National Audit Office

FINANCIAL REPORTING AND FINANCIAL MANAGEMENT

General Report of the Comptroller and Auditor General for 2008

REPORT BY THE COMPTROLLER AND AUDITOR GENERAL | HC 133 Session 2008-2009 | 27 February 2009

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 £9 for every £1 spent running the Office.

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Tim Burr
Comptroller and Auditor General
National Audit Office

23 February 2009

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 2008, the Comptroller and Auditor General provided an independent audit opinion on some 460 accounts covering expenditure and revenue of some £900 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.

Financial Reporting

2 The quality of financial statements prepared by Departments for the 2007-08 financial year was generally high. Our financial audits resulted in unqualified audit opinions on 50 of the 56 resource accounts. There were six (four for 2006-07) qualifications of the resource accounts: the Armed Forces Pension Scheme, the Department for Transport, the Department for Work and Pensions, the Ministry of Defence, the Office of Fair Trading and the UK Atomic Energy Authority Pensions Resource Account. The reasons for them are set out in Part 1 of this report. 48 of the 56 (52 of 56 for 2006-07) resource accounts were audited and laid prior to the Parliamentary summer recess at the end of July.

3 The Department of Health was the only major Whitehall Department to miss the summer recess deadline, laying its account before Parliament on 9 October 2008, still well ahead of the statutory deadline of 31 January 2009. For the five main public sector pension schemes, work required to establish the extent of historic overpayments, estimated at £126 million, led to delays in the laying of their resource accounts.

4 In the March 2008 Budget, the Government announced the postponement of the introduction of International Financial Reporting Standards as the basis for financial reporting by central government departments and entities in the wider public sector from 1 April 2008 to 1 April 2009. The postponement allowed the Treasury to implement a 'Trigger Point' process to stage the work required to produce the first sets of IFRS based accounts. Progress under the Trigger Point process has been varied. Forty seven departments were required to restate their balance sheet as at 31 March 2008, on an IFRS basis, by 30 September 2008 to meet Trigger Point 1. The National Audit Office was able to provide clear opinions on the restated 1 April 2008 balance sheets for 23 of the 47 resource accounts under the timetable set for the Trigger Point process. Two further Departments, the Ministry of Defence and the Department of Health, have negotiated exemptions from the Trigger Point process and will complete the necessary work to a later timetable.

5 The departments who were unable to complete the exercise did so for a number of reasons, principally due to difficulties in assembling the required information to support balance sheet figures on an IFRS basis. A number of departments failed to implement plans to restate the balance sheet in time to meet the trigger point deadlines. The work completed by departments represents significant progress and should provide a good basis for the majority of departments to move to formal statutory IFRS based accounts.

Losses, Special Payments and Fraud

6 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. The total of losses and special payments from the 11 largest resource accounts for 2007-08 was £1.1 billion (2006-07 £1.3 billion). The reduction of disclosed losses from the previous year is principally accounted for by a reduction in the amounts disclosed by the Home Office and in the Ministry of Defence, who had extraordinary one-off events which increased their losses in 2006-07. Despite this short term drop in value, losses and special payments remain above the long term average level, and departments need to apply proportionate controls and exercise them fully to mitigate the risk of loss.

The Audit of Receipts of Revenue and Public Debt and Reserves

7 The Comptroller and Auditor General's report to Parliament that accompanies the accounts of Her Majesty's Revenue and Customs (HMRC) (HC 674 2007-08) detailed the main outcomes 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, Value Added Tax registrations and Excise Duties on alcohol.

8 We continued to draw attention to levels of error and fraud by tax credit claimants. HMRC estimated that in 2006-07 tax credits of between £1.31 billion and £1.54 billion (7.2 to 8.4 per cent by value) were paid to claimants to which they were not entitled. There is currently no evidence to justify a lower estimate for 2007-08 and the Comptroller and Auditor General consequently qualified his audit opinion on the HMRC Trust Statement account.

9 The Comptroller and Auditor General also reported on Vehicle Excise Duty administered by the Driver and Vehicle Licensing Agency (DVLA). The evasion rate was 1.5 per cent in 2007 as measured by a road side survey completed by the Department. Because of a change in the technique for data collection, no comparable figures are available for previous years. The Comptroller and Auditor General made observations and recommendations about enforcement measures. His opinion on the Vehicle Excise Duty accounts was unqualified.

10 Our audit of public debt and reserves accounts was conducted satisfactorily, consolidating the reporting timetables achieved for the first time in 2006-07. As in 2006-07, both the Consolidated Fund and the National Loans Fund were certified and laid in Parliament prior to its summer recess.

11 In the last 12 months the Government has announced a number of measures to restore financial stability in the United Kingdom's banking sector and in the markets more generally. We anticipate that these will result in significant increases in the assets and liabilities of the National Loans Fund and Debt Management Accounts in 2008-09. We also expect the results of other measures for which financial institutions are required to pay a fee will result in a significant increase in Consolidated Fund receipts during 2008-09.

Progress towards better Financial Management by Departments

12 The Treasury and the Cabinet Office are continuing to press departments to improve their financial management capacity, to better join up financial and performance management information and to promote sound decisions by departments over their resource allocations.

13 We plan to publish the first in a series of financial management reports shortly. Subject to evaluating the success of the early reports, we aim to produce further reports looking at all major central government departments over the next three years.

Whole of Government Accounts

14 The Chancellor's Pre-Budget Report (November 2008) re-affirmed the Government's decision to publish a Whole of Government Account (WGA), prepared on the basis of International Financial Reporting Standards for 2009-10. This project will make available comprehensive audited public sector information covering the whole of the UK public sector for the first time. We continue to work closely with the Treasury, and the second full WGA 'dry run' consolidation and 'dry-run' audit procedures were completed for the 2006-07 financial year. A number of key issues remain, however, which will need to be resolved to achieve the objective of a first published account in 2009-10.

Future challenges

15 The Companies Act 2006 enables 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. The Comptroller and Auditor General will in 2009, for the first time, audit the accounts of wholly owned government companies.

16 The Treasury has continued its work on the 'Alignment Project' to bring planning, Parliamentary approval and reporting of public spending on to a more consistent basis. During 2008 the Treasury has carried out major consultation exercises with departments, the National Audit Office, the relevant Parliamentary Committees, the Financial Reporting Advisory Board and other interested parties. At the core of the project is a commitment to a better alignment of budgets and estimates and accounts. The project would include bringing Non-Departmental Public Bodies within the departmental boundary for estimates and financial reporting purposes. This major change to the relevant processes will require legislation; and whilst good progress has been made in agreeing alignment proposals, their full implementation is not expected before 2011-12.

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. Our financial audits are conducted in accordance with International Standards on Auditing (UK and Ireland), issued by the UK Auditing Practices Board. At the end of each audit the Comptroller and Auditor General gives his opinion, based on audit work carried out by the National Audit Office, on whether the financial statements of the audited body are free from material misstatement, give a true and fair view of its financial position, and have been prepared in accordance with relevant statute. He also reports whether, in his opinion, in all material respects, 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 – the "regularity" opinion. Our 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.

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 the regularity of 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. Resource accounts are also prepared for central government pension schemes and a small number of other central government bodies.

