National Audit Office

JULY 2017

HM Treasury

Whole of Government Accounts 2015-16

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The National Audit Office scrutinises public spending for Parliament and is independent of government. The Comptroller and Auditor General (C&AG), Sir Amyas Morse KCB, is an Officer of the House of Commons and leads the NAO. The C&AG certifies the accounts of all government departments and many other public sector bodies. He has statutory authority to examine and report to Parliament on whether departments and the bodies they fund have used their resources efficiently, effectively, and with economy. Our studies evaluate the value for money of public spending, nationally and locally. Our recommendations and reports on good practice help government improve public services, and our work led to audited savings of £734 million in 2016.

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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

Tel: 020 7798 7400

Email: enquiries@nao.gsi.gov.uk

Certificate of the Comptroller and Auditor General

I certify that I have audited the financial statements of the Whole of Government Accounts (the WGA) for the year ended 31 March 2016 under the Government Resources and Accounts Act 2000. These comprise the consolidated statements of: Revenue and Expenditure, Comprehensive Income and Expenditure, Financial Position; Changes in Taxpayers' Equity; Cash Flows; and the related notes. These financial statements have been prepared under the accounting policies set out within them. I have also audited the information in the Remuneration and Staff Report that is described as having been audited.

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 consolidated accounts for a group of entities each of which appears to HM Treasury (the 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 financial statements in accordance with the Government Resources and Accounts Act 2000. 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 the Treasury; and the overall presentation of the financial statements. In addition, I read all the financial and non-financial information in the Overview and Performance Analysis; Statement of Accounting Officer Responsibilities; Governance Statement; Remuneration and Staff Report and the Annex to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by me in the course of performing the audit. 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 accounting boundary

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

However, in note 1.3 to this account, the Treasury defines the accounting boundary for the accounts 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.

I also consider that the Treasury's accounting policy has not been applied consistently in 2015-16. A number of significant bodies, including Royal Bank of Scotland, have not been included in the accounts, 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 accounts in line with applicable accounting standards.

Although I cannot quantify the effect of these omissions on the accounts 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 Statement of Financial Position. The exclusion of the following categories of bodies could affect the Statement, illustrating the potential impact:

- Royal Bank of Scotland which, as at 31 December 2015, had gross assets of £815.4 billion and gross liabilities of £761.3 billion; and
- other bodies which have estimated gross assets of £14.9 billion and gross liabilities of £5.6 billion.

Qualification arising from disagreement relating to inconsistent application of accounting policies

The 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 the accounts are prepared. These bodies fall under the following categories:

- bodies in the local government sector that follow the Code of Practice on Local Authority Accounting in the UK;
- 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 is material, adjustments should be made on consolidation. The Treasury has not provided a full analysis of these differences, although the accounts narrative does note some of these, and it has not been able to quantify fully the impact of the different accounting frameworks or accounting policies on the WGA, but it is material in some areas. The most significant example of the use of different accounting policies is where assets included in the WGA are not valued on a consistent basis, for example infrastructure assets held by local authorities.

Infrastructure assets held by local authorities are valued at historic cost, whereas those held by central government bodies are valued at depreciated replacement cost. The Treasury’s estimate of the understatement of infrastructure assets due to the difference in valuation between historic cost and depreciated replacement cost for local authority assets is at least £257.5 billion (note 2.3 to the accounts).

Qualification arising from disagreement and limitation in 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 these accounts qualified their audit opinion. Of these, two are of material significance to the WGA, qualifications of the accounts of the Ministry of Defence and the Department for Education.

- **Ministry of Defence accounts:** The Ministry of Defence does not hold sufficient records to enable compliance with the financial reporting framework and account for the expenditure, assets and liabilities arising from certain contracts in accordance with International Accounting Standard 17, Leases. Consequently, I have concluded that the Ministry of Defence has omitted a material value of leased assets and lease liabilities from its Statement of Financial Position as at 31 March 2016 and for the relevant comparative figures. This has also led to a material misstatement of the Statement of Revenue and Expenditure for 2015-16 and 2014-15. I am unable to quantify the impact on the financial statements because the Ministry of Defence has not maintained the records or obtained the information required to comply with International Financial Reporting Standards in this respect.
- **Department for Education accounts:** The Department has recognised academy trust land and buildings of £43 billion in its Statement of Financial Position as at 31 March 2016. The audit evidence available to me was limited in respect of this balance because the departmental group was unable to demonstrate that these all met the recognition criteria for non-current assets under International Accounting Standard 16 Property, Plant and Equipment; and had been valued in accordance with the requirements of IAS 16 and HM Treasury guidance. The audit evidence available was also limited in respect of the equivalent balances reflected in the 31 March 2015 and 31 March 2014 Statements of Financial Position.

Qualification of the 2014-15 Statement of Revenue and Expenditure arising from limitation of audit scope due to a lack of evidence supporting the completeness of the elimination of intra-government transactions and balances

The 2015-16 financial statements are not qualified with respect to the elimination of intra-government transactions and balances. However, there remain material values of intra-group transactions in the 2014-15 comparative financial statements, which have not been eliminated. Accounting standards require that balances and transactions held and made between bodies consolidated into these accounts shall be eliminated in full. The Treasury has a process in place to identify intra-government balances and transactions between bodies consolidated into the accounts, and most balances and transactions have been eliminated. For 2015-16, the Treasury was able to provide additional analysis of the net impact of the remaining intra-group transactions. This was not available for 2014-15, so I was unable to evaluate the net effect of the remaining intra-group transactions in the 2014-15 comparative financial statements.

