

CIPFA/AUDIT COMMISSION BRIEFING

WHOLE OF GOVERNMENT ACCOUNTS

NOVEMBER 2004

This bulletin has been prepared jointly by CIPFA and the Audit Commission, in consultation with relevant departments in central government, the Local Government Association and the National Audit Office. It aims to provide outline guidance to those involved in the preparation of accounts for WGA purposes and may be supplemented or updated by further bulletins, drawing on experience gained from dry runs.



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Introduction

1 This briefing is intended to raise awareness about Whole of Government Accounts (WGA) and its implications for local government and NHS bodies. It is based on known and planned developments as at November 2004, although there are still issues to be resolved which will affect the practical implementation of WGA.

2 WGA will be based on generally accepted accounting practice and will provide, from the financial year 2006/07, a (fully audited) true and fair view of the Government's financial performance, thus enhancing transparency and accountability to Parliament as well as better quality financial information to underpin funding and investment decisions at local and national level.

What are Whole of Government Accounts?

3 Whole of Government Accounts (WGA) will be commercial-style accounts covering the whole of the public sector and including some 1300 separate bodies. The introduction of WGA stems from the Government's fiscal rules established in July 1997¹ and the *Treasury's Code for Fiscal Stability* published in 1998. The Code was given statutory force by the Finance Act 1998, setting out the key principles of transparency, stability, responsibility, fairness and efficiency to be applied in the formulation and implementation of fiscal policy. The Code contains specific provisions relating to WGA that the Government shall:

- ensure that accounts are to be produced for the whole public sector. Where reasonably practicable, these accounts shall also be produced on a consolidated basis; and
- apply best-practice accounting methods - as represented by Generally Accepted Accounting Practice in the United Kingdom (UK GAAP), adapted as necessary for the public sector - in the production of its accounts.

4 The Government Resources and Accounts Act 2000 provides the framework for the Treasury to co-ordinate the preparation of WGA. The Act places a duty on the Treasury to prepare a set of financial accounts for a group of bodies that exercise functions of a public nature or are entirely or substantially funded from public money. The Treasury will determine the form and content of the accounts, but must ensure that they conform to UK GAAP (subject to such adaptations as are necessary) and present a true and fair view. The Comptroller and Auditor General (C&AG) will audit the consolidated WGA against the true and fair criterion (there will be no opinion on regularity, which will continue to be covered in the underlying accounts). The December 2003 Pre-Budget Report confirmed the Government's commitment to WGA and in particular its inclusion of local authorities and set out a timetable for implementation (see paragraph 12 below) In December 2003, HM Treasury and ODPM wrote to local authorities outlining the general approach and consultation arrangements and on 22 November 2004 wrote again setting out in particular their proposals for data collection.

In Scotland, and to some extent, Northern Ireland there will be some practical differences in the arrangements for WGA but the broad principles for preparation and audit will follow those set out in this bulletin. In addition there is a separate Whole of Government (Wales)Accounts project running in parallel with WGA.

Who is included?

5 The Treasury will designate the bodies to be included in the accounts for any financial year (subject to consultation with the National Assembly for Wales, the Scottish Executive and the Northern Ireland Executive where appropriate). The Treasury will write to the Accounting Officer (or equivalent) for each body to confirm its inclusion and explain the reporting requirements. The Whole of Government Accounts (Designation of Bodies) Order 2003 sets out those central and non-departmental government bodies, trading funds and public corporations currently included for England and Wales and Northern Ireland.

¹ These were, firstly, that over the economic cycle the Government will only borrow to invest and not to fund current expenditure (the golden rule) and, secondly, that net public debt as a proportion of gross domestic product will be held over the economic cycle at a stable and prudent level.

- **England and Wales:** Provisional lists of English and Welsh local authorities to be included are published on the local authority page of the Treasury's WGA website. These include unitary, shire district, metropolitan district councils, the Greater London Authority and London boroughs, police and fire authorities, waste disposal authorities, transport authorities and national parks authorities. NHS Trusts and Foundation Hospital Trusts are dealt with in a separate list. A final list of authorities to be included will be issued early in 2005.
- **Scotland:** Treasury Designation Orders cannot apply in Scotland. The Scottish Executive will arrange for the required information to be prepared for Scottish bodies which are expected to include all councils, police boards and fire boards.
- **Northern Ireland:** The Department of Finance and Personnel has designated the bodies to be included. They include city, district and borough councils, and health and social services trusts.

