National Audit Office

HM Treasury: Certificate and Report of the Comptroller and Auditor General

Whole of Government Accounts 2012-13

This is an extract from the Certificate and Report of the Comptroller and Auditor General on the Whole of Government Accounts 2012-13

This report has been prepared under Section 16.1 of the Government Resources and Accounts Act 2000

Contents

The National Audit Office study team consisted of:

Vicky Davis, Alex Macneill and Richard Copeman under the direction of Steven Corbishley.

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

For further information about the National Audit Office please contact:

National Audit Office
Press Office
157-197 Buckingham Palace Road
Victoria
London
SW1W 9SP

020 7798 7400

enquiries@nao.gsi.gov.uk

The Certificate of the Comptroller and Auditor General to the House of Commons

I certify that I have audited the financial statements of the Whole of Government Accounts (the Account) for the year ended 31 March 2013 under the Government Resources and Accounts Act 2000. These comprise the Consolidated Statements of: Revenue and Expenditure, Comprehensive Income, Financial Position and Changes in Taxpayers' Equity; the Consolidated Cash Flow Statement; the related notes; and Annexes 1 to 4. These financial statements have been prepared under the accounting policies set out within them.

Respective responsibilities of the Accounting Officer and auditor

As explained more fully in the Statement of Accounting Officer's Responsibilities, the Accounting Officer is responsible for the preparation of a consolidated account for a group of entities each of which appears to HM Treasury to exercise functions of a public nature, or to be entirely or substantially funded from public money, which presents a true and fair view of the state of affairs of the whole of government. My responsibility is to audit, certify and report on the accounts with a view to satisfying myself that they present a true and fair view. I conducted my audit in accordance with International Standards on Auditing (UK and Ireland). Those standards require me and my staff to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by HM Treasury; and the overall presentation of the financial statements. In addition, I read all the financial and non-financial information in the Foreword, Performance Report, Governance Statement, Remuneration Report and Comparison to National Accounts to identify material inconsistencies with the audited financial statements. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my certificate.

Basis for qualified opinion on financial statements

Qualification arising from disagreements on the definition and application of the Account boundary

The Government Resources and Accounts Act 2000 (the Act) requires HM Treasury to produce a set of accounts for a group of bodies which appears to HM Treasury to exercise functions of a public nature or to be entirely or substantially funded from public money. The Act also states that the Account should present a true and fair view and conform to generally accepted accounting practice subject to such adaptations as are necessary in the context. HM Treasury has adopted a framework for this Account which is based on International Financial Reporting Standards adapted for the public sector context.

However, in Note 1.22 to this Account, HM Treasury defines the accounting boundary for the Account by reference to those bodies classified as being in the public sector by the Office for National Statistics. I consider that it would be more appropriate to assess the accounting boundary with reference to the accounting standards. By applying such accounting standards, I consider that the Account should include Network Rail.

I also consider that HM Treasury's accounting policy has not been applied consistently in 2012-13 as a number of significant bodies have not been included in the Account, even though they are classified by the Office for National Statistics as being in the public sector and which I also consider should be included in the Account in line with applicable accounting standards.

I cannot quantify the effect of these omissions on the Account with certainty as I do not have information needed to identify the transactions that would have to be eliminated to provide a consolidated view. The most significant impact could be on the Account's Statement of Financial Position. The exclusion of the following categories of bodies could affect this Statement, illustrating the potential impact:

- Network Rail which has gross assets of £52.6 billion and gross liabilities of £44.6 billion;
- Publicly-owned banks which have gross assets £2,324.0 billion and gross liabilities of £2,203.5 billion; and
- Other bodies which have estimated gross assets of £17.2 billion and gross liabilities of £6.5 billion.

Qualification arising from disagreement relating to inconsistent application of accounting policies

HM Treasury's accounting policies state that the WGA is prepared on an International Financial Reporting Standards (IFRS) basis, as adapted or interpreted for the public sector context. A number of bodies consolidated in the WGA do not adopt the same framework under which this Account is prepared. These bodies fall under the following categories:

- bodies in the local government sector follow the Code of Practice on Local Authority Accounting in the UK for 2012-13;
- bodies that follow either pure IFRS or UK GAAP; and
- bodies that follow the Charities Statement Of Recommended Practice.

Accounting standards require that, where the effect of such inconsistent accounting policies are material, adjustments should be made on consolidation. HM Treasury has undertaken an assessment of these differences and identified one material inconsistency, but has not been able to adjust for this in 2012-13. This inconsistency is where infrastructure assets are included in the Account are not valued on a consistent basis. Assets held by local authorities are valued at historic cost, whereas those held by central government bodies are valued at depreciated replacement cost. HM Treasury's estimate of the understatement of assets due to the difference in valuation between historic cost and depreciated replacement cost for local authority assets could be at least £218 billion. I do not have the information to fully quantify the effect of all inconsistent applications of accounting policies.

Qualification arising from disagreement in the accounting for 3G and 4G licences

In April 2000, the Government issued licences to access the 3G telecommunications spectrum. Each licence was awarded for 20 years and the total raised was £22.5 billion. This was recognised as £22.5 billion income in 2000-01. In March 2013, the Government issued further licences to access the 4G telecommunications spectrum. As with 3G each licence was issued for 20 years and the total raised was £2.4billion which has been recognised as income in the 2012-13 financial statements. In respect of both set of licences I consider that it would be more appropriate to recognise this income in the Account over the life of the licences as the licence holders have the right to access the spectrum for 20 years and the Government has an on-going obligation to ensure that the spectrum remains available to licence holders. The impact of this difference is that income would be £1.3 billion less; liabilities would be £10.2 billion greater (£9.0 billion in 2011-12); and the value of the general fund would be £10.2 billion less (£9.0 billion in 2011-12).

Qualification arising from limitation of audit scope due to lack of evidence supporting the completeness and valuation of schools' assets included in the Accounts

Local authority maintained schools are required to be included in the Account. There is insufficient evidence over the completeness of the valuation of assets held by these schools. Local authority maintained schools' assets, which are estimated to be up to £23 billion of assets from voluntary aided and foundation schools and £8 billion assets from voluntary controlled schools have been omitted from this Account.

Qualification arising from disagreement and limitation of audit scope from underlying statutory audits of bodies falling within the Accounts

The external auditors of the financial statements of a number of bodies that are consolidated into this Account modified their audit opinion. Qualification issues arising in the Department for Education and the Ministry of Defence are material to these financial statements.

- **Department for Education Resource Accounts**: The Department consolidated 2,823 academies using a series of data sources spanning different time frames. This has resulted in a level of misstatement and uncertainty that I consider to be material to these financial statements. I am unable to aggregate the individual errors due to overlapping causes of misstatement and levels of uncertainty.

  In addition, the Department has recognised land and buildings in respect of academies of £25.1 billion in its Statement of Financial Position. The audit evidence available to me was limited in respect of this balance because the

Department was unable to demonstrate that these all met the recognition criteria for a non-current asset under IAS 16 Property, Plant and Equipment.

Finally, the Department was unable to demonstrate the accuracy of the balances transferred on 1 April 2012 in respect of academies open at that date. I have therefore limited the scope of my opinion in this respect.

- **The Ministry of Defence Resource Accounts**. The Department has not complied with the Financial Reporting Framework as it has not accounted for the expenditure, assets and liabilities arising from certain contracts in accordance with International Accounting Standard 17 Leases as interpreted by International Financial Reporting Interpretations Committee 4: Determining whether an Arrangement Contains a Lease. Consequently, the Department has omitted a material value of assets and liabilities from its Consolidated Statement of Financial Position as at 31 March 2012 and 31 March 2013. This has also led to a consequential misstatement of the Consolidated Statement of Revenue and Expenditure for 2011-12 and 2012-13. I am unable to quantify the impact on the financial statements because the Department has not maintained the records or obtained the information required to comply with the relevant accounting standards in this respect.

