new guidance, through taking an active role in bodies such as the Public Audit Forum and the Auditing Practices Board. The input of the National Audit Office into the work of such bodies is another way in which the assurance provided to Parliament from the Office's financial audit work can be enhanced, through the development of appropriate auditing and accounting guidance for the central government sector.

John Bourn
Comptroller and Auditor General

14 March 2002

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Responsibilities of the



Comptroller and Auditor General

- 1.1 The Comptroller and Auditor General is appointed by Parliament to undertake a dual role. 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 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 and resource accounts prepared by government departments;
 - the accounts of executive agencies;
 - accounts of the receipt of revenue by HM Customs and Excise and the Inland Revenue;
 - National Loans Fund accounts;
 - other accounts audited under statute including those of Education Action Zones, and a wide variety of Non-Departmental Public Bodies; and
 - accounts audited by agreement.
- 1.3 In addition to giving an audit opinion on the accounts, 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 undertakes the work necessary to support the responsibilities of the Comptroller and Auditor General. During the past year it audited the accounts of a large number of bodies varying in size and complexity, operating a variety of accounting systems, producing cash or accruals accounts and covering a range of central government spending programmes and other activities. In addition, it carried out examinations 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 and on stock and store accounts under Section 4 of that Act. An analysis of the accounts audited by the Comptroller and Auditor General is set out at Appendix 1.
- 1.5 2000-01 marks the final year for which appropriation accounts are the primary accounts in terms of departmental accountability for funds granted by Parliament. Appropriation accounts record the expenditure and receipts of government departments on a cash basis. The actual expenditure and receipts in 2000-01 compared with those voted by Parliament are shown in Appendix 2. Appropriation accounts will no longer be produced after 2000-01, with resources being allocated to departments and accountability being controlled by departmental resource accounts, as detailed in Part 5 of this report.
- 1.6 This report summarises some of the issues arising from financial audit work undertaken by the Office on the accounts of government departments 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 2002.

The image features a blue-tinted photograph of a group of people in a meeting. A large, bold, blue number '2' is overlaid on the left side of the image. The text 'Accounting &' is positioned in the upper right quadrant.

Accounting &

financial management

Introduction

- 2.1 The Comptroller and Auditor General has a statutory duty to audit the accounts of the majority of centrally funded public bodies. In assisting him in performing these duties, the National Audit Office has developed an audit methodology that not only provides the basis for the audit opinion on the accounts but also 'adds value' for the client. This may be in the form of advice to improve the financial control environment, financial performance or operational effectiveness. More recently, as public sector accounting and reporting requirements have adopted an increasingly commercial basis, the National Audit Office has worked with audited bodies to improve the quality of accounting and financial management within the public sector.
- 2.2 Each Statement of Accounting Officer's Responsibilities acknowledges that the maintenance of proper financial systems is the responsibility of an organisation's management. This involves keeping appropriate financial records and, where applicable, following generally accepted accounting practices. In the central government sector the responsibilities of management also include ensuring that public funds are only used to the extent and for the purposes intended by Parliament. Management is also responsible for the safe custody of departmental assets and stores.
- 2.3 Audit includes an examination of the financial systems in place within client bodies, as well as an assessment of the effectiveness of the systems and the controls operating over them. The examinations often reveal underlying weaknesses in financial management and control systems, which may pose greater risk of public funds not being applied in furtherance of regular and proper objectives. The regularity and propriety of public funds is also considered by the Comptroller and Auditor General to ensure that public funds have been spent in accordance with parliamentary intention, and government accounting and financial procedures.
- 2.4 The Comptroller and Auditor General reports to Parliament where he considers that financial management and control has broken down. This is done either through the issue of a qualified audit opinion and report, or where the matter is not material to the financial statements themselves, but in the view of the Comptroller and Auditor General is significant enough to be of Parliamentary interest, via a separate report. Less significant matters are brought to the attention of the management of each organisation, and the National Audit Office agrees with them the action necessary to achieve improvements.
- 2.5 The proportion of accounts qualified by the Comptroller and Auditor General has increased in 2000-01. This is in part due to the eight qualified audit opinions issued on 1999-2000 resource accounts during the period. The proportion of accounts qualified, 5.5 per cent of those falling within the scope of this report compared with 1.9 per cent in the previous year, continues to include accounts covering a large part of Social Security benefit expenditure. Taken together with resource account qualified opinions, this means that qualified audit opinions do cover a significant element of government expenditure. A full list of the accounts qualified by the Comptroller and Auditor General over the period is at Appendix 3. Reports produced by the Comptroller and Auditor General without qualifying his opinion, in order to bring to Parliament's attention matters that he considers significant, are listed at Appendix 4.
- 2.6 The remainder of this part of the report draws out the key findings of the National Audit Office from its financial audit work in the period covered by this report. This includes issues reported to Parliament and matters raised with the management of the bodies concerned. They are summarised under the following headings:
- financial management and the preparation of financial statements;
 - regularity and propriety;
 - developments in issues raised in previous years;
 - positive responses to management letters;
 - significant losses; and
 - audit of assets.

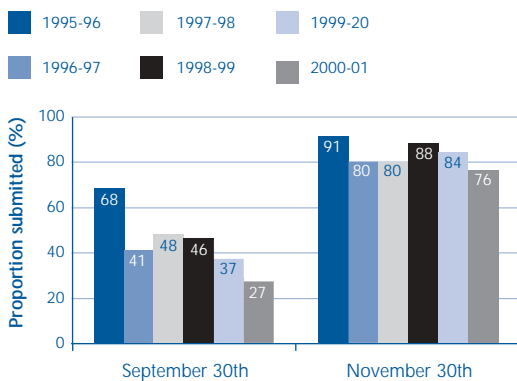
Financial management and the preparation of financial statements

- 2.7 The Accounting Officer of a central government body is responsible for ensuring that financial statements are prepared in accordance with directions provided by the Treasury, and submitted to the Comptroller and Auditor General for certification on a timely basis. In addition, he or she is responsible for the development of sound financial and non-financial controls to ensure that funds are expended in accordance with parliamentary intention and assets and stocks are subject to proper custodial procedures.
- 2.8 Financial statements and supporting information should be prepared on a timely basis, in order that their value both as a means of accountability and a basis for future decision-making is maximised. In the light of the audit work conducted over the period, the National Audit Office is concerned that government organisations are not managing to meet this important element of accountability.
- 2.9 2000-01 was the final year in which Government departments were required to produce Appropriation Accounts. By statute, the deadline for the submission of appropriation accounts signed by the Accounting Officer for audit was 30 November following the financial year ending 31 March. There has been however a standing commitment to the Committee of Public Accounts for departments to publish most accounts by the end of October. To permit the audit of the accounts, the Treasury expects departments to submit final accounts signed by the Accounting Officer by 30 September. By the end of September 2001 however, only 27 per cent (1999-2000 37 per cent) of the 85 signed accounts expected had been received, and 24 per cent (1999-2000 16 per cent) were submitted after the statutory deadline. The overall trend since the mid-1990s remains one of deteriorating performance (Figure 1). In mitigation, departments were producing both appropriation and resource accounts in

parallel, but nevertheless this was a disappointing performance. In the event all 2000-01 appropriation accounts were audited and laid before Parliament by the end of January 2001, the statutory deadline. For some departments signed accounts were only submitted to the Comptroller and Auditor General in late January 2002. This reduced significantly the time available for auditing and reviewing the accounts.

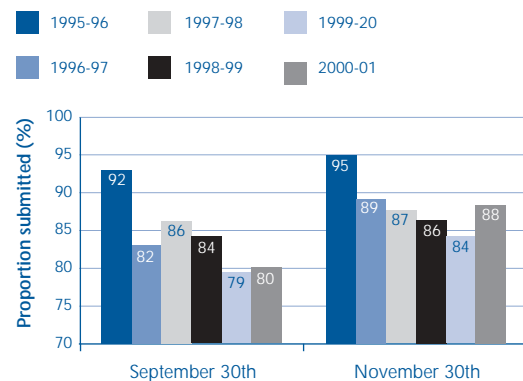
- 2.10 Executive agencies are subject to the same deadlines as government departments, notwithstanding the expectation that their accounts will normally be audited and laid before Parliament by the Summer Recess. Of the 90 accounts expected, 11 (12 per cent) missed the 30 November deadline for submission of 2000-01 accounts compared with 16 per cent in 1999-2000, an improvement, therefore, over the previous year, but still below the standards of some years previously, as Figure 2 sets out.
- 2.11 The National Audit Office has noted an over-reliance on too few key personnel and a lack of technically competent supporting staff as a key factor contributing to delays. The production of accounts has also been delayed at times by the need for departments to resolve technical accounting questions with which they are not familiar, or because of a failure to pursue responses required from sponsored bodies and from other government departments. Further, there is scope for government bodies to learn from the best in the sector simply in terms of procedures for closing final accounts after the year end to ensure a speedy and effective accounts closedown process.
- 2.12 The Comptroller and Auditor General continues to be concerned that accounts submitted to him for certification are, in some cases, of poor quality, and bear little or no evidence of the sort of thorough and detailed review by management that is both required and expected. Common weaknesses that stem either directly or indirectly from insufficient management review are:

1 Date of submission of signed appropriation accounts 1994-95 to 1999-2000



Source: National Audit Office

2 Date of submission of signed Executive Agency accounts 1995-96 to 2000-01



Source: National Audit Office

- a lack of reconciliations between information held on accounting systems and other records including bank accounts, payroll, debtors and creditors;
- a lack of detailed review and clearance of suspense account balances;
- a lack of supporting evidence for certain transactions and deficiencies in the audit trail; and
- inappropriate accounting treatment in areas such as provisions, revaluations and fixed assets generally.