The effect of not adjusting for these could lead to a potential overstatement of up to £6.5 billion in gross income and expenditure within the Statement of Revenue and Expenditure. As I was unable to assess whether the underlying net impact of these transactions was material, my qualification regarding the lack of evidence supporting the completeness of eliminations in the 2014-15 Statement of Revenue and Expenditure remains.

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 2016 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 2.6 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. This may result in significant adjustment over time to the value of the provision, which currently stands at £181.7 billion (£82.9 billion in 2014-15) as reported in note 22 to the financial statements.

Opinion on other matters

In my opinion:

- the parts of the Remuneration and Staff Report to be audited have been properly prepared in accordance with HM Treasury directions made under the Government Resources and Accounts Act 2000;
- the information given in the Overview and Performance Analysis; Governance Statement; Remuneration and Staff Report; and Annex, 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 and the parts of the Remuneration and Staff Report to be audited 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 the Treasury's guidance.

My report includes more details of the matters leading to my qualified opinion.

Sir Amyas C E Morse
Comptroller and Auditor General
11 July 2017

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

Report by the Comptroller and Auditor General

1 **The Whole of Government Accounts (WGA) provides the most complete and accurate picture of the financial performance and position of the UK public sector in 2015-16.** HM Treasury (the Treasury) consolidates the financial activities of over 6,000 organisations into the WGA. It includes both central and local government bodies as well as public corporations such as the Bank of England, but does not include independent public sector organisations such as Parliament, the Crown Estate or the National Audit Office.

2 **The WGA is increasingly important to the ongoing management of the public finances and the Treasury has increased the impact and profile of the accounts**. The Office for Budget Responsibility and the Institute for Fiscal Studies use the WGA in their reports on the management and sustainability of the public finances, and the data collected for Public Corporations is shared with the Office of National Statistics every year to feed into the annual National Statistics publication. The IMF's recent evaluation of the UK's fiscal transparency has praised the WGA's wide coverage and completeness and recognises its potential relevance to policy making. The comprehensive nature of the accounts and their reach across the public sector, provides the opportunity for the Treasury to use the data to enhance its ability to assess financial risk across the sector and improve its overall approach to managing the government's finances.

3 **Government borrowing grew by £86.1 billion and an increase in tax revenues did not offset the increase in government expenditure caused by a rise in long-term future liabilities.** In 2015-16, the WGA net expenditure (the shortfall between income and expenditure) increased by £91.8 billion, to £243.8 billion. This is due to an increase in total expenditure from £811.9 billion to £937.7 billion, arising from a £126 billion increase in provision financing costs due to the application of a revised discount rate to calculate the value of future liabilities; a £6.7 billion increase in pension scheme costs; and a £4.8 billion increase in social security benefits. These costs are offset by an increase in overall revenues from £659.9 billion to £693.9 billion, which is largely due to an increase in Income Tax, National Insurance Contributions and Corporation Tax. Within net expenditure wages and salaries are broadly stable at £149.6 billion compared to £148.5 billion, in the light of average full-time equivalent staff numbers increasing by 27,656.

4 **The Treasury has significantly improved the presentation of the 2015-16 WGA to provide more insightful narrative information on the cross government finances; and the main drivers of the movements in the financial statements.** For example, the Treasury has provided comparative charts covering the major expenditure streams, income, assets, liabilities and financial risks, which show how government has evolved since 2011-12; and detail on the major movements in the valuations of assets and liabilities, focussing on the impact of the change in discount rates on provisions and pensions. This helps to inform users of the accounts of the underlying reasons for movements in the government's overall financial position and represents a significant step forward for the WGA. Collecting and presenting consistent data in this format will be important in understanding how the government is delivering its financial strategy as the new Parliament evolves and the UK exits from the European Union.

5 **The Treasury has taken steps to make disclosures more detailed and transparent, but the WGA lacks specific detail in key areas that would enable a full analysis of the public finances.** There remains limited information on the purchase of goods and services by government or the distribution of public spending across the regions or the main areas of government activities. As the UK exits from the European Union and the process of managing the government's deficit progresses, these disclosures and the underlying data will be increasingly relevant and useful; and will improve the ability to scrutinise the Treasury's management of the public finances.

6 **The utility of the WGA is affected by the timeliness of its publication and significant challenges remain for the Treasury to meet its target of publishing the accounts within nine months of the year-end.** The Department for Education, a significant component for WGA, has made progress in finalising its annual accounts and plans to publish its 2016-17 accounts in July 2017. However, the Treasury will not be able to meet its aim of publishing the WGA by the end of December until the Department for Education is able to bring together the financial results of the academy sector in the Sector Annual Report and Accounts in time for it to produce the consolidated WGA data in line with its planned timetable to meet its nine month target.