  In addition, in respect of the valuation of inventory (£3.3 billion) and certain non-current assets in the form of capital spares (£7.2 billion) recorded in the financial statements, the evidence available to me was limited due to the Department having failed to perform an adequate impairment review on a systematic basis. Consequently I was unable to obtain sufficient, appropriate audit evidence to support the valuation of £10.5 billion in the Statement of Financial Position and assess the completeness and accuracy of the associated transactions in the Statement of Comprehensive Net Expenditure. I have also been unable to obtain sufficient, appropriate audit evidence for the corresponding figures for 2011-12, which were also subject to this qualification.

Qualification arising from limitation of audit scope due to lack of evidence supporting the completeness of the elimination of intra-government transactions and balances

Accounting standards require that balances and transactions between bodies consolidated into this Account shall be eliminated in full. HM Treasury has a process in place to identify intra-government balances and transactions between bodies consolidated into the Account, and most balances and transactions have been eliminated. However, there remains a material value of intra-government transactions and balances which have not been eliminated. The effect of not adjusting for these could lead to a potential overstatement of up to £9.1 billion (£16 billion in 2011-12) in gross income and expenditure and up to £3.7 billion (£5.1 billion in 2011-12) in gross assets and liabilities.

I have reviewed the impact of this uncertainty and have assessed that the maximum uncertainty resides within the gross figures in the individual primary statements rather than on the net deficit or net liabilities.

The totals reported for the net deficit and the net liabilities are subject to a maximum uncertainty of some £1.3 billion (£1.0 billion in 2011-12). This information is derived from where only one body has reported an intra-government transaction or balance or there is a mismatch on the amounts reported. There is also uncertainty about whether there are amounts which both bodies involved in a relationship have not reported, leading to further overstatement.

Qualified opinion on financial statements

In my opinion, except for the effects of the matters described in the Basis for Qualified Opinion paragraphs above:

- the financial statements give a true and fair view of the state of the affairs of the Whole of Government Accounts as at 31 March 2013 and of its net deficit for the year then ended; and
- the financial statements have been properly prepared in accordance with the Government Resources and Accounts Act 2000.

Emphasis of matter – nuclear decommissioning provisions

In forming my opinion on the truth and fairness of these financial statements, I have considered the adequacy of the disclosures made in areas where there is significant uncertainty in the values reported in Note 1.22.6 to the financial statements, which concerns the uncertainties inherent in estimating the likely costs of the liabilities of the Nuclear Decommissioning Authority. As explained in the Note, the lengthy timescales, final disposition plans for waste and spent fuel, timing of final site clearance and the confirmation of site end states mean that the ultimate liability will vary as a result of subsequent information and events, and may result in significant adjustment over time to the value of the provision, which currently stands at £58.9 billion (£52.9 billion in 2011-12).

Opinion on other matters

In my opinion, the information given in the Foreword, Performance Report, Comparison to National Accounts, Remuneration Report and Governance Statement, for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which I report by exception

In respect solely of the limitations on audit scope referred to in the basis for qualified opinion paragraphs above:

- the financial statements are not in agreement with the accounting records or returns; and
- I have not received all of the information and explanations I require for my audit.

I have nothing to report in respect of the following matters which I report to you if, in my opinion:

- returns adequate for my audit have not been received from component bodies not visited by my staff; or

- the Governance Statement does not reflect compliance with HM Treasury’s guidance.

My Report on pages 10 to 34 includes more details of the matters leading to my qualified opinion.

Amyas C E Morse
Comptroller and Auditor General
9th June 2014

National Audit Office
157-197 Buckingham Palace Road
Victoria
London SW1W 9SP

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

Summary

1 The Whole of Government Accounts (WGA) is a single set of accounts consolidating the financial activities of the UK public sector. The WGA for 2012-13 is the fourth such set of audited accounts to be published by HM Treasury.

2 The WGA consolidates the financial activities of around 3,800 organisations from across the public sector into a single set of audited accounts showing the overall public sector financial position. It is the largest consolidation of public sector accounts in the world and includes both central and local government bodies as well as public corporations such as the Bank of England.

3 The WGA is now part of the Treasury's framework to improve public financial management and accountability to Parliament of the government's financial position. The WGA is increasingly being used by those within and outside of Treasury to inform decisions which affect public finances. As such, improvements to the quality and timeliness of the WGA help to increase its value to the Treasury in its own management of public finances and enhances accountability to Parliament.

4 Since the 2009-10 WGA was first published, the Treasury has made continuous improvements to its processes for compiling these accounts, to data quality and to its commentary published alongside the accounts. As a result, Treasury has produced the 2012-13 WGA more quickly meeting a major milestone in its aim of delivering WGAs within nine months of the year end by 2014-15.

Scope of this report

5 My Report covers:

- In **Part 1**, the Government's financial position and the progress the Treasury has made in taking forward recommendations made in previous years by the National Audit Office and the Committee of Public Accounts; and
- In **Part 2**, why I qualified my audit opinion on the 2012-13 WGA, and the progress made by the Treasury in resolving my qualifications.

Key findings

6 **The WGA shows the UK public sector's overall financial position, as defined by accounting standards.** In 2012-13, the WGA net expenditure (the shortfall between income and expenditure) decreased by £6.6 billion to £178.7 billion largely due to a reduction in the government's cost of borrowing and increases in revenue. However, direct expenditure (monies incurred in the direct delivery of the government's policies) increased by £18 billion in 2012-13 to £666 billion, mainly due to increases in purchase of goods and services and provision expense. Also, the government's net liabilities (the shortfall between asset and liabilities) increased to £1,630 billion as at 31 March 2013 from £1,347 billion at 31 March 2012, largely due to increases in public sector pension liabilities and government borrowing.

7 **The 2012-13 WGA is a true and fair account of the use of public resources, but my opinion remains qualified in certain aspects**. My audit opinion on the 2012-13 WGA is similar to that for 2011-12 and previous years as significant issues remain with the quality and consistency of the data included in the WGA. However, the Treasury has now put plans in place to address the issues that have led me to qualify my audit opinion. If these plans are successful, I may be able to remove a number of my qualifications within the next four years. Bodies, such as Network Rail and Further Education Institutions, continue to be excluded from the WGA even though accounting standards require their inclusion.

8 **Since the Treasury first published the 2009-10 WGA, it has brought forward publication of the WGA by five months which allows for more effective transparency and accountability for how public finances are managed.** The 2012-13 WGA was published some 15 months after the financial year to which it relates compared to 20 months for the 2009-10 WGA. This improvement is part of the Treasury's aim of delivering the 2014-15 WGA within nine months of the year end. It also reflects the fact that the data collection and accounts production processes supporting the WGA have become much more embedded since the first WGA was published in November 2011.

9 **WGA is one part of a wider set of processes which Treasury uses to manage significant risks to public finances. As the Treasury now has more WGA trend data, it is starting to highlight some of the longer-term risks on the balance sheet and beginning to use this information to help inform government's spending plans.** For example, WGA data has drawn attention to movements in nuclear decommissioning and clinical negligence provisions. Additionally, the Treasury is working with its spending teams to educate them on the comparative data that WGA provides and how it may be used to help challenge departments on their current and future spending plans.

