National Audit Office

FINANCIAL REPORTING AND FINANCIAL MANAGEMENT

General Report of the Comptroller and Auditor General 2007

REPORT BY THE COMPTROLLER AND AUDITOR GENERAL | HC 417 Session 2007-2008 | 27 March 2008

The National Audit Office scrutinises public spending on behalf of Parliament. The Comptroller and Auditor General, Tim Burr, is an Officer of the House of Commons. He is the head of the National Audit Office, which employs some 850 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.

National Audit Office

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Comptroller and Auditor General
National Audit Office

19 March 2008

This report can be found on the National Audit Office web site at www.nao.org.uk

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SUMMARY

1 The Comptroller and Auditor General is the statutory external auditor of all Government Departments, Executive Agencies and a wide range of other public bodies. In 2007 he, assisted by the National Audit Office, provided an independent audit opinion on some 480 accounts covering expenditure and revenue of some £800 billion. This report draws on the key matters arising from the audit work which supported those opinions to comment on the state of financial reporting and financial management in the central government sector.

2 Our financial audits are conducted in accordance with International Standards on Auditing (UK and Ireland), issued by the UK Auditing Practices Board. These require independent external auditors to give an opinion as to whether the accounts are free from material misstatement and show a true and fair view. For the central government sector the audit opinion also includes confirmation that in all material respects the transactions in the accounts comply with appropriate Parliamentary authority – known as the "regularity" opinion. Audit procedures also have regard to the propriety with which public funds have been handled and the manner in which public business has been conducted.

Financial reporting

3 The quality and timeliness of the financial statements prepared by Departments has continued to improve. Our financial audit of government departments for 2006-07 resulted in unqualified audit opinions on 52 of the 56 resource accounts. The reasons for the qualification of the C&AG's audit opinion on four (seven in 2005-06) resource accounts – the Department for Work and Pensions, the Armed Forces Pension Scheme, the Ministry of Defence and the Teachers Pension Scheme (England and Wales) – are set out in section 1 of this report. 52 of the 56 (54 in 2005-06) resource accounts were audited and laid before Parliament prior to the summer recess at the end of July. The remaining four were for the Home Office, Department of Health, National Health Service Pension Scheme and the Department for the Environment, Food and Rural Affairs.

4 The last resource account was laid before Parliament on 29 October well ahead of the statutory deadline of 31 January 2008. The Treasury continues to work with Departments to ensure all resource accounts are laid in Parliament before the summer recess. Fundamental to the achievement of this target is the recognition that the accounts production process is not merely a year end activity. Robust, accurate and timely financial information is pivotal to improved resource planning and decision making within Departments and should be something that departments produce and utilise throughout the financial year. We continue to work with audited bodies to help them achieve their objectives of better financial management and timelier external financial reporting.

5 The quality of the narrative information accompanying the annual reports and accounts is improving generally. Our review of the information included in Annual Reports for 2006-07 found, however, that the length and detail of the disclosures made and the level of compliance with the guidelines varied significantly. Although improvements were noted across a number of areas, more could be done to identify the resources available to the entity, and to disclose contractual or other arrangements which are essential to its business, adopting a more forward looking orientation. Departments could also improve the balance of the commentaries by ensuring that, as well as highlighting achievements in year, they cover those areas where progress was not as good as expected.

6 As in 2005-06 there remains a wide range in the quality of reporting by central government bodies on corporate governance matters and the level of compliance with both required and recommended disclosures. In particular there tended to be little narrative on the work of audit committees and on the role of independent board members.

Losses, Special Payments and Fraud

7 Departmental losses and special payments – transactions of a type that Parliament cannot be expected to have authorised – are subject to special control procedures and disclosure requirements in resource accounts. 2006-07 resource accounts disclosed over £1.2 billion of losses and special payments, a substantial increase over the 2005-06 figure, which may indicate a need for departments to enhance controls to reduce the risk of further loss.

The Audit of Receipts of Revenue and Public Debt and Reserves

8 The Comptroller and Auditor General's report to Parliament that accompanies the accounts of Her Majesty's Revenue & Customs (HMRC) (HC 626 2006-07) detailed the main outcome of the financial audit work carried out by the National Audit Office at HMRC. This report covered the Department's management of tax credits, the collection of income tax through Pay As You Earn (PAYE) and self-assessment, and Value Added Tax.

9 We continued to note reservations concerning levels of error and fraud by tax credit claimants. HMRC estimated that in 2004-05 tax credits of between £1.04 billion and £1.30 billion (7.3 to 9.1 per cent by value) were paid to claimants to which they were not entitled. We concluded that these levels of error were unacceptably high. There is currently no evidence to justify a lower estimate for 2006-07 and we consequently qualified the audit opinion on the HMRC Trust Statement account.

10 Arising from our work at the Driver and Vehicle Licensing Agency (DVLA), the Comptroller and Auditor General reported on the Vehicle Excise Duty evasion rate which increased from 3.6 per cent in 2005 to 5 per cent in 2006 according to official statistics, although significantly lower rates were subsequently published by the Department for Transport in February 2008 in respect of evasion in 2007. He made observations and recommendations about enforcement measures. His opinion on the Vehicle Excise Duty accounts was unqualified.

11 Our audit of public debt and reserves accounts was conducted satisfactorily, building on the reporting timetable gains made in 2005-06. For the first time the financial statements of both the Consolidated Fund and the National Loans Fund were certified and laid in Parliament prior to its summer recess.

Progress towards better Financial Management by Departments

12 Government Departments continue to enhance their financial skills through the professionalism agenda led by the Treasury. Our work in 2007 suggested that the appointment of professionally qualified finance directors for all but two major government departments has brought a focus to the consideration of financial management that was not in place before. However there is some distance to travel for good financial management to be embedded in all areas of departmental business. Our report *Managing financial resources to deliver better public services* (HC 240 2007-08) reviews the progress on financial management in central government.

13 To support the improvement of financial management, in 2008 we aim to start publishing a series of financial management reports on how the major departments are embedding good financial management in their business. We hope to cover all of the major departments over a three to four year cycle.

Whole of Government Accounts

14 In 2007 the Chancellor of the Exchequer confirmed that the Government would publish a Whole of Government Account (WGA), prepared on the basis of International Financial Reporting Standards. The March 2008 budget postponed the first year of published WGA until the 2009-10 year of account. This project will make available comprehensive audited public sector information covering the whole of the UK public sector for the first time. Good progress continues to be made on what is a challenging and significant project. We continue to work closely with the Treasury, and the first full WGA 'dry run' consolidation and 'dry-run' audit procedures were completed for the 2005-06 financial year.

Future challenges

15 The Chancellor of the Exchequer announced in the March 2007 Budget that the accounts of central government departments and entities in the wider public sector will be produced using International Financial Reporting Standards (IFRS). The March 2008 Budget postponed the first year of accounting under IFRS until the 2009-10 financial year, with shadow IFRS accounts to be prepared for most departments for 2008-09 alongside their statutory UK GAAP based accounts. Following these announcements central government bodies can proceed with their planning for the changeover to IFRS with some greater certainty. It is important that central government bodies are not complacent over the amount of work that will be required for IFRS conversion and they should already be assessing the impact of IFRS and considering the resources required and a transition project plan.