2.13 Each Accounting Officer remains both responsible and accountable for the accounts submitted to the Comptroller and Auditor General. However in the accounts submitted during 2000-01 the National Audit Office found evidence of errors within sets of accounts, which should have been corrected before their submission for certification. Many of these problems would be avoided by a greater degree of ownership and review by management of their financial statements. Specific examples reported to management during the year include:

- An executive agency which had recorded capital purchases worth £170,000 twice within the accounts, made a prior year adjustment at the request of the National Audit Office;
- An organisation that failed to implement adequate controls to prevent duplicate payment of invoices made such payments estimated to total £150,000. The organisation has now reviewed its control procedures to prevent this happening in future;
- an organisation that failed to identify and capitalise fixed assets worth £428,000 which had been written down as revenue expenditure corrected these errors as a result of audit observations; and
- one Agency with poor year-end cut off procedures had failed to include material payments worth £200,000 in its draft accounts. As a result of National Audit Office intervention this omission was corrected.

Regularity and propriety

2.14 Poor financial management within organisations impacts on the ability of government funded bodies to account properly for the use of the public funds they receive. The same weaknesses may also expose the bodies to greater risk of fraud, error or impropriety within their financial statements. Such weaknesses can undermine the integrity of financial processes, and can result in funds not being applied for the purposes authorised by Parliament, or funds failing to conform to the authorities that govern them - that is, that they are irregular. The concept of propriety is wider, concerned more with Parliament's expectations as

to the way in which public business should be conducted, and can involve standards of conduct, behaviour and corporate governance.

2.15 Cases where the Comptroller and Auditor General qualified his opinion on the financial statements during the year because of concerns about the regularity or propriety of transactions are summarised below, together with issues raised with relevant management. In a number of cases, the Comptroller and Auditor General has qualified financial statements on a similar basis for several years.

Child Support Agency: errors in child maintenance

2.16 The Comptroller and Auditor General again qualified his opinion on the Child Support Agency Client Funds Account because the results of his audit revealed that material error continued to be present within the account. Results of audit examination indicated that 35 per cent of receipts from non-resident parents were for the wrong amount and 80 per cent of maintenance assessment debts were incorrectly stated. The National Audit Office estimated that the £517 million received from non-resident parents in 2000-01 contained overpayments of £5 million and underpayments of £12 million. Of the £528 million shown as collectable from non-resident parents for full maintenance assessment at 31 March 2001 the National Audit Office estimated that there were overstatements of £135 million and understatements of £240 million. Of the corresponding balance of £90 million (after writing off £99 million of balances considered to be probably uncollectable) for interim maintenance assessments, overstatements were estimated at £28 million and understatements at £3 million.

2.17 The Comptroller and Auditor General noted that there is a legacy of error due to the Agency's poor past performance in making maintenance assessments. He recognised the progress that the Agency is continuing to make with its reform programme, which is intended to promote both increased accuracy over maintenance awards and improved payment compliance.

Social Security: losses arising from errors in benefit awards and from fraudulent benefit claims

2.18 For the thirteenth consecutive year, the Comptroller and Auditor General qualified his opinion on the Central Government Administered Social Security Benefits and Other Payments Appropriation Account (Class XII, Vote 1) for 2000-01. His qualification continues because of a material level of irregular expenditure arising from errors in benefit awards and from fraudulent benefit claims. The Department had estimated that there had

been significant losses in Income Support and Jobseekers' Allowance as a result of errors by officials and customers, and as a result of fraud amounting to £1.20 billion, or 7.4 per cent (1999-2000 8.4 per cent) of expenditure on these two benefits. These losses resulted in the Comptroller and Auditor General also qualifying the Department of Social Security's Resource Account for 2000-01. In his report on this account, the Comptroller and Auditor General noted that since 1997-98, there had been an 18 per cent reduction in the percentage of losses on these two benefits, which exceeds the Government target to reduce by at least 10 per cent losses from fraud and error in Income Support and Job Seekers Allowance by March 2002.

- 2.19 The opinion on the 1999-2000 National Insurance Fund Account was also qualified. Based on estimates made by the department of Social Security and evidence gathered by the National Audit Office, the Comptroller and Auditor General concluded that there was a material level of irregular expenditure in benefits charged to the Fund. The Department of Social Security estimated the total value of fraudulent encashment to be as high as £108 million, of which the Fund's share could have been as high as £59 million.
- 2.20 In his report on the Department's resource account, the Comptroller and Auditor General noted the actions being taken to reduce the level of losses from fraud and error in benefit expenditure. These measures include the more widespread adoption of Automated Credit Transfer for benefit payments by 2005, which will phase out the use of girocheques and orderbooks.

Equal Opportunities Commission: Material payments in advance of need

- 2.21 The Equal Opportunities Commission's balance sheet included prepayments of £298,000. The payments had been made for the installation of telecommunications and computer network installations and the related rentals for the year following installation (2001-02). The contracts were signed in February 2001. Shortly after, the Commission requested the supplier bill it in advance for goods and services, and made the prepayments in March 2001. The goods and services were all finally received more than one month after the year-end. The Comptroller and Auditor General concluded that these prepayments fell outside the framework laid down under Government Accounting and, as the amount was material to the Commission's accounts, he qualified his opinion on regularity grounds.

Ministry of Agriculture, Fisheries and Food: Irregular Expenditure

- 2.22 The Comptroller and Auditor General qualified his opinion on the 2000-01 appropriation account (Class X, Vote 2) in respect of payments totalling £33.7 million made during the year as part of the Foot and Mouth Disease outbreak eradication programme. Included within this amount was £28.4 million of compensation to farmers for animals slaughtered. The Comptroller and Auditor General found that the Ministry did not gather sufficient evidence to enable them to ascertain that compensation payments were made for animals actually slaughtered. Therefore the Comptroller and Auditor General was unable to confirm that the Ministry had complied with the requirements of the 1981 Animal Health Act and related Statutory Instruments and that the payments were regular.

Further examples of the scope of qualifications and reports

- 2.23 The Comptroller and Auditor General has also reported to Parliament on a number of other occasions where his opinion in respect of an account has been qualified, or where he has reported on an account. These qualifications and reports can be issued for a wide variety of reasons, some of which are demonstrated below. In addition to bringing to Parliament's attention problems identified within departments, positive developments as a result of past qualifications are also brought to the attention of Parliament. Some examples are set out below.

Ordnance Survey: Disagreement with accounting policy

- 2.24 The Comptroller and Auditor General qualified his opinion for the second year on the accounts of the Ordnance Survey Agency for 2000-01. The grounds for qualification were disagreement with the agency over the accounting policy for the National Topographical Database, a definitive computerised map of Great Britain. The provision of products and services derived from the database is the main source of business for the agency. The database was created over many years using public funds.
- 2.25 Drawing upon the requirements of Financial Reporting Standard 15 - Fixed Assets, the Comptroller and Auditor General disagreed with the agency's view that the database should not be included on their balance sheet. The Agency's view was that the database was an intangible asset that was not required to be capitalised under current accounting standards. A specialist valuation obtained by the National Audit Office in December 2000 put the value of the database at not less than £50 million. This was material both in the context

of the balance sheet of the agency and in terms of the effect on the return on capital and surplus that the agency declares. Without the inclusion of these amounts, the Comptroller and Auditor General did not consider that the accounts produced gave a true and fair view. The Comptroller and Auditor General's staff are continuing to discuss the issues raised by the qualification with the Agency's staff in relation to the 2001-02 accounts.

Defence Estates: Disagreement over basis of valuation, and lack of audit trail in support of disposed properties

2.26 The Defence Estates Agency is responsible for estate management services within the Ministry of Defence, and for disposing of all surplus property. Some of the properties sold during the year were valued on an existing use basis. For the remainder of the properties sold, the Agency had re-valued to reflect their assessment of open market value. This inconsistency in the carrying value of assets sold made it impossible to determine whether the £92 million surplus recorded by the Agency on disposals in 1999-2000 was a true and fair surplus. In some cases it represented the difference between sales proceeds and open market valuation, yet in others it was the difference between sales proceeds and the existing use valuation. Consequently the Comptroller and Auditor General qualified his opinion in respect of the inconsistent basis of valuation, and the resultant uncertainty over the reported surplus.

2.27 A lack of a detailed audit trail in support of property valuations also meant the Comptroller and Auditor General was unable to validate the open market valuations of £123 million for sites sold during the year and £144 million for properties pending disposal as at 31 March 2000. He therefore also qualified his opinion in respect of this amount. The Agency agreed that in future all valuations would be in accordance with best practice, performed by professional valuers, and that a detailed audit trail would be produced to support them. When the Comptroller and Auditor General certified the 2000-01 accounts of the Agency he was pleased to note that the Agency had succeeded both in applying a consistent basis of valuation, and providing a full audit trail. He consequently removed his qualification on the account.