10 **The Treasury is taking steps to make disclosures in WGA more detailed and transparent.** Taking forward recommendations made previously by the National Audit Office and the Committee of Public Accounts, the Treasury is currently working to enhance some of its disclosures. This will help the reader to see how government spends taxpayers' monies and assess the impact of the government's spending reduction plans in key areas such as consultancy and to provide an aggregated picture of fraud and losses across government.

11 I continue to regard the WGA as a key means through which Parliament and other stakeholders might gain greater insight into the wide range of activities that the government undertakes, scrutinise public finances and hold the government to account. The Treasury continues to make improvements to the WGA and has made progress against my qualifications, many of which could be resolved in the next four years. However, I believe that more could be done to exploit the WGA's potential as a reporting mechanism.

Recommendations

12 Although responsibility for the underlying transactions lies with the various bodies included in the WGA, my recommendations are all aimed at the Treasury, because it has ultimate responsibility for preparing the WGA. The Treasury should:

- **Continue its work in strengthening the WGA so that it is a true and fair account in all respects**.
- **Build on the enhancements it has already made to the production process by continuing to work with stakeholders to improve both the quality and timeliness of the data that it uses so that it achieves its aim of producing audited and robust WGAs to earlier timetables.**
- **Continue to raise the profile of the WGA within government and embed it in the routine monitoring of risks to public finances.** As use of the WGA within government increases, the Treasury could usefully expand its annual Performance Report and Foreword to WGA to set out in more detail the specific impact the WGA has had on public finances and be more transparent about how government is using the WGA and its underlying data, particularly to manage balance sheet risks.
- **Continue improving its work on data collection so that disclosures in the WGA can become more detailed, transparent and be of greater use to its readers.**

Part One: The UK Government's Financial Position

The Whole of Government Accounts

1.1 The Whole of Government Accounts (WGA) is a single set of audited accounts consolidating the financial activities of around 3,800 bodies, representing most of the UK public sector. It is the largest consolidation of public sector accounts in the world and includes central and local government and public corporations such as the Bank of England but not independent public sector organisations such as Parliament, the Crown Estate or the National Audit Office (**Annexes 2** and **3** to the WGA set out entities that have not been consolidated). The WGA sets out what the government owns (assets), owes (liabilities), spends (expenditure) and receives (revenue).

1.2 HM Treasury compiles the WGA and has overall responsibility for delivering it as a “true and fair” representation of the financial position and performance of the whole of government. It has also provided a detailed Performance Report (**Chapter 2**) which sets out the government's financial performance for 2012-13.

The purpose of my report

1.3 This Report consists of two parts:

- **Part 1** sets out the Government's financial position and the progress the Treasury has made in taking forward recommendations made in previous years by the National Audit Office and the Committee of Public Accounts; and
- **Part 2** explains why I have qualified my audit opinion on the 2012-13 WGA, and the progress made by the Treasury in resolving my qualifications.

The financial position of the UK Public Sector

1.4 Statistics on the government's financial position are routinely published in the *National Accounts*, monthly *Public Sector Finances Report*, the *Public Expenditure Statistical Analyses* and other sources. These produce two main measures which HM Treasury use for fiscal management: C*urrent Deficit* and *Public Sector Net Debt*.

1.5 The WGA provides a broader view of public finances based on accounting standards. The Treasury sets out the key differences between the two approaches and the reported financial position in **Chapter 3** to the WGA. Between 2009-10 and

2012-13, net expenditure as shown in the WGA has fluctuated whereas the ONS' Current Deficit fell year on year[1]. The WGA also shows that the Net Liability has fluctuated over the same time period whereas Public Sector Net Debt has increased[2].

WGA Net Expenditure

1.6 The WGA shows that net expenditure, the shortfall between income and expenditure as defined by accounting standards, was £178.7 billion in 2012-13 (**Figure 1**). This compares to £185.3 billion reported in 2011-12. The reduction is largely due to falls in the government's cost of borrowing and increases in revenue.

Figure 1

Key elements of the Whole of Government Accounts 2012-13

	Examples	**2009-10**	**2010-11**	**2011-12**	**2012-13**
Assets	Land and buildings, student loans, taxes due.	1,249.5	1,234.3	1,270.6	1,263.8
Liabilities	Public sector pension schemes, government borrowing.	2,477.4	2,420.0	2,617.5	2,893.4
Net Liability		**1,227.9**	**1,185.7**	**1,346.9**	**1,629.6**
Revenue	Taxation, rental from local government housing.	(583.4)	(614.0)	(616.6)	(620.7)
Direct Expenditure (**paragraph 1.8**)	Benefit payments, staff costs, grants, contributions to the EU.	619.5	663.3	647.8	665.8
Other Operating Expenditure	Pension scheme costs and impairment of assets.	47.7	(38.4)	67.3	51.5
Net Financing Cost	Interest paid on borrowing.	78.6	83.2	88.1	79.4
Other	Revaluation of financial assets and liabilities and net loss on disposal of assets.	0.3	0.3	(1.3)	2.7
WGA Net Expenditure for the year		**162.7**	**94.4**	**185.3**	**178.7**

1. All amounts in £ billions

SOURCES

2009-10 - NAO analysis of restated prior year values in 2010-11 WGA

2010-11 - NAO analysis of restated prior year values in 2011-12 WGA

2011-12 - NAO analysis of restated prior year values in 2012-13 WGA

2012-13 - NAO analysis of 2012-13 WGA.

[1] Paragraph 3.28 and Public Sector Current Budget Deficit Table in Chapter 3

[2] Paragraph 3.14 and Public Sector Net Debt Table in Chapter 3

1.7 Last year, the Treasury introduced a new way of explaining the trend in public spending. The Treasury's definition of Direct Expenditure is monies incurred in the direct delivery of the government's policies. This uses items in the WGA's Consolidated Statement of Revenue and Expenditure but excludes those that result from the revaluation of assets or are actuarially determined as these are outside the direct control of individual entities within the WGA and finance costs. Performance using this measure shows that Direct Expenditure rose to £665.8 billion from £647.8 billion last year due to increases in the purchase of goods and services and provision expense (**Figure 1** above**, Table 2.2 and paragraphs 2.43-2.45 in the WGA Performance Report**).

The WGA Net Liability

1.8 Since the WGA was first produced covering 2009-10, the net liability increased by just over £400 billion from £1,227.9 billion to £1,629.6 billion (Figure 1). Most of this increase was due to £214 billion of gilts issued to finance the deficit. A relatively small increase of £37 billion to public sector pension liabilities was net of a significant decrease caused by increasing payments in line with the consumer price index instead of the retail price index.

1.9 In 2012-13, the government's net liability increased by £282.7 billion to £1,629.6 billion. The increase was largely due to a £165.8 billion increase to public sector pension liabilities and £30.7 billion increase to government borrowing in the form of issuing gilts to finance government spending.

Improvements made since the 2011-12 WGA

1.10 The Treasury continues to improve the WGA and take forward recommendations made by both the National Audit Office and the Committee of Public Accounts. Since we last reported, the Treasury has taken forward a number of initiatives which aim to improve the robustness, timeliness and quality of the WGA, and use the WGA to help inform the government's financial position.

1.11 As the WGA is now part of the Treasury's framework to improve public financial management and accountability to Parliament of the government's financial position, these improvements to the WGA help to increase its value to the Treasury in its management of public finances and enhances accountability to Parliament.