7 **The Treasury has made significant progress in increasing the accuracy and completeness of transactions and balances in the WGA, allowing me to reduce the scope and number of qualifications of my opinion**. The 2015-16 WGA is an accurate reflection of the use of public resources, but my opinion remains qualified. As detailed in the appendix to this report, I have removed my qualification relating to the accuracy and completeness of intra government eliminations for 2015-16; and reduced the scope of my qualification on inconsistent accounting treatments. Inconsistent accounting treatments related to local government infrastructure remain despite the Treasury working with the local government sector as the project timetable has slipped[1]. My qualifications relating to the boundary of the WGA; and the underlying qualifications in the Ministry of Defence and Department for Education have not changed for 2015-16.

Recommendations

8 Although responsibility for the underlying transactions lies with the various bodies included in the WGA, my recommendations are aimed at the Treasury, because of its overarching responsibilities for the management of the public finances and the preparation of the WGA. The Treasury should:

- **Continue to raise the profile of the WGA within government and embed it into the routine monitoring of the risks to public finances**. As fiscal policy evolves and the UK exits from the European Union, the Treasury should ensure it presents consistent data in the WGA. This would provide greater insight into its approach to managing the risks to the public finances; and the government's portfolio of assets, long term liabilities and potential exposures.

- **Enhance the disclosures that support the financial information in the WGA, to enable the reader to assess fully the profile of spend across government.** The Treasury should improve the disclosures in the WGA on the purchases of goods and services; and the regional allocation of spending, revenue, assets and liabilities.

- **Continue its work to improve the quality and timeliness of data within the WGA**. In cases of late or erroneous data, the Treasury should set out an action plan for ensuring improvements are made with the relevant component bodies. The Treasury should focus in particular on the impact of the Department for Education's approach to the academies sector. I recommend that the Treasury agrees an action plan for managing the flow of data from the academy sector with the Department to ensure that the accuracy and timeliness of the WGA is not adversely affected by the change in its approach to consolidating the academies.

[1] http://www.cipfa.org/policy-and-guidance/highways-network-asset-briefing

- **Build on developments in financial management and reporting across government to remove the inconsistencies in accounting approach and policies**. Eliminating the major inconsistencies in asset valuation and ownership; liability recognition; and the application of the boundary of the WGA, would improve the usefulness of the WGA by providing a stable base within the numbers upon which to analyse the government's financial position and performance. Where other organisations or component bodies are instrumental in making progress with the removal of the residual inconsistencies, such as the Chartered Institute of Public Finance and Accountancy or government departments, the Treasury should agree the necessary steps with those bodies to ensure that progress is made.

Part One

How the WGA is being used

1.1 The WGA is underpinned by and supports the government's accruals based budgeting and financial reporting framework and is increasingly being seen as best practice around the world. The International Monetary Fund is promoting the adoption of accruals based accounting methodologies, and the development of comprehensive statements of accounts for developed countries as a mechanism for ensuring transparency and greater accuracy in the presentation and management of the public finances.[2] The IMF's evaluation of the UK's fiscal transparency in 2016 credited the WGA's 'wide institutional coverage' of the public sector along with the completeness of its wider balance sheet and reporting of in-year flows with placing the UK 'at the forefront of fiscal reporting practices worldwide'.[3] The WGA is a uniquely comprehensive product, covering over 6000 bodies; as it is the only set of audited consolidated country accounts that includes both central and local government activities.

1.2 The WGA forms a key part of the mechanisms for understanding the government's financial performance and position. Together with the statistically based National Accounts produced by the Office for National Statistics, and the Office for Budget Responsibility's forecasts of economic performance and the public finances; the WGA provides a mechanism for holding government to account for its long-term financial performance.

1.3 The WGA provides a unique standpoint that is not matched by any of the other elements of the government financial management framework. Through the WGA, it is possible to evaluate the details of government's income and spending; and the full portfolios of assets and liabilities that it holds. While the information in the WGA is incomplete in this regard, as demonstrated by the qualifications on the accounting boundary and the inconsistent accounting frameworks that are set out in appendix to this report; there is no more comprehensive record of what the government spends, receives, owns, owes and is committed to than the WGA.

[2] http://www.imf.org/external/pubs/ft/wp/2016/wp1695.pdf
[3] http://www.imf.org/external/pubs/ft/scr/2016/cr16351.pdf

1.4 The WGA's portfolio perspective is becoming increasingly valuable as the number of accounts increases, and as consistent presentation of data improve the ability to understand the details of the government's financial flows and its portfolios of assets and liabilities. I have published a series of reports which build on this portfolio level view and explore some of the major risks to public finances highlighted in the WGA, focussing on the government’s pension liabilities[4]; its financial assets[5]; and provisions, contingent liabilities and guarantees[6]. These reports examine how the significant risks to the wider government balance sheet have changed in recent years and consider how government currently manages them at the macro level. I will also be presenting a similar report on government's approach to managing borrowing later in 2017.

1.5 The WGA is helping to bring focus to government's financial management approach and facilitating the Treasury's drive to take a more active role in the management of the key cross government risks, in the following ways;:

- The information within the WGA is being used by the Treasury to inform its assessment of the risks to the government's finances and the extent of the potential liabilities that it needs to manage, which is an increasing area of activity.
- The OBR utilises the information in the WGA in the production of its Fiscal Sustainability Report;[7] and Fiscal Risk Report.[8]
- The data collected for Public Corporations is shared with the Office of National Statistics every year to feed into the annual national statistics publication.[9]
- WGA is the only place that reconciles accounting information to the National Accounts adding to the transparency of public finances.