What are the benefits of WGA?

6 The stated objectives of the Treasury are that WGA will provide better quality data to underpin the operation of the golden rule, and will allow the public sector balance sheet to be used more directly in fiscal management. Government planners and managers will have better and more transparent data for the conduct of fiscal policy, encouraging a medium/long term focus for policy making and the more efficient and effective distribution of resources. There will be increased consistency between fiscal policy data and that used for planning and controlling public spending. The overview of public finances provided by WGA will improve Government's accountability to Parliament and taxpayers.

7 In addition, the use of similar accounting policies throughout the public sector should be seen as intrinsically beneficial, independently of the WGA requirements. These benefits include a reduced need for reconciliation of figures produced on different bases and correspondingly less scope for disputes over matters of interpretation. Communication will be more effective because everyone will be speaking the same language. Convergence of the different accounting rules for public sector bodies will enhance comparability of performance data and increase the opportunities for benchmarking. It will also enable targets to be set and measured on a consistent basis, allowing relative trends in performance to be evaluated more accurately. Funding bids can be presented and assessed more efficiently.

What does WGA involve?

8 WGA will require Government to be treated as if it were a single (consolidated) body by eliminating all significant transactions and amounts owed between public sector bodies. WGA will present a true and fair view of Government's activities.

9 The process for the preparation of WGA is likely to comprise the following steps:

- as part of their year end accounts closure procedures designated bodies will prepare WGA data returns containing summaries of their financial statements in the form of a standard chart of accounts, including analysis of transactions and balances with other bodies within the WGA umbrella;
- for local government bodies the information requirements will be agreed through a joint committee drawn from central government, the Local Government Association and other interested parties. The requirements are likely to include a specific local government data return based on the annual statements of accounts that local authorities already prepare, rather than the standard chart of accounts. Income and expenditure will be analysed under the subjective headings recommended in Best Value Accounting Code of Practice;

- designated bodies will arrange for their returns to be reported upon by their existing auditors and submit them to the responsible Government department (in England, the Department of Health for NHS Bodies or Independent Regulator for Foundation Hospital Trusts, the Home Office for police authorities, and the Office of the Deputy Prime Minister for local authorities including fire authorities; in Wales, the National Assembly for Wales; in Scotland, the Scottish Executive; in Northern Ireland, the Northern Ireland Executive;
- Government departments will perform a sub-consolidation for all the bodies within their responsibilities, aggregating the consolidation information and eliminating transactions and balances between these bodies;
- In England and Wales departments will arrange for the sub-consolidation to be audited by the C&AG and then submit the results to the Treasury;
- The Treasury will consolidate the sub-consolidations, eliminating transactions and balances between departmental groups, and prepare WGA for audit and laying before Parliament; and
- The C&AG will examine the consolidated accounts and report whether they present a true and fair view.

When will WGA be introduced?

10 A scoping study carried out by the Treasury in 1998 concluded that the WGA project was of such scale that a staged development process would be necessary. The first stage of the process involved the preparation of a set of audited and published Central Government Accounts (CGA)² to be prepared 'live' under the framework for the 2003/04 financial year, following dry runs for years 2001/02 and 2002/03 in order to test the practicalities of preparing CGA.

11 Some useful lessons have been learnt from this, for example, the importance of integrating WGA requirements into the annual accounting cycle and of strict adherence to deadlines, and the need to involve suitably qualified and experienced staff. For the same reason the preparation of WGA will also be preceded by two years of dry runs. This gives departments and designated bodies time to introduce the requisite procedures and any system modifications that might be necessary and to test them and prepare comparative figures for the first year's accounts.

12 The timetable is therefore as follows

- 2003/04 'live' CGA
- 2004/05 'live' CGA and first 'dry run' WGA
- 2005/06 'live' CGA and second 'dry run' WGA
- 2006/07 'live' WGA

13 The information for the WGA returns for the first dry run year (2004/05) should be based on audited accounts.

However the auditors will not be required to express an opinion on the return itself. From 2005/06 the return will be included in the scope of the audit for each body; the departmental sub-consolidations and the overall consolidation will be audited by C&AG.

What issues need to be addressed to enable WGA to be introduced?

14 The extension of CGA to include local government, health bodies, trading funds and corporations gives rise to a number of issues that will need to be resolved if it is to be implemented successfully. These include the boundary for inclusion within WGA as well as the precise details of the process itself. There are also issues relating to the need for convergence of the accounting frameworks between different parts of the public sector.