16 The constitutional announcements made by the Prime Minister on 3 July 2007 included a major commitment to bring planning, Parliamentary approval and reporting of public spending on to a more consistent basis. At the core of this project (called the 'Alignment Project') is a commitment to a better alignment of budgets and estimates and accounts. Significant changes to the relevant processes are likely to require legislation and are not expected to be implemented before 2010-11. Bringing Non-Departmental Public Bodies within the departmental boundary would remove one of the main differences between resource accounting and resource budgeting, and remains under consideration by the Treasury.

17 The Companies Act 2006 will enable the Comptroller and Auditor General and the other UK auditors general to audit companies, as proposed in Lord Sharman's report into audit and accountability in central government. We will be in a position where we are able to audit government owned companies by 1 April 2008.

PART ONE

Financial Reporting – Financial Statements

Introduction

1.1 The Comptroller and Auditor General is the statutory external auditor of all government departments, executive agencies, and a wide range of other public bodies. At the end of the audit he provides a certificate, based on audit work carried out by the National Audit Office, which gives his opinion on whether the financial statements of the audited body give a true and fair view of its financial position and that they have been prepared in accordance with relevant statute. He also reports whether, in his opinion, the transactions contained within the financial statements are regular, in that they have been undertaken in accordance with relevant legislation, other regulations and with Parliamentary and Treasury authority.

1.2 When necessary we draw to the attention of Parliament, by way of a qualified audit opinion and an accompanying published report on the accounts, significant matters relating to poor financial reporting or matters having an impact on public expenditure. Reports on other matters believed to be of significant interest to Parliament may also be published without qualifying the opinion on the financial statements.

Resource Accounts

1.3 After the end of the relevant financial year each central government department submits a 'Resource Account' for audit. Resource accounts comprise financial statements similar to those found in commercial accounts but also including a summary comparing planned expenditure with the actual outturn. In the period covered by this report the Comptroller and Auditor General qualified his opinion on four sets of departmental resource accounts.

Qualified Opinions and Reports on Accounts

Qualified opinions – Departmental Resource Accounts

1.4 The quality of the resource accounts for 2006-07 submitted to the Comptroller and Auditor General for audit has continued to be generally high. Qualified opinions were issued on four sets of departmental resource accounts (The Armed Forces Pension Scheme, the Ministry of Defence, the Teachers' Pension Scheme (England and Wales) and the Department for Work and Pensions, compared to seven qualified opinions in the prior year. **Figure 1 overleaf** illustrates the number and type of qualifications year on year for the last four years and further details of each of the qualifications is shown at Appendix 2.

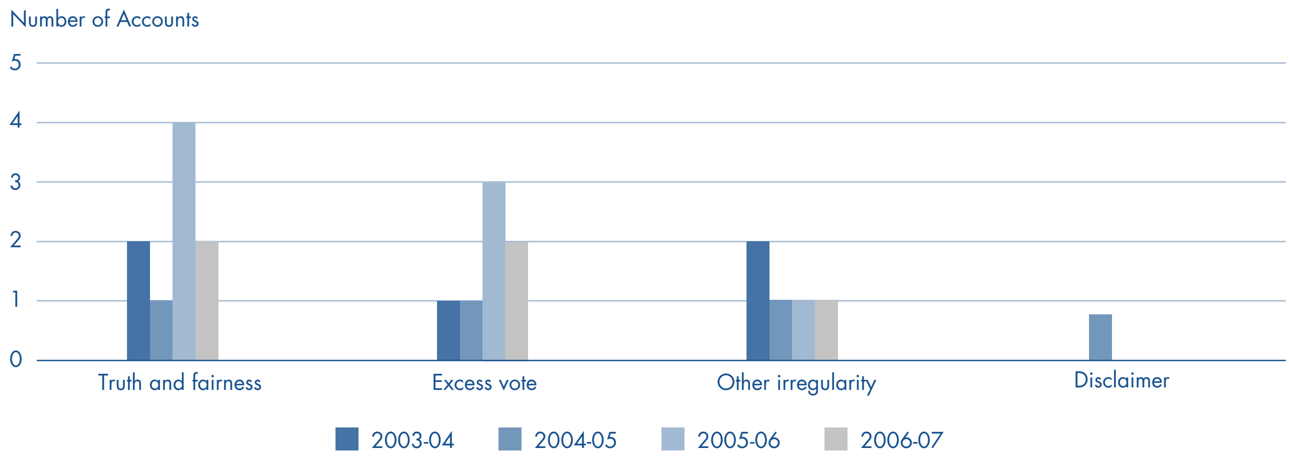
Qualified opinions – Other entities

1.5 During the period covered by this report, the Comptroller and Auditor General qualified his audit opinion on a further 11 sets of accounts. Further details on these qualified opinions are included at Appendix 2.

Reports on accounts by the Comptroller and Auditor General

1.6 The Comptroller and Auditor General has wide ranging powers to issue other reports on accounts to Parliament in addition to his audit certificate. Such powers may be used where there are significant matters associated with the financial statements which the Comptroller and Auditor General believes should be brought to Parliament's attention, even in circumstances where the audit opinion has not been qualified. Further details of these reports are shown at Appendix 2

1 Number of qualifications by type: Resource Accounts



Conclusion

1.7 The majority of departments and other public bodies falling within the remit of the Comptroller and Auditor General are producing good quality, unqualified accounts but there are still a small number that have to do more to prepare accounts for which there is adequate audit evidence to enable the Comptroller and Auditor General to express a clean audit opinion. There is no consistent pattern to the qualifications arising, nor is there any pattern when compared to previous years. However, they are all indicative of weaknesses in internal control, and compromise a body's ability to provide sound accountability to Parliament.

Departmental Resource Accounts – Timeliness for Rendering Accounts for Audit

1.8 The need for timely reporting of financial results to Parliament is as important as the accurate reporting of the results. It is therefore essential that departments ensure that their financial statements are prepared and submitted for audit on a timely basis.

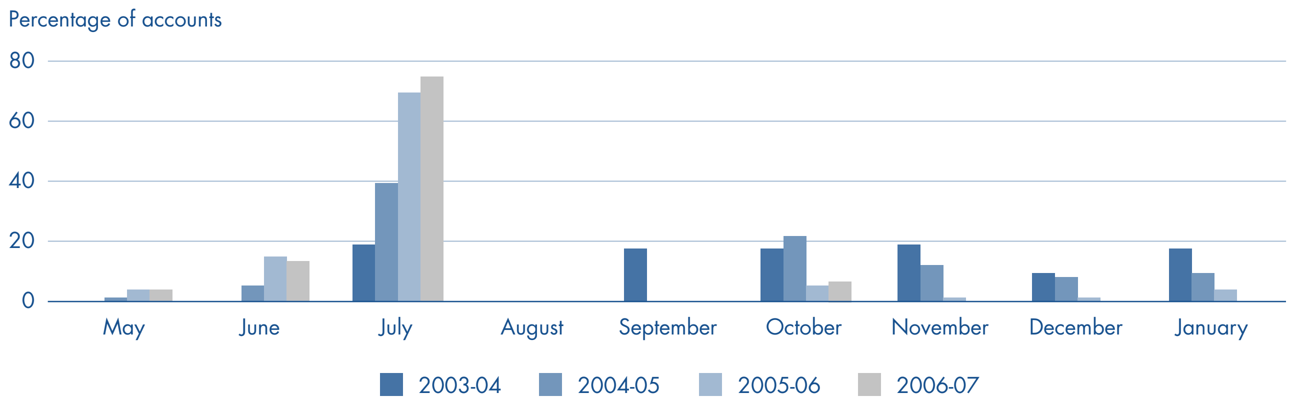
1.9 Over the last few years, departments have made good progress in improving the timeliness of the submission of their accounts for audit. By July 2007, 93 per cent of departments had submitted their resource accounts for audit. This compares to 87 per cent by July 2006, and 51 per cent by July 2005. For the second year running, all departments submitted their resource accounts for audit well in advance of the statutory deadline of 30 November.