[4] https://www.nao.org.uk/report/evaluating-the-government-balance-sheet-pensions/
[5] https://www.nao.org.uk/report/evaluating-the-government-balance-sheet-financial-assets-and-investments/
[6] https://www.nao.org.uk/report/evaluating-the-government-balance-sheet-provisions-contingent-liabilities-and-guarantees/
[7] http://budgetresponsibility.org.uk/fsr/fiscal-sustainability-report-january-2017/
[8] http://budgetresponsibility.org.uk/frr/fiscal-risks-report-october-2016/
[9] https://www.ons.gov.uk/economy/grossdomesticproductgdp/compendium/unitedkingdomnationalaccounts thebluebook/2016edition

1.6 Outside of government, the WGA is being used by a number of professional bodies indicating the WGA is becoming a key product to assist commentators to understand the government's financial position and develop best practice in fiscal management:

- The Institute for Fiscal Studies (IFS) – The IFS published an analysis of the WGA in the Green Budget for 2017, which supported its analysis of the budget and its deliverability.[10]
- The International Monetary Fund (IMF) – The IMF published an analysis of the use of consolidated financial accounts in developed countries and the role that they can play in supporting transparency, accountability and effective fiscal management.[11]

1.7 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 its report on the 2014-15 WGA,[12] the Committee of Public Accounts also recommended that the Treasury sets out how it will ensure that the government makes better use of the WGA to inform decisions.

[10] http://www.ifs.org.uk/publications/8129
[11] http://www.imf.org/external/pubs/ft/wp/2016/wp1695.pdf
[12] Committee of Public Accounts The Government Balance Sheet: 19th report of 2016-17 session: HC485

Part Two

Improving the production of the WGA

2.1 The Treasury has significantly improved the quality of the disclosures and narrative description in the WGA Overview and Performance Analysis section this year. For example, the Overview and Performance Analysis provides analysis of the major expenditure, income, assets, liabilities and financial risks; and detail on the drivers of major movements in the valuations of assets and liabilities. The trends in this information will be increasingly important to understanding how the government is delivering its financial strategy as the number of data points increases over time; the new Parliament evolves; and the UK exits from the European Union, particularly the wider impacts that are not captured by the statistical releases on the government finances.

2.2 In particular for 2015-16, the Treasury has sought to explain the major trends in net and total expenditure across government; the presentation of the risks to the public finances; the disclosure of the extent of fraud and error across the whole of government; and the net liability position. These explanations are illustrated by charts in the Treasury's Overview and Performance Analysis section of the WGA, which provide comparative data back to 2011-12. This helps to inform users of the accounts of the underlying reasons for movements in the government's overall financial position and represents a significant step forward for the WGA.

2.3 The 2015-16 WGA shows the financial impact of the government's major fiscal consolidation and growth programmes. This demonstrates the contribution a comprehensive accounting standards based picture of the government's finances can make to the transparency agenda and in demonstrating the overall impact of the government's fiscal policies. There are a number of areas where economic growth and fiscal consolidation measures can be seen within the WGA: net and total expenditure; increases in taxation revenue; revisions to the social security benefits regime under the control of the Department for Work and Pensions; and changes in the employment profile in the public sector.

2.4 There are still elements of government's activities that still lack detail in the WGA. For example, note 8 to the WGA, which shows expenditure on the purchases of goods and services by government, does not provide further analysis as to how funds have been spent, such as on consultancy and accommodation. In addition, the WGA does not include additional disclosures showing how public spending is distributed between individual regions or nations across the UK. The Treasury has included an analysis of public expenditure by function within the Overview and Performance Analysis section of the WGA for the first time this year, but this is based on statistical data rather than WGA data. This lack of granularity within the WGA reduces the ability of the reader of the accounts to evaluate the nature and extent of spend on categories of goods and services and the balance of government activities in the regions.

2.5 Since the inception of WGA, the Treasury has focused on improving the quality of the data feeding into the accounts, removing the qualifications to the audit opinion, and improving the timeliness of publication. Improving the speed of production of the WGA is crucial to its increasing usefulness. Producing a set of consolidated accounts of government's activities closer to the reporting date increases the relevance of the numbers and the ability of the government to use the trends in the financial statements to inform its financial strategy and policies.

2.6 In March 2015, the Treasury made the significant step of publishing the 2013-14 WGA within a calendar year of the reporting date. Given the scale and complexity of the consolidation, this represented an achievement. However the production and publication of the 2014-15 and 2015-16 accounts has once more fallen back to over a year after the reporting year-end, with the 2015-16 version published in July 2017. Aside from the announcement of a General Election in April 2017, the main reason for this delay has been the difficulty the Department for Education has faced in producing its own consolidated view of its financial position and responsibilities.

Department for Education

2.7 The Department for Education (DfE) group reported net expenditure of £46.7 billion in 2015-16. This represents a significant component of the WGA and data that is essential to the production of complete accounts. £39.6 billion of DfE expenditure relates to capital and resource grants, the majority of which are to educational bodies and local authorities. Information relating to these payments is required by the Treasury to identify transactions to be eliminated in the WGA in order to provide an accurate consolidated view of the government's finances.