Qualified Opinions and Reports on Accounts

Qualified opinions – Departmental Resource Accounts

1.4 The quality of the resource accounts for 2007-08 submitted to the Comptroller and Auditor General for audit has continued to be high. Qualified opinions were given on six sets of departmental resource accounts (the Armed Forces Pension Scheme, the Department for Transport, the Department for Work and Pensions, the Ministry of Defence, the Office of Fair Trading and the UK Atomic Energy Authority Pensions Resource Account), compared to four qualified opinions in the prior year. While the total number of qualified opinions rose between 2006-07 and 2007-08, considerable progress has been made in some areas. 2007-08 is the first year since the introduction of Resource Accounting that the Comptroller and Auditor General has not qualified his opinion in respect of the truth and fairness of the Department for Work and Pensions Resource Accounts, although the opinion remains qualified in respect of regularity.

1.5 **Figure 1** 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

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

Reports on accounts by the Comptroller and Auditor General

1.7 Where there are significant matters associated with the financial statements which the Comptroller and Auditor General believes should be brought to Parliament's attention, he will report accordingly to Parliament alongside his audit opinion, even in circumstances where the opinion has not been qualified. Further details of these reports are shown at Appendix 2.

Conclusion

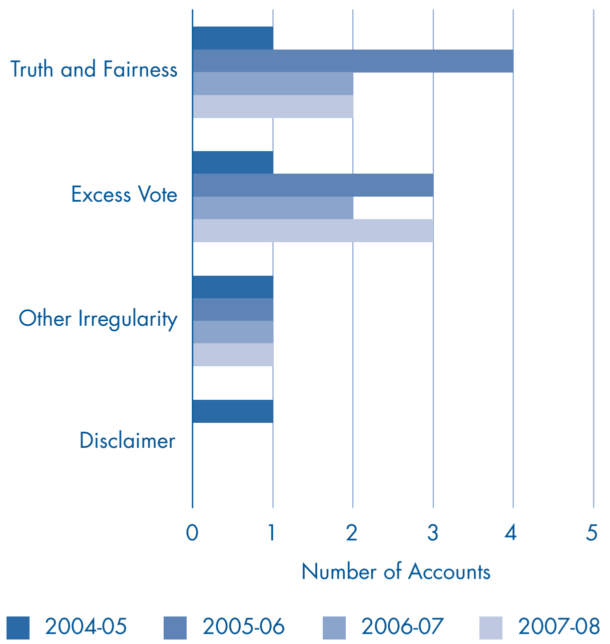
1.8 The majority of departments and other public bodies falling within the remit of the Comptroller and Auditor General are producing good quality, unqualified accounts, but there are still a small number that need to do more to prepare accounts for which there is adequate audit evidence to enable the Comptroller and Auditor General to express an unqualified opinion. Qualified accounts are 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

1.9 Over the last few years, departments have made good progress in improving the timeliness of the submission of their accounts for audit. For the third year running, all departments submitted their resource accounts for audit well in advance of the statutory deadline of 30 November.

1.10 In 2008, 48 out of the total of 56 bodies producing resource accounts, including departments and pension schemes, managed to achieve the summer recess deadline, compared to 52 out of 56 last year. **Figure 2** illustrates the progress over the last four years. Five of the eight resource accounts which did not achieve the Summer Recess deadline in 2008 were accounts for pension schemes, for which there was a common reason for the delay in laying the accounts. Excluding pension schemes, 46 out of 49 bodies producing resource accounts achieved the summer recess deadline (46 out of 49 in 2007).

1 Number of Qualifications by Type: Resource Accounts



Source: National Audit Office

NOTE

In 2006-07 the Department for Work and Pensions was qualified on two bases, truth and fairness and regularity.

1.11 In December 2008, in a written ministerial statement,[1] the Minister for the Cabinet Office gave notification of an historic problem with overpayments to an estimated five per cent of public service pensioners, with an estimated value of £126 million. The work required to establish the full extent of the issues and the steps needed to rectify them led to a delay in the delivery of the resource accounts for the affected pension schemes: the Armed Forces Pension Scheme; the Principal Civil Service Pension Scheme; the Judicial Pension Scheme; the NHS Pension Scheme; and the Teachers' Pension Scheme. The National Audit Office will be carrying out a review of the process which led to the overpayments.

1.12 Two departments, the Department for Environment Food and Rural Affairs and the Home Office, managed to prepare audited accounts prior to the summer recess for the first time in 2007-08. Each of these represents a notable achievement given the recent history of financial reporting in these departments. In 2007-08 the Department of Health was the only major Whitehall Department to miss the summer recess deadline, laying their accounts in October. The remaining two bodies which did not have their accounts certified and laid before the summer recess were the Export Credit Guarantee Department and the Parliamentary and Health Service Ombudsman. The Ombudsman is not subject to the Treasury target of laying accounts in advance of the summer recess.

1.13 The challenge for 2008-09 and beyond is to maintain and improve on these results, particularly during a period where resource accounts are moving to preparation on the basis of International Financial Reporting Standards. The National Audit Office will work with the remaining 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.

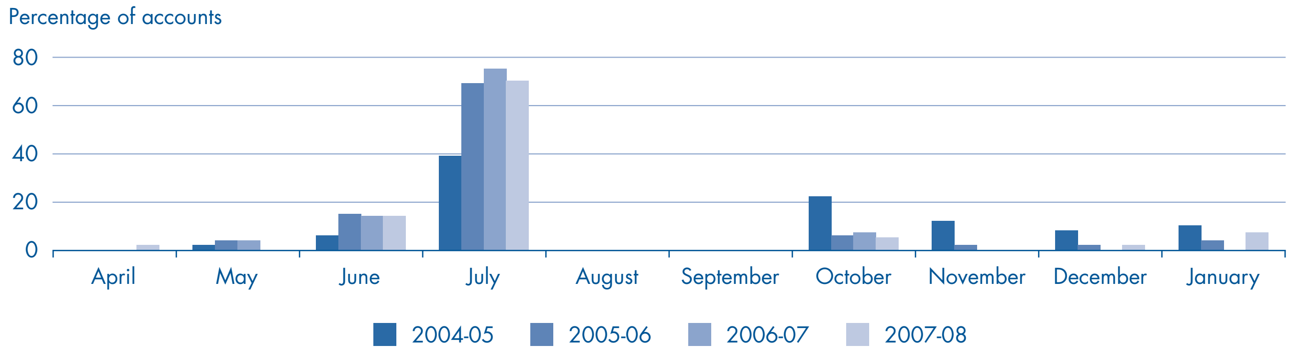
Losses, Special Payments and Fraud

The reporting of losses and special payments by departments

1.14 The requirements for reporting losses and special payments to Parliament are set out in 'Managing Public Money' issued by the Treasury. Direction is provided as to how transactions Parliament has not authorised such as cash and store losses, fruitless payments and abandoned claims, are subject to special control procedures and notation arrangements. Departments are required to report to Parliament on their losses and special payments, specifically disclosing 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.

1.15 During the past year, accounts certified by the Comptroller and Auditor General contained significant levels of losses and special payments, amounting to over £1.1 billion in 2007-08 (2006-07 £1.3 billion) of reported losses and special payments. **Figure 3 overleaf** summarises the value of losses and special payments from major departments.