1.10 In 2007, 52 out of the total of 56 departments managed to achieve the Summer Recess deadline, compared to 47 out of 54 last year. **Figure 2** illustrates the progress over the last four years The four departments that did not meet the deadline all filed their accounts in October, which is an improvement on 2005-06, when the last two departmental resource accounts were not laid until January 2007. But these four departments still have some work to do if they are to achieve the Treasury timetable for 2007-08, and will need to work closely with the National Audit Office and the Treasury to try to accelerate the accounts production process.

1.11 Three departments managed to prepare audited accounts prior to the Summer Recess for the first time in 2006-07. Notable amongst these was the Department for Work and Pensions which managed to lay its accounts in accordance with the Treasury timetable for the first time in the history of the department.

1.12 The challenge for 2007-08 and beyond is to maintain and improve on these impressive results. The National Audit Office will work with the remaining four departments to help them to meet the Treasury timetable, but it is important that the achievement of a Summer Recess timetable for the laying of accounts is not met at the expense of the quality of the accounts submitted for audit.

2 Timetable of Laying of Accounts



Losses, Special Payments and Fraud

The reporting of losses and special payments by departments

1.13 The requirements for reporting losses and special payments are set out in 'Managing Public Money' (formerly the Government Accounting Manual) issued by the Treasury. This explains how transactions of a type which Parliament cannot be expected to have authorised, such as cash and stores losses, fruitless payments, abandoned claims and frauds, are subject to special control procedures and notation arrangements. Departments are therefore required to make a report to Parliament on their losses and special payments at the earliest opportunity where the total value of those losses exceeds £250,000. Departments are required to report separately those individual losses which on their own exceed the threshold. Typically this is achieved through a note to the Departmental Resource Account, but for serious losses – whether by value or nature – the Department may need to provide a separate written statement to Parliament.

1.14 During the past year, accounts certified by the Comptroller and Auditor General contained over £1.2 billion of reported losses and special payments. **Figure 3** shows the total losses from major departments.

3 Value of Losses and Special Payments by major departments

	2005-06 £000s	2006-07 £000s
Ministry of Defence	400,450	499,958
Department for Work and Pensions	236,462	376,656
Department of Health[1]	122,156	175,807
Home Office	25,084	97,819
Office of the Deputy Prime Minister/ Department for Communities and Local Government	1,848	42,044
Department for Education and Skills	12,180	18,774
Department for Transport	15,880	13,097
Department for Environment, Food and Rural Affairs	7,833	8,613
Foreign and Commonwealth Office	1,132	1,777

NOTE

1 The Department of Health figures have been adjusted to exclude book losses relating to the cancellation of public dividend capital arising from NHS Trust mergers or reorganisations.

1.15 Examples of these losses include:

- A loss of £195 million from the decision not to proceed into production with a weapons system.
- A loss of £62 million following the decision to cease work on the replacement of certain legacy IT systems.
- A gift of 3 infrastructure projects costing £20 million to the Iraqi government.
- Write-off of date expired chemical, biological, radiological and nuclear counter-measures stocks, £23 million.
- Overpayment of £87 million of benefits made, where the claimant's good faith was not in doubt, where recovery action was not practical. This represented a significant increase over such overpayments made during 2005-06 of £26 million.

1.16 Losses and special payments are non-standard transactions and can vary over years because of large one-off instances. Nevertheless the increases in the overall level of losses and special payments in some departments in 2006-07 may indicate that departments have more work to do in enhancing controls to reduce the risk of further loss. Where departments have written off significant amounts of public money as a result of error or poor controls, the National Audit Office will seek to assist the department to enhance controls to reduce the risk of further loss.

Fraud

1.17 The last twelve months have seen considerable activity in the area of tackling fraud in both public and private sectors following the Attorney General's Fraud Review report and the subsequent government response welcoming the recommendations. The National Audit Office has participated in the review, providing responses to consultations, and also has representatives on three working groups set up to implement the recommendations.

1.18 These groups are focusing on the setting up of a National Fraud Strategic Authority, a National Fraud Reporting Centre and a Fraud Measurement Unit. Through active participation, the National Audit Office is able to draw on its cross government experience, as well as a track record of value for money reports, to support the working groups by looking at ways in which government departments and other parties can better tackle the fight against fraud.

Management Commentaries

1.19 The Government Financial Reporting Manual (FReM) requires central government bodies to include a 'Management Commentary' as part of the Annual Report, broadly following the guidelines set out in the Accounting Standards Board's Reporting Statement: Operating and Financial Review.

1.20 The commentary aims to help stakeholders assess the strategies adopted by the entity and the potential for those strategies to succeed. Central government bodies should tailor their management commentaries to reflect the needs of a range of stakeholders, to whom accountability, stewardship of public funds, and public service delivery are prime considerations.

1.21 We reviewed the management commentaries prepared for inclusion in Annual Reports and noted that the length and detail of the disclosures made, and the level of compliance with the guidelines, varied significantly. We noted that reporting on the development and performance of the entity, the position at year end, and key achievements was much improved.

1.22 However, more could be done to identify the resources available to the entity, and also to disclose contractual or other arrangements which are essential to its business. Departments could also improve the balance of the commentaries by ensuring that, as well as highlighting achievements in year, they cover those areas where progress was not as good as expected. Commentaries would also benefit from having a forward looking orientation. Some identify trends and factors that have a potential impact on future performance, but then provide little discussion of management's approach to principal risks and uncertainties facing the business as a result, and the financial and operational implications.

1.23 The commentaries also need to be comparable over time. The Reporting Statement expects that management should discuss comments made in previous reviews, both negative and positive, and whether these have been borne out by events in subsequent periods. However, as this is only the second year that Management Commentaries have been required, we appreciate that they may take a while to evolve and remain hopeful that compliance may improve in future years.

Corporate Governance

1.24 The Treasury's Code of Good Practice on Corporate Governance in Central Government Departments published in July 2005 requires departments to report on: how the departmental board operates, including its delegations and committees; which board members the board considers to be independent; the work of the board's audit committee; and how the department manages its relationships with the arm's length bodies with which it operates.

1.25 Additional guidance from the Treasury recommends a number of further disclosures regarding ministerial and board arrangements. These disclosure requirements and recommendations are not intended to be exhaustive and departments are encouraged to provide further information of interest and relevance to their stakeholders about their activities, processes and operations and likely developments in their corporate governance.

1.26 The Code does not specify where or how departments should report on corporate governance, so whilst the relevant information might be included in the annual reports alongside resource accounts it might instead be in a separate departmental report or a purpose built stand-alone document. As with the management commentaries, there is a wide range in the quality of reporting, and the level of compliance with both the required and recommended disclosures.

1.27 We reviewed the corporate governance disclosures for departments which included these disclosures in the annual reports for 2006-07 and noted that whilst most disclosures on the board, related committees and members considered to be independent were comprehensive, there tended to be little narrative on the work of the audit committee and on the role of independent board members. We are still encouraged to note the improvements in corporate governance that have already been stimulated by the Code such as the wider use of independent non-executive board members and the greater level of discussion of risks and their management. We look forward to fuller compliance with the Code's disclosure requirements and the other recommendations as departments and other central government bodies become more familiar with them.