2.8 During 2015-16, the DfE faced continuing challenges in consolidating the growing number of academies into its accounts, which had a knock-on impact on the ability of the Treasury to produce the WGA. The 2015-16 DfE accounts were laid in Parliament on the 20 December 2016, and I provided an adverse opinion on them covering a number of issues including material levels of misstatement and uncertainty, limitations in the evidence available to me to audit academy trust land and buildings, and a number of breaches of parliamentary spending totals.

2.9 For 2016-17, the DfE has agreed with Parliament that it can separate the reporting of the academy trusts from its own financial statements and will, therefore, produce a Sector Annual Report and Accounts (SARA). The SARA will have a 31 August year end, and will consolidate the results of all of the academies independently from the DfE's own figures. This is likely to mean that the DfE is able to produce its own accounts earlier and without qualification, but there will continue to be delays in the production of the SARA into 2018. The DfE is aiming to produce the 2015-16 SARA by 31 October 2017 and the 2016-17 SARA by summer recess in 2018, which will mean that the results of the academies will not be available for inclusion in the WGA in line with the rest of government. The Treasury will, therefore, need to consider how it is to deliver the WGA for 2016-17 in the light of the differences in the reporting date between the SARA and the WGA and the timetable for the SARA's production.

Amyas C E Morse
Comptroller and Auditor General
11 July 2017

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

Appendix

Scope of the audit and qualifications of the Comptroller and Auditor General's audit opinion

Summary

1 This part of my report explains my obligations with respect to the audit of the Whole of Government Accounts (WGA); changes to the extent and scope of the qualifications of my Audit Opinion; and why I have qualified my Audit Opinion on the 2015-16 WGA. It also provides details of the progress the Treasury has made in respect of each remaining qualification since my last report.

2 This is the seventh year that I have audited the WGA and I have been able to report to Parliament that these accounts are an accurate presentation of the whole of government's financial position, although I have always qualified my opinion.

3 The Treasury continues to make good progress towards resolving the qualification issues I have raised. I have removed my qualification related to the completeness and accuracy of intra government adjustments for the first time this year; and reduced the scope of my qualification relating to inconsistent accounting treatments. However, the remaining qualifications are more difficult to resolve.

My obligations as auditor

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.

5 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. I 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. I also carry out assurance work on all of the significant component audits, together with a sample of non-significant components.

Materiality

6 I apply the concept of materiality both in planning and performing my audit, and in evaluating the effect of misstatements on my audit and on the financial statements. This approach 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 or irregularity. A matter is material if its omission or misstatement would reasonably influence the decisions of users of the financial statements.

7 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 my audit procedures. The appropriateness of the materially threshold is considered throughout the audit and adjusted as required.

8 The choice of materiality requires professional judgement and, for the financial statements as a whole, I set this at £8 billion for 2015-16 which is approximately 1% 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.

9 There are specific 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.

10 I agreed with the Treasury Corporate 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.

11 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.

Scope of my financial audit

12 The purpose of an audit is to enhance the degree of confidence of intended users in the financial statements. This is achieved by the expression of my opinion which reports whether the financial statements are accurate, prepared fairly and accord with an applicable financial reporting framework. Under the Government Resources and Accounts Act 2000, I am required to audit, certify and report on the WGA.

13 My audit approach is risk based, informed by my understanding of the government's activities and my assessment of the risks associated with the WGA. This focusses my audit on the areas of highest risk, such as those affected by significant accounting estimates or management judgement. In this context, risk solely relates to the risk of material misstatement in the presentation of the financial statements, so a business or operational risk, on its own, is not sufficient to be considered a significant risk.

14 The main risks for my audit of the WGA relate to the areas of past qualification, which are set out below. These relate to three broad areas: inconsistent application of the judgements on the boundary of the WGA; inconsistent accounting treatments; and material qualification of some of the underlying accounts that feed into the WGA. I am also required to consider the following by International Standards on Auditing:

- The risk of material fraud arising from the approach to recognising revenue - which I addressed via my understanding and assessment of the approach that government has to recognising the main revenue streams via my audit of HM Revenue & Customs; and
- The risk of management using its influence to override the embedded controls that support the production of the accounts and manipulate the financial results within the WGA. For the WGA, my work is focussed on assessing the range of figures that constitute the accounts and level of adjustments that the Treasury processes to produce the consolidated figures. I addressed this via my audit of these adjustments and through my evaluation of how the transactions streams and balances within the underlying accounts that form the WGA are reflected within the consolidated financial statements.

15 My audit opinion on the financial statements considers the truth and fairness of the presentation of the WGA but does not consider whether the activities presented in the WGA represent value for money. I have statutory authority to examine and report to Parliament on whether departments and the bodies they fund have used their resources efficiently, effectively, and with economy and exercise these functions through my programme of value for money reports.

Removal of qualifications to the Whole of Government Accounts for 2015-16

16 The WGA has been qualified since its inception on multiple grounds. For 2015-16, I have been able to remove my 2015-16 qualification relating to the elimination of transactions and balances to form the WGA and reduce the scope of my qualification on inconsistent accounting treatments, due to the inclusion of a consistent valuation of Network Rail's infrastructure assets in the WGA.

Removal of the unsupported eliminations adjustments qualification

17 The WGA is a consolidated account which is prepared by including the financial activities of over 6,000 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. 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 is materially complete and accurate.