The Home Office: Payment in respect of Immigration Services

2.28 During the financial year 2000-01 the Home Office advanced £485 million to local authorities under the Interim Regulations and Immigration and Asylum Act arrangements. Audited claims for these were due to be submitted by 31 December 2001. Of the 273 claims expected, 183 have been received and 91 of these contained a qualification. Of the £554 million paid in

total under the scheme, £78 million was covered by a clear audit opinion on the underlying claim, £212 million was covered by claims which had been qualified by the auditors and claims in respect of a further £264 million advanced had yet to be submitted for audit.

2.29 Until claims from local authorities have been audited and any qualifications investigated and resolved there can be no certainty that the amounts advanced were:

- applied only to eligible expenditure;
- properly calculated; and
- in accordance with the relevant authority and conditions.

As a result the Comptroller and Auditor General restricted the scope of his audit opinion in respect of advances to local authorities.

Teachers' Superannuation Scheme: Contributions

2.30 In order to check the accuracy and completeness of contributions received from employing organisations in any one financial year, the Managers of the Teachers' Pension Scheme require employers to send audited returns after the financial year-end to corroborate the amounts received. The Comptroller and Auditor General qualified his opinion on both the resource and the appropriation accounts for 2000-01 because, at the date he certified the accounts, the Scheme Managers had not received returns from 60 Local Education Authorities and 465 other employing organisations covering contributions of some £644 million. As a result the Scheme Managers could not give the National Audit Office sufficient evidence to confirm that these contributions were complete and accurate. There were no other satisfactory audit procedures that could be adopted to confirm that contributions income due from all participating employers have been paid in accordance with Scheme rules and were complete and accurate.

Foreign and Commonwealth Office: Excess Vote

2.31 The Comptroller and Auditor General qualified his opinion on the 2000-01 appropriation accounts of the Foreign and Commonwealth Office (Class VII, Vote 1), when the department exceeded the expenditure limit approved in supply estimates. This occurred when the department did not review and reconcile amounts posted to suspense accounts at the year-end to ensure that no items remained in suspense that should properly have been cleared to the Vote. In auditing the accounts, the National Audit Office identified one such payment for £1.1 million.

2.32 The Department then undertook a complete review of its suspense account balances. This resulted in further adjustments bringing the total overspend to £1.6 million. Following the review, the Department stated that it was satisfied that there remained no other significant items that should have been cleared to the Vote, and that in future their Overseas Accounts Section would examine closely such balances at the year-end.

Developments in issues raised in previous years

2.33 Where bodies have agreed 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.

Department for Environment, Transport and The Regions (Highways Agency): Design, Build, Finance and Operate Contracts

2.34 The Comptroller and Auditor General qualified his opinion on the 1999-2000 resource accounts of the Department of the Environment, Transport and the Regions in respect of the Department's treatment of seven of its Design, Build, Finance and Operate (DBFO) road schemes. The Department reflected the original element of these road schemes in its balance sheet but did not include £980 million, representing the costs of construction of the new build element of the seven road schemes undertaken by the DBFO contractors. The National Audit Office was not persuaded that it was appropriate to split individual stretches of roads into separate assets to be accounted for by different entities. It considered it more appropriate to consider the balance of risks and rewards across the entire road (the existing road and the new build).

2.35 In the 2000-01 accounts the Department has accepted that roads covered by DBFO contracts should be considered as single assets. Its assessment of the risks and rewards associated with these roads has led the Department to reclassify and bring onto the balance sheet certain road assets previously regarded as being assets of third party operators. As a result the Comptroller and Auditor General has removed his qualification on this issue.

The Prison Service: Compliance with FRS 15

2.36 The National Audit Office was unable to obtain sufficient, relevant and reliable evidence to substantiate the figure of £4,470 million for land and buildings included in the 1999-2000 accounts of the Prison Service, and therefore, could not satisfy itself that the Agency had complied with the requirements of Financial Reporting Standard 15, 'Tangible Fixed Assets'. In addition to the uncertainty about the amounts shown in the accounts relating directly to the valuation of land and buildings, any adjustment to these values would have had a consequential effect on depreciation and the cost of capital charge, and therefore, the net operating cost for the year. As a result, the Comptroller and Auditor General qualified his audit opinion on the 1999-2000 accounts of the Prison Service.

2.37 In 2000-01, the Prison Service took positive action to address the requirements of FRS 15, for example, the use of independent valuers, the external validation of the internal buildings valuation, and improvements to the audit trail to show adjustments to the valuation for individual prison establishments. As a result, the Comptroller and Auditor General has lifted his qualification on the 2000-01 accounts of the Prison Service.

Positive responses to management letters

2.38 The National Audit Office reviews progress where limitations in controls and other issues have been raised with management. The following are just a small number of examples of the many positive responses to National Audit Office recommendations. Since the advent of resource accounting, many of the recommendations have been related to improving the quality of financial statements, as well as improving risk management within audited bodies as they improve their corporate governance procedures:

- audit assurance for grants totalling £3.8 billion paid to Police Authorities was provided only via the audit reports of the Authorities, submitted by the appointed auditor of each authority. The National Audit Office noted that the certificates provided gave no assurance that the funds had been spent in accordance with parliamentary intention. As a result of the Office's intervention, the Treasurer of each police authority is now expected to sign a separate "regularity statement", therefore provide assurance that public funds have been spent in accordance with authorising legislation;



- the audit of a pension scheme revealed that awarding authorities held money in suspense accounts in respect of new members of the scheme who were transferring in existing benefits from another fund. The National Audit Office identified two cases totalling £2.51 million whereby amounts should have been surrendered into the fund in accordance with scheme rules, and has recommended the awarding authorities improve their scrutiny and clearance of suspense accounts to allow prompt collection of all assets due to the scheme;
- concerns were raised with one body over the level of income it was deferring to meet future liabilities, as well as the basis of the calculations used to determine the level of deferral, and the body's compliance with accounting standards. The concerns were raised, as the National Audit Office was concerned that the amount of income deferred to future periods was much higher than required to cover future liabilities. The body has now addressed these concerns and as a result restated its opening balances in respect of deferred income for 2000-01;
- a non-departmental public body did not have procedures in place to regularly reconcile its bank accounts, and therefore provide assurance that the bank balance was correctly stated. As a result of the National Audit Office's management letter reconciliation procedures will in future be applied; and
- as a result of briefing the National Audit Office provided to an Audit Committee, and detailed discussions with the Treasury, the rate of return on capital for the capital employed for the decommissioning costs of nuclear facilities has been revised. This will more accurately reflect the true cost of capital for the resources employed which will be applied over an extended timeframe, rather than being required on an immediate basis. It also allows the construction of a more accurate economic model for determining the timeframe over which decommissioning work will be undertaken.

Significant losses

- 2.39 Chapter 36 of Government Accounting defines departmental losses and special payments. This explains how transactions of a type, which Parliament cannot be expected to have authorised, are subject to special control procedures and to special notation arrangements in the appropriation account or (for non-Vote financed operations) other relevant accounts, to ensure that they are drawn to the attention of Parliament.
- 2.40 The write off of a loss, or making of a special payment may only occur where departments have no alternative but to recognise the fact that public funds cannot be recovered from an endeavour, or because funds are required to make good an event or series of events. Responsibility for losses remains the duty of the Accounting Officer who must ensure that funds are applied only to the extent and for the purposes authorised by Parliament. The Accounting Officer is also responsible for the safeguarding of public funds and property.
- 2.41 During the past year, accounts certified by the Comptroller and Auditor General contain over £1.5 billion of reported losses and special payments. Many of these losses are referred to elsewhere in this report where examples of qualified audit opinions are given. Other examples include:
- the write off of £188 million, where the recovery of unpaid national insurance contributions was likely to be unsuccessful, or regarded as neither practical nor cost effective;
 - write-offs totalling £108.2 million of non-recoverable debts arising from the overpayment of benefits caused primarily by errors by officials;
 - a further special payment of £14 million (1999-2000 £19.5 million) in respect of compensation for delayed payments of age-related rebates made to pension providers on behalf of their clients;
 - a fruitless payment of £12 million written off following the procurement of equipment found to be operationally ineffective;
 - the write off of £26 million relating to the balances held on a department's five suspense accounts;
 - a claim against a contractor worth £17.7 million being waived relating to profit attributable on a contract for construction of a major asset; and
 - £8.2 million of extra-contractual payments made by a department following the resolution of a number of cases through arbitration and court procedures.
- 2.42 Where departments have written off significant amounts of public money as a result of error or poor controls, the National Audit Office works closely with the audited body to assist them in enhancing controls in place to reduce the risk of loss to the public purse. In addition, the National Audit Office also encourages departments to identify and disclose losses to Parliament on a timely basis, as well as correcting errors in financial systems. For example the write off of benefit overpayments allows the clearance of a large number of historic errors from the Department of Social Security's accounts.

Audit of assets

2.43 The examination of assets held by public bodies takes a number of forms. Where public bodies produce accounts on an accruals basis, asset management and control is examined as part of the audit of the balance sheet and covered by the 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 asset control and stocktaking, and whether the Treasury requirements have been met. The National Audit Office also undertakes 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.