1.28 A well functioning audit committee is a key element of good corporate governance. In March 2007 Treasury published a revised Audit Committee Handbook to support the Code of Good Practice, in particular the section on internal controls. There are significant changes to and clarifications of the guidance, including the requirements that:

- sponsoring departments and arms-length bodies should ensure that the interrelationships between their audit committees are agreed and documented;
- the report on audit committees required by the Corporate governance code for central government departments should include explanation of any non-compliance with the Audit Committee Handbook;
- audit committees should be resourced as far as possible with independent non-executive board members. Where there are insufficient such members, "independent external members" should be appointed to the committee; and
- audit committees should be established in all departments, executive agencies and other arms-length bodies including executive non-departmental public bodies.

1.29 The Handbook sets out five fundamental good practice principles dealing with the audit committees: role, membership, independence, objectivity and understanding skills, scope of their work and communication

1.30 To help audit committees conclude on whether they are meeting best practice, the National Audit Office has developed an Audit Committee Self-Assessment Toolkit. This includes a series of Good Practice Questions using the five principles in the Audit Committee Handbook. The toolkit can be supplemented by a facilitated workshop designed to assist audited bodies to conclude on the effectiveness of their audit committees and to draw up action plans to remedy any weaknesses uncovered.

PART TWO

Financial Reporting – Revenue, Debt and Reserves

Audit of Receipts of Revenue

Introduction

2.1 In 2006-07, Her Majesty's Revenue & Customs (HMRC) collected £436.9 billion in taxes and duties, including £91.5 billion of National Insurance contributions. HMRC also paid out £18.7 billion in Tax Credits. The Driver and Vehicle Licensing Agency (DVLA) collected net revenue of £5 billion of Vehicle Excise Duty (VED). Overall this represents approximately 90 per cent of central government revenue for the year.

2.2 Under Section 2 of the Exchequer and Audit Departments Act 1921, as amended by the Government Resources and Accounts Act 2000, the Comptroller and Auditor General has two distinct responsibilities with respect to the examination of revenue:

- to certify the financial statements prepared respectively by HMRC and the DVLA on an accruals basis for:
  - taxes collected, including estimates of taxes collectable (HMRC); and
  - vehicle excise duty paid in advance, as well as amounts collected (DVLA);
- to examine the revenue accounts maintained by HMRC and DVLA to ascertain that adequate regulations and procedures have been framed to secure an effective check on the assessment, collection and proper allocation of revenue, and that they are being duly carried out. The Comptroller and Auditor General reports annually on his conclusions arising from such work in separate reports that are published with the HMRC and DVLA accounts.

Certification of the Financial Statements

HMRC Trust Statement

2.3 The Comptroller and Auditor General issued an unqualified opinion on the truth and fairness of the view given by HMRC's Trust Statement for 2006-07, covering the £436.9 billion in taxes, duties, national insurance contributions collected, and the tax credits and related expenditures administered by the Department. His report drew attention to the disclosures relating to the significant uncertainty relating to the estimates of accrued tax revenue receivable of £80.6 billion and accrued revenue liabilities of £25.0 billion at 31 March 2007, although his opinion was not qualified in respect of this matter. The Comptroller and Auditor General qualified his opinion on regularity, noting reservations about the levels of tax credit claimant error and fraud.

Vehicle Excise Duty Account

2.4 The Comptroller and Auditor General issued an unqualified opinion on the Vehicle Excise Duty Account 2006-07 covering the net Vehicle Excise Duty of £5 billion. The Comptroller and Auditor General reported on the account and the evasion rate which had increased from 3.6 per cent in 2005 to 5 per cent in 2006 (some £214 million), and made recommendations to the DVLA and the Department for Transport. The Committee of Public Accounts considered VED evasion, based on the Comptroller and General's report, and examined witnesses in October 2007.

The examination of regulations and procedure

HMRC

2.5 The Comptroller and Auditor General's published Standard Report, presented to Parliament with the accounts of HMRC (HC 626 2006-07) detailed the main outcome of the work carried out by the National Audit Office. Whilst recognising that no tax collection system can ensure that all those who have a tax liability comply with their obligations, the National Audit Office's work in 2006-07 provided assurance that HMRC has framed adequate regulations and procedure to secure an effective check on the assessment, collection and proper allocation of revenue, and that they were being duly carried out. That assurance was subject to reservations about the level of claimant error and fraud in the award of tax credits. The report also covered observations on the collection of income tax through Pay As You Earn (PAYE) and self-assessment, and the Department's approach to the administration of Value Added Tax.

Tax credits

2.6 In 2006-07, the Department paid a net £18.7 billion in tax credits to claimants. HMRC uses the latest information it holds on claimants to calculate a provisional award and makes a final assessment at the end of the year, when the claimant's actual circumstances are known. In some cases the final award differs from the provisional award, for example where the final income was different to the figure used to calculate provisional awards. HMRC estimates that by 31 March 2006 end of year adjustments to awards, and other small changes to entitlement after finalisation of awards, have led to debts of approximately £6.0 billion owing to the Department. It has also identified £600 million from in year adjustments to 2006-07 awards and will identify further overpayments for this year once awards are finalised. By the end of March 2007 the Department had collected £2.0 billion of this debt and written off £0.7 billion. £3.9 billion of overpayments remain to be collected by the Department. It has provided for £1.6 billion in respect of doubtful debts.

2.7 In the 2005 Pre-Budget Report the Chancellor announced a number of measures which were designed to provide greater certainty to claimants, particularly when families see a rise in income. One important change, for awards for 2006-07 and subsequent years, is the increase from £2,500 to £25,000 of rises in income which are disregarded when finalising awards. The Department estimates that the changes will eventually reduce the value of overpayments by between £400 million and £600 million. It will publish details on finalised 2006-07 awards in May 2008 which will provide more information on the effect of these measures.

2.8 In June 2007, the Department completed its testing of 2004-05 tax credits to arrive at an overall estimate of error and fraud based on 4,500 random enquiries. As a result the Department estimates that claimant error and fraud (as opposed to overpayments arising from the year end adjustments described above) resulted in between a further £1.04 billion to £1.30 billion (7.3 to 9.1 per cent of the final value of awards) being paid to claimants to which they were not entitled. The levels in 2003-04 were £1.06 billion to £1.28 billion (8.8 to 10.6 per cent). These levels are unacceptably high, and whilst the Department has made changes to its compliance procedures since 2004-05, there is currently no evidence to demonstrate a lower estimate for 2006-07. The Department estimates that the changes will eventually reduce the value of overpayments by between £400 million – £600 million per annum. Consequently, the Comptroller and Auditor General qualified his opinion on the Trust Statement.

2.9 The Department has taken steps to improve the quality of service provided to claimants and has a regular programme of enhancements to the tax credits computer system, including a number of changes to improve the quality of information given to claimants. Software errors continue to result in some incorrect payments, and the Department has an ongoing programme of work to investigate these. In addition to the changes to the computer system, the Department has undertaken a programme of work to deliver the commitments made by the Paymaster General in 2005 to improve the service to claimants.

The collection of income tax through Pay As You Earn (PAYE)

2.10 In 2006-07, the Department collected £125 billion in income tax and £85 billion in National Insurance Contributions through PAYE. However, the Department's PAYE computer systems are not well suited to the efficient administration of income tax where people have more than one job or change jobs on a regular basis. This is because the systems structure tax records around jobs rather than individual taxpayers. As a result, the Department can have difficulty identifying all relevant sources of income when calculating the tax that should be paid. These difficulties have been compounded by inconsistent working practices within the Department as a consequence of staff not being aware of or failing to follow Departmental procedures. Based on its most recent estimates, each year the Department may not be pursuing some £880 million of tax due, and taxpayers are likely to have overpaid around £340 million, resulting in potentially five million taxpayers not paying the right amount of tax.