18 The Treasury collects information from each of the bodies in the WGA on all intra-government transactions with details of the relevant counter-party. The Treasury uses this data to match balances and transaction streams and remove them from the WGA. Despite the work by the Treasury, there remains uncertainty over the figures in the financial statements because of the difficulty the Treasury faces in accurately removing these transactions and balances. 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.

19 Using the available evidence, I have estimated the maximum level of uncertainty as being up to £7.1 billion (£6.5 billion in 2014-15) in gross income and expenditure and up to £4.4 billion (£2.6 billion in 2014-15) in gross assets and liabilities (**Figure 1**). The estimated errors reside mainly within the individual primary statements.

Figure 1

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

	Statement of Revenue and Expenditure	Statement of Financial Position
Entities declaring different intra-government transactions or balances	4.2	1.8
Only one entity declares an intra-government transaction or balance	1.4	1.6
Subtotal of errors that can be linked to specific entities	**5.6**	**3.4**
Neither entity within an expected relationship declares an intra-government transaction or balance	1.5	1.0
Impact on the financial statements (potential overstatement)	**7.1**	**4.4**

Note

1 All figures in £ billions.

Source: National Audit Office analysis of WGA 2015-16

20 The level of error has reduced steadily since 2010-11, and has stayed at the same level since 2013-14 (**Figure 2**). While the estimated level of uncertainty within the statement of revenue and expenditure, and the potential gross overstatement of income and expenditure has increased by £0.6 billion from the 2014-15 financial statements. The level has now been broadly stable and below my assessment of materiality, which for 2015-16 was defined as £8 billion as set out in paragraph 8 of this appendix, for the last three years. The level of this error and its stability has enabled me to consider the impact of the error on a net basis.

Figure 2
Level of potential overstatement in the WGA (£ billion)

	2015-16	2014-15	2013-14	2012-13	2011-12	2010-11
Statement of Revenue and Expenditure	7.1	6.5	7.3	9.1	16.0	22.6
Statement of Financial Position	4.4	2.6	2.2	3.7	5.1	10.4

Note
1 All figures in £ billions.

Source: National Audit Office analysis of WGA 2015-16

21 In my report on the 2014-15 WGA, I recommended that the Treasury should undertake further work to reduce the uncertainties in the elimination of intra-government transactions and balances. During 2015-16, the Treasury produced further analysis for the 2015-16 WGA that showed the net impact of the outstanding error on the Statement of Revenue and Expenditure and the individual lines within it, which is £1.1 billion for 2015-16 as shown in **Figure 3**.

22 **Figure 3** also demonstrates that the areas of the Statement of Revenue and Expenditure which are impacted most significantly by the error is other revenue (£2.5 billion); grants and subsidies (£1.9 billion) followed by purchase of goods and services (£1.5 billion). Each of these areas are sections of the WGA where there are largest flows of transactions between the bodies within the accounting boundary. For each of these lines, the error does not change the presentation of the figures by, for example, transferring an increase in costs or income to a reduction. As a result, I have been able to conclude that this error is not significant in the context of the financial statements.

Figure 3

	2014-15 WGA SORE £bn	2015-16 WGA SORE £bn	Maximum net error £bn
Taxation revenue	(592.6)	(566.7)	-
Other revenue	(101.3)	(93.2)	(2.5)
Total public services revenue	(693.9)	(659.9)	(2.5)
Social security benefits	222.5	217.7	–
Staff costs	193.3	185.5	0.2
Purchase of goods and services	192.1	191.7	1.5
Grants and subsidies	54.1	57.4	1.9
Depreciation and impairment	42.7	45.4	–
Interest costs on government borrowing	28.3	27.6	0.1
Increase in provisions	9.2	26.0	–
Total expenditure on public services	742.2	751.3	3.6
Net expenditure on public services	48.3	91.4	1.1
Financing costs of long-term liabilities, including discounting	187.4	65.1	–
Revaluation of financial assets and liabilities	8.1	(4.5)	–
Net expenditure for the year and net error	**243.8**	**152.0**	**1.1**
Total gross error (sum of errors excluding their effect)			6.1
Impact of additional small errors			1.0
Total gross error in the SORE as per Figures 1 and 2			7.1

Note

1 All figures in £ billions.

Source: HM Treasury analysis of WGA 2015-16

23 My overall consideration of the level of error, therefore, has taken into account:

- the stable gross error at levels below my materiality threshold (£7.1 billion);
- the level of overall net error (£1.1 billion), which demonstrates that the impact of the error on the overall presentation of the Statement of Revenue and Expenditure is immaterial by value.
- the assurance I have been able to gain that this error does not impact materially on the presentation of the individuals lines in the Statement of Revenue and Expenditure.

24 As a result of these factors, I have concluded that I am able to remove my qualification related to the elimination of intragroup transactions and balances for the first time for 2015-16

25 In order to reach this position, the Treasury has worked over the last three years to improve its analysis of the eliminations data and its approach to removing known sources of transactions between bodies within the WGA, for example transactions between central and local government. However, with such an extensive body of components preparing information, some error in the data preparation is inevitable and it is possible that the level of error cannot be reduced much further under the current method of collation and preparation of the WGA. This means that the error is unlikely to fall significantly below the level that remains within the 2015-16 WGA.