2 Timetable of Laying of Resource Accounts



Source: National Audit Office

1 Written Ministerial Statement by the Chancellor of the Duchy of Lancaster: Guaranteed Minimum Pension Calculations. Hansard; 16th December 2008; column 111WS.

1.16 The majority of losses and special payments occurred in three departments: the Ministry of Defence, the Department for Work and Pensions and the Department of Health.

1.17 Losses and special payments reported by the Ministry of Defence included:

- write-off of unsupported asset balances of £51 million, following a merger of entities;
- write-off of unsupported asset balances of £72 million following asset verification exercises;
- write-off of £112 million relating to munitions taken out of service early following commitments made under the Oslo Declaration on dumb cluster munitions; and
- special payments comprising ex-gratia elements of Northern Ireland Royal Irish Regiment and Northern Ireland civilian redundancy payments, relating to Normalisation arrangements in the Province, totalling £46 million.

1.18 Losses and special payments reported by the Department for Work and Pensions included:

- an overpayment of £167 million of Income Support and Jobseeker's Allowance payments, where the claimant's good faith was not in doubt, and where recovery action was not practical. There was a large increase to that reported in the previous year due to a one-off exercise that wrote off debts from claimants who are now deceased; and
- duplicate payments of Disability Living Allowance and Attendance Allowance totalling £31 million, relating to administrative error.

1.19 For the Department of Health, there has been a significant upward trend in the total value of losses and special payments over the past 3 years. The Department's resource accounts note large increases in: the value of stocks held for use in the event of a natural emergency or terrorist attack written off at the end of their shelf life (£47.8 million written off in 2007-08); and special payments made by the Department, including, in 2007-08, £19.2 million relating to the termination of contracts or wasted bid costs for Independent Sector Treatment Centres.

3 Value of Losses and Special Payments by major departments

	2005-06 £000s	2006-07 £000s	2007-08 £000s
Ministry of Defence	400,450	499,958	392,219
Department for Work and Pensions	236,462	376,656	372,594
Department of Health[1]	122,156	175,807	199,435
Department of Constitutional Affairs/Ministry of Justice	8,884	61,239	70,729
HM Revenue and Customs	61,600	45,700	47,700
Department for Environment, Food and Rural Affairs	7,833	8,613	31,673
Home Office	25,084	97,819	13,315
Department for Transport	15,880	13,097	9,989
Foreign and Commonwealth Office	1,132	1,777	3,339
Office of the Deputy Prime Minister/Dept for Communities and Local Government	1,848	42,044	2,146
Department for Education and Skills/Dept for Children, Schools and Families	12,180	18,774	869
Total	**893,509**	**1,341,484**	**1,144,008**

Source: Departmental Resource Accounts

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.

1.20 Other reported losses included uncollectible fines of £47 million written off during the year by the Ministry of Justice.

1.21 Losses and special payments are non-standard transactions and can vary over years due to large one-off instances. However, the high value of the losses and special payments in some departments suggest that controls could be enhanced 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 internal controls to reduce the risk of further loss.

Fraud

1.22 Last year we reported on the National Audit Office's involvement in the consultation which took place as part of the Attorney General's Fraud Review, and how the Office drew on its cross-government experience to offer recommendations as part of the process. This year saw the implementation of the Government's response to the Fraud Review, and the establishment of the National Fraud Strategic Authority (NFSA) as an Executive Agency of the Attorney General's Office with effect from 1 October 2008.

1.23 The National Audit Office continues to participate in the NFSA's stakeholder groups, tasked with contributing to the development of a National Fraud Strategy for the UK. The Office also provides the Chairman of the steering group which is tasked with setting up a basis for fraud measurement and analysis that will provide a better picture of the true cost of fraud to the UK and where fraud poses the most significant risk.

1.24 Recently, the National Audit Office has been working closely with colleagues in the Audit Commission, now that government departments may request that their payroll and other data be used as part of the National Fraud Initiative data matching exercise. Staff will join the Commission's National Fraud Initiative team, and the results of any data matching exercises will be provided to the National Audit Office to inform our audit work. In due course, the Office will be seeking a legislative opportunity to provide data matching powers to the Comptroller and Auditor General, so that the Office can carry out National Fraud Initiative work in central government directly.

The Introduction of International Financial Reporting Standards

1.25 The 2008 Budget announced that the move to International Financial Reporting Standards (IFRS) for central government departments and other public sector entities was to be postponed until 2009-10. One effect of the delay is to enable bodies to stage the work required for the transition to IFRS by preparing 'dry-run' IFRS-based accounts for 2008-09, and adopting the UK Financial Instrument Standards, which are broadly equivalent to the corresponding international standards, for 2008-09 accounts.

1.26 The Treasury has introduced a 4-stage 'Trigger Point' process, as shown in **Figure 4**, to manage the transition to the first set of statutory IFRS based accounts for 2009-10.

Trigger Point 1 – timeliness and quality of IFRS information presented for audit

1.27 The completion of Trigger Point 1 has been a significant challenge for the central government sector, with some entities performing well, while others have struggled. Two major departments, the Ministry of Defence and Department of Health negotiated exemptions from the requirements of Trigger Point 1 and will perform the necessary work to a later time scale. Of the remaining 47 resource accounts subject to the Trigger Point requirements, around half were able to provide reasonably complete and accurate information by the 30 September deadline, but in some cases audit work under Trigger Point 2 identified further information requirements. A number of further returns were submitted in the following months.

4 The Trigger Point Process

	Action required	Target Date
Trigger Point 1	Restatement of the 31 March 2008 balance sheet on an IFRS basis	30 September 2008
Trigger Point 2	Completion of the audit of the restated balance sheet by the NAO	31 December 2008
Trigger Point 3	Restatement of the 2008-09 resource accounts on an IFRS basis	10 September 2009
Trigger Point 4	Completion of the audit of the restated 2008-09 resource accounts by the NAO	31 December 2009

Summary of dry-run opinions under Trigger Point 2

1.28 The overall quality of the returns submitted for the NAO 'dry run' audit was of a variable standard. Some entities adopted a robust management process including impact assessments and checklists for completeness. Others appeared to underestimate the complexities and challenges of applying IFRS. Delays in receiving accounts and supporting schedules impacted on our ability to complete all the necessary audit work in advance of the Trigger Point 2 deadline of 31 December 2008. Of the resource accounts subject to the Trigger Point requirements, we have provided a clear audit opinion for 23 out of 47. For the remaining 24, either evidence to support the restated balance sheet remains substantially incomplete, or material disagreements arising from the IFRS restatement remain unresolved. Consequently, we could not give a clear opinion on the restated balance sheet and we will revisit the restatement audit work at Trigger Point 4.

1.29 The major adjustments required on adoption of IFRS, and those areas which have required the most work and given rise to delays in the completion of the Trigger Point process, have included:

- valuing and accounting for derivative financial instruments at fair value;
- recognising and categorising other financial instruments in accordance with the IFRS based Financial Instrument Standards;
- reconsidering the accounting treatment for Private Finance Initiative and other Public Private Partnership arrangements, with the result that more of the assets and liabilities associated with these arrangements are being recognised on the public sector bodies' balance sheets; and
- reconsidering the accounting treatment for leases to identify which party bears the bulk of the risks and rewards incidental to ownership of the leased assets.