2.11 The Department has introduced a number of measures to improve the quality of PAYE processing and has mandated use of a spreadsheet tool to improve accuracy in coding. It has also operated a quality improvement process to help managers identify the cause of errors, take action to prevent them recurring and to help staff learn and improve. The Department has also taken steps to improve the timeliness of processing and ensure it takes into account all the information it holds on a taxpayer.

2.12 The Department recognises that real improvement in the operation of PAYE can only be achieved through fundamental changes in its computer systems. It therefore plans to move to its National Insurance computer system as the basis for administering the PAYE process. From 2008-09 this will allow all information on individuals to be brought together under their national insurance record and provide the Department with a complete view of a taxpayer's employment income.

2.13 Since the early 1980's some pension providers have not deducted tax under PAYE from all pensions in payment. This omission is due to a combination of incorrect central guidance from the Department, inappropriate local agreements and failures by local offices to implement agreed procedures. The Department estimates that it is potentially not receiving income tax from 420,000 pensions and its current estimate is that the tax loss is around £135 million each year. The Department has now begun work to put these pensions on a proper footing but it does not intend to recover tax which has not been deducted in years earlier than 2007-08.

The collection of income tax through Self Assessment

2.14 In 2006-07 the Department collected £26.6 billion tax through the Self Assessment System after repayments. In 2006-07, 88.5 per cent of Self Assessment taxpayers paid the amounts owed on time, against the Department's target of 89.8 per cent. The average monthly debt owed to the Department in 2006-07 was £3.1 billion, an increase of £250 million on the previous year.

2.15 The Department has changed the Self Assessment process to ease the burden on certain taxpayers. Since 2004-05 the Department has removed 1.6 million taxpayers with very straightforward affairs from the system, although this reduction has been largely offset by increasing numbers of self-employed and highly paid employees coming into the system. In April 2005 the Department simplified the Self Assessment process for nearly 1.5 million people with simpler tax affairs by issuing a new Short Tax Return.

2.16 Online services offer considerable benefits in the efficient and effective administration of tax and Self Assessment has been at the forefront of the Department's drive to engage with the taxpayer through the internet. The Department has made significant progress in increasing the percentage of returns filed online and is currently meeting its target of 35 per cent of Self Assessment returns to be filed online for 2007-08.

2.17 The Department assesses the accuracy of filed returns through an annual random enquiry programme. Based on the latest results available for 2001-02, 33 per cent of returns were filed inaccurately. The Department estimates this meant that between £2.5 billion to £3.2 billion tax was at risk in 2001-02 due to inaccurate returns. Some 40 per cent of the tax at risk relates to one per cent of taxpayers. The Department has established specialist teams to tailor its approach to the Self Assessment population, including individuals with complex tax affairs and inward expatriate employees and their employers. The yield from this work has grown consistently over recent years, but not having up to date information on total levels of tax at risk limits the Department's ability to assess the overall level of non-compliance. The Department recognises the need to make earlier and more regular assessments of tax at risk, and has formed the Risk and Intelligence Service to help take this work forward.

Value Added Tax (VAT) – Missing Trader Fraud

2.18 The Department strengthened its operational and legislative measures to tackle missing trader fraud, following an increase in fraudulent activity in 2005-06. The United Kingdom's application for a 'reverse charge' on certain goods was approved by the Council of the European Union in April 2007 and introduced from 1 June 2007. This measure is applicable for the period until April 2009, at which point the European Commission will review its effectiveness. Under this measure VAT would not be charged on the sales of these goods between businesses. Instead VAT would only be collected on retail sales to final consumers, therefore removing the opportunity for criminals to engage in missing trader fraud. The Department recognises that effective monitoring of trading activity will prove crucial in preventing an escalation of fraudulent activity into other areas, should, for example, the organised criminals behind missing trader fraud direct their attention to other goods not covered by the derogation.

DVLA – Vehicle Excise Duty Evasion and Enforcement

2.19 The Comptroller and Auditor General's published report on Vehicle Excise Duty accounts (HC 800 2006-07), presented to Parliament, detailed the main outcomes of the work carried out by the National Audit Office. The more significant conclusions and recommendations, and recent developments, are discussed in the following paragraphs.

2.20 The Department for Transport published in late January 2007 the results of the roadside survey conducted in June 2006. This showed that evasion had increased from 3.6 per cent in 2005 to 5 per cent in 2006 – equivalent to £214 million a year. This increase came as a surprise to the Department and the DVLA, and the latter acknowledged that its targets in respect of VED evasion and revenue are unlikely to be achieved. In February 2008 the Department published significantly lower estimates of VED evasion in 2007, based on an enhanced and more accurate methodology for collecting and analysing roadside survey information in 2007. These new results will be examined and reported on in the Comptroller and Auditor General's report on the 2007-08 Vehicle Excise Duty accounts later in 2008.

2.21 In 2006-07, VED related regulations and procedures remained adequate and proportionate for the vast majority of compliant payers, and electronic vehicle licensing over the internet has made it easier for many people to renew their licences. However, the National Audit Office noted that the VED systems allowed a small number of payers renewing their licences to avoid a month's duty without risk of penalty.

2.22 There remain large numbers of hardened or persistent VED evaders who ignore the Agency's actions and who incur no further penalties after the first evasion episode, even if they continue to evade for subsequent licensing periods.

2.23 Regardless of a relevant target having been removed from the DVLA in March 2007, government departments should retain a focus on tackling persistent VED evaders who are likely to be involved in other criminal activity.

Audit of Public Debt and Reserves

Introduction

2.24 The Comptroller and Auditor General's audit of debt and reserves involves the examination of a number of areas including central government receipts, payments and borrowing via the Consolidated Fund and the National Loans Fund, debt and cash management through the Debt Management Account, the operations of the Commissioners for the Reduction of the National Debt and the Public Work Loans Board, and the management of foreign exchange reserves through the Exchange Equalisation Account.

The Consolidated Fund and the National Loans Fund

2.25 The Consolidated Fund can be considered to be central government's 'current account', through which the vast majority of central government receipts and payments flow. Receipts into the Consolidated Fund include most tax revenues. Payments from the Consolidated Fund fall into two broad categories:

- Supply services – these are issues required to meet government expenditure, and are authorised by Parliament through the annual Consolidated Fund Act and Appropriation Acts; and
- Standing services – these are payments for services that Parliament has decided should be made directly from the Consolidated Fund and are not subject to annual authorisation by Parliament, for example Civil list payments and payments to the budget of the European Union.

2.26 The Consolidated Fund accounts for 2006-07 show that total receipts and payments into and out of the Consolidated Fund were over £408 billion including gross receipts of £328 billion from HM Revenue & Customs. Payments for supply services came to £371 billion and for Standing Services to £35 billion.

2.27 The National Loans Fund is the Government's principal borrowing account. It is also an important source of finance for government lending. Money borrowed by the Government, for example through the issue of gilts, flows into the National Loans Fund. Money primarily flows out of the National Loans Fund to meet government debt obligations.