26 The process of eliminating transactions and balances is made more complicated by the significant level of manual intervention that is required by the Treasury to reach this level. The Treasury, therefore, needs to consider how it can improve the overall process of modelling the transactions between bodies within the WGA and introducing a greater level of automation in the process, to ensure that I am able to continue to provide a clean opinion on the process of eliminating transactions and balances. This will be increasingly important as the Treasury seeks to bring forward the timetable for the finalisation of the WGA to December following the year end of the accounts.

Inconsistent accounting treatments

27 For each WGA up to and including 2015-16, I qualified my audit opinion in respect of the consistency of the approach to the valuation of infrastructure assets. Network Rail's infrastructure valuation made a significant contribution to this qualification. The ONS reclassified Network Rail as a public sector body from September 2014 and it was consolidated into the WGA for the first time with effect from 1 April 2014. Network Rail values the railway network at its fair value in its own statutory financial statements. As there is no active market in railway infrastructure assets, Network Rail has derived the fair value of the network using income from the regulated asset base (RAB) as a proxy for discounted cash flows.

28 However, upon consolidation into government and the Department for Transport’s (DfT) accounts, an income-based valuation model for the rail infrastructure is not appropriate in light of the substance of DfT’s wide-ranging role in the rail economy and the requirements of the government’s Financial Reporting Manual.

29 All parties agreed, therefore, to prepare the rail network valuation on a depreciation replacement cost basis in the DfT's consolidated 2015-16 financial statements. This was successfully completed by 15 September 2016. Therefore, the WGA for 2015-16 includes £280.1 billion valuation of the rail network that has been produced on the same basis as other central government infrastructure. This means I have been able to remove this element of my qualification arising from inconsistency in accounting treatments. However, my overall qualification in this area remains due to ongoing inconsistencies in the approach to valuing local authority infrastructure as set below.

Remaining qualifications owing to disagreements and limitations of scope in my audit

30 I have qualified my opinion on the 2015-16 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.

31 My qualifications relate to:

- the definition of public bodies that the Treasury has used to determine the boundary of the WGA; and
- the inconsistent application of accounting standards.

32 I have also limited the scope of my opinion on the 2015-16 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:

- material issues arising within the audit opinions of accounts included in the WGA where component auditors have limited the scope of their audit.

Qualified audit opinion relating to the WGA boundary

33 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.

34 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 4**).

Figure 4

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 the net deficit	Assets	Liabilities	Impact on the net liability
Royal Bank of Scotland	19.4	20.6	(1.2)	815.4	761.3	54.1
Further education institutions	-	-	-	13.0	5.1	7.9
Trust Ports	0.3	0.3	-	1.5	0.4	1.1
Other	-	-	-	0.4	0.1	0.3
Total excluding RBS	**0.3**	**0.3**	**0**	**14.9**	**5.6**	**9.3**
Total	**19.7**	**20.9**	**(1.2)**	**830.3**	**766.9**	**63.4**

Notes

1 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.

2 Trust Ports – figures have been estimated from available accounts for year-ended 31 December 2015.

3 London Councils and other minor bodies.

4 The bodies have been treated as if they had always been entirely owned by the public sector. For Royal Bank of Scotland, no account has been taken of the residual private sector shareholdings or intra-government transactions and balances.

5 Not all bodies have a March year-end, e.g. figures for the banks relate to the year ending 31 December 2015.

6 All figures are in £ billions.

Source: National Audit Office analysis of WGA 2015-16 and published accounts

Financial reporting requirements

35 In my previous Reports[13], 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 that define control as 'the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities'.[14]

36 As a consequence of the Treasury adopting statistical, rather than accounting, standards when it comes to defining 'control', the WGA excludes a number of significant bodies. 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. These 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; and
- other bodies that are partly or wholly owned by the government, such as the Royal Bank of Scotland.

37 I consider it appropriate to exclude those bodies that are not controlled by the government, as this treatment meets with accounting standards; and that it is acceptable to exclude the small bodies as they do not represent a significant exclusion from the WGA. By adopting generally accepted accounting standards, I consider that the Royal Bank of Scotland, further education institutions and trust ports, as listed in **Figure 4**, should be included in the WGA. However, despite the government's controlling shareholding in RBS, which means I need to include it within the qualification on technical grounds, I support the Treasury's exclusion of RBS from the WGA as its scale and the nature of its activities would distort the reflection of government's core activities within the financial statements.

[13] Comptroller and Auditor General, Report on the Whole of Government Accounts 2014-15, May 2016
Comptroller and Auditor General, Report on the Whole of Government Accounts 2013-14, March 2015
Comptroller and Auditor General, Report on the Whole of Government Accounts 2012-13, June 2014
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
[14] International Financial Reporting Standard 10 – Consolidated Financial Statements.

Progress since 2014-15

38 There has been progress in including the appropriate bodies in the 2015-16 WGA as Further Education Institutions in Scotland and Northern Ireland have been brought into the WGA for the current year and the Treasury has restated the balances for 2014-15 as far as is necessary.

39 The position of the remaining elements of the qualification is as follows

- **Royal Bank of Scotland**: As at the date of this report the government's ownership of the Royal Bank of Scotland continued to exceed the generally accepted threshold of control. The Treasury continue to account for its holding of 72% of the share capital as an equity investment.