1.30 In addition, we found the following areas to be significantly challenging for central government entities:

- reclassification of liquid assets between investments and cash and cash equivalents to meet the IFRS definitions;
- reclassification of computer software from Property, Plant, and Equipment to Intangible Assets as required by the IFRSs;
- recognition and measurement of intangible fixed assets;
- establishing a system and appropriate methodology to identify and calculate unpaid leave and other accrued employee benefits at the balance sheet date; and
- reviewing and updating accounting policies to be IFRS compliant.

1.31 Whilst many departments have a significant amount of work to do to ensure that their accounts can be prepared on an IFRS basis, in the NAO's view the work completed by departments represents significant progress and provides a good basis for the move to formal statutory IFRS based accounts to be achieved in time for the resource accounts for 2009-10.

PART TWO

Financial Reporting – Revenue, Debt and Reserves

Audit of Receipts of Revenue

Introduction

2.1 In 2007-08, Her Majesty's Revenue and Customs (HMRC) collected £457.4 billion in tax and duties, including £98.2 billion of National Insurance contributions. HMRC also paid out £20.0 billion in Tax Credits. The Driver Vehicle Licensing Agency (DVLA) collected net revenue of £5.3 billion of Vehicle Excise Duty. The British Broadcasting Corporation (BBC) collected television licence fees of £2.9 billion. Overall these revenue streams represent 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:

- The first is 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);
- The second is 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.

2.3 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 Financial Statements

HMRC Trust Statement

2.4 The Comptroller and Auditor General gave an unqualified opinion on the truth and fairness of the view given by HMRC's 2007-08 Trust Statement, covering the £457.4 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 significant uncertainty relating to the estimates of accrued tax revenue receivable of £80.6 billion and accrued revenue liabilities of £22.2 billion at 31 March 2008, although his opinion was not qualified in respect of this matter. The Comptroller and Auditor General qualified his opinion on regularity, in respect of the levels of tax credit claimant error and fraud.

Vehicle Excise Duty Account

2.5 The Comptroller and Auditor General gave an unqualified opinion on the Vehicle Excise Duty Account 2007-08 covering the net Vehicle Excise Duty (VED) of £5.27 billion. The Comptroller and Auditor General reported on the account and the estimated evasion rate, which was reported as 1.5 per cent by value (£79 million), and made recommendations to the Driver and Vehicle Licensing Agency and the Department for Transport.

BBC – Television Licence Fees

2.6 The Broadcasting Act 1990 established the BBC as the Licensing Authority in respect of issuing and renewing television licences. Under the legislation, all licence fee money collected by the BBC is payable into the Consolidated Fund and is accounted for within the resource account of the Department for Culture, Media and Sport (DCMS). In 2007-08 the total payable to DCMS was £2.86 billion. DCMS obtains certificates from the auditors of the BBC's agents to confirm that all income has been properly remitted. As part of our audit we review the certificates provided by the auditors of the BBC's collection agents and confirm the amounts remitted by the BBC are received into the Consolidated Fund.

The examination of regulations and procedure

HMRC

2.7 The Comptroller and Auditor General's published Report, presented to Parliament with the accounts of HMRC (HC 674, 2007-08) 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 2007-08 provided assurance that HMRC has framed adequate regulation and procedure to secure an effective check on the assessment, collection and proper allocation of revenue, and that it was 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 and Self-Assessment, the administration of Value Added Tax registrations and the strategy for Excise Duties on alcohol.

Tax credits

2.8 In 2007-08, HMRC paid a net £20.0 billion in tax credits to claimants. HMRC uses the latest information it holds on claimants to calculate a provisional tax credit award. It makes a final assessment at the end of the year, when the claimant's actual income and circumstances are known. This assessment can lead to adjustments where the final award differs from the provisional award. HMRC estimates that by 31 March 2007, end of year adjustments to awards and other small changes to entitlement after finalisation of awards have led to overpayments of approximately £7.3 billion. It has also identified £700 million from in year adjustments to 2007-08 awards and will identify further overpayments for this year once awards are finalised. By the end of March 2008 the HMRC had collected £2.7 billion of this debt and written off £1.0 billion. £4.3 billion of overpayments remain to be collected of which £1.8 billion is in doubt.

2.9 The tax credit scheme relies on claimants telling the HMRC when their circumstances change so that it can update their awards. Claimants have not always understood their obligations and the HMRC has made over and underpayments based on out of date information. HMRC is evaluating service improvement pilots that are designed to assist claimants who need extra support in making a claim and reporting changes in circumstances. HMRC plans to implement these service improvements by April 2009.

2.10 The tax credit scheme continues to suffer from high levels of error and fraud. HMRC's latest estimate is that in 2006-07 error and fraud resulted in between £1.31 billion and £1.54 billion (7.2 to 8.4 per cent of the final value of awards) being paid to claimants to which they were not entitled. HMRC has set a target to reduce the current level of claimant error and fraud to not more than five per cent by 2011. It is also strengthening its response to those claimants who represent the highest risk of error and fraud, as well as considering other measures which it will pilot through 2008-09.

Collection of Income Tax

2.11 In 2007-08 HMRC collected £155.1 billion in income tax and £98.2 billion in National Insurance Contributions. During 2007-08 we examined the progress made by the HMRC on some of the key aspects of its administration of income tax.

Pay As You Earn (PAYE)

2.12 Following the introduction of online filing in 2005, the HMRC continues to improve its processing of employer end of year returns. By 31 October 2007 it had processed 92.5 per cent of employers' 2006-07 annual returns, and 98.6 per cent of these returns met required quality standards. Following the automation of its processes relating to returns for benefits in kind in May 2007, HMRC was able to update 72 per cent of coding changes for benefits in kind without manual intervention.

2.13 HMRC is planning to transfer its processing of PAYE for individuals on to the National Insurance Recording System and so allow it to bring all information on individuals' employment and pensions income together to provide it with a more complete view of taxpayers' income. It has, however, deferred this change from April 2008 to June 2009 to allow more time to assure supporting systems. Among the consequences of this deferral is the delay in tackling the backlog of PAYE cases which require checking, and the resolution of the problems identified in the taxation of some pensions.

2.14 HMRC anticipates that the transfer of processing to the National Insurance Recording System will improve its ability to match returns with its records and reduce the volume of cases requiring manual checking. Where HMRC's PAYE system identifies discrepancies in taxpayer records or is unable to match a return to a record it will establish an 'open case' for manual checking. At the end of March 2008 the HMRC had 16.2 million open cases, which exceeded its target of 12.5 million. This increase in the backlog arose because system improvements in 2007 did not deliver the reduction in cases expected, staff were released to other work and there was lower than anticipated overtime. One consequence of the deferral is to further delay HMRC's progress in tackling the backlog of PAYE 'open cases'.

Self Assessment

2.15 HMRC has made good progress in the number of self assessment returns filed online. In 2007-08, 46 per cent of returns (3.8 million) were filed on-line and on time, significantly exceeding its target of 35 per cent. A record number of 204,000 taxpayers submitted online returns on 31 January, although a hardware problem in the computer systems supporting the service prevented a further 10,000 to 15,000 from submitting returns on that day. HMRC has updated the computer systems and reviewed the testing of online services designed to ensure peak demands are successfully managed in the future.