2.28 The National Loans Fund accounts for 2006-07 show that as at 31 March 2007 the Government's net liabilities through National Loans Fund borrowings comprised £519 billion, compared to £484 billion at the end of the previous year. This included £454 billion of long term borrowing through gilt edged stock and £77 billion borrowed in the retail market through National Savings and Investments. The Fund's assets were £83 billion. The net annual cost of financing this government borrowing was £25 billion.

2.29 The National Loans Fund and Consolidated Fund are closely linked. The Consolidated Fund is balanced on a daily basis via a payment from, or transfer to, the National Loans Fund. Both the Consolidated Fund and the National Loans Fund are operated by HM Treasury. However, except for transfers between the two funds, the Treasury can only make issues from them with the authority of the Comptroller and Auditor General.

2.30 For the first time, the financial statements of both funds for 2006-07 were certified (with unqualified audit opinions) and laid in Parliament prior to its summer recess. This represents a significant improvement in timetable compared to prior years.

Debt and Cash Management

2.31 The UK Debt Management Office is an executive agency of HM Treasury. It supports the government's debt management objective, "to minimise, over the long term the costs of meeting the Government's financing needs, taking into account risk", whilst ensuring that debt management policy is consistent with the objectives of monetary policy. It is responsible for managing the Government's daily cash requirement in a cost effective manner.

2.32 In January 2007, the National Audit Office published a briefing on debt management operations intended to assist Parliament's Treasury Sub-Committee in its scrutiny of the Debt Management Office's activities. The briefing described the Debt Management Office's debt management activities and reporting arrangements and reached the following conclusions:

- The Debt Management Office's borrowing activities are consistent with the Government's long term debt management strategy. Whilst it is difficult to quantify whether this strategy provides the best approach, it is considered valid by UK market participants and investors and is in line with International Monetary Fund/World Bank guidelines.
- The Debt Management Office's debt management activities are consistent with HM Treasury's criteria.
- A lot of information is published about the Government's debt management activities, but it currently does not provide a clear insight into the Debt Management Office's contribution towards achieving debt management objectives. The briefing recommended that the Debt Management Office enhance its performance reporting by, for example, seeking to minimise, within legislative constraints, the number of different documents that need to be examined to assess its performance.

2.33 The 'Debt Management Account' facilitates the management and reporting of the Debt Management Office's activities in pursuit of its debt and cash management activities. As 31 March 2007 it held £78 billion in assets for the purpose of carrying out these activities.

2.34 The Debt Management Office also administers functions relating to the Commissioners for the Reduction of the National Debt and the Public Works Loans Board. Financial statements are prepared for each investment fund. All financial statements prepared by the Debt Management Office for 2006-07 were certified with unqualified audit opinions.

Foreign Exchange Reserves

2.35 The United Kingdom's reserves of gold, foreign currency assets and International Monetary Fund Special Drawing Rights are held in the 'Exchange Equalisation Account'. The Exchange Equalisation Account is controlled by the Treasury. The Bank of England acts as the Treasury's agent in the day-to-day management and operation of the Account.

2.36 At 31 March 2007, the Account held total assets of £28 billion including some £20 billion of debt securities, £3 billion of gold and £3 billion of loans and advances to banks. The Exchange Equalisation Account for 2006-07 was certified with an unqualified audit opinion.

PART THREE

Looking Forward

Whole of Government Accounts

Introduction

3.1 The Chancellor's 2007 Budget Report confirmed the Government's decision to proceed with the publication of Whole of Government Accounts (WGA) prepared on the basis of International Financial Reporting Standards. The March 2008 budget postponed the first year of published WGA until the 2009-10 year of account.

3.2 WGA will make available for the first time comprehensive commercial-style group accounts for the whole of the public sector, prepared by the Treasury and audited by the Comptroller and Auditor General. The WGA programme builds upon a preliminary central government sub-consolidation which has already contributed to the recognition of taxation income and Central Fund balances on an accruals basis, as well as the compilation and valuation of pension schemes' liabilities.

3.3 The WGA process involves all of the public audit bodies in the UK, and their private sector partners. To coordinate audit efforts, and facilitate an efficient audit approach, a working group of the Public Audit Forum has been established, including the Audit Commission, the other National Audit Agencies, and representatives from the private sector firms.

The 2005-06 Dry Run

3.4 The 2005-06 consolidation continued the incremental improvement witnessed with each subsequent year of the project. However there still remain a number of key issues which the National Audit Office and the Treasury are working together to address including that a number of bodies are:

- failing to deliver within the accelerating timeframes set by the Treasury;
- having difficulty in identifying transactions and balances for elimination with other government bodies, distorting the overall picture of government finances; and
- submitting consolidation returns of poor quality, reflecting lack of appropriate supervision, appropriate resources, and prioritisation of the consolidation process.

Wider WGA Issues

3.5 Running in parallel with the consolidation process there are a number of significant issues that will need to be addressed as part of the WGA project. The National Audit Office and the Treasury continue to work together to address these, the most notable being:

- the convergence of different accounting policies, notably ensuring greater consistency of accounting for assets;
- implementation of International Financial Reporting Standards; and
- the WGA accounting boundary.

3.6 The move to WGA is a significant one that will have many advantages. Comprehensive, audited public sector financial information based on internationally recognised accounting standards will be available for the first time, and will contribute significantly to policy formulation and resource allocation, and will raise the quality of debate on the public finances. The Comptroller and Auditor General remains committed to working with the Treasury and other bodies across the public sector in making a success of the WGA project and, in so doing, increasing the accountability and transparency of the whole public sector.

Audit of Companies

3.7 In February 2001 Lord Sharman published his review of Audit and Accountability for Central Government, to recommend suitable audit and accountability arrangements for central government in the 21st century. Among the recommendations of the review was that the Comptroller and Auditor General should be appointed statutory auditor of all non-departmental public bodies and that he should be able to audit non-departmental public bodies that are companies and companies which are subsidiaries of non-departmental public bodies.

3.8 The Companies Act 2006 designates the Comptroller and Auditor General as a registered auditor, enabling him to audit companies for the first time from financial years commencing on or after 1 April 2008. We have been working with the independent supervisor appointed under the Act, the Professional Oversight Board, to enable us to undertake the audits of wholly owned government companies from the 2008-09 financial year.

International Financial Reporting Standards

3.9 The announcement in the March 2007 Budget that the accounts of central government departments and entities in the wider public sector will be produced using International Financial Reporting Standards (IFRS), and the subsequent announcement in the March 2008 Budget that the first year of published accounts under IFRS is postponed until the 2009-10 financial year, means that central government bodies can proceed with their planning for the changeover to IFRS with some greater certainty. IFRS will be interpreted for the central government sector in an IFRS-based Government Financial Reporting Manual (FReM) and most departments will be preparing shadow IFRS accounts for 2008-09 using the IFRS-based FReM, alongside their statutory UK GAAP based accounts.

3.10 Although the first set of accounts to be fully prepared under IFRS will be those for 2009-10, in accordance with IFRS 1 First Time Adoption of IFRS, they will require the 2008-09 comparatives to be restated on an IFRS basis (which in turn will require 1 April 2008 IFRS-based balance sheet information). Bodies should already be assessing the impact of IFRS and considering the resources required and a transition project plan. To assist audited bodies the National Audit Office has published an 'IFRS Readiness toolkit' to help them focus on the key transitional issues.

3.11 It is important that central government bodies are not complacent over the amount of work that will be required for IFRS conversion and there will be some areas of significant impact, such as fixed assets, leases, and financial instruments that are likely to affect many such bodies. And whilst there is no need to develop IFRS accounting policies for immaterial items, there will be work required in a number of areas to prove that figures under IFRS are not material, or not materially different from their UK generally accepted accounting practice equivalents. The larger departments and those bodies with complex operations may have to carry out a lot of work reviewing their various contracts to ensure that the various components of transactions and associated assets and liabilities are properly accounted for under IFRS.