2.44 The Comptroller and Auditor General was able to give unqualified stores report under section 4 of the Act for 2000-01 (Appendix 5) although the National Audit Office's work identified a number of specific matters which were reported to the management of the relevant organisations. The implementation of resource accounting, and the growth in the number of executive agencies and other bodies required to produce accruals accounts, continues to increase the importance of accurate accounting for fixed assets within central government bodies.

Conclusions

2.45 The National Audit Office carries out its financial audit work across a wide range of central government bodies, from large and complex government departments to small agencies and non-departmental government bodies. The work completed by the Office over the period indicated that whilst the quality of accounting and financial management across the sector is generally improving, problems remain in certain areas, both in terms of the timeliness of preparation and submission of accounts for audit, and in the information underpinning the financial statements. Departments preparing resource accounts have faced particular challenges in this context. My findings and conclusions arising from the audit of departmental resource accounts are set out in the next chapter.

Resource accounting &



resource-based Parliamentary supply

- 3.1 Resource accounting is an accruals-based means of financial reporting which has been introduced in all government departments. The move from cash based accounting to resource based accounting will reinforce the planning and control of Government spending and help improve departmental management. It should also improve departments' accountability to Parliament through the more comprehensive financial information it will provide.
- 3.2 The Government Resources and Accounts Act 2000, which was given the Royal Assent in July 2000, now provides the enabling legislation to implement resource-based supply. From 1st April 2001 the previous wholly cash based approach to departmental funding has been changed to one where Parliament approves accruals-based current expenditure limits as well as overall cash funding. Resource accounts will therefore replace cash-based appropriation accounts as the means of providing accountability to Parliament. However, for the two years prior to 1st April 2001, resource accounts have been prepared in parallel with appropriation accounts.
- 3.3 In last year's General Report the Comptroller and Auditor General commented on departments' progress in implementing resource accounting and the main issues arising from the first full audit on the 1999-2000 resource accounts.
- 3.4 In 10 cases departments were either unable to render a satisfactorily finalised account for audit by 30 November 2000, or information supporting the account was insufficient to enable the Comptroller and Auditor General to certify the account in time for it to be laid by 31 January 2001. In these cases, dispensations were granted in effect, to remove the deadlines imposed by the Exchequer and Audit Departments Act 1921.
- 3.5 These accounts were nonetheless completed and audited on a non-statutory basis. They were all certified by the Comptroller and Auditor General and were laid by the House of Commons as Command Papers by 31 March 2001.
- 3.6 The findings arising from the audit of these accounts, which came too late for last year's General Report, were reported in detail in a memorandum that the Comptroller & Auditor General provided to the Committee of Public Accounts in November 2001.
- 3.7 The audit opinions reached on those 10 accounts were as follows:
 - 2 unqualified opinions;
 - 7 opinions qualified on grounds of limitation of audit scope; and
 - 1 opinion qualified on grounds of disagreement.
- 3.8 In his November 2001 Memorandum to the Committee of Public Accounts on the 1999-2000 resource accounts, the Comptroller and Auditor General noted that the reduction in the number of qualified audit opinions from 30 in the final dry-run year of resource accounting to 12 in the first live year meant that very significant progress had been made. It also meant that departments had achieved the objectives they had agreed with Treasury in their departmental action plans. Many departments made substantial efforts to improve the quality of their accounts, although the Comptroller and Auditor General noted that some departments had still failed to respond adequately to the Committee of Public Accounts 29th Report (1999-2000 HC556). The Committee's Report had concluded that departments needed to find and rectify the causes of delay in rendering resource accounts.
- 3.9 The Comptroller and Auditor General also raised the need for departments to take steps to fully implement management information systems able to deliver timely and accurate information. In addition there was a clear need for sufficient properly trained staff and commitment to procedural change within senior management.

Progress on resource accounts

1999-2000 accounts

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2000-2001 accounts

3.10 As in 1999-2000, the 2000-2001 Resource Accounts have been produced in accordance with an accounts direction given by Treasury, using powers contained in the Exchequer and Audit Departments Act 1921. The Act requires such accounts to be rendered for audit by 30 November following the year-end and, after audit and certification by the Comptroller and Auditor General, laid before the House of Commons by 31 January the following year.

3.11 Because of the creation of three new accounting entities, the total number of departmental resource accounts increased to 52 (1999-2000 49). The Treasury expects departments to submit final resource accounts signed by the Accounting Officer by 30 September, adhering to the same timetable as for appropriation accounts. By the end of September 2001 however, only 15 per cent (1999-2000 10 per cent) of the 52 signed accounts expected had been received, and 36 per cent (1999-2000 55 per cent) were submitted after the statutory deadline (See **Figure 3**). Of the 52 accounts (45 main accounts and 7 pension scheme accounts) for 2000-01 due to be laid before the House of Commons, 47 (1999-2000 39) were certified and laid by 31 January 2002. Five departments required dispensations, and did not present accounts for audit in time to allow laying before the 31 January 2002 deadline. Whilst there has been an improvement in delivery, many departments are still failing to render accounts to the Comptroller and Auditor General on a timely basis.

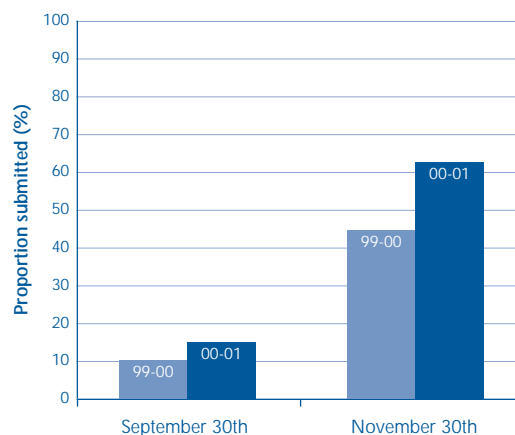
3.12 The audit opinions reached on the 47 accounts laid by the statutory deadline were:

- 42 (1999-2000 35) unqualified opinions;
- 3 (1999-2000 2) opinions qualified on grounds of audit scope limitation;
- 1 (1999-2000 1) opinion qualified on grounds of audit scope limitation and irregularity; and
- 1 (1999-2000 0) opinion disclaimed.

3.13 The balance of 5 accounts comprises those where, after consultation with the National Audit Office, the Treasury has issued departments with a dispensation from the statutory accounts direction. This has been done where the information supporting the account was not sufficient to enable the Comptroller and Auditor General to certify the account in time for it to be laid by 31 January.

3.14 These accounts will nonetheless be completed and audited on a non-statutory basis. They will receive an audit opinion by the Comptroller and Auditor General and will be laid before the House of Commons as Command Papers.

3 Date of submission of signed Resource Accounts 1999-2000 to 2000-01



Source: National Audit Office

3.15 In due course the Comptroller and Auditor General will be providing the Committee of Public Accounts with a fuller analysis of his findings arising from his audit of the 2000-01 resource accounts. This will include those relating to accounts prepared under a dispensation. It is probable that some of these latter accounts will attract qualified opinions. Whilst the overall results are an improvement in comparison with 1999-2000, there is clearly still more to be done by some departments.

Transition to full resource based supply

3.16 If departments are to achieve the full benefits of resource budgeting and accounting, then it is vital that they use the accruals based information to manage their business. Sound and robust management information systems will need to be in place to provide both accurate and timely information. Treasury have produced several useful guides for departments to assist them in exploiting the benefits of accruals based information.

3.17 The National Audit Office's work indicates that most departments are already using new financial information systems to improve and develop their budgetary control and external reporting to some extent. In other areas of financial management, however, such as using accrual information to support better decision making, the practice in departments is less well developed. Departments are only just beginning to explore and thus appreciate the full potential of the information systems available to them, as information systems migrate from simple systems for the maintenance of cash-based accounts, to those capable of supporting more complex accruals based business processes. The Comptroller and Auditor General will continue to advise the Committee of Public Accounts on progress in this area.