2.16 Despite the improvements in HMRC's processing, the level of inaccuracies in self assessment returns submitted remains high. The latest estimates based on the 2002-03 tax year indicate that 34 per cent of filed returns were inaccurate putting between £2.9 billion to £3.7 billion tax at risk. A backlog of self assessment cases where amounts were not forwarded for collection awaiting the clearance of the appeal has also built up. HMRC's latest estimate of the value of these amounts was £1.1 billion. It has reviewed the process for handling these cases to identify areas for improvement and is now starting to address these issues.

Value Added Tax

2.17 In 2007-08 HMRC collected net Value Added Tax receipts of £81.2 billion, and processed around eight million VAT returns. Traders are required to register for VAT if their taxable business turnover exceeds a defined threshold. HMRC seeks to facilitate trade by ensuring that registration applications are processed as quickly as possible, while at the same time taking steps to ensure that potential fraudsters are prevented from entering the system. Since 2004-05, the Department has faced a sustained attack from fraudsters and has strengthened, among other things, its registration controls to prevent fraudsters from obtaining a VAT registration number.

2.18 Despite introducing long term measures to improve performance, HMRC's registration performance deteriorated significantly in the early part of 2007, when the level of applications on hand doubled on the first six months of the year to 58,000 in June 2007. The average number of days taken to process an application also rose from 29 days in March 2007 to around 42 days in August 2007.

2.19 A combination of factors contributed to the deterioration of VAT registration performance. These included: increased checks to counter the threat from fraudulent traders along with other measures to tackle missing trader fraud, significant staff shortages and loss of experienced casual staff following the reorganisation of the Registration Units and restructuring of the risk team, and the inability of the VAT registration computer systems to provide reliable information on the level of work in hand. Following the implementation of a recovery plan in July 2007, HMRC achieved its target of processing 70 per cent of applications within 14 days by January 2008, and by March 2008 this figure had risen to 83 per cent. However, the focus of resources on improving the registration process has not been without detriment to the timeliness of the de-registration process, where performance has dropped. HMRC has prepared an action plan to address the de-registration backlogs and is continuing to monitor the registration staffing position.

Excise Duties: HMRC's Alcohol Strategy

2.20 In 2007-08, HMRC collected excise duties of £8.3 billion on alcohol, comprising: spirits £2.4 billion, wine £2.6 billion and beer and cider £3.3 billion. HMRC launched its Alcohol Strategy in 2005 in response to the estimated £250 million in lost excise duty owing to spirits fraud. It has made good progress in embedding the measures underlying the Strategy, which is underpinned by a robust governance system. The latest data available shows the mid-point of its estimate of the illicit market share at five per cent in 2005-06, a decrease of three per cent since 2003-04.

2.21 HMRC has addressed the recommendations made by the Committee of Public Accounts in 2004 to strengthen its response to alcohol fraud by: revising its methodology for estimating the illicit spirits market, establishing Memoranda of Understanding with the alcohol industry to provide a framework for cooperation in tackling alcohol fraud, developing a coordinated response across the Department to tackle suspected high risk traders, and introducing tax stamps in October 2006 to make it easier to identify illicit bottles of spirits.

DVLA – Vehicle Excise Duty Evasion and Enforcement

2.22 The Driver and Vehicle Licensing Agency reported collection of Vehicle Excise Duty (VED) of £5.27 billion in their accounts for 2007-08. On behalf of the Comptroller and Auditor General, the National Audit Office carried out a review of the systems in place for collection of VED and the results were included in the Comptroller and Auditor General's report to Parliament on the VED accounts (HC 920 2007-08).

2.23 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 respect of 2007-08 provided assurance that the Agency had framed adequate regulation and procedure to secure an effective check on the assessment, collection and proper allocation of VED and that they were being duly carried out.

2.24 Estimates of VED compliance and evasion are based on an annual roadside survey. The most recent roadside survey at the time of the Comptroller and Auditor General's review had been carried out in June 2007. The survey was based on enhanced data collection in comparison with previous surveys, taking acount of the more accurate collection of data and improved audit trail provided by automatic number plate recognition.

2.25 On the basis of the 2007 survey, the Department for Transport estimated compliance of some 98.3 per cent in the vehicle stock, which translates into loss of revenue in respect of evasion of around 1.5 per cent (£79 million). The estimates published by the Department in respect of the loss of revenue in earlier years were 5 per cent in 2006 and 3.6 per cent in 2005, but the change in the techniques for data collection mean that these figures are not strictly comparable and cannot be used as an indicator of the trend in compliance.

2.26 The Agency had identified a number of key areas for further improvement in collection of VED. Firstly, they were carrying out a review of the existing enforcement strategy, which was aimed at bringing together research, intelligence and targeted action plans. A primary focus was on tackling those unlicensed vehicles that are associated with crime-related activities.

2.27 Secondly, and building on the comments in the Comptroller and Auditor General's report on the 2006-07 VED accounts, the Agency started a trial in which it sent warning notices after a month to some vehicle keepers who had not paid. This initiative was designed to tackle the estimated 67,000 people who avoid paying duty for the month immediately after expiry of their last tax disk, without risk of penalty, by renewing their licences late.

2.28 We recommended that the Agency should continue to monitor the loss of revenue through late registration which could amount to £10 million per annum. If such evasion persists, the Department for Transport should seek changes to the regulations to codify the Continuous Registration system, so that the Agency can impose Late Licensing Penalties on owners who miss one month's duty.

2.29 In 2007-08, the Agency issued 1,219,000 penalties, of which over 732,000 were unpaid. The Agency had adjusted its approach to collecting unpaid duty and, in 2006, began trialling the use of commercial debt collectors rather than relying on the County Court Service. There was, however, a gap before the appointment of debt collectors under new contracts, because the procurement exercise was not commenced until after the evaluation of the trial had been completed, and so around 87,000 penalties that were not paid were not pursued.

2.30 We recommended that the Agency should reduce the numbers of unpaid penalty cases that are not pursued in any way, using the debt collection agencies if they continue to prove effective.

Audit of Public Debt and Reserves

Introduction

2.31 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

2.32 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.

2.33 The Consolidated Fund accounts for 2007-08 show that total receipts and payments into and out of the Consolidated Fund were each £435 billion including gross receipts of £342 billion from HM Revenue and Customs. Payments for supply services came to £398 billion and for Standing Services to £34 billion.

2.34 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.

2.35 The National Loans Fund accounts for 2007-08 show that as at 31 March 2008 the Government's net liabilities through National Loans Fund borrowings comprised £571 billion, compared to £519 billion at the end of the previous year. The net liabilities included £490 billion of long term borrowing through gilt edged stock and £84 billion borrowed in the retail market through National Savings and Investments. The Fund's assets were £90 billion. The net annual cost of financing this government borrowing was £22 billion, down from £25 billion in 2006-07. The main reason for the decrease in the cost of financing Government borrowing was that uncertain market conditions had increased the demand for sovereign debt. The interest paid on new gilt edged stock issued was therefore significantly lower than interest on stock which had matured during the year.