Resolving the issues causing a qualified audit opinion

1.12 I am required[3] to provide my Opinion on the WGA and, since the first WGA, I have qualified my Opinion. However, during 2012-13 and subsequently, the Treasury have taken a number of steps so that measures are being put in place that may

[3] Government Resources and Accounts Act 2000

enable me to remove my qualifications at some point over the next four years. **Part 2 of my Report** provides further details.

1.13 There is one area, however, where I am likely to continue to disagree with the Treasury. The Treasury designates bodies for inclusion within the WGA based on decisions made by the ONS. However, I am of the view that Treasury should apply accounting standards in determining which bodies government owns and controls and, hence, which should be included within the WGA. The Treasury's decision means that there are bodies excluded from the WGA which have material assets and liabilities.

Earlier delivery

1.14 The WGA continues to be produced to a much tighter timescale. Building on this, the Treasury currently intends to produce its audited 2013-14 WGA in March 2015 and aims to bring forward future WGAs to much earlier timetables. The first WGA, covering 2009-10, was published in November 2011 (20 months after the year-end) and the 2012-13 WGA is published in June 2014 (15 months). This improvement recognises that the processes for collecting data from the increasing number of bodies included in the WGA, and for how that data is brought to account, is maturing.

Using the WGA to help inform the government's financial position and enhance decision making

1.15 The WGA is one part of a wider set of processes which Treasury uses to manage significant risks to public finances. In the main, financial risk management in government centres on the fiscal, budgeting and spending, and estimates frameworks. While these frameworks were designed for different purposes, they are connected and, in many cases, draw on the same data, such as government departments' monthly reporting of spend to date and forecasts in OSCAR. [4] The Clear Line of Sight initiative has brought about greater alignment of the frameworks and data used to support them.

1.16 The WGA has the potential to help manage longer-term risks to the balance sheet which do not feature in these other frameworks as they tend to focus on government spending, cash requirements or financial assets and liabilities specifically. The WGA is already being used to help manage these longer terms risks - for example, the Office for Budget Responsibility also considers risks to the sustainability of public finances and draws on the WGA, among other sources, when developing its long-term projections of government spending and receipts.[5] However, risks to the balance sheet are considered less routinely by the Treasury but they have told us that most of the information they do use comes from the WGA.

[4] OSCAR, the Online System for Central Accounting and Reporting, is the Treasury's financial reporting and management system which captures and monitors central government spend and prepares the WGA.

[5] Office for Budget Responsibility, *Fiscal Sustainability Report*

1.17 I have previously recommended that the profile of the WGA should be raised within government and for it to be used more effectively to help decision making. In 2013, the Committee of Public Accounts also recommended that the Treasury sets out how it will ensure that the Government makes much better use of the WGA to inform decisions, particularly in areas that involve long term liabilities.[6]

1.18 The Treasury has started to take steps to embed the role of the WGA, and its underlying data, in helping to inform further areas of focus and financial risk management. The Treasury has told us that, now the WGA is in its fourth year of publication, it has useful trend data which it is able to share with others within and outside of Treasury. Specifically, the Treasury highlighted that the WGA:

- has continued to draw attention within the Treasury to trends on, and the scale of, some provisions. For example, the WGA data highlighted that most of the nuclear decommissioning provision was due to rising costs of Sellafield and has drawn attention to the rising clinical negligence provision in the past;
- has contributed to the Spending Round 2013 by providing data on depreciation and the location of fixed assets to help work towards meeting the government's aim to reduce assets;
- has contributed to discussion around streamlining and simplifying Resource Accounts by highlighting key data needed from a whole government perspective; and
- will feed into decisions around how to structure Public Finance 2 (PF2): the government's new approach to involving private finance in the delivery of public infrastructure and services.

1.19 The Treasury recognises the potential for WGA to enhance spending teams' understanding of their relevant department and to use WGA comparative data to challenge departments on their finances and to inform allocation decisions in the next Spending Review. A programme of education by Treasury's Accounting Financial Reporting Policy team is at an early stage and aims to ensure that spending teams understand WGA, can interpret the data and know how the data may be used.

Improving the usefulness of disclosures within the WGA

1.20 I have reported in previous years[7] that the lack of detail in parts of the WGA continues to inhibit its usefulness and have recommended that data collection is improved so that information in the WGA can become more detailed and be of greater

[6] Committee of Public Accounts, *Whole of Government Accounts 2011–12*, Thirty-second Report of Session 2013-14, HC 667, December 2013

[7] For example, paragraph 7.15 in the C&AG's report on the WGA 2009-10, HC1601, November 2011

use to its readers[8]. For example, Note 8 to the WGA, which shows expenditure on the purchases of goods and services by government sector, does not provide further analysis as to how the £163 billion has been spent, such as on consultancy and accommodation. The WGA also does not include additional disclosures showing how public spending is distributed between individual regions or nations across the UK or across the main areas of government, such as defence, health and education. This lack of granularity within the WGA does not help the reader assess the full impact of the government's current and future deficit reduction measures.

1.21 Following the introduction of OSCAR to support the WGA from 2012-13, Treasury has taken the opportunity to begin to capture transactions in a greater level of detail than it has been able to in previous years. Once it has two years' worth of data available, it will be in a position to disclose more information within the WGA. The Treasury aims to address this from 2013-14.

Highlighting the extent of fraud and error across the whole of government

1.22 The Committee of Public Accounts recommended in 2013 that government should report cross-government figures within the WGA which would show the impact of its counter-loss activities.[9] Although the WGA includes the financial impact of fraud, error and loss through the consolidation of central government accounts, it is not yet stated explicitly. Neither does the WGA include losses from local government and public corporations which are not required to disclose their losses in the same way. The Treasury has, however, committed to implementing the Committee's recommendation by July 2015.[10]

[8] Paragraphs 8 to 10 of the C&AG's Report on the WGA for 2011-12, HC531 July 2013.

[9] Committee of Public Accounts, *Whole of Government Accounts 2011-12*, HC 667, Thirty-second Report of Session 2013–14, 12 December 2013

[10] Treasury Minute, Cm 8819, February 2014

Part Two: Qualifying the Comptroller and Auditor General's Audit Opinion

2.1 This part of my Report explains why I have qualified my Audit Opinion on the 2012-13 WGA. It also provides details of the progress the Treasury has made in respect of each qualification since my last Report.

2.2 This is the fourth year that I have audited the WGA and I have been able to report to Parliament that these accounts are a "true and fair" presentation of the whole of government's financial position, although I have always qualified my opinion on a number of matters.

Progress in resolving qualifications

2.3 The Treasury continues to make good progress in moving towards resolving the qualification issues I have raised. Of the six qualifications raised in my Report on the 2011-12 WGA, the Treasury has taken action on all of them and has made progress on five. A detailed description of the actions undertaken by Treasury follows each of my explanations for the basis of individual qualifications further in this Report.

My obligations as auditor

2.4 Under the Government Resources and Accounts Act 2000, I am required to examine and certify the WGA. International Standards on Auditing (UK and Ireland) require me to obtain sufficient evidence to allow me to give reasonable assurance that the WGA is free from material misstatement. In forming my opinion I examine, on a test basis, evidence supporting the disclosures in the financial statements and assess the significant estimates and judgements made in preparing them. I also consider whether the accounting policies are appropriate, consistently applied and adequately disclosed.

Materiality

2.5 In both my Audit Opinion and this Report, I refer to the concept of materiality and this part of my Report explains this and how I apply it in terms of performing my audit.

2.6 The concept of materiality recognises that financial statements are rarely absolutely correct, and that an audit is designed to provide reasonable, rather than absolute, assurance that the financial statements are free from material misstatement.