Whole of Government Accounts

- 3.18 The Government Resources and Accounts Act 2000 placed a requirement on the Government to prepare consolidated accounts for the public sector. Whole of Government Accounts will be commercial-style accounts covering the whole of the public sector, prepared using United Kingdom Generally Accepted Accounting Practice (GAAP), modified only as necessary for the needs of the public sector. Whole of Government Accounts will be produced in stages, starting with Central Government Accounts, made up of departments, central funds, the devolved administrations and non-departmental public bodies. The first published Central Government Accounts will be for the year ending 31 March 2004, with dry run accounts being prepared for the two preceding years commencing 2001-02.
- 3.19 The Treasury's Team responsible for Whole of Government Accounts is implementing a project plan (the "Milestones" strategy) for the production of the first accounts for the core departments, central funds and devolved administrations. During the 2000-01 financial year, departments have commenced their preparations towards meeting the conditions in the first two milestones. This is a wider development of the principles of resource accounting. The National Audit Office is also playing an active role in assisting government bodies in their preparations for producing auditable information for Whole of Government Accounts. The key steps taken during the past year are outlined in the following paragraphs.
- 3.20 The Treasury has designated the bodies whose accounts, including any funds managed by them, will make up the 2001-02 and 2002-03 Central Government Accounts, and have appointed the current Accounting Officer of each body as its 'Consolidation Officer', to be responsible for delivering the required information to Treasury.
- 3.21 Generally Accepted Accounting Practice requires that consolidated accounts should be prepared using materially consistent accounting policies throughout the group of bodies within the consolidation. Therefore Treasury has aligned the accounting requirements for departments and non-departmental public bodies contained in the Resource Accounting Manual and the Finance Guide for Non-Departmental Public Bodies respectively. This is expected to have an additional benefit by improving comparability between the accounts of central government bodies, thus contributing to the fair and efficient allocation of resources.
- 3.22 The National Audit Office has been involved in reviewing security aspects of the computer software Treasury have acquired for the purpose of compiling the project. The National Audit Office has also been involved in the reporting and agreement of balances between central bodies as at 31 March 2001, the opening balance sheet date for the first dry run account. In line with normal commercial practice in preparing group accounts, Central Government Accounts will show the transactions and balances of central government as a whole with individuals and bodies outside the central government boundary. This means that material transactions and balances between bodies included within the consolidation need to be identified, agreed and eliminated. This represents a practical challenge in the early years, as bodies' accounting systems are not universally set up to identify these "intra-group" transactions and balances, and there may be historic differences between the records of different bodies.
- 3.23 In parallel with these developments, the National Audit Office has worked to put in place arrangements to gather evidence from the other auditors who audit many of the central account component bodies. These include Audit Scotland and the Northern Ireland Audit Office, the Audit Commission and several private sector firms. The National Audit Office has developed a strategy for the audit of Central Government Accounts, to inform both its own work and that of fellow auditors, which aims to integrate the processes required for auditing the consolidated statements as far as possible into the audit of each body's statutory accounts. This should make most efficient use of audit resources, while minimising the extra time and costs that the production of Central Government Accounts adds to the audit process. The National Audit Office is also preparing guidance for the audited bodies on preparing for the audit of their consolidation schedules, to complement its existing guidance on preparing for the audit of resource accounts.



Corporate governance

Introduction

4.1 In November 1997, the Treasury issued 'Dear Accounting Officer' (DAO) letter 13/97 (Corporate Governance: Statement of the System of Internal Financial Control). The letter set out Treasury's requirements for Accounting Officers in all central government public bodies to ensure that they had put into place effective management systems including financial monitoring and control systems. The inclusion of a statement in the annual accounts of each body attesting to these systems marked an initiative to improve the management and governance of public bodies.

4.2 This guidance was revised with the release of DAO 13/00 (Corporate Governance: Statement on Internal Control). This sought to reflect developments in best practice within the private sector, and established additional specific requirements for all central government public bodies to implement, namely:

- that the management board of each entity should maintain a sound system of internal control to safeguard stakeholders' investments and the entity's assets;
- that the directors should at least annually conduct a review of the effectiveness of the entity's system of internal control and should report that they have done this. The review should also cover all controls including financial operational and compliance controls and risk management; and
- entities without an internal audit function should from time to time review the need for one.

4.3 Last year, the Comptroller and Auditor General reported on the developments within the central government sector as a result of the introduction of statements on the system of internal financial control. DAO 13/00 sets out the timetable for the extension of these statements to cover operational as well as financial controls. This will ensure within the medium term, that government departments and other bodies are brought into line with the recommendations of the Turnbull Committee that had examined similar matters in the private sector.

4.4 In considering the progress made by bodies in 2000-01 in publishing Statements of Internal Financial Control, and making preparations towards the preparation of a full Statement of Internal Control, the Comptroller and Auditor General has focussed his attention on:

- the role of the audit committee;
- disclosures within statements on the system of internal financial control;
- the implementation of the recommendations of the Turnbull Committee in central government;
- the role of the National Audit Office in promoting corporate governance;
- the challenges in raising the standard of corporate governance.

The role of the Audit Committee

4.5 DAO 13/00 states that 'the purpose of an Audit Committee is to give advice to the Accounting Officer on the adequacy of audit arrangements (internal and external) and on the implications of assurances provided in respect of risk and control in the organisation'. An effective Audit Committee should also follow a series of principles outlined by the Treasury:

- the Committee should include non-executive or independent members;
- executive members of the Committee should be rotated to provide long-term objectivity, and to prevent over or under representation of business interests;
- the Committee should have documented terms of reference, including a remit to consider the adequacy of risk management and internal control; and
- internal and external audit should have the right to attend all meetings of the Committee, which should meet on a regular basis (at least three times a year).

- 4.6 Most central government bodies have now established functioning Audit Committees in accordance with these principles. The National Audit Office attends meetings of Audit Committees and has found that, in general, Audit Committees across the sector are equipped with agreed robust and detailed terms of reference for the Committee to direct their work. The most effective Committees (particularly those in the non-departmental public body sector), are those which have a strong non-executive representation, holding both the auditors and the executive board members to account.
- 4.7 The Audit Committee lies at the heart of each organisation's corporate governance arrangements. In the light of recent highly-publicised corporate failures, the role of an organisation's Audit Committee, and particularly of the non-executive members, is one which is the subject of increasing attention. Whilst accountability arrangements in the central government sector can make for a differing role for the non-executive to that which holds in the private sector, it is nevertheless a fact that non-executive representatives play an increasingly important role in the work of the Audit Committee in central government. The development of robust Audit Committees across the central government sector in recent years is a welcome one, as is the introduction of non-executive participation and scrutiny. The National Audit Office will continue to work closely with departmental and other Audit Committees both to maximise the beneficial impact of its own work and to assist Audit Committees in meeting their own objectives.

Disclosures within Statements on the System of Internal Financial Control

- 4.8 The Comptroller and Auditor General found that almost all of the bodies he audits produced a Statement of Internal Financial Control for 2000-01. These statements confirmed that the Accounting Officer had developed and then reviewed the controls operating over financial procedures and confirmed that they were working effectively to manage risks impacting on financial operations. Those few bodies yet to have a fully operational system of internal financial control were mainly small organisations, which tend to rely on supervision by parent departments.
- 4.9 The statements reviewed over the period detailed that, for the most part, audited bodies have been able to develop effective systems of internal financial control and in many cases are making progress towards adopting the full Statement of Internal Control. Where significant weaknesses or gaps in control have arisen, these have generally been disclosed by the relevant Accounting Officer in their statement. As a result, the reader of the account can be assured that the statement

given by the Accounting Officer is an accurate reflection of the system of internal financial controls in place. Aside from providing this assurance, the National Audit Office has found that the introduction and development of these statements has had more significant beneficial effects, chiefly:

- an increased awareness of internal controls, control weaknesses and risk management among Accounting Officers and senior management;
- a better appreciation of the benefits of a strong internal audit function; and
- development of audit committees into an advisory and scrutiny body to assist management in developing a comprehensive and robust series of controls.

- 4.10 The Comptroller and Auditor General's examination of the statements included on 2000-01 accounts confirms that organisations continue to make progress in developing sound internal financial controls, as well as broadening the experience and skills of staff and members of audit committees and internal audit. Furthermore the Comptroller and Auditor General is pleased to note that the importance of sound corporate governance and robust internal control is acknowledged by the senior management of audited bodies.

The move to Statements of Internal Control

- 4.11 While the majority of central government organisations now provide a Statement on Systems of Internal Financial Controls, the transition to a full Statement of Internal Control (i.e. controls covering all operational activities, not simply finance-related activities) is proving more of a challenge for audited bodies. This is not surprising given the size and complexity of many government organisations. Many have required external assistance or facilitation to help to identify the diverse range of operational risks that can impact upon them. The identification of risk is, of course, only the first step in a process which also involves assessment of an organisation's risk appetite, the prioritisation of risks in terms of likely impact on key business objectives, the design of control procedures to deal with risks and the ongoing monitoring of how risks are managed in practice. A number of audited bodies have, however, made notable progress down this road. Examples include:

- The Crown Estate produced a full Statement of Internal Control for 2000-01. The organisation has an established audit committee, including non-executives who oversee the management of risk. The audit committee reports on risk management and internal control to the main board;

- The Meteorological Office also implemented measures to progress towards compliance with Turnbull in the 2000-01 financial year. The statement included in the accounts sets out procedures for risk identification and management process, which the Meteorological Office aims to have embedded and fully tested during the 2001-02 financial year. The Audit Committee has been proactive in advising on the processes necessary to achieve full compliance; and
- The United Kingdom Atomic Energy Authority produced a full Statement of Internal Control covering financial and operational controls for 2000-01. The Audit Committee had recognised its expanded role in ensuring that appropriate risk management procedures were in place and operating effectively. The Committee also ensured that information being passed to senior management on corporate risk was reliable. The organisation's internal audit department provided support to the Audit Committee and Accounting Officer in reviewing risk management procedures and their implementation.

4.12 These successes have been based upon a recognition that good corporate governance and effective risk management lie at the heart of achieving organisational objectives, they are not simply the imposition of another scheme or initiative from outside. In the same vein, the National Audit Office has noted a number of other positive initiatives at audited bodies in developing and embedding risk management processes:

- setting up seminars, courses and workshops to increase awareness and understanding of key issues and promote discussion on the identification and management of business risks;
- the establishment of risk audit committees, risk management sections and working groups specifically tasked to address business risks and develop risk management strategies; and
- the introduction of risk registers in which to record identified problem areas, consider mitigating controls and allocate responsibilities for risk management.