3.12 Accounting for PFI schemes has been a difficult issue for a number of years and the Comptroller and Auditor General has drawn attention to his concerns in this regard in all of his General Reports since 2001-02. Central to this issue has been how the Treasury Technical Note on accounting for PFI transactions has been applied in the health and local authority sectors. The implementation of IFRS provides an opportunity for the Treasury to introduce new guidance to provide a more consistent approach to PFI accounting, taking account of the International Financial Reporting Interpretations Committee (IFRIC) interpretation no.12: Service concession arrangements.

3.13 IFRIC interpretation no.12 addresses the accounting by the asset/service operator in 'service concession arrangements', which are akin to PFI deals. It is based on the concept of control. Thus if the concession grantor (i.e. the public sector purchaser) controls or regulates the services the operator provides and also retains the residual interest in the asset – assuming that this is significant – then the interpretation deems that the property belongs on the balance sheet of the grantor rather than the operator. The interpretation is only for use by the private sector operators, but if the principles upon which it is based were applied to the public sector's accounting for PFI projects, the majority of such projects would be accounted on-balance sheet for the public sector.

The 'Alignment Project'

3.14 The constitutional announcements made by the Prime Minister on 3 July 2007 included a major commitment to bring planning, Parliamentary approval and reporting of public spending on to a more consistent basis. At the core of this project (called the 'Alignment project') is a commitment to a better alignment of budgets and estimates and accounts. The Treasury will be consulting with departments, the relevant Parliamentary committees, the Financial Reporting Advisory Board and the National Audit Office, in the coming months. Significant changes to the relevant processes are likely to require legislation and are not expected to be implemented before 2009-10 or 2010-11.

3.15 One of the main differences between resource accounting and resource budgeting is that under resource accounting, the grant-in-aid paid to Non-Departmental Public Bodies (NDPBs) scores as expenditure, whereas in the resource budget, the NDPBs' underlying transactions are recorded. This difference would be removed if NDPBs were brought within the departmental boundary, and this has been proposed by the Financial Reporting Advisory Board and remains under consideration by the Treasury. However, difficulties associated with different accountability arrangements have yet to be resolved. Currently, departmental Accounting Officers (AOs) are accountable for expenditure in the form of grant-in-aid paid to NDPBs, whereas NDPB AOs are accountable for the underlying expenditure and its regularity. The separate accountability of departmental and NDPB AOs will need to be explained clearly if the proposal is to go ahead.

APPENDIX ONE

Outturn of all Resource Accounts

This summary records the outturn for Resource Accounts as follows:

Resources	**Gross expenditure**	**£000**	**£000**
	Estimates:		
	Original Estimates	445,611,556	
	Supplementary etc. Estimates	17,503,679	
			463,115,235
	Actual		450,112,744
	Saving		13,002,491
	Appropriations in Aid		
	Authorised:		
	Original Estimates	46,865,177	
	Supplementary etc. Estimates	4,150,507	
			51,015,684
	Applied		49,689,920
	Deficiency		1,325,764
	Net Expenditure		
	Estimates:		
	Original Estimates	398,746,379	
	Supplementary etc. Estimates	13,353,172	
			412,099,551
	Actual		400,422,824
	Saving		11,676,727
Cash	**Net Expenditure**		
	Estimates:		
	Original Estimates	373,181,177	
	Supplementary etc. Estimates	15,487,233	
			388,668,410
	Actual		371,429,691
	Saving		17,238,719

Consolidated Fund Extra Receipts Consolidated Fund Extra Receipts surrenderable recorded in the Resource Accounts amount to £21,125,875,000.

APPENDIX TWO

Accounts qualified by the Comptroller and Auditor General

Resource Accounts 2006-07

Armed Forces Pension Scheme (AFPS) – Limitation of Scope	The AFPS includes the Armed Forces Compensation Scheme. The department made a provision in the accounts for the value of claims under the compensation scheme that will be lodged in the future for injuries already sustained. While the provision represented the Department's best estimate for claims for compensation, they were unable to obtain sufficient evidence to support its completeness and valuation as the nature of the scheme operated by the Department meant they did not yet possess sufficient information about claim rates and values to make an accurate estimate. Information from other compensation schemes which might have assisted estimation on the incidence and frequency of potentially eligible incidents in the armed forces and the propensity to claim was not felt to be valid. In addition potential claimants have five years during which to make a claim.
Ministry of Defence – excess vote	The MoD expended more resources than had been authorised by Parliament in their supply estimates resulting in the need for an 'Excess Vote'. Excess votes are irregular, and require retrospective parliamentary authority in a subsequent Appropriation Act. The excess vote related to Request for Resources 2: Conflict Prevention. This comprises the additional costs of current operations throughout the world over and above that which would have been borne under normal conditions. The excess on Request for Resources 2 was primarily the result of operational activity in both Afghanistan and Iraq being substantially higher than originally forecast. The unpredictability in activity levels is a significant cause of the underlying difficulties in forecasting for Request for Resources 2 and in particular gave rise to additional depreciation and cost of capital charges. The main items were the firing (and consequent accelerated depreciation) of more Hellfire missiles than expected, particularly in Afghanistan, and depreciation costs associated with the operational use of capital spares. The Department is undertaking a detailed review of the treatment of asset depreciation and stock consumption in operations, focusing particularly on Urgent Operational Requirements, in order to understand the origin of the issues which gave rise to the excess. It will take account of the results of this exercise when preparing their 2007-08 Supply Estimates.
Teachers' Pension Scheme (England and Wales) – excess vote	The TPS excess vote arose due to the impact of changes to the scheme rules, for both new and existing members. Although the Department took reasonable steps to estimate the financial impact of these changes, their forecasts inevitably included an element of uncertainty around the decisions scheme members would make. Income from both employer and employee contributions exceeded forecasts and this resulted in an actuarial assessment of in-year service costs that was greater than the forecast used for the supply estimate. Other in-year expenses also exceeded forecasts; in particular lump sum payments on retirement were higher than expected as more teachers opted to commute their pension into a lump sum on retirement. The timing of the introduction of the changes, from 1 January 2007, was such that the financial consequences materialised too late in the 2006-07 accounting period for the Department to request further resources through a further Supplementary Estimate, resulting in an excess vote.
Department for Work and Pensions – Regularity qualification and limitation of scope	The DWP account was subject to a qualification on two separate issues: the level of estimated fraud and error in benefit payments led to a regularity qualification while difficulties in supporting the completeness of debtors arising from the overpayment of benefits led to a limitation of scope qualification. Although this is the nineteenth successive year in which the Department's accounts have been qualified the Comptroller and Auditor General was able to report continuing progress.