2.7 I consider a matter to be material if its omission or misstatement would reasonably influence the decisions of users of the financial statements. I consider the primary users of this account to be Parliament but I recognise that the financial statements will be of general interest to others.

2.8 I calculate a materiality level before the financial statements are produced to assess the risks of material misstatement and to plan the nature, timing and extent of our audit procedures. The appropriateness of the materially is considered throughout the audit and adjusted as required.

2.9 The choice of materiality requires professional judgement and, for the financial statements as a whole, I set this at £8 billion for 2012-13 which is approximately 1 per cent of gross expenditure, although I give consideration to other benchmarks in the financial statements when setting materiality. Materiality is not only a pure quantitative measure, but also includes a qualitative aspect and my opinion is not solely based on total error being under the materiality level.

2.10 There are specific disclosures of figures within the WGA which need to be disclosed in a clear and understandable way. Should there be any error in these figures, I consider the impact that these would have on the users of the financial statements even if the error is below the materiality level.

2.11 I agreed with the Audit Committee that I would report to it all corrected and uncorrected misstatements identified through my audit in excess of £100 million as well as any differences below that threshold which in my view warranted reporting on qualitative grounds.

2.12 Due to the number of component bodies making up the WGA, my audit is dependent upon the work of component auditors to provide me with assurance over the accuracy of data submitted as part of the consolidation process. We send detailed instructions over the type and scope of procedures that I require to be performed to all component auditors, supplemented by training on my audit requirements where requested. We also carry out assurance work on all of the significant component audits, together with a sample of non-significant component audits.

2.13 The expenditure base for WGA may reduce in future years as public sector spending constraints continue and this could mean that my materiality level will also reduce in line with this reduced expenditure.

Qualified opinion owing to multiple disagreements and limitation of scope of my audit

2.14 I have qualified my opinion on the 2012-13 WGA because, in a number of significant areas, the WGA does not comply with International Financial Reporting Standards as adapted for the public sector context, and this has a material effect on the figures presented. My qualifications relate to:

- The definition of public bodies that the Treasury has used to determine the boundary of the WGA;
- The inconsistent application of accounting standards; and
- How the Treasury has accounted for income from the sale of 3G and 4G licences.

2.15 I have also limited the scope of my opinion on the 2012-13 WGA because of the following issues which meant I was unable to obtain sufficient and appropriate audit evidence on which to base my opinion in certain areas:

- There was a lack of evidence to support the completeness and accuracy of the value of school's assets included in the Accounts;
- Material issues arising within the audit opinions of accounts included in the WGA where auditors have limited the scope of their audit; and
- There was a lack of evidence to support the completeness of the intra government adjustments to remove transactions and balances between the bodies included in the WGA.

Qualified audit opinion relating to the WGA boundary

2.16 I have qualified my opinion because, in my view, the Treasury has not complied with applicable accounting standards in determining which bodies to include in the WGA. Significant assets and liabilities have therefore been left out of the financial statements.

2.17 I cannot quantify the impact of this on the WGA with certainty, as I do not have information needed to identify the transactions that would have to be eliminated to provide a consolidated view. However, for illustrative purposes, I have examined the impact of adding the gross assets, liabilities, income and expenditure published in the individual accounts of public sector bodies that the Treasury did not include in the WGA. Although these figures are only illustrative, they demonstrate that the exclusions represent material omissions from the WGA (**Figure 2**).

Financial reporting requirements

2.18 In my previous Reports[11], I have noted that in determining the boundary for the whole of government, the Treasury has adopted the classifications of public bodies used by the Office for National Statistics (ONS), rather than apply accounting standards which require including bodies that are subject to government control, and define control as 'the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities'.[12]

2.19 As a consequence of the Treasury adopting statistical, rather than accounting, standards when it comes to defining 'control', the WGA excludes Network Rail Ltd, which had net assets of £8 billion at 31 March 2013 (£7.9 billion at 31 March 2012).

[11] Comptroller and Auditor General, Report on the Whole of Government Accounts 2011-12, July 2013

Comptroller and Auditor General, Report on the Whole of Government Accounts 2010-11, October 2012

Comptroller and Auditor General, Report on the Whole of Government Accounts 2009-10, November 2011

[12] *International Accounting Standard 27 – Consolidated and Separate Financial Statements*.

The Treasury has also not applied its own criteria consistently as there are a number of bodies that fall within both statistical and accounting definitions of government 'control' but have not been included in the WGA[13] and include:

- bodies that are not controlled by government, such as Parliament;
- a number of small bodies that have not been consolidated on the basis of size[14]; and
- other bodies that are partly or wholly owned by the Government, such as the Royal Bank of Scotland.

2.20 I consider it appropriate to exclude those bodies that are not controlled by the government, as this treatment meets with accounting standards. I also consider that it is acceptable to exclude the small bodies as they do not represent a significant exclusion from the WGA. However, by adopting generally accepted accounting standards, I consider that the bodies listed in **Figure 2**, where the Government has the ability to control their activities, should be included in the WGA.

Figure 2

Gross accounts figures from bodies that have been excluded from WGA as compared to the total figures in the WGA (for illustrative purposes)

	Revenue	Expenditure	Impact on net expenditure	Assets	Liabilities	Impact on net liability
2011-12 WGA	616.6	(801.9)	(185.3)	1,267.6	(2,614.6)	(1,347.0)
Total values of entities excluded from 2011-12 WGA	64.7	(67.1)	(2.4)	2,639.5	(2,490.9)	148.6
2012-13 WGA	620.7	(799.4)	(178.7)	1,263.8	(2,893.4)	(1,629.6)
Total values of entities excluded from 2012-13 WGA	65.6	(71.4)	(5.8)	2,393.8	(2,254.6)	139.2
2012-13 figures consist of:						
Network Rail Ltd	6.2	(5.5)	0.7	52.6	(44.6)	8.0

[13] Annex 2 to the WGA

[14] Annex 3 to the WGA

State-owned banks[1] (temporary ownership)	56.8	(64.0)	(7.2)	2,236.9	(2,121.7)	115.2
State-owned banks[2] (longer-term ownership)	1.5	(0.9)	0.6	87.1	(81.8)	5.3
Financial services sector[3]	0.6	(0.6)	-	0.6	(0.6)	-
Further education institutions[4]	-	-	-	14.9	(5.4)	9.5
Trust Ports[5]	0.4	(0.3)	0.1	1.4	(0.4)	1.0
Other[6]	0.1	(0.1)	-	0.3	(0.1)	0.2

NOTES

1. Lloyds Banking Group plc and Royal Bank of Scotland Group plc
2. Northern Rock (Asset Management) plc and Bradford & Bingley plc.
3. Financial Services Authority
4. No amounts have been included for income and spending of Further Education Institutions because the majority of their operations are funded through government grants, which are included in Note 9 to the WGA. Their assets and liabilities have been estimated from data provided by Skills Funding Agency (covering England only) for 2010-11.
5. Trust Ports - figures have been estimated from available accounts for year-ended 31 December 2012.
6. London Councils and other minor bodies.

The net assets of some of the entities are included in the WGA as equity investments, for example the state-owned banks are included in the accounts of the Treasury.
The bodies have been treated as if they had always been entirely owned by the public sector. In particular, for Royal Bank of Scotland and Lloyds Banking Group, no account has been taken of the residual private sector shareholdings.
Not all bodies have a March year-end, e.g. figures for the banks relate to the year ending 31 December 2012.

All figures are in £ billions.

Source: NAO analysis of Note 37 to the WGA and published accounts.