4.13 Challenges remain, however, particularly for the more complex departments, in bringing together their various risk management procedures into a pro-active and coherent whole. The National Audit Office will continue to review audited bodies' arrangements, and provide advice where appropriate, to assist audited bodies meet these challenges.

The role of the National Audit Office in promoting corporate governance

4.14 The National Audit Office has participated in the development of the Treasury and Cabinet Office initiatives and worked with the Treasury on how best to adapt the Turnbull recommendations for application in the public sector. The Treasury guidance includes a statement from the National Audit Office setting out its basic approach to the examination of the internal control statement. In addition the National Audit Office is contributing to the development of advice in the audit of corporate governance, produced by bodies including the Public Audit Forum, and the Auditing Practices Board. Finally, the Office also participates in the Risk Management Steering Group, which brings together the Treasury, Cabinet Office and departmental representatives to engender cohesion between the various government-wide initiatives which come under the umbrella of corporate governance and risk management.

4.15 On the ground, the National Audit Office's financial audit methodology is a risk-based approach, involving the development of a comprehensive understanding of the audited body's business, the risks that it faces and how those risks are managed. This provides a sound base for consideration of the internal control statement and also provides opportunities to make recommendations for improvements to internal controls. As part of their routine financial audit work, auditors will discuss and compare their own risk analyses with those of client bodies.

4.16 The National Audit Office wholeheartedly supports the developing use of risk management, and has been quite clear in stating its support for well thought through risk-taking. Auditors continue to work closely with audited bodies and their Audit Committees in assisting in the development both of corporate governance arrangements and, more broadly, risk management procedures.



HM Revenue and Customs

Tax Return

for the year ended
5 April 2000

Official use
Tax reference
Employer reference

Issue address

Date

Inland Revenue office address

Telephone

For
Reference

Please

The great
you through

This Notice
a Tax Return
to 5 April 2000
and capital gains

- this form
- other
- soft

the Tax Return (EVR); or

Your Tax Return

I have sent you pages 1 to 8 of your Tax Return:

- page 2 tells you about supplementary Pages for some types of income and gains. For example, there are Pages for employment, and for self-employment income
- pages 3 and 4 are for details of other income, for example, pensions and savings
- page 5 is for claiming reliefs
- page 6 is for claiming allowances
- pages 7 and 8 are for other information.

I have included any supplementary Pages I think

Audit of receipts of revenue

Introduction

- 5.1 In 2000-01, HM Customs and Excise collected net revenue of £102.3 billion, and the Inland Revenue £148.7 billion.
- 5.2 Under section 2 of the Exchequer and Audit Departments Act 1921, the Comptroller and Auditor General is required to examine the accounts of the receipts of revenue 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.
- 5.3 The results of the examination for this reporting year were satisfactory for Inland Revenue (Class XVI, Vote 5). However, while the Comptroller and Auditor General was satisfied in most respects that HM Customs and Excise procedures and regulations were effective, the estimates of fraud suggested that there was more work to be done to ensure that the regulations and procedures are fully adequate to secure an effective check on the assessment, collection and proper allocation of revenue. He therefore welcomed and supported the steps Customs and Excise has and is taking to measure the stock of fraud and to develop and implement anti-fraud charges (Class XVI, Vote 4).
- 5.4 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 2000-01.
- 5.5 The outcome of the Comptroller and Auditor General's work of HM Customs and Excise and Inland Revenue is reported in more detail in Volume 16 of the 2000-01 appropriation accounts (HC 335 - XVI, Session 2001-02) and summarised briefly below.

HM Customs and Excise

- 5.6 During 2000-01 the Comptroller and Auditor General's audit covered both new and existing systems. These included VAT registration and assurance, the collection of tobacco duty including the fight against tobacco smuggling and the introduction of procedures to support the new Climate Change Levy. Reviews of HM Customs and Excise computer installations and the management of the risks associated with their information technology infrastructure were also completed.
- 5.7 Since publishing its first anti-fraud strategy on tobacco smuggling in March 2000, Customs and Excise has made significant changes to its strategy and approach to tackling fraud. This has entailed moving from an essentially tactical approach where success was determined in terms of outputs such as increased seizures, to a strategic approach based on achievements which have a direct and measurable impact on the problem being addressed. As part of this approach Customs and Excise has published estimates of fraud for other indirect taxes concerning alcohol, oils and part of the VAT system relating to Missing Trader Intra-community fraud. These estimates are shown in the table below.

Customs and Excise estimates of fraud

	£ billion	Period (latest available figures)
Total cigarette smuggling plus cross-channel smuggling of hand rolling tobacco*	3.5	2000-01
Alcohol	0.75	1999-00
Hydrocarbon oils (GB Diesel)	0.45	2000
VAT missing trader fraud	1.7 - 2.6	2000-01

* Only includes cross-channel smuggling of hand rolling tobacco - Customs is working on a full estimate for hand rolling tobacco.

Source: HM Customs and Excise

- 5.8 The total estimated fraud of between £6.4 billion and £7.3 billion represents between 6.3% - 7.1% of the tax collected. Customs and Excise is working on its strategies for tackling fraud in all remaining indirect taxes including completion of their assessment of fraud in VAT, which at 57 per cent represents the largest tax stream.
- 5.9 The Comptroller and Auditor General provided an unqualified audit opinion on the department's Trust Statement for 2000-01 (Cm 5309). However, his report on those accounts will record that while the receipts and payments relating to duties and taxes collected have been properly presented, he was concerned that in certain cases, repayments may be made to the collaborators of missing traders in missing trade fraud, and that while the legal position remains unchanged these repayments cannot be prevented.
- 5.10 The National Audit Office examination of checks performed on traders' returns, on the use of VAT registration procedures to identify potential fraud and on the way Customs and Excise is tackling fraud on tobacco duty resulted in a number of main recommendations aimed at helping Customs and Excise further develop its procedures for tackling fraud on VAT and tobacco duty.

Inland Revenue

- 5.11 In 2000-01 the Comptroller and Auditor General's audit covered both old and new systems. As regards new systems, the National Audit Office examined Individual Savings Accounts and the collection of student loan repayments. Reviews of existing systems included aspects of inheritance tax, stamp duty, the construction industry scheme and tax credits. The National Audit Office also reviewed the Inland Revenue's main computer installations and the management of risks associated with their information technology infrastructure.
- 5.12 Overall this work provided assurance that the department's regulations and procedures continued to provide an effective check over the assessment, collection and allocation of tax. The Comptroller and Auditor General's audit opinion on the department's Trust Statement for 2000-01 (Cm 5304) records that he was also satisfied that the sums brought to account were properly presented in the Trust Statement. The Comptroller and Auditor General's report on the Class XVI, Vote 5 appropriation account covers his main findings on tax credit and the processing of PAYE records.

Tax Credits

- 5.13 Tax credits were introduced in October 1999. The National Audit Office followed up the Comptroller and Auditor General's report on the first six months operation of the scheme which included coverage of the processing of awards, risk management, performance monitoring and accounting arrangements (HC 25 - XVI, Session 1999-2000). The accuracy of awards made in 2000-01 was reviewed, as were developments in the Department's approach to detecting non-compliance and the new system for payments made via employers. The Comptroller and Auditor General made a number of recommendations relating to improvements in management information and the analysis of quality assurance work.

Processing of PAYE Tax Records

- 5.14 The National Audit Office also reviewed progress in addressing the difficulties encountered in transferring information on employees' pay and income tax deductions from the National Insurance Recording System (NIRS 2) to the PAYE system and the impact on the Inland Revenue's administration of income tax. This showed that the department has taken important steps to identify the underlying causes of the large increase in the number of open cases for recent tax years. Initial key difficulties relating to the interface between computer systems have been resolved, tighter management controls have been put in place and additional resources are being applied to clearing the backlog of cases requiring clerical intervention. As a result the number of cleared tax cases for previous years has increased and work continues to address the existing backlog of cases. Although, the Inland Revenue is falling well short of its targets to clear 88% of tax cases within twelve months of the financial year end and 98% within twenty four months, it has reduced the backlog of cases at the end of March 2001 to 2.7 million for the 1998-99 tax year and 8.5 million for the 1999-2000 tax year.

Other Reports on the work of Customs and Excise and the Inland Revenue

5.15 The Comptroller and Auditor General also examines the economy, efficiency and effectiveness with which Customs and Excise and the Inland Revenue have used their resources under section 6 of the National Audit Act 1983. The results of these value for money examinations are published in separate reports to the House of Commons under section 9 of that Act. Since the Comptroller and Auditor General's last report on the department's systems and procedures (HC25-XVI, Session 2000-01), he has reported on:

- Regulating Freight Imports from Outside the European Community (HC 131, Session 2000-01);
- Losses from Frauds on Alcohol Duty (HC 178, Session 2001-02);
- Income Tax Self Assessment (HC 56, Session 2001-02);
- National Insurance Recording System (NIRS 2) Contract Extension (HC 355, Session 2001-02);
- E - Revenue (HC 492, Session 2001-02); and
- Hydrocarbon Oils (HC 614, Session 2001-02).

