

Twentieth Report of Session 2022-23

HM Treasury

Whole of Government Accounts 2019-20

Introduction from the Committee

The Whole of Government Accounts (WGA) is a set of financial statements prepared in accordance with International Financial Reporting Standards (IFRS) and the Government Financial Reporting Manual (FReM). It brings together information on the financial performance and position of over 10,000 organisations across the UK public sector including central government departments, local authorities, public corporations and devolved administrations. The WGA is therefore in a unique position to provide an overview of the public sector financial landscape and how it is evolving; offering an important tool for managing public finances and helping to ensure transparency and accountability. The 2019–20 WGA was published on 6 June 2022, 26 months after the reporting year-end. The Comptroller & Auditor General qualified his opinion on the 2019–20 accounts for the 11th consecutive year since 2009–10 when they were first produced.

Based on a report by the National Audit Office, the Committee took evidence on 8 June 2022 from HM Treasury. The Committee published its report on 14 October 2022. This is the government's response to the Committee's report.

Relevant reports

- HM Treasury report: [Whole of Government Accounts 2019-20](#) – Session 2021-22 (HC 246)
- [Report of the Comptroller and Auditor General on the Whole of Government Accounts 2019-20](#)
- PAC report: [Whole of Government Accounts 2019-20](#) – Session 2022-23 (HC 31)

Government response to the Committee

1. PAC conclusion: The Treasury took too long to deliver the 2019–20 Whole of Government Accounts, having been unrealistic with its timetable.

1. PAC recommendation: The Treasury should review the causes of its optimism bias in 2019–20, and revisit future timetables to ensure they are realistic. The Treasury should write to the committee in September 2022 confirming it remains on track to deliver the 2020–21 WGA by March 2023.

1.1 The government agrees with the Committee's recommendation.

Recommendation implemented

1.2 HM Treasury [wrote to the Committee in October 2022](#) indicating that the planned March 2023 publication date for the 2020-21 Whole of Government Accounts (WGA) was unlikely to be achieved. The Treasury is revisiting the timetable for the 2020-21 account and future cycles in light of the causes of the delays both this year and for 2019-20. The Treasury will write to the Committee setting out a long term recovery strategy that is realistic and recognises the uncertainties and risks that are beyond the Treasury's direct control.

1.3 The delay to WGA 2020-21 is driven principally by the late submission of data by components, and delays in audit work on component returns. Some lateness in submission was anticipated, but not the extent that materialised. This has delayed the start of work in

producing the account. The recovery strategy seeks to address this issue by strengthening discipline within the system, including by making timely WGA returns an explicit measure in the annual Accounting Officer financial assessment. In addition, the Treasury is investing in specialist project management support and increasing the size of the WGA team in order to enable work on multiple years of WGA simultaneously. This will increase the team's capacity to performance manage the collection of WGA data for the following year, while the current year's account is still being produced. This early collection of data will reduce the risk that late returns have a direct knock-on impact to the timing of the final account. The Treasury has been working closely with the National Audit Office to time future data collection in a window where they have capacity to audit the returns.

2. PAC conclusion: Poor design and testing of OSCAR II caused significant delays to the Whole of Government Accounts.

2. PAC recommendation: The Treasury should undertake a lessons-learned exercise, specifically addressing but not limited to the root causes of poor design specification and testing of OSCAR II, and ensure identified improvements are implemented when applying future system changes.

2.1 The government agrees with the Committee's recommendation.

Recommendation implemented

2.2 The Treasury has undertaken a number of lessons learned exercises, including engaging the Government Internal Audit Agency to support this work. The lessons learned included more focus on getting the project governance right and investing in the internal project management team to support the relationship between the supplier and the process owners in the business. The Treasury has changed its practices for project managing changes to the system and is negotiating a new plan and approach with its current supplier, Deloitte, for the remaining stages of the OSCAR II project.