2.36 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 the Treasury. Except for transfers between the two funds, however, the Treasury can only make issues from them with the authority of the Comptroller and Auditor General.

2.37 As in the prior year, the financial statements of both funds for 2007-08 were certified (with unqualified audit opinions) and laid in Parliament prior to its summer recess.

Debt and Cash Management

2.38 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.

2.39 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. At 31 March 2008 it held £95 billion in assets for the purpose of carrying out these activities.

2.40 The Debt Management Office also administers functions relating to the Commissioners for the Reduction of the National Debt (CRND) and the Public Works Loans Board. Financial statements are prepared for each investment fund. All financial statements prepared by the Debt Management Office for 2007-08 were certified with clear audit opinions. This outcome consolidates and improves on last year's position in as much as all the CRND accounts for 2007-08 were certified prior to Parliament's summer recess.

Impact of Recent HM Treasury Announcements on Financial Stability Measures on the Debt and Reserves Accounts

2.41 Since the Comptroller and Auditor General's General Report for 2007, the Government has announced a number of measures to restore financial stability in the United Kingdom's banking sector and in the markets more generally. Most of these measures will be funded by the creation of Gilts or Treasury Bills (short term gilt edged stock) in the National Loans Fund. In order to have the desired impact, these schemes involve significant amounts of funding. For example, on 10 October 2008, the Government announced that at least £200 billion would be made available to banks under the Special Liquidity Scheme. Other measures are expected to be of similar scale. There have therefore been significant increases in both the assets and liabilities of the National Loans Fund and the Debt Management Account since the balance sheet date.

2.42 Two schemes, the Special Liquidity Scheme announced in April 2008 and the Discount Window Facility announced in October 2008, are run by the Bank of England on behalf of the Debt Management Office. Both these schemes allow financial institutions to swap illiquid asset backed securities for more liquid Government debt, and the results will be reported in the Debt Management Account.

2.43 The results of most of the other measures will be reported in the Treasury Resource Accounts. Financial institutions are required to pay fees to the Government for participating in many of these schemes, so a significant increase in Consolidated Fund receipts is to be expected during 2008-09.

Foreign Exchange Reserves

2.44 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.

2.45 At 31 March 2008, the Account held total assets of £32 billion including some £21 billion of debt securities, just under £5 billion of gold and £3 billion of loans and advances to banks. The Exchange Equalisation Account for 2007-08 was certified with an unqualified audit opinion.

PART THREE

Progress towards better financial management by departments

Introduction

3.1 Financial Management underpins departments' work to use their resources efficiently and effectively. The key areas of financial management are: financial planning, financial analysis supporting decision making, financial monitoring and forecasting, and financial and operational reporting. Used well these areas will support rapid management action in response to the financial crisis. Possessing an appropriate level of these financial management skills is widely recognised as a core competency for the leaders and managers delivering public services. Since its creation, the National Audit Office has reported on the management of financial resources either explicitly in its reports on managing expenditure and resources, or implicitly within reports on the delivery of programmes and services to citizens.

Progress towards better financial management by departments

3.2 In 2008 the Committee of Public Accounts made recommendations to the Treasury and Cabinet Office based on our work, 'Managing financial resources to deliver better public services (HC 240 2007-08), and their examination of witnesses. In November the Government responded and accepted all of the Committee's recommendations.

5 The Government's response on managing financial resources

Financial management is a mandatory core skill for all staff at senior and middle management in all roles. The "Government Skills" organisation will be evaluating the impact of the Professional Skills for Government competency framework in 2009.

Further progress is needed in joining up better financial and performance management information to help promote sound decisions by departments over allocations and the monitoring of costs and performance. Departmental Boards should receive joint financial and performance information to a greater extent, and on a more regular basis, than in the past.

Departmental Strategic Objectives introduced in the 2007 Comprehensive Spending Review will provide the basis for reporting in schedule 5 from 2008-09.

Set out in the 2007 Comprehensive Spending Review is an expectation that Departments will develop and then provide full accrual costings for their Departmental Strategic Objectives and component outputs.

Ensuring policy proposals submitted to Ministers and board members include a full assessment of financial implications is an important responsibility of each department. The Treasury challenges and supports departments on this and issues guidance to departments. Treasury spending teams monitor departments' plans for significant projects.

The Treasury is working with departments to improve their forecasting capabilities, and has ensured that the departments have financial management and data quality improvement plans in place.

The Treasury will assess whether the role of non-executives on departmental boards needs clarification. Non-executives might be supported so that departments make best use of the expertise of non-executives.

Source: Treasury Minute on the Forty-third Report from the Committee of Public Accounts 2007-08, Cm 7493, November 2008.

3.3 During 2008 we published a report on the "Management of Expenditure" in the Department for Environment, Food and Rural Affairs (HC 309 2007-08, March 2008). The report drew attention to good practice in improving financial management, including:

- the Department's work to allocate funds to the strategic objectives of the organisation (rather than to its functions) would allow decisions to reallocate resources between objectives to be better informed;
- the practice in some areas of the Department to set budgets on the basis of work plans rather than on the basis of prior year budgets, which would free resources where workloads reduce;
- the Board set the lead by holding managers to account for the management of their resources and delivery of objectives; and
- rigorous scrutiny of financial and performance information at Management Board meetings allowed early corrective action to be taken when circumstances changed.

3.4 Later in the year we published jointly with the Audit Commission our report on "Financial Management in the NHS: Report on the Summarised Accounts 2007-08" (HC63-I 2008-09, December 2008). The Audit Commission's evaluations found that the quality of financial management at individual NHS organisations had improved during 2007-08. The NHS provided more healthcare activity in 2007-08 than in previous years and the quality of healthcare as rated by the Healthcare Commission improved. While the overall surplus was in excess of that planned, in terms of the delivery of healthcare the surplus reflected good resource utilisation rather than a failure to deliver.

3.5 Over the next few months we plan to publish the first reports in a series of financial management reports which look at how the major departments are embedding good financial management throughout their business to enable them to deliver the outcomes needed. As a part of our assessment we are looking at how departments are able to respond to changing circumstances and reallocate funds. Subject to our evaluation of the early reports, we aim to cover all of the major departments over a three year cycle and publish further reports in 2009-10.

3.6 As part of work to develop our methodology for the reports, we are setting up an external working group to develop a financial management maturity model. The model aims to help organisations assess themselves and consider where they might improve their financial management capability to deliver public services more cost-effectively.

PART FOUR

Looking Forward

Whole of Government Accounts

Introduction

4.1 The Chancellor's 2008 Pre-Budget Report (November 2008) re-affirmed 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 first published WGA accounts will be for the 2009-10 year of account. The Treasury continue to prepare and the NAO continue to audit 'dry run' consolidated statements as part of the implementation plan.

4.2 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.

Progress of 'dry run' audits

4.3 Our audit of the 2006-07 consolidation confirmed the incremental improvement in the quality of the dry run accounts . However, there still remain a number of key issues which the National Audit Office and the Treasury are working together to address. Treasury prepared their 2007-08 dry run WGA account in December 2008 and our audit work is currently ongoing.