Accounting and



auditing developments

Review of audit and accountability arrangements in central government

- 6.1 During the passage of the Government Resources and Accounts Act 2000, the Committee of Public Accounts recommended that the powers of the Comptroller and Auditor General should be brought up to date to reflect changes in the delivery of central government services (4th and 9th Reports, Session 1999-2000). In February 2000, the Chief Secretary to the Treasury announced a review of audit and accountability arrangements in central government in response to the Committee's concerns.
- 6.2 The Review was led by Lord Sharman of Redlynch and overseen by a Steering Group chaired by the Chief Secretary which included the Comptroller and Auditor General, the Chairman of the Committee of Public Accounts, the Head of the Government Accounting Service, the Chairman of the Auditing Practices Board and the Chairman of the Accounting Standards Board. The report of the review, *Holding to Account*, was published on 13 February 2001.
- 6.3 The report emphasised the importance of strong and comprehensive audit and accountability regimes for public money, while recognising issues such as audit cost and the effect of audit on risk taking. Its recommendations reflected the need for Parliament to be able to hold the Executive to account for its use of public money. For example:
- as a matter of principle, the Comptroller and Auditor General should be the auditor, on behalf of Parliament, of all non-departmental public bodies;
 - the Comptroller and Auditor General's access rights should be formalised where they are currently based on negotiated agreement or conventions and access should be provided to, for example, grant recipients, registered social landlords, train operating companies and private finance initiative contractors as well as to the BBC;
 - the Department of Trade and Industry and the National Audit Office should work together to identify how best to remove the current obstacles to the Comptroller and Auditor General being appointed as an auditor under the Companies Act. The aim should be for the Comptroller & Auditor General to be the auditor of non-departmental public bodies which are companies, companies owned by a department, or companies which are subsidiaries of a non-departmental public body audited by the Comptroller & Auditor General. In addition the Comptroller & Auditor General should be eligible for appointment as auditor of a company where a department has a substantial stake and should not be prevented from being eligible in other organisations with a 'public interest' role;
 - there should be external validation of departmental information systems as a first step in a process towards the validation of published data.
- 6.4 The report also made a number of recommendations designed to make the most of audit findings and to provide enhanced scrutiny of the cost and quality of the National Audit Office's work. Lord Sharman welcomed the Comptroller and Auditor General's suggestion that the National Audit Office would submit its work to the scrutiny of the Joint Monitoring Unit. This body is responsible for monitoring the quality of audit work undertaken by member firms of the Institutes of Chartered Accountants in England & Wales, of Scotland, and in Ireland. The first dry-run monitoring visit to the National Audit Office has now taken place.
- 6.5 The recommendations in *Holding to Account* were endorsed by the Committee of Public Accounts (6th Report, Session 2000-01, HC 260), and the Government's response was published in March 2002.
- 6.6 The Government has accepted Lord Sharman's recommendations in many key areas and the implementation of the Government's response will substantially increase the remit and the assurance the Comptroller and Auditor General can provide to Parliament on how public money is spent. The Government's response states, inter alia, that:

- the Comptroller & Auditor General should be the auditor of all non-departmental public bodies on behalf of Parliament and that it intends to use its order-making powers under the Government Resources and Accounts Act 2000 to bring this into effect. The Comptroller & Auditor General will take up the audit of these non-departmental public bodies as the current contracts expire;
 - it undertakes to formalise arrangements for the Comptroller & Auditor General's access where it is currently based on negotiated agreement or convention. The Government will also provide statutory access to documents held by, for example, grant recipients, registered social landlords, train operating companies and Private Finance Initiative contractors. Further, the Government will provide access to documents held by bodies in relation to contracts they have with organisations where the Comptroller & Auditor General is the statutory auditor, and to subcontractors on the same basis;
 - the Comptroller & Auditor General should be appointed as the auditor of non-departmental public bodies and their subsidiaries which are companies and the Government has undertaken to explore with the National Audit Office how this could be put into effect. At present the Comptroller & Auditor General is not eligible to audit companies under the 1989 Companies Act, which is the UK interpretation of the EC Eighth Directive; and
 - it has invited the Comptroller & Auditor General to take responsibility for the validation of systems used in reporting on Public Service Agreement targets. All relevant data systems will be examined at least once during the three-year lifetime of a Public Service Agreement; and the work will be undertaken on a trial basis initially.
- 6.7 The Treasury and the National Audit Office have agreed a paper, which considers the practical implications of implementing many of Lord Sharman's recommendations, particularly those relating to audit, access, quality assurance and corporate governance.

Validation of Reported Performance Information

- 6.8 In preparing for undertaking the additional responsibilities awarded to the Comptroller and Auditor General by the Sharman review, the National Audit Office has taken an active role in taking forward the recommendation on the external validation of performance information. Following publication of the review *Holding to Account* on 13 February 2001, and the endorsement of the report's recommendations by the Committee of Public Accounts (6th Report, Session 2000-01, HC 260), the Chief Secretary to the Treasury established a Working Group on External Validation. This was given the remit to provide proposals

for the practical implementation of a system for external validation of the data systems underlying Public Service Agreement targets. The Group, on which the National Audit Office was represented, reported to the Chief Secretary in December 2001. The Working Group proposed that the Comptroller and Auditor General should validate the relevant data systems, working in close cooperation with the Statistics Commission, the Office for National Statistics and the Audit Commission. All of these bodies contribute assurance to various streams of statistics and in many Public Service Agreement performance measures.

- 6.9 The National Audit Office has also continued to promote good practice in performance measurement and reporting by carrying out independent validations of a number of Executive Agencies' performance against their targets. For 2000-01, the National Audit Office has continued to work in validating performance in Agencies such as the Employment Service (which will become part of Jobcentre Plus in April 2002), which have been the subject of previous validations. In addition, new work has been started on other Agencies such as the National Weights and Measures Laboratory.

Developing Performance Measurement Practice

- 6.10 The National Audit Office has continued to play a full part in the development of best practice in performance measurement. In March 2001, the National Audit Office published, jointly with the Treasury, Cabinet Office, the Office for National Statistics and the Audit Commission, the guidance *Choosing the Right FABRIC: A Framework for Performance Information*. The guidance, which sets out the characteristics of good performance information systems and performance measures, is intended to help improve the quality of performance information in the public sector, which is essential for Parliamentary and public accountability.
- 6.11 The National Audit Office has also played an active role in providing advice on the technical aspects of performance measures and targets to be included in the Public Service Agreements for 2003-06 and their supporting Service Delivery Agreements. This is being done through work on the Performance Information Panel, which superseded the Technical Review Panel in 2001.

Auditing standards

6.12 The National Audit Office has continued to play a significant part in the development of auditing standards and in particular in how they apply to the public sector context. In last year's General Report it was noted that the Auditing Practice Board's Public Sector sub-committee was developing a new Public Sector Practice Note. This was published in April 2001 to consolidate the guidance contained in Practice Note 10 on the audit of central government financial statements and the guidance in Practice Note 17 on the audit of regularity. The Practice Note consists of three main sections:

- An introduction to set out the nature of the public sector and public sector audit, and the roles and responsibilities of the key players in the sector. The section also sets out the accountability framework and audit arrangements for central and local government and the health sector, as well as for the devolved authorities in Scotland, Wales and Northern Ireland;
- Individual sections for each Statement of Auditing Standards (SAS) summarising the contents of the SAS and providing sector-specific guidance on its application within the public sector; and
- A separate section on regularity to incorporate the revised material which was previously contained within Practice Note 17, and to stress the importance of regularity in public sector audit, and to public sector auditors.

Accounting Standards

6.13 In November 2000, the Accounting Standards Board issued new guidance (FRS 17) on accounting for retirement benefits to be applied in stages beginning with 2001-02 accounts. There are significant changes to disclosure requirements for defined benefit schemes, including market rather than actuarial valuation of pension scheme assets and liabilities in line with international practice. Other major changes relate to the measurement of liabilities and the need to recognise pension scheme surpluses or deficits on the balance sheet.

6.14 The Treasury discussed the new standard with the Financial Reporting Advisory Board and agreed that for specified schemes covering the majority of the civil service which have approved system of employer contributions and prepare their own accounts, the major provisions were not appropriate and would not apply. This covers the Principal Civil Service Pension Scheme, and the NHS, Teachers, and Armed Forces schemes as well as some other smaller schemes. Instead, Parliamentary accountability would be satisfied for those schemes if they continue to account only for contributions received and

report liabilities (valued on using a risk free rate) in separate pension scheme statements.

The Financial Reporting Advisory Board

6.15 The Financial Reporting and Advisory Board to the Treasury was set up in 1996 following the government's decision to introduce resource accounting. Its purpose is to provide an independent element in the process of setting financial reporting standards for government - to ensure that as far as possible resource accounts are governed by 'generally accepted accounting practice'. From the outset the National Audit Office has been represented on the Board, whose membership includes representatives from the Accounting Standards Board and other professional and academic bodies, as well as government entities and the Treasury. This membership provides the opportunity to represent Parliament's interests as well as help ensure adherence to generally accepted accounting practice. The Government Resources and Accounts Act 2000 put the Board on a statutory footing and required an annual report on its activities to be laid before the House of Commons. (Hitherto, the Board has provided its annual reports to the Committee of Public Accounts and the Treasury Committee at their request.) The Act also requires the Treasury to consult the Comptroller and Auditor General over the composition of the Board.