Progress since 2011-12

2.21 There has been progress in including bodies listed in Figure 2. Although some of the originating events driving this progress came from others, the Treasury has contributed positively in considering how these decisions impact upon, and could be reflected in, future WGAs. The future developments are:

- **Network Rail Ltd**: The ONS had previously classified Network Rail Ltd as a private sector body which led the Treasury to exclude Network Rail from the WGA. However, on 17 December 2013, the ONS determined[15] that, following forthcoming changes to national accounting rules[16], Network Rail would be reclassified as being in the public sector from September 2014. The Treasury has considered the impact of this announcement and will consolidate Network Rail into the WGA from 2014-15.

[15] Office for National Statistics, Written statement to Parliament, ONS decision on the classification of Network Rail, 17 December 2013

[16] Office for National Statistics, Latest developments to National Accounts, 16 May 2014

- **Partly-owned Banks**: During 2013-14, as part of the Government's policy of returning the partly-owned banks to private ownership, the Treasury commenced disposal of its shareholdings in Lloyds Banking Group plc bringing its remaining ownership down to 24.9 per cent of the total available shares[17] as at the date of this report. The Treasury currently remains the single largest shareholder although the volume of shares held is less than the 30 per cent defined by the Financial Conduct Authority as being a controlling shareholder[18]. As at the date of this report there have been no disposals in respect of the Government's ownership of the Royal Bank of Scotland Group plc.

- **Wholly-owned banks**: From 2013-14, the Treasury will include UK Asset Resolution Ltd, which comprises Northern Rock (Asset Management) and Bradford and Bingley, into its own Departmental Accounts from 2013-14. Consequently, these banks will also be included in the 2013-14 WGA.

- **Financial services sector**: The Financial Services Authority ceased as an organisation on the 31 March 2013 being succeeded by the Prudential Regulation and the Financial Conduct Authority. The Prudential Regulation Authority has been included in the 2012-13 WGA and the Financial Conduct Authority will be included in the 2013-14 WGA. The Treasury has also identified that the Financial Ombudsman Service should be included within the 2013-14 WGA.

- **Further education institutions**: In my Reports on the WGAs for 2011-12 [19] and 2010-11[20], I recommended that the Treasury should review its criteria for including bodies within the WGA, taking into account changes in the control government exerts over English further education institutions following the passage of the Education Act 2011. The Treasury continue to exclude English institutions from the WGA as the ONS determined that these bodies fall outside of the public sector following the 2011 Act[21]. However, under accounting standards, there remains in my view sufficient government control to warrant their inclusion.

  In addition, there are national differences across the United Kingdom. The

[17] HM Treasury, March 2014, available at https://www.gov.uk/government/news/government-reduces-its-stake-in-lloyds-banking-group-to-below-25

[18] Financial Services Authority, *The Listing Rules*, August 2002, Section 3.13

[19] C&AG's Report within Whole of Government Accounts 2011-12, HC531, July 2013, Paragraph 2.29.

[20] C&AG's Report within Whole of Government Accounts 2010-11, HC687, October 2012, Box 6, paragraph 7.69.

[21] http://www.ons.gov.uk/ons/rel/na-classification/national-accounts-sector-classification/classification-update---may-2012/reclassification-of-further-education-corporations-and-sixth-form-colleges-in-england---article.html#tab-Executive-Summary

further education institutions in Northern Ireland, Scotland and Wales remain excluded from the WGA, despite these being designated by the ONS as falling within the public sector. However, Treasury are reviewing the position of these bodies and are considering the possibility, subject to any future legislative changes, of including these bodies in future years.

- **Trust Ports**: The Treasury is considering the status of Trust Ports with a view to bringing them within the 2014-15 WGA.
- **Other bodies**: In September 2011, the ONS concluded that the governance arrangements for all NHS linked charities were public sector in nature and this reclassification brought NHS charities within the Department of Health Accounts for 2012-13 and, hence, into the 2012-13 WGA.

Recommendations for further action

2.22 I continue to recommend that the Treasury should change its criteria for including bodies within the WGA. I also recommend that the Treasury should perform work in advance of the consolidation of new bodies (such as Network Rail plc) to mitigate against the risk of a material impact arising from inconsistent application of accounting policies.

2.23 Although the Treasury continue to make good progress in consolidating more bodies into the WGA, my qualification on this matter is likely to remain until all significant government controlled entities are included in line with accounting standards.

Qualification arising from disagreement relating to the inconsistent application of accounting policies

2.24 I have qualified my opinion because of the impact of the inconsistent application of accounting policies.

The WGA financial reporting framework

2.25 The financial reporting framework that WGA must follow is set out in the Government Financial Reporting Manual which applies International Financial Reporting Standards (IFRS), as adapted for the public sector context. However, for 2012-13, some of the bodies included in the WGA prepared their accounts based on accounting frameworks that are inconsistent with the requirements of the Financial Reporting Manual.[22]

2.26 Under accounting standards, the Treasury should identify the impact of the different frameworks and make appropriate adjustments to the WGA, where material, so that the WGA is prepared on the same basis.[23] The Treasury has undertaken an

[22] Annex 4 to the WGA

[23] *International Accounting Standard 27 – Consolidated and Separate Financial Statements*

assessment of these differences and identified one material inconsistency, but has not been able to adjust for this in 2012-13. I do not have the information to fully quantify the effect of all inconsistencies that exist as a result of inconsistent financial reporting frameworks.

2.27 The one area of material misstatement is due to differences between the financial reporting frameworks used by local government, which requires local authorities to value their infrastructure assets using historic cost, and central government which values assets at their depreciated replacement cost in line with the requirements of the Government Financial Reporting Manual.[24] The Treasury estimates that this difference in accounting treatment has resulted in an understatement of asset value of at least £218 billion.[25]

2.28 Local authority infrastructure assets consist primarily of local highways infrastructure but also of other assets such as coastal defences, airports and light rail, including the London underground network.

Progress since 2011-12

2.29 In my Report on the 2011-12 WGA, I recommended that the Treasury should continue to support the Chartered Institute of Public Finance and Accountancy (CIPFA) in considering the basis of valuing assets and take steps to ensure that data collected is considered reliable.

2.30 CIPFA plans that the Code of Practice on Local Authority Accounting will be amended to require local authorities to account for their highways infrastructure assets using depreciated replacement cost accounting in their own financial statements from 2016-17. This timeframe is so that local authorities can prepare and collect accurate information in 2015-16 as opening balances for 2016-17.

2.31 The Treasury, as part of its data collection exercise for the 2012-13 WGA, asked local authorities to provide valuation data on its highways infrastructure assets. The objectives were both to establish a more accurate level of valuation than that presently noted in the WGA and also to learn lessons on data capture that could be implemented in the future once the Code had been amended. Although the Treasury considered the data received insufficiently robust for inclusion in the WGA, I consider this to have been a worthwhile exercise in identifying the problems of data collection in advance of the implementation of the revised Code.

[24] As required under paragraphs 6.2.10 to 6.2.18 of the Government Financial Reporting Manual

[25] Note 14.1 to the WGA: The best proxy available for depreciated replacement cost is the calculated asset value used by the Office for National Statistics from their perpetual inventory model reflected in the *National Accounts*. The 2012 *National Accounts* estimated the value of the road network at £273.5 billion as at 31 December 2012 implying a likely understatement of at least £218 billion.

Recommendations for further action

2.32 The Treasury should continue its work with CIPFA to ensure that these planned changes remain on track and that it is able to take prompt action should there be early indications that the data collected by local authorities is not complete, robust, reliable or auditable. Treasury should also put in place plans to obtain depreciated replacement cost values for the remaining non-highways infrastructure assets.