4.4 The move to WGA is a significant one with a number of potential benefits. Comprehensive, audited public sector financial information based on internationally recognised accounting standards would be available for the first time, and should contribute significantly to policy formulation and resource allocation. The Comptroller and Auditor General remains committed to working with the Treasury and other bodies across the public sector to make a success of the WGA project and, in so doing, increase the accountability and transparency of the whole public sector.

Audit of Companies

4.5 Following the recommendations of Lord Sharman's February 2001 review of the audit and accountability framework for Central Government, the Comptroller and Auditor General was designated as a registered auditor under the Companies Act 2006. The Act gives him the legal powers to audit companies for years commencing on or after 1 April 2008.

4.6 The Comptroller and Auditor General will audit companies under two separate legal powers. Companies which are non-profit making can be subject to a designation by Parliamentary Order under the Government Resources and Accounts Act 2000. Such an order was laid before Parliament on 27 January 2009 and is subject to approval by both Houses. The Order includes proposals appointing the Comptroller and Auditor General as auditor of 22 companies from 1 April 2008, and a further 4 companies from 1 April 2009. Companies which are profit making appoint their own external auditors, but may now appoint the C&AG their auditor. Where appropriate these appointments may arise from competitive tender exercises.

4.7 During the year, the Comptroller and Auditor General has been appointed auditor for some 17 such profit making companies and will be carrying out the audit of these companies' financial statements for 2008-09. Over the coming months the Comptroller and Auditor General will seek to expand his portfolio of company audits, extending the reach of his audit responsibilities to the operations of those public-owned companies which carry out strategically important roles within government.

The 'Alignment Project'

4.8 In July 2007, the Government published the "Governance of Britain" Green Paper. One of the proposals was that there should be simplification of reporting to Parliament, with consistency between the planning of expenditure, the Estimates and the reporting of outturn. The Green Paper concluded that such simplification was an essential part of enhancing the transparency of financial information, of improving the way that the Government is held to account for expenditure, and of adding to administrative efficiency. To this end the Treasury established the Alignment Project.

4.9 The key proposals for a new framework include the following changes:

- All non-voted expenditure and income within budgets is brought within the coverage of Estimates presented to Parliament.
- The voted Parliamentary limits in Estimates would be based on budgetary control totals. These would be on a net (rather than both gross and net) basis, so that income would not be separately voted, though expected income will be shown in Estimates for information, and controls over departments' raising and use of income would be strengthened.
- The Estimates and resource accounting boundaries should be extended to accommodate Non Departmental Public Bodies and other bodies classified to the central government sector.
- Notional cost of capital charges are removed from budgets and resource accounts.
- The number of departmental and Treasury financial reporting documents is reduced from 12 to around three "publication events" each year.

4.10 Having carried out major consultations with departments, the National Audit Office, the relevant Parliamentary Committees, the Financial Reporting Advisory Board and other interested parties during 2008, the Treasury aims to put detailed formal proposals to Parliament early in 2009. However some of the proposals will require legislation, and the earliest date for the full implementation of the new framework is unlikely to be before April 2011.

APPENDIX ONE

Outturn of all Resource Accounts

This summary records the outturn for Resources Accounts as follows:

Resources	**Gross expenditure**	**£000**	**£000**
	Estimates:		
	Original Estimates	481,000,478	
	Supplementary etc. Estimates	32,627,382	
			513,627,860
	Actual		495,122,788
	Saving		18,505,072
	Appropriations in Aid		
	Authorised:		
	Original Estimates	51,063,359	
	Supplementary etc. Estimates	10,224,371	
			61,287,730
	Applied		59,659,683
	Deficiency		1,628,047
	Net Expenditure		
	Estimates:		
	Original Estimates	429,937,119	
	Supplementary etc. Estimates	22,403,011	
			452,340,130
	Actual		435,463,105
	Saving		16,877,025
Cash	**Net Expenditure**		
	Estimates:		
	Original Estimates	393,991,012	
	Supplementary etc. Estimates	15,099,258	
			409,090,270
	Actual		394,416,269
	Saving		14,674,001
Consolidated Fund Extra Receipts	Consolidated Fund Extra Receipts surrenderable recorded in the Resource Accounts amount to £14,839,342,000		

APPENDIX TWO

Accounts qualified by the Comptroller and Auditor General

Resource Accounts 2007-08

Armed Forces Pension Scheme – limitation of scope	The Armed Forces Pension Scheme 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. This inability reflects the consequence of the introduction of the relatively new scheme and the lack of collection of data. Over the next few years, the Ministry of Defence should be able to assess the history of injury type and frequency more accurately and also gain evidence of the propensity of Armed Forces personnel to claim under this Scheme. Once sufficient and relevant information becomes available to enable the audit of the underlying assumptions supporting the provision, the Comptroller and Auditor General will be able to remove the limitation of scope on his opinion.
Department for Transport – excess vote	The Department secured an advance from the Contingencies Fund, for the Crossrail Project, pending Parliamentary approval of enabling legislation. The Department did not, however, draw down this money, instead funding the expenditure from the Supply drawn down from the Consolidated Fund. This use of Supply is contrary to HM Treasury Authorities and falls outside the Ambit of the Appropriation Act 2007 which was approved by Parliament. This expenditure on the Crossrail Project, therefore, resulted in an "Excess Vote" as it constituted expenditure outside of the Ambit. Excess votes are irregular, and require retrospective parliamentary authority in a subsequent Appropriation Act.
Department for Work and Pensions – regularity qualification	The estimated level of fraud and error in benefit payments led to a regularity qualification. Although this is the twentieth successive year in which the Department's accounts have been qualified on this basis, the Comptroller and Auditor General was able to report continuing progress. 2007-08 is the first year since the introduction of Resource Accounting that the Comptroller and Auditor General has not qualified his opinion in respect of the truth and fairness of the accounts. From 1999-2000 to 2006-07 the audit opinion on the truth and fairness of the accounts was qualified because of material uncertainties over the completeness of debtors arising from overpayments of benefits. In 2007-08, the Department obtained agreement from the Treasury not to pursue potential overpayments arising prior to 1 April 2007 other than those identified in the normal course of business, as to do so would not represent value for money. It also implemented improvements in its systems for recovering benefit overpayments arising from changes in claimants' circumstances. The Comptroller and Auditor General was therefore able to satisfy himself that debtors at 31 March 2008 showed a true and fair view of amounts due to the Department. This is a significant milestone towards meeting the Department's declared ambition to enable its accounts overall to be free of qualification.

