Report by the Comptroller and Auditor General into the 2011-12 accounts of the Department for Culture, Media and Sport

Introduction

1. The Department for Culture, Media and Sport (DCMS) has policy responsibility for museums, galleries and libraries, the built heritage, the arts, sport (incorporating lead responsibility for the Olympic and Paralympic Games), broadcasting and the National Lottery. It also sponsors the tourism, media, music, licensing, gambling and creative industries.

2. Most policy delivered in these fields is carried out through Non-Departmental Public Bodies (NDPBs). DCMS funds over 50 public bodies to deliver key aspects of its policy, and these bodies include one Executive Agency, two public broadcasting authorities, three public corporations and 40 NDPBs.

3. Treasury initiated a Clear Line of Sight project which sought to align the annual financial statements to the budgets set by Treasury and the revised Parliamentary Supply process. As a result of these changes the number of bodies which are consolidated into DCMS's accounts has increased. These changes were applicable for the 2011-12 financial statements.

4. In 2011-12 DCMS was responsible for some £4 billion of net operating costs and assets of some £14 billion, mainly consisting of property plan and equipment, together with gross liabilities of some £7 billion.

5. The purpose of this report is as follows:

   a. To inform Parliament that DCMS has requested an extension to the statutory reporting timetable in respect of its 2011-12 accounts;
   b. To explain the basis of my qualified opinion on the group financial statements; and
   c. To draw attention to DCMS's decision to apply an exemption in respect of the comparative information presented in the group financial statements.

Extension of the statutory deadline for delivery of accounts

6. Under the Government Resources and Accounts Act 2000, the Accounting Officer of DCMS is required to submit to me, as the Comptroller and Auditor General, signed accounts for 2011-12 by 30 November 2012. I am required by the Act to certify the accounts by 15 January 2013 and to send them to the Treasury. The Treasury is required to lay the accounts before the House of Commons by 31 January 2013.

7. DCMS was unable to provide a complete draft of the accounts to meet the statutory deadline, and consequently on 28 January 2013 the Accounting Officer wrote to the Chair of the Committee of Public Accounts, and the Chair of the Culture, Media and Sport Committee outlining his intention to delay the laying of the accounts. This decision was predicated on the Department's clear assurances that the extension of time would lead to it being able to provide materially better information to Parliament.

8. Based upon these assurances, and following consultation with myself, the Treasury agreed to an extension of the statutory deadline. This was enacted by an Order under the Government

Resources and Accounts Act 2000, amending the date for the laying of the 2011-12 accounts from 31 January to not later than 25 February[1].

9. As a result of this extension, the Department was able to provide accounts of a suitable quality that enabled me to conclude my audit and to form an opinion on the accounts.

10. The preparation of the 2011-12 group accounts represented a significant challenge for DCMS. The consolidation is complex, necessitating the inclusion of 46 separate bodies, which themselves include subsidiary bodies, while the exact definition of the accounting boundary took time to conclude. Many of the bodies apply different accounting frameworks to the Department: the museums and galleries sector apply the Charities SORP; the Lottery distributing bodies apply commitment accounting under an accounts direction issued by HM Treasury; and the public broadcasting authorities apply International Financial Reporting Standards. This required adjustments to bring the accounting policies of these bodies into line with those of the Department.

11. DCMS's focus on the delivery of the 2012 Olympic and Paralympic Games over the spring and summer of 2012 meant that it had originally planned to prepare the accounts in the autumn and lay them in December. Notwithstanding the complexities faced by the Department, this still allowed a period of over four months to prepare the accounts. As disclosed in its Governance Statement, the Department underestimated the complexity of the consolidation process. Weaknesses in its project management meant that known issues were not addressed early enough in the process. It was also evident that the Department lacked the necessary capacity in its finance function, and as a result it had to purchase external resource to help bring the project to its conclusion.

12. It is vital that DCMS learns the lessons for future years, and I welcome the Department's commitment to undertake a full review of the 2011-12 process. This needs to address project management, capability and capacity issues. The results of this review should inform a realistic project plan which ensures that the Department is able to account to Parliament in an accurate, timely and consistent basis. My audit in 2012-13 will review the Department's progress.

Qualification of my opinion on the group financial statements: accounting for non-current assets

13. As reported above, many of the bodies consolidated into the group financial statements apply different accounting frameworks to DCMS and therefore DCMS needs to make accounting adjustments to bring the accounting policies into line with the Department. One of those bodies is the BBC. The BBC is not required to apply government accounting standards and prepares its accounts under International Financial Reporting Standards. Under these standards, the BBC is entitled to record its tangible non-current assets (mainly land and buildings, plant and machinery and fixtures and fittings) at depreciated historic cost and does so. In accordance with the Financial Reporting Manual, the Department is required to record the tangible non-current assets of the group at fair value. Both treatments are correct within the respective accounting frameworks applied.

14. The BBC has indicated to the Department that it will supply figures on a fair value basis for future years. A limited exercise was performed this year, however assets recorded in the Department's group Statement of Financial Position with a net book value of £755.5 million at 31 March 2012 have not been recorded at the required fair value.

[1] The Order was made on 28 January, laid before the House of Commons on 29 January, and came into force on 30 January 2013.

15. While I am unable to quantify the financial impact of this non-compliance due to the absence of reliable valuation information, given the cost of the assets involved, there is likely to be a material misstatement of assets recognised in the Group Statement of Financial Position. As a consequence, I have qualified my opinion on the group financial statements because the Department has not complied with the required accounting treatment for non-current assets under the Financial Reporting Manual and has therefore misstated the assets in its Consolidated Statement of Financial Position. Nor have I been able to quantify the impact of this non-compliance on the depreciation charge for the year. Consequently, there may be a material misstatement of the Group Statement of Comprehensive Net Expenditure for 2011-12.

Emphasis of matter on the group financial statements: restatement of group comparative figures

16. The DCMS group financial statements in 2011-12 consolidate 46 entities. The 2010-11 group financial statements consolidated 2 entities. In order to ensure that that the prior year figures were compatible, DCMS was required to restate the prior year comparative information to include these additional entities. Treasury guidance stipulated that the Department should apply the principles outlined in International Accounting Standard 8 'Accounting Policies, Changes in Accounting Estimates and Errors' to the restatement exercise.

17. The Department has made a significant effort but has been unable to restate the comparative information and therefore has utilised the exemption included in International Accounting Standard 8, which can be applied when a robust restatement exercise is considered impracticable. This assessment was based upon the complexity of the consolidation exercise which, as referred to above, impacted upon the Department's ability to meet its statutory deadline for the 2011-12 financial statements. I have considered the use of the exemption and I agree that it would be impractical to produce robust comparative information because the time and cost to reproduce this data would be prohibitive.

18. As outlined in Note 1 to the financial statements, the Department has opted to include group comparative information which is presented on a 'best endeavours' basis as opposed to including the 2010-11 audited figures. This was on the basis that the Clear Line of Sight Initiative had a fundamental impact on the size and scale of the Department and that the previously audited financial information was therefore of limited use to the user of the accounts in the context of the current year.

19. Whilst the comparative data is not robust I have been able to audit it to the extent required to provide an unqualified audit opinion on the current year financial statements. My audit opinion does not extend to the comparative information as this is not required to be presented since the Department has applied the International Accounting Standard 8 exemption. My audit opinion on the Department's 2010-11 group financial statements, which did not include the 46 bodies consolidated in 2011-12, was unqualified.

Amyas CE Morse
Comptroller and Auditor General 25 February 2013
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