- **Further education institutions**: In my Reports on the WGAs for 2011-12[15] and 2010-11,[16] 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 continues to exclude English institutions from the WGA as the ONS determined that these bodies fall outside of the public sector following the 2011 Act.[17] However, under accounting standards, there remains in my view sufficient government control to warrant their inclusion.

- **Trust Ports**: The Treasury is considering the status of Trust Ports with a view to bringing them within the 2017-18 WGA.

40 Although the Treasury continues to make 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. As a result, I am unlikely to include the technical qualification on the WGA boundary until the government sells a significant proportion of its shareholding in the Royal Bank of Scotland.

[15] C&AG's Report within Whole of Government Accounts 2011-12, HC531, July 2013, Paragraph 2.29.
[16] C&AG's Report within Whole of Government Accounts 2010-11, HC687, October 2012, Box 6, paragraph 7.69.
[17] 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

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

41 I have qualified my opinion due to the impact of the inconsistent application of accounting policies.

42 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 2015-16, 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.

43 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.[18] I do not have the information to fully quantify the effect of all inconsistencies that exist as a result of inconsistent financial reporting frameworks, however it is clear that there are material inconsistencies within the 2015-16 WGA.

Local government infrastructure valuation

44 Material misstatement in the WGA arises from 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.

45 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.

46 The Treasury notes that the 2016 National Accounts[19] estimates the value of the road network at £322.6 billion (2014: £306.6 billion) as at 31 December 2015. On this basis, road infrastructure assets alone are likely to be understated by at least £257.5 billion.

Progress since 2014-15

47 In my Report on the 2014-15 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.

[18] International Accounting Standard 27 – Consolidated and Separate Financial Statements
[19] Office for National Statistics, The UK national balance sheet: 2016 estimates, Table 9, August 2016

48 CIPFA has recently announced that it no longer plans to pursue a revised approach to valuing local authority infrastructure, due to a lack of commitment from government to fund the central costs of producing the valuation.[20] Therefore, it is currently unclear whether the project to amend the Code of Practice on Local Authority Accounting to require local authorities to account for their highways infrastructure assets using depreciated replacement cost accounting in their own financial statements will be completed. This means that it my qualification on this matter is likely to, unless the Treasury finds a mechanism for resolving this issue.

49 The Treasury should work with CIPFA to address the limited funding difficulties and ensure that the planned changes to the Code of Practice on Local Authority Accounting are brought back on track or an alternative approach to achieving a consistent valuation of infrastructure assets is defined. Treasury should also put in place plans to obtain depreciated replacement cost values for the remaining non-highways infrastructure assets.

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

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 2015-16, external auditors qualified their opinions of 10 accounts (6 accounts in 2014-15).

51 The most significant of these qualifications relate to the departmental accounts of the Ministry of Defence and Department for Education for 2015-16. Given the significance of these qualifications, I have also qualified my opinion on the WGA.

52 Further details can be found in my audit opinions and within the annual accounts of the Department for Education[21] and the Ministry of Defence.[22]

[20] http://www.cipfa.org/policy-and-guidance/highways-network-asset-briefing
[21] Department for Education Annual Report and Accounts 2015-16, HC 326 20 December 2016
[22] Ministry of Defence Annual Report and Accounts 2015-16, HC 342, 14 July 2015

Progress since 2014-15

Ministry of Defence

53 In the 2014-15 Ministry of Defence annual report and accounts, the Ministry states that it has conducted a review of its most significant contract arrangements and has identified a number of lease type arrangements which are not currently recognised and cannot be accurately quantified. The Ministry has, in agreement with the Treasury, decided not to obtain more detailed information on its leases on the grounds that doing so would not represent value for money. In 2014-15, the Ministry confirmed that it is possible to account for existing contracts in compliance with IAS 17, but this would create significant challenges for the Ministry. This position remains for the 2015-16 accounts, though the Ministry has agreed to undertake an exercise during 2016-17 to determine the feasibility of implementing lease accounting for new contracts which involve single use contractor sites and assets.

54 Consequently, no conclusion can be drawn as to whether the existing contracts represent leases and the financial impact of the omission of potential assets and liabilities cannot be determined with sufficient accuracy. This decision will have an ongoing impact on the audit opinion I am able to provide on the financial statements for the foreseeable future.

Department for Education

55 The 2015-16 Department for Education (DfE) accounts were qualified on the basis of incomplete and inaccurate valuation of academies' land and buildings assets.

56 In 2015-16, the number of academies continued to increase but the DfE has not addressed the difficulty in consolidating them. As a result, the scope of this issue has grown to £43 billion during the year. The DfE has agreed with Parliament that the academies will be brought together in a Sector Annual Report and Accounts (SARA), which will stand aside from its own consolidated figures. However, the SARA will not address the underlying challenge of obtaining an accurate valuation of the academy land and buildings. Therefore, this is likely to continue to be a source of continued qualification within the WGA until the problems with the accuracy of data and oversight are addressed.

Other issues on which I have not qualified my opinion

57 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 17 accounts[23] (18 in 2014-15) 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[24] and HM Revenue and Customs[25]. 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.

[23] Included in this number are four accounts qualified on a ‘true and fair’ basis.
[24] Department for Work and Pensions Annual Report and Accounts 2015-16, Session 2016-17, HC331, 7 July 2016
[25] HM Revenue and Customs Annual Report and Accounts 2015-16, Session 2016-17, HC338, 14 July 2016