2.33 Should local government make a successful transition to depreciated replacement cost from 2016-17, which includes providing complete, robust, consistent and auditable data and auditable prior year balances, I may be able to remove my qualification in this area.

Qualification arising from disagreement in the accounting for 3G and 4G licences

2.34 I have qualified my opinion because I consider that the Treasury has not complied with the requirements for accounting for income from the sale of 3G licences in April 2000 and 4G licences in February 2013. The impact of this on the 2012-13 WGA is that income is overstated by £1.3 billion, deferred income is understated by £10.2 billion (£9.0 billion in 2011-12) and the General Fund is overstated by £10.2 billion (£9.0 billion in 2011-12).

Financial reporting requirements

2.35 In April 2000, the Government raised some £22.5 billion from the sale of five licences for the electromagnetic spectrum for third generation mobile phone services. Telecommunications companies paid for the licences in full in 2000 and the Consolidated Fund accounted for these proceeds on a cash basis in its 2000-01 account. In February 2013, the Government raised a further £2.4 billion from the sale of the electromagnetic spectrum for fourth generation mobile phone services to five successful bidders. As with the previous auction telecommunications companies paid for the licences in full and the Consolidated Fund accounted for these proceeds on a cash basis in its 2012-13 account.

2.36 The accounting standard for revenue recognition explains that income should be matched to expenditure[26]. In respect of both licences, the licence holders have the right to access the spectrum for 20 years and, in my view, there is an on-going cost on the government to maintain the airwaves. Therefore a more appropriate accounting treatment would be to recognise this income over the licence period rather than treat it all as income in the first year. The Treasury does not agree with this view and, as disclosed in Note 1.22.3 to the WGA, believes that there are no additional performance obligations. Therefore, the Treasury has not adjusted the WGA for these transactions and I have qualified my opinion accordingly.

[26] International Accounting Standard 18 – Revenue

2.37 The balance of deferred income at 31 March 2012 was some £9.0 billion and, although the balance in respect to 3G licence continues to fall, following the sale of the 4G licences, the remaining balance has increased by some £1.2 billion this year. The remaining balance of £10.2 billion will decrease over time and have a decreasing impact on the Account.

Progress since 2011-12

2.38 Following the sale of the 4G licences, the Treasury has carried out further work on its consideration of the appropriateness of the accounting treatment on the sale of spectrum licences and reviewed the role of the Office of Communications (Ofcom). The Treasury has entered into further discussions with me on this matter but they remain of the view that there are insufficient grounds to adjust the WGA.

2.39 Although not pertinent to my consideration of the treatment under accounting standards, I note that, in February 2014[27] , the Office for National Statistics amended their consideration of the treatment of spectrum licence sales in the United Kingdom National Accounts from treating spectrum licence sales as sales of assets to one where the income is recognised over the life of the licence.

Recommendations for further action

2.40 The Treasury should, in my view, adjust the WGA for the 3G and 4G transactions in line with accounting standards.

Qualification arising from limitation of audit scope due to lack of evidence supporting the completeness and valuation of schools' assets included in the Accounts

2.41 I have qualified my opinion in respect to local authority maintained school assets because not all school assets are included in the WGA.

2.42 All local authority maintained schools are classified by the ONS as public sector and hence fall within the Treasury's definition for inclusion within the WGA. Taking an approach based on financial reporting standards[28], I consider that these schools should be included within the WGA, as local authorities and the Secretary of State for Education have the ability to exert control over such schools.

2.43 However, such schools have only been included in the WGA if their financial activities were included in the financial statement of individual local authorities. A

[27] National Accounts Classification Decisions - http://www.ons.gov.uk/ons/rel/mro/news-release/ons-reclassifies-3g-mobile-phone-licences-in-national-accounts/mob0911nr.html

[28] *International Accounting Standard 27 – Consolidated and Separate Financial Statements*

working group, led by CIPFA, reported that not all schools were included within local authority financial statements.[29]

2.44 In considering the impact of this treatment of the local authority maintained schools' sector on the WGA, I have concluded that I have insufficient evidence to support the completeness and valuation of these schools' assets within the WGA. Although I have sufficient evidence over the treatment of community schools, which are accounted for within local authorities' accounts, I have been presented with no evidence to allow me to conclude that the assets of foundation, voluntary aided and voluntary controlled schools are all included within the WGA.

2.45 Based on the estimates I do have, the omissions are material to the WGA. **Figure 3** shows that up to £23 billion (2011-12: £26 billion) of assets from voluntary aided and foundation schools and £8 billion (2011-12 £8.5 billion) of assets from voluntary controlled schools have been omitted from the accounts. The reduction in the value of error is primarily due to a reduced number of schools caused by their transition to Academies.

Figure 3

Estimated net book value of local authority maintained schools, and whether these are included or excluded from the WGA

	Voluntary aided and foundation schools (not included in WGA)		**Voluntary controlled schools (may or may not be included in WGA)**	
	Number	**Amount (£m)**	**Number**	**Amount (£m)**
Primary Schools	4,097	12,291	2,409	7,227
Secondary Schools	714	10,710	55	825
Total	**4,811**	**23,001**	**2,464**	**8,052**

NOTES

1. Estimates as at January 2013 based on typical carrying value of £3 million for primary schools and £15 million for secondary schools as estimated by CIPFA.
2. These estimates may be overstated as some schools may lease their assets rather than own them. There is no information available to take account of this.
3. FRAB (108) 11: Consideration of the code of practice on Local Authority Accounting 2011/12 and 2012/13 http://www.hm-treasury.gov.uk/d/frab108_11.pdf and Tables 7d and 7e of Schools, Pupils and their Characteristics.
4. https://www.gov.uk/government/publications/schools-pupils-and-their-characteristics-january-2013

[29] This is the correct treatment for the local authority accounts and there is no suggestion that the underlying opinions on any of these accounts are compromised.

Progress since 2011-12

2.46 The Treasury has been working with CIPFA to align local government accounting treatment for schools in England and Wales. The working group, in December 2013, concluded that that the balance of control rests with local authorities for community schools, voluntary controlled, voluntary aided and foundation schools, and that these schools should be included in the financial statements of local authorities. By including these schools in the financial statements of local authorities, they will be consolidated into the WGA.

2.47 CIPFA issued a consultation note[30] seeking views from stakeholders on amendments to the 2014-15 Code of Practice and, following this consultation, have amended the Code[31] to reflect the conclusion of the working group. This will mean that the currently omitted schools would be brought into the 2014-15 WGA. However, the amendments to the Code would only apply to England and Wales but not apply to those schools in Northern Ireland which are currently omitted. Schools in Scotland are included in the WGA.

Recommendations for further action

2.48 The Treasury should ensure that the data collected in the first year of implementation is sufficiently robust to be considered complete and true and fair in respect of schools brought into local authorities' accounts through implementation of the Code. The Treasury should include all schools in Northern Ireland within the WGA.

2.49 Once sufficient robust data is available in support of the completeness and valuation of voluntary aided, voluntary controlled and foundation schools, I may be able to remove my qualification in this area.

Qualification arising from disagreement and limitation of audit scope from underlying statutory audits of bodies falling within the Account

2.50 Where the external auditors of bodies in the WGA qualify their opinions on the statutory financial statements, I am required to consider the impact of these 'true and fair' qualifications on my opinion on the WGA. In 2012-13, external auditors qualified their opinions of some 10 accounts (24 accounts in 2011-12).

[30]CIPFA/LASAAC, The 2014/15 code of practice on local authority accounting in the United kingdom, Invitation to comment.