2.3 The Treasury fully recognises the problems encountered after the system went live, the challenges in resolving them, and how this contributed to delays in the WGA publication. The existing contract for the OSCAR II system is due to end November 2023, and the Treasury is applying the lessons learned in deciding on the future support and development arrangements for the system.

3. PAC conclusion: Failures in the local audit market in England and Wales are resulting in poorer quality data for Central Government to use in oversight, and in preparing the Whole of Government Accounts.

3. PAC recommendation: The Treasury should set out how it will ensure the data in OSCAR II will remain of sufficient quality, despite significantly reducing the level of auditor assurances, for producing the WGA and informing its understanding of the local government sector.

3.1 The government agrees with the Committee's recommendation.

Recommendation implemented

3.2 WGA data submissions are prepared based on the component entity's audited accounts where published. As an additional layer of assurance, entities above a certain size are also required to have their WGA data submission audited. The threshold for this additional data submission audit is periodically reassessed to ensure it remains appropriate. A range of different thresholds were considered for WGA 2020-21, taking into consideration the potential

impact on data quality. Analysis showed that raising the local government sector threshold to match the existing threshold for all other WGA entities (which has not been changed) will provide a good level of assurance by ensuring audited data submissions continue to provide high coverage across all key accounts metrics, such as total assets, liabilities and expenditure.

3.3 To further enhance the level of assurance over OSCAR II data, the Treasury will centrally carry out assurance work over data submissions that are below the audit threshold (across all sectors). The methodology for this work has been discussed with the National Audit Office. In addition, the department is obtaining further specialist assurance advice on how to enhance the efficiency and effectiveness of the assurance procedures for WGA, to support both this year's account and future cycles.

4. PAC conclusion: Inconsistent presentation of data between years, and lack of reflection of current Government policies and economic context, reduce the usability of the Whole of Government Accounts.

4. PAC recommendation: The Treasury should ensure that analysis in the WGA supports comparability and reflects developments since the reporting date such as the impact of high inflation.

4.1 The government agrees with the Committee's recommendation.

Target implementation date: July 2023

4.2 The Treasury is committed to continuous improvement of the WGA performance report, and made several improvements to the WGA performance report in 2019-20, including additional trend data. The WGA performance report includes 5-year trend data for many accounts areas and the department will build on this to ensure comparative data is presented as effectively as possible, to enhance the useability of the accounts. WGA will continue to reflect areas of topical interest, follow best practice in the presentation of data, and include commentary to reflect developments in the public sector and financial landscapes since the reporting date. There is a balance to be struck between change and continuity, so where presentational changes are made the Treasury will provide clear prior year data to aid comparability.

4.3 The impact of inflation will be reflected in the WGA Statement of Revenue and Expenditure in the following years, insofar as it affects in-year expenditure. Projections for future expenditure are included in the performance report, by drawing upon the forecasts of the Office for Budget Responsibility. In terms of the WGA balance sheet, inflation can affect the amount that will need to be paid regarding certain liabilities, as one of a number of factors. As required by accounting standards, the financial statements disclose the sensitivity to certain risks which can include inflation and rates of salaries, depending on the nature of the specific liability. For example, WGA disclosures show the sensitivity of the clinical negligence provision to inflation, and sensitivity of unfunded pension liabilities to changes in salaries.

5. PAC conclusion: The content of the Whole of Government Accounts has improved but does not transparently report against all key areas of government spending.

5. PAC recommendation: The Treasury should continue to improve the content of the WGA, with specific reference to the following:

- **Spending on net zero**
- **Government emissions**

- ***Fraud across government***
- ***Long term costs of COVID interventions***
- ***Inclusion of the equivalent of a viability statement***

5.1 The government agrees with the Committee's recommendation.

Target implementation date: July 2023

5.2 The Whole of Government Accounts (WGA) financial statements are, like any other audited set of accounts, a record of past financial performance, and give an assessment of the balance sheet at a defined point in time in the past. HM Treasury will continue to improve the content of WGA, to ensure it brings together the best available published information on topics of interest. However, consideration will be given to ensuring that WGA provides the most effective commentary on the financial statements presented and associated issues. The Treasury must also be mindful that adding too many disclosures might make reporting complex and unwieldy. The Treasury will bring in relevant published information where appropriate, but WGA is not the most suitable place for detailed discussion of policy.