6.16 The Board's advisory role has expanded previously to encompass the accounting guidance for Non Departmental Public Bodies and Trading Funds. Over the past year it has expanded still further (with the agreement of those concerned) to include central government accounting standards in Scotland, Northern Ireland and the Health Service. It also includes the accounting principles and policies for Whole of Government Accounts. The role the National Audit Office can play through its membership has widened accordingly.

Public Audit Forum

6.17 In his previous General Reports, the Comptroller and Auditor General has referred to the work 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 six national audit agencies (the National Audit Office, the Audit Commission, Audit Scotland, the Accounts Commission and the Northern Ireland Audit Office and the Auditor General for Wales). It is supported by a Consultative Forum that has representatives drawn from a wide range of 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.

6.18 The Public Audit Forum has published the following documents:

- *The Principles of Public Audit;*
- *Implications for Audit of the Modernising Government Agenda;*
- *What Public Sector Bodies can expect from their Auditors;*
- *Propriety and Audit in the Public Sector;*
- *Data Matching and the Role of Public Sector Auditors (consultation paper);*
- *Audit Implications of Electronic Service Delivery in the Public Sector;*
- *Central Government Audit in the UK after Devolution.*

6.19 The Forum published *Audit Implications of Electronic Service Delivery in the Public Sector* in April 2001. The paper aims to give basic advice to both auditors and management involved in electronic service delivery developments. This is a rapidly developing area, and the Forum is updating the electronic version of the paper on its website (www.public-audit-forum.gov.uk), as and when required.

6.20 *Propriety and Audit in the Public Sector* was published in its final version in August 2001 following a period of public consultation during which the Forum received comments from a wide range of correspondents across the UK public sector. The paper aims to help public sector managers understand what is expected of them and to clarify the type of work that auditors of public sector bodies undertake on propriety.

6.21 The Forum published *Central Government Audit in the UK after Devolution* in January 2002. This explains the new arrangements for audit of government spending across the constituent parts of the UK. It emphasises the work being done by those agencies to maintain consistently high professional standards, share knowledge and promote best practice. It sets out how, for example, the National Audit Office and Audit Scotland have established a joint team to carry out the audit of the Forestry Commission on behalf of the Comptroller and Auditor General, the Auditor General for Scotland and the Auditor General for Wales.

6.22 There are currently four active Public Audit Forum working groups which are looking at the relationship between auditors, inspectors and regulators; the benefits of accruals-based accounting in a central government context; the implications of freedom of information legislation and developments in corporate governance respectively.

"Whistleblowing" - The Public Interest Disclosure Act 1998

6.23 The Comptroller and Auditor General is a prescribed person under the Public Interest Disclosure Act 1998. This Act creates a right to redress, enforceable by tribunal, in the event of unfair discrimination or dismissal for individuals ("Whistleblowers") who make disclosures relating to malpractice in the workplace, subject to certain qualifying conditions, such as disclosure in good faith.

6.24 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.

6.25 The Comptroller and Auditor General is the prescribed person in respect of matters relating to the regularity, propriety, governance, and value for money, fraud and corruption in the provision of centrally funded public services. The National Audit Office has a dedicated telephone line to receive disclosures.

6.26 To date, the Comptroller and Auditor General has received some 70 disclosures. Examples of issues that the Office is currently pursuing where the individual would be entitled to protection under the Act include allegations that grants are being applied in breach of rules and possible irregular tendering procedures.

Appendix 1

Accounts audited by the Comptroller and Auditor General

Type of account (1999-2000 figures in brackets)	Number audited	Opinion qualified ¹	Opinion not qualified but report attached ²
Appropriation Account ³	85 (92)	8 (4)	4 (4)
Resource Accounts ⁴	57 (39)	13 (4)	0 (0)
Executive Agency ⁵	90 (91)	3 (1)	0 (1)
National Loans Fund	19 (14)	0 (0)	0 (0)
Other UK accounts audited under statute or by agreement ⁶	275 (333)	5 (2)	5 (6)
Total 2000-01	527	29	9
Total 1999-2000	569	11	11

1 Appendix 3 provides details of the accounts qualified

2 Appendix 4 lists reports issued by the Comptroller and Auditor General on financial audit matters

3 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 actual payments and receipts in 2000-01 compared with those voted by Parliament is shown in Appendix 2. 2000-01 is the final year for which appropriation accounts will be prepared. The reduction in the number of accounts audited is as a result of the transfer of responsibility for Welsh and Scottish accounts to the Auditor General for Wales and Audit Scotland.

4 Resource accounting is an accruals-based form of financial reporting that has been introduced in all government departments. Resource accounts comprise financial statements similar to those found in commercial accounts but 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 were produced in 1999-2000. 2000-01 is the last year of parallel running with appropriation accounts.

5 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 practices, insofar as these are appropriate.

6 The Comptroller and Auditor General also undertakes the audit of a large number of other accounts wither 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. The reduction in the number of accounts audited is as a result of the transfer of responsibility for Welsh and Scottish accounts to the Auditor General for Wales and Audit Scotland.

Appendix 2

Outturn of the Votes in all Classes

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

Gross expenditure	£000	£000
Estimates:		
Original Estimates	269,836,132	
Supplementary etc. Estimates	9,013,334	
	<hr/>	278,849,466
Actual		271,805,306
Saving		<hr/> 7,044,160
Appropriations in Aid		
Authorised:		
Original Estimates	28,022,512	
Supplementary etc. Estimates	1,468,632	
	<hr/>	
	29,491,144	
Applied	<hr/> 28,677,529	
Deficiency		<hr/> 813,615
Net saving before adjustment for excesses		6,230,545
Amount for which Parliamentary authority is required to make good excesses on certain votes		<hr/> 35,323
Total of amounts to be surrendered being 2.5 per cent of Supply		<hr/> 6,265,868

Grants

The exact amount for surrender is £6,265,871,059.78 The figure stated above differs by £3,059.78 because of rounding within the Classes.

Extra receipts

Extra receipts payable to Consolidated Fund recorded in the Appropriation Accounts of all Classes amount to £27,625,887,005.18

Adjustment of balance on 1999-2000 Votes

The surplus to be surrendered for 1999-2000 amounted to £7,493,816,664.35. This balance has been duly surrendered to the Consolidated Fund. The excesses, which occurred on two Votes in 1999-2000, have been made good by Vote of Parliament.

Appendix 3

Accounts qualified by the Comptroller and Auditor General

Appropriation Accounts 2000-01

Class I	Vote 2	Teachers Pension Scheme: Limitation of Scope and Disclaimer
Class II	Vote 3	National Health Service Superannuation: Excess Vote
Class IV	Vote 1	Home Office administration, police, probation, immigration and other services, England and Wales: Regularity
Class VII	Vote 1	Foreign and Commonwealth Office: Excess Vote
Class IX	Vote 4	Department of Trade and Industry, British Trade International: Excess Vote
Class X	Vote 2	Ministry of Agriculture, Fisheries and Food: Regularity
Class XII	Vote 1	Central Government Administered Social Security Benefits and Other Payments: Regularity
Class XVI	Vote 6	Inland revenue: Valuation Office - administration: Excess Vote

Resource Accounts

Department of Social Security 2000-01	Regularity Limitation of Scope
Ministry of Defence 2000-01	Limitation of Scope
Treasury Solicitors Department 2000-01	Limitation of Scope
Lord Chancellor's Department 2000-01	Regularity
Teachers Pensions Scheme 2000-01	Limitation of Scope Disclaimer
Ministry of Agriculture Fisheries and Food 1999-2000	Disclaimer
Lord Chancellor's Department 1999-2000	Limitation of Scope
Treasury Solicitors Department 1999-2000	Limitation of Scope
HM Treasury 1999-2000	Limitation of Scope
Cabinet Office 1999-2000	Limitation of Scope
Security and Intelligence Agencies 1999-2000	Limitation of Scope
Department of the Environment, Transport and The Regions 1999-2000	Disagreement
Home Office 1999-2000	Disclaimer

Other Accounts qualified

Human Fertilisation and Embryology Authority 2000-2001
National Insurance Fund 1999-2000
Equal Opportunities Commission 2000-2001
Child Support Agency Client Funds Account 2000-2001
Ordnance Survey Agency 2000-2001
Forest Enterprise England, 1999-2000
Forest Enterprise Wales, 1999-2000
Forest Research Agency 1999-2000

Appendix 4

Reports of the Comptroller and Auditor General

Appropriation Accounts 2000-2001

Class III	Vote 8	Driver and Vehicle Licensing Agency; (report on the revenue account)
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)
Class XVII	Vote 1	Cabinet Office: Administration *

Other Reports

NHS (England) Summarised Accounts 1999-2000

Commission for Racial Equality 2000-01

Office of Fair Trading 2000-01

Crown Agents Holding and Realisation Board 2000-2001

NHS (Scotland) Summarised Accounts 1999-2000

* The Comptroller and Auditor General reported on the Cabinet Office Administration Vote, however deferred publication of his findings until the publication of the associated Cabinet Office Resource Account.

Appendix 5

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 2000-01 concluded that in most instances, systems operated satisfactorily. A number of matters have been raised directly with the organisations concerned.

John Bourn
Comptroller and Auditor General

14 March 2002

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