Other Accounts Qualified

Ordnance Survey 2006-07: Material disagreement	The 2006-07 account was qualified as the result of an on-going disagreement over the accounting treatment adopted in respect of the National Geographic database. The Comptroller and Auditor General considers that the information held in the database should be capitalised and recorded in the balance sheet, but the agency does not consider that the data meets the conditions for capitalisation.
Social Fund 2006-07: regularity	The Comptroller and Auditor General qualified the regularity part of his audit opinion as a result of the substantial levels of error in the award of discretionary payments covering Budgeting Loans, Community Care Grants and Crisis Loans.
Child Support Agency Client Funds 2006-07: regularity and material disagreement	The account was qualified because a material proportion of individual debt balances due from non-resident parents were found to be incorrect. This was largely due to historic errors made in earlier years, including errors in the underlying maintenance assessments. This also led to a regularity qualification.
NHS Pensions Agency Special Health Authority 2006-07: limitation of scope and regularity	The agency was responsible for making grants to students under the NHS Bursary Scheme in England. The scope of the Comptroller and Auditor General's audit opinion on this account was limited as a result of insufficient audit evidence to support a material balance relating to payments made in respect of bursaries awarded in 2006-07 and previously to students studying towards careers in the National Health Service. This limitation of audit scope also gave rise to a regularity qualification.
Design Council 2005-06: regularity	The Design Council implemented their 2005-06 pay award without obtaining the prior approval of their department. The Department, in accordance with the Treasury guidelines for this year, retrospectively approved an increase of 3.5 per cent in average earnings growth. Accordingly, the Comptroller and Auditor General concluded that the expenditure on staff remuneration in excess of the increase authorised by the Department was irregular.
Information Centre 2005-06: limitation of scope	The Information Centre was established as a Special Health Authority on 1 April 2005 and inherited various information and statistics functions from the Department of Health, NHS Information Authority, NHS Estates and West Yorkshire Strategic Health Authority. The scope of the Comptroller and Auditor General's audit opinion on the accounts for 2005-06 was limited as a result of insufficient evidence to support the prior year comparative figures in respect of the operating cost statement and cash flow statement.
Ashington Education Zone 2004-05: disclaimed opinion	The zone ceased to exist on 9 January 2005 and the accounts for 2004-05 were the final set of accounts to be prepared. These were qualified because the Zone had failed to maintain adequate accounting records and there was insufficient audit evidence to enable planned audit procedures to be carried out. Due to the pervasive and material nature of these problems, the Comptroller and Auditor General was unable to express an opinion on the financial statements and issued a disclaimed opinion.
Returning Officers' Expenses, England and Wales for 2002-03 and 2003-04: regularity	The scope of the Comptroller and Auditor General's audits of the Returning Officers' Expenses, England and Wales for 2002-03 and 2003-04 was limited because some Returning Officers had not submitted statements to show how the money advanced to them had been spent on running elections. This limitation of audit scope gave rise to a regularity qualification for both years.
HMRC Trust Statement 2006-07: regularity	In June 2007, the Department completed its testing of 2004-05 tax credits to arrive at an overall estimate of error and fraud based on 4,500 random enquiries. As a result the Department estimated that claimant error and fraud resulted in between £1.04 billion to £1.30 billion (7.3 to 9.1 per cent of the final value of awards) being paid to claimants to which they were not entitled. The levels in 2003-04 were £1.06 billion to £1.28 billion (8.8 to 10.6 per cent). These levels are unacceptably high, and whilst the Department has made changes to its compliance procedures since 2004-05, there is currently no evidence to demonstrate a lower estimate for 2006-07. Consequently, the Comptroller and Auditor General qualified his opinion on the Trust Statement.
Pricing and Prescriptions Authority Pharmaceutical Account 2006-07	Prescriptions dispensed by a pharmacist are subject to a charge unless the person receiving the prescription is exempt from paying this charge. Exemptions are determined in the first instance by the person in receipt of the prescription making an active signed declaration that they meet one of a range of exemption criteria. Although pharmacists are expected to ask for evidence of exemption, there is a risk that claimants make a false declaration which is not detected by the pharmacist. This would lead to individuals incorrectly claiming exemption from paying the prescription charge. For the year ended 31 March 2003 (the latest available data) the NHS Counter Fraud and Security Management Service determined that ,in England, the estimated level of fraud arising from patients falsely claiming exemption from prescription charges was £47 million. This was a material sum in the context of the Pharmaceutical Account and therefore the audit opinion was qualified in this respect.

Reports without qualification

In some instances the Comptroller and Auditor General may issue a report to explain why a body has a clean audit opinion in the current year when it has previously been qualified. Examples of this for 2006-07 were the Home Office, Revenue & Customs Prosecution Office and the Marine Fisheries Agency. In addition specific reports were issued on:

Department for Environment, Food and Rural Affairs 2006-07	The report highlighted control weaknesses in the administration of the European Commission Single Payment Scheme, financial management within the Department and its delivery bodies, and the problems that the Department faced in preparing its accounts on a timely basis.
Royal Mint 2006-07	The report presented an update on the Mint's financial and operating performance which improved in 2006-07 following problems in recent years, provided further information on the changes made to the Mint's Board membership and governance arrangements and commented on the future plans for the development of the business.
Defence Aviation Repair Agency 2006-07	The report provided an update to the report issued on the 2005-06 accounts on a potential going concern matter linked to the restructuring of defence support arrangements. The Defence Aviation Repair Agency's activities will be merged with those of Army Base Repair Organisation with effect from 1 April 2008 to form a new single defence support group.
Information Centre 2005-06	The 2005-06 accounts contained a report that set out the background to a joint venture that the Information Centre had entered into during the period and contained details of how this joint venture was valued and disclosed in the accounts.
Rural Payments Agency 2006-07	The report highlighted the difficulties encountered by the Agency in completing payments in respect of the 2005 Single Payment Scheme. It noted that whilst the Agency continued to experience problems in achieving the timely payment of claims relating to the 2006 Single Payment Scheme they were ultimately able to make the necessary level of payments by the European Commission deadline. The report also highlighted that payments totalling £63 million made in respect of the 2005 Single Payment Schemes after the European Commission deadline were not reimbursed by the Commission and were instead funded in 2006-07 by Defra. The non-reimbursement results in losses to the UK Exchequer because Single Payment Scheme transactions that could have been eligible to be funded by EU monies have in effect been funded by the UK.
Marine Fisheries Account 2006-07	The Agency was established in October 2005 and the first annual accounts in 2005-06 were subject to a qualification as the Agency was unable to provide full supporting documentation in support of the value and completeness of fixed assets and the accuracy of the expenditure recorded in respect of Satellite Surveillance and Information Technology for fisheries enforcement. In 2006-07 the report noted that the additional work undertaken by the Agency in these areas and the resulting restatement of prior year balances led to an unqualified opinion on the 2006-07 accounts.
Companies House 2006-07	The accounts for 2006-07 showed a write-off of £7.5 million costs relating to the Companies House Information Processing System (CHIPS) project, initiated in February 2002 to replace Companies House's ageing mainframe computer system. The report highlighted the scale of the write-off, which was due to poor project management, and not having enough in-house expertise of large IT projects within the organisation.
Insolvency Service 2006-07	The accounts for 2006-07 showed a write-off of £3.4 million relating to the CAMEO project to replace the Insolvency Service's ageing banking and financial software. The report highlighted the circumstances which gave rise to this write-off.
Revenue & Customs Prosecution Office 2006-07	The report provides details of how the Department has addressed the underlying causes of the qualification of the audit opinion on its 2005-06 annual accounts and restated these results, enabling an unqualified opinion on the 2006-07 annual accounts. The report also notes the progress made by the Department during the year to address the significant internal financial control weaknesses highlighted in the report accompanying the 2005-06 annual accounts and sets out the further steps taken by the Department to improve its financial management and internal control environment.
Home Office	The report provides details of how the Department has addressed the underlying causes of the qualification of the audit opinion on its 2005-06 annual accounts and restated these results, enabling an unqualified opinion on the 2006-07 annual accounts.

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