[31] CIPFA, Technical Accounting Alert 3, Accounting for Local Authority Maintained Schools (England and Wales) 2014/15 Financial Statements

2.51 The most significant of these qualifications relate to the Departmental Accounts of the Department for Education and the Ministry of Defence for 2012-13. Given their significance to the WGA, I have also qualified my opinion on the WGA.

2.52 Further details can be found in my audit opinions and within the annual accounts of the Department for Education[32] and the Ministry of Defence[33].

Progress since 2011-12

2.53 In my Report on the 2011-12 WGA, I reported that I had qualified my opinion on the WGA due to the material impact of the qualifications on the Ministry of Defence and Cabinet Office: Civil Superannuation Accounts for 2011-12. I am pleased to report that I have been able to remove my qualification on the Cabinet Office: Civil Superannuation Account for 2012-13 in respect of the valuation of the pension liability and have therefore, accordingly, removed my qualification of the WGA.

2.54 I also qualified my opinion on the 2011-12 WGA due to a limitation of scope in respect of having insufficient evidence to confirm the values of land and buildings belonging to academies. In 2012-13, although academies are no longer directly consolidated into the WGA as single entities, they are consolidated into the WGA through the Department for Education. My qualification of the Department for Education 2012-13 financial statements included a limitation of scope qualification over the values of land and buildings belonging to academies.

Recommendations for further action

2.55 The Treasury should continue to support both the Department for Education and the Ministry of Defence to help remove these qualifications. I recommend that particular attention is given to the Department for Education over the issues it faces in respect to the accuracy and timeliness of academies data as these weaknesses may impede the Treasury's aim of earlier publication of the WGA.

Qualification arising from the limitation of audit scope due to a lack of evidence supporting the completeness of the elimination of intra-government transactions and balances

2.56 I have limited the scope of my opinion because of the lack of evidence supporting the completeness and accuracy of the elimination of intra-government transactions and balances, between bodies included in the WGA.

[32] Department for Education Annual Report and Accounts 2012-13, Session 2013-14, HC49, 16 January 2014.

[33] Ministry of Defence Annual Report and Accounts 2012-13, Session 2013-14, HC38, 16 July 2013.

Financial reporting requirements

2.57 The WGA is a consolidated account which is prepared by including the financial activities of around 3,800 government controlled entities. Transactions and balances between these are removed so that income, expenditure, assets and liabilities are not overstated between bodies within the group, as required by accounting standards.

2.58 To present a true and fair picture of the financial position and financial results of government, it is important that the removal of these intra-government transactions and balances are complete and accurate.

2.59 The Treasury collects information from each of the bodies in the WGA on all intra-government transactions and balances that are over £1 million with details of the relevant counter-party. The Treasury uses this data to match balances and transaction streams and removes them from the WGA. Despite the work by the Treasury, there remains a material residual uncertainty over some of the figures in the financial statements because the removal of these transactions and balances is potentially incomplete and inaccurate. This uncertainty arises where:

- either of the entities declare different intra-government transactions or balances (requiring an assumption to be made as to the correct amount to remove); or
- only one entity declares an intra-government transaction or balance (a particular issue between central and local government bodies); or
- neither body declares an intra-government transaction or balance.

2.60 Using the available evidence, I have estimated the level of uncertainty as being up to £9.1 billion (£16.0 billion in 2011-12) in gross income and expenditure and up to £3.7 billion (£5.1 billion in 2011-12) in gross assets and liabilities (**Figure 4**). The estimated errors reside mainly within individual primary statements.

Figure 4

Sources of uncertainty about transactions removed and the impact on the financial statements

	Statement of Revenue & Expenditure	**Statement of Financial Position**
Entities declaring different intra-government transactions or balances	3.3	1.9
Only one entity declares an intra-government transaction or balance	3.0	1.3
Subtotal of errors that can be linked to specific entities	**6.3**	**3.2**
Neither entity within an expected relationship declares an intra-government transaction or balance	2.8	0.5
Impact on the financial statements (potential	**9.1**	**3.7**

overstatement)

NOTES

All figures in £ billions

Source: NAO analysis of WGA 2012-13

2.61 It is the significance of the estimated level of uncertainty within the statements, and the potential gross overstatement of income, expenditure, assets and liabilities which has led me to qualify my opinion rather than the potential impact on the annual deficit or net liabilities.

Progress since 2011-12

2.62 This level of error, although material in value for my qualification to remain for the 2012-13 WGA, is showing a positive downward trend (**Figure 5**).

Figure 5

Level of potential overstatement in the WGA

	2012-13	**2011-12**	**2010-11**
Statement of Revenue and Expenditure	9.1	16.0	22.6
Statement of Financial Position	3.7	5.1	10.4

All figures in £ billions

Source: NAO analysis of WGA 2012-13

2.63 In my Report on the 2011-12 WGA, I recommended that the Treasury should undertake further work to reduce the uncertainties in the elimination of intra-government transactions and balances and I also recommended that further work be concentrated on the area of local government.

2.64 The Treasury has taken a number of actions which have contributed to the reduction of the error in 2012-13. The Treasury has sought to maximise the benefits of the introduction of a change in IT systems by amending its data collection tools with the aim of improving the accuracy of the initial data received in the preparation of the WGA. It also seconded staff with local government and sector expertise to help identify errors within the local government data returns and reduced the threshold at which it would investigate potential imbalances. The Treasury also used other available data from central government sources to review the data it had received.

Recommendations for further action

2.65 The Treasury has made significant progress in reducing the elimination error over the last three years. For 2013-14, the Treasury, and the component bodies submitting data, will be operating a fully established IT system which should help produce more accurate data leading to further reduced levels of error.

2.66 However, with such an extensive body of components preparing information, some error in the initial data preparation is almost inevitable and it is possible that the level of error may not be able to be reduced much further under the current method of collation and preparation. I recommend that Treasury carry out a review of the structural process of data collection in order to determine areas of potential weakness and also to consider alternative methods of proving counter party balances in those areas which are either onerous to prove or are prone to error. If the Treasury can reduce the level of error to an acceptably low level, then I may be able to remove this qualification.

Other issues on which I have not qualified my opinion

2.67 There are two other issues that I wish to draw attention to, although I have not qualified my opinion for these issues:

- I have included an emphasis of matter paragraph in my audit opinion for one account that is significant to the WGA. This relates to the uncertainties in estimating costs of the liabilities of the Nuclear Decommissioning Authority. This value has been calculated based on reasonable assumptions, but could change with future events.
- The external auditor of some 18 accounts[34] (30 in 2011-12) included in the WGA qualified their audit opinions owing to the existence of material irregular transactions; that is not using resources in accordance with Parliamentary intentions. Of these, two are of significance to the WGA and cover error and fraud in benefit payments and tax credit payments. These irregularities have led me to qualify my regularity opinion on the financial statements of the Department for Work and Pensions[35] and HM Revenue and Customs[36]. Because the scope of my audit of the WGA, which is set out in the Government Resources and Accounts Act 2000, does not require me to provide an opinion on regularity, irregular transactions do not lead to a qualification of my audit opinion on the WGA.

Amyas C E Morse
Comptroller and Auditor General
9th June 2014

National Audit Office
157-197 Buckingham Palace Road
Victoria
London SW1W 9SP

[34] Included in this number are four accounts qualified on a 'true and fair' basis.

[35] Department for Work and Pensions Annual Report and Accounts 2012-13, Session 2013-14, HC20, 10 December 2013

[36] HM Revenue and Customs Annual Report and Accounts 2012-13, Session 2012-13, HC10, 2 July 2013