5.3 In addressing the request for a viability statement the WGA commentary will make clear that, in line with accounting standards, WGA recognises certain liabilities but not a corresponding asset to reflect the government's ability to fund these liabilities through future taxation. The performance report will continue to draw upon forecasts of the Office for Budget Responsibility to provide insights into the overall fiscal position.

5.4 Central government emissions data is consolidated in the Greening Government Commitments (included in WGA 2019-20). The extent to which future WGA publications may be able to collate emissions data from individual component annual reports and accounts will depend on the development of the reporting frameworks across the jurisdictions of the UK public sector. In the near term, the Treasury will look to enhance reporting in WGA on emissions and spending on net zero using existing data sources.

5.5 The Treasury [has committed](#) to conducting a routine review of the costs of COVID-19, where there have been material changes that can reliably be attributed to COVID-19, and to provide public updates. These updates will be incorporated into the WGA performance report, alongside information from departmental annual reports and accounts and other publications.

5.6 The Public Sector Fraud Authority publishes fraud and error losses for departments and their ALBs, and the total estimated fraud cost to government in the Fraud Landscape Report. Following the release of an updated Fraud Landscape report, these figures will be included WGA 2020-21.

5.7 The Climate Change Committee (CCC) has a statutory duty to monitor and report on progress made in reducing emissions and published the first Progress Report in June 2022. The Department for Business, Energy and Industrial Strategy (BEIS) will respond to the CCC's recommendations and outline progress against a set of key indicators for achieving the UK's climate goals in Spring 2023. Information from these sources will be brought into WGA 2020-21.

6. PAC conclusion: Government has not yet set out the consequences of announced Civil Service staffing reductions.

6. PAC recommendation: HM Treasury and the Cabinet Office should prepare a clearly articulated and costed plan based on proposed staffing reductions across government, and ensure that reductions represent value for money, and tell us in its Treasury Minute response when that will be published.

6.1 The government disagrees with the Committee's recommendation.

6.2 The Prime Minister has confirmed that, rather than a top-down headcount reduction target, department should look for the most effective ways to secure value and maximise efficiency within budgets, to ensure the best value for taxpayers both now and in the long term. As a result, the government has not set top-down targets for Civil Service headcount reductions through the Efficiency and Savings Review launched in the Autumn Statement and will not be publishing a full plan to deliver the previously proposed Civil Service staffing reductions.

6.3 At Spending Review 2021, departments already identified 5% RDEL savings against day-to-day central departmental budgets in 2024-25, and HM Treasury is monitoring the delivery of these. The focus of the forthcoming Efficiency and Savings Review will be to task every government department to look for the most effective ways to secure value and maximise efficiency within budgets to use taxpayers' money sustainably in the long-term including, where appropriate, headcount reductions. Departments will develop plans with specific efficiency savings to ensure they can live within the budgets set at the last spending review including any plans for headcount reductions, which they will own and deliver. The outcome of the Efficiency and Savings Review will be reported next spring and monitored by HM Treasury for the remainder of the SR period. The Chancellor and Chief Secretary to the Treasury will oversee the delivery of these efficiency savings and are also holding regular meetings with Ministers to drive efficiency.

6.4 At the same time, the civil service needs to ensure it has the skills, tools and resources to be a modern civil service that reflects the people it serves, and provides value for money to the taxpayer. Government functions will work with departments to ensure overall workforce plans, including any appropriate reductions, deliver a skilled and increasingly professionalised workforce to enable effective delivery in line with the government's longer term strategy for Civil Service reform.