MOD Resource Account – limitation of scope	The scope of the Comptroller and Auditor General's audit of the Ministry of Defence Resource Account was limited due to the inadequacy of evidence available in respect of amounts paid as allowances to military personnel totalling £920 million, in particular the lack of evidence available to substantiate: ■ whether the amounts paid in relation to allowances to service personnel are correctly stated; ■ the level of error caused by known issues within the JPA payroll system; and ■ whether selected payments on allowances and for expenses paid through JPA are valid. The limitation of scope arose following the introduction of a new payroll administration system.
Office of Fair Trading – excess vote	The Office of Fair Trading expended more resources than had been authorised by Parliament in their supply estimates resulting in the need for an "Excess Vote". The excess vote related to both the Request for Resources: "Advancing and safeguarding the economic interests of UK consumers", £77,879,000 spent compared to the limit authorised by Parliament of £75,994,000, and the Department's Administration Budget, £75,829,000 spent compared to the limit authorised by HM Treasury of £73,944,000. The excess vote arose following a voluntary investigation of the Department's tax affairs in 2007-08 after which HM Revenue and Customs ruled that VAT expenditure previously recovered by the Department was not eligible to be reclaimed. The Department have provided in full for the maximum liability for repayment of VAT which has been incorrectly reclaimed, however, this expenditure was not expected and, therefore, not budgeted for.
UKAEA Pensions Resource Account – excess vote	The Department for Business Enterprise and Regulatory Reform required more cash from the Consolidated Fund for the UK Atomic Energy Authority Pension Schemes than had been authorised by Parliament. As a result the C&AG qualified his opinion on the accounts on the basis of an "Excess Vote". Parliament authorised a Net Cash Requirement of £68,236,000 against which the Department actually incurred a Net Cash Requirement of £74,016,000. The Excess Vote arose due to weakness in the recording and monitoring of receipts by the Department. The Department did not identify the need to surrender the additional receipts, which resulted from a change in the method for calculating employer contributions to the pension scheme in 2006. As a result, by effectively assuming the additional receipts could be retained, the Department underestimated its net cash requirement for 2007-08 by approximately £6 million.

Other Accounts Qualified

Child Support Agency Client Funds 2007-08 – regularity and material disagreement	The account was qualified because a material proportion of debt balances due from non-resident parents was 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.
HMRC Trust Statement 2007-08 – regularity qualification	The Department's latest estimate, based on an examination of awards from 2006-07, is that error and fraud resulted in claimants receiving between £1.31 billion and £1.54 billion (7.2 per cent to 8.4 per cent of the final award by value) to which they were not entitled. Expenditure arising from these overpayments has not been applied to the purposes intended by Parliament, and is material in relation to the £19.5 billion expenditure on tax credits. Whilst the Department has made changes to its compliance procedures since 2006-07, there is currently no evidence to demonstrate a lower estimate of error and fraud in the tax credit awards for 2007-08. Based on its examination of 2006-07 awards, the Department also estimates that error led to underpayments of between £0.24 billion and £0.39 billion (1.3 per cent to 2.1 per cent of the final award by value), where claimants have not been paid their full entitlement. To a material extent, these payments too do not fully accord with the requirements of the Tax Credits Act 2002. Consequently the Comptroller and Auditor General qualified his opinion on regularity as both the over and underpayments constitute material transactions not in conformity with the authorities that govern them.
NHS Institute for Innovation and Improvement 2007-08 – regularity qualification	The NHS Institute for Innovation and Improvement paid 6 months' PAYE tax in advance and also paid advance funding to a number of Innovation Hubs as it had excess cash balances at the end of the financial year. Following consultation with HM Treasury, the Comptroller and Auditor General qualified his regularity opinion on the grounds that this use of resources did not conform with Parliament's intentions and the requirements of Managing Public Money. Managing Public Money sets out the main principles for dealing with resources managed by public sector institutions in the UK, and is the document with which HM Treasury sets out and manages, on behalf of Parliament, the principles for the proper use of public funds.
Northern Ireland Legal Services Commission Accounts 2003-04 and 2004-05 – disagreement, limitation of scope and regularity qualification	The Comptroller and Auditor General qualified the Legal Aid Grant Accounts of the Northern Ireland Legal Services Commission for both 2003-04 and 2004-05 on three separate bases. He disagreed with the accounting policy for provisions as it was not in accordance with accounting standards. The accounts were qualified as the scope of the Comptroller and Auditor General's examination was limited, as there was insufficient evidence available to support the regularity of legal aid payments. The Comptroller and Auditor General also qualified his opinion on regularity in respect of legal aid payments for a civil claim relating to the Omagh bombings made under the direction of the Lord Chancellor which, on judicial review, were deemed not to have appropriate legislative authority. The Comptroller and Auditor General also qualified his opinion on the Legal Aid Grant in Aid Account of the Northern Ireland Legal Services Commission for 2004-05 due to irregular payments made to Commissioners. Due to a misunderstanding of the approval process, changes to the pay structure were made without the approval of the Lord Chancellor and were, therefore, not in accordance with the legislation.
Northern Ireland National Insurance Fund 2006-07 – regularity opinion	The latest information provided to the Comptroller and Auditor General, on the monetary value of errors in the payment of contributory benefits, estimated that £20.1 million may have been lost through overpayments incorrectly paid from the Fund in 2006-07 because of error and fraud. A further estimated amount of £3.5 million in benefits may have been underpaid because of error. Under Social Security legislation, the Agency must calculate benefits due in accordance with the regulations. Payments of benefit awards which are incorrectly assessed under governing regulations or made in respect of fraudulent claims are by definition without proper authority. Accordingly the Comptroller and Auditor General concluded that the payments arising from erroneous benefit awards and fraudulent benefit claims have not been applied to the purposes intended by Parliament and they are not in conformity with the authorities which govern them.

Other Accounts Qualified *continued*

Ordnance Survey 2007-08 – material disagreement	The 2007-08 account was qualified as a 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.
Postgraduate Medical and Education Training Board 2005-06 – regularity qualification	The Board made advance payments of £281,000 relating to the future provision of consultancy and agency staff that were not properly due when the payments were made and did not meet Government Accounting (replaced by Managing Public Money in October 2007) requirements for making advance payments. Treasury approval was not sought for this expenditure. The Comptroller and Auditor General qualified his opinion on regularity on the grounds that this use of resources did not conform with Parliament's intention and the requirements of Government Accounting.
Social Fund 2007-08 – regularity qualification	The Comptroller and Auditor General has qualified the regularity part of his opinion on the Social Fund accounts for each year since 2003-04 as a result of the substantial level of error in the award of discretionary payments covering Budgetary Loans, Community Care Grants and Crisis Loans. In 2007-08, the Comptroller and Auditor General again qualified his opinion on this basis, the estimated level of error in discretionary payments totalling £85,285,000.

Reports without qualification

Army Base Repair Organisation 2007-08	As at the 31 March 2008, under the direction of the Secretary of State, the assets and liabilities of the Army Base Repair Organisation transferred to the newly created Defence Support Group Trading Fund. The Comptroller and Auditor General reported that he was satisfied that the assets and liabilities were transferred in accordance with Parliamentary intention.
Defence Aviation Repair Agency 2007-08	As at the end of 2007-08 the Secretary of State sold the Rotary Wing and Components Business Units of the Defence Aviation Repair Agency to Vector Aerospace. Under the direction of the Secretary of State, the remaining assets and liabilities of the Defence Aviation Repair Agency transferred to the newly created Defence Support Group trading fund. The Comptroller and Auditor General reported that the sale of the Rotary Wing and Components Business Units was authorised by the Chief Secretary to HM Treasury, and the distribution of the assets and liabilities of the Defence Aviation Repair Agency as at 31 March 2008 was made in accordance with Parliamentary intention.
Department for Environment, Food and Rural Affairs 2007-08	The report noted improvements in the administration of the European Commission Single Payment Scheme, financial management within the Department and its delivery bodies, and the timely preparation of the annual accounts, providing an update on the previous concerns raised by the Comptroller and Auditor General in his report on the 2006-07 Resource Accounts.

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