² CGA covers the devolved administrations, central government departments (including their executive agencies), Non-Departmental Public Bodies and central funds, such as the Consolidated Fund.

15 It is a fundamental principle of consolidated financial statements that the accounts being consolidated should reflect consistent accounting policies for all material items. There are three ways of achieving this for WGA

- bodies prepare their financial statements in accordance with their own accounting policies, but make consolidation adjustments for the schedules to be submitted to the appropriate government department; or
- bodies prepare their financial statements in accordance with their own accounting policies and provide additional information to enable the government department to make the consolidation adjustments; or
- bodies adopt the consolidation accounting policies in the preparation of their own financial statements.

16 The last option is generally more appropriate for central government bodies and the NHS, but the second option has been adopted for 2004/5 as a more realistic choice at present for local authorities, bearing in mind that accounting policies currently used by local government are not wholly consistent with those of WGA. As the Local Authority Statement of Recommended Practice (SORP) develops over time (for example the revised requirements for the preparation of group accounts contained in the 2004 SORP) then these areas of difference-already few-are likely to reduce further.

17 **NHS trusts** prepare their financial statements under direction from the Secretary of State or the National Assembly of Wales under the authorisation of the Treasury. A provisional list of English and Welsh Trusts to be included in WGA has been published on the Treasury's WGA website. In Scotland all remaining NHS Trusts were abolished from 1 April 2004 with their functions being transferred to the Health Boards. **Foundation Hospital Trusts** will also be included in WGA. These will be subject to separate arrangements with regard to their accounting framework and will be overseen by a separate independent regulator. But it is anticipated that these arrangements will be similar to those that apply to NHS Trusts, and in this respect will be largely compliant with UK GAAP.

18 The Department of Health has been working to minimise the differences between the Resource Accounting Manual (RAM) which sets out the accounting framework for central government bodies and its own Manual for Accounts, now that accounting guidance for NHS Trusts in England and also Wales comes within the Financial Reporting Advisory Board's (FRAB) remit. The differences have either already been resolved for the amendment of future versions of the Manual for Accounts, are presentational matters that can be adjusted for relatively straightforwardly in the preparation of consolidation schedules, or have been accepted by the Treasury (and the FRAB) as legitimate differences that are acceptable in the consolidation process.

19 There are more substantial issues affecting **local authorities (including police and fire authorities)**. The local authority SORP has been developed by the CIPFA/LASAAC Joint Committee within a framework of statutory controls that requires some departures from UK GAAP. In some other respects they are UK GAAP-compliant but differ from the RAM. These differences arise from the current legislative framework- notably the statutory requirements for treatment of capital receipts- and, in respect of capital accounting and the treatment of fixed assets, have begun to be resolved with the introduction of the Prudential Framework, operated in accordance with the Prudential Code produced by CIPFA. Work is progressing to resolve these differences and a review of current requirements against those of the RAM and UK GAAP has been completed. It is expected that any new capital accounting requirements will be consistent with the requirements of both the Prudential Framework and of WGA. These are areas identified by HMT and ODPM as requiring additional information in returns for 2004/5 because of the differences in accounting policies.

How will local government and NHS bodies be affected?

20 The introduction of WGA will mean that local government and NHS bodies will need to ensure that their management arrangements and financial systems enable them to meet the Treasury's requirements for WGA, for example the identification of material transactions and balances with other public bodies so that they can be eliminated in the consolidation exercise. The responsibilities of the body's auditors will also change as they will be required to extend their work to cover data returns for consolidation purposes (except for NHS auditors who already do this) and to report to the auditors of the department into which the body's results will be consolidated.

- 21 These arrangements and responsibilities will have an impact on local government and NHS bodies. But for individual bodies the additional information needed for WGA purposes compared to that needed in any event for annual accounts is likely to be marginal, relating mainly to transactions and balances with other designated bodies. And NHS bodies already have to prepare summarisation schedules for the purposes of preparing NHS Summarised Accounts. Having systems in place to identify and extract these transactions and balances should simplify the process considerably.
- 22 The impact on smaller bodies will also be less than for larger bodies. There will be exemptions for the 9000 or so parish and community councils that will remove the burden of preparing and auditing data returns from this tier of local government. In addition, there is currently for CGA a threshold value below which transactions and balances with other designated bodies need not be agreed. Currently this stands at £1 million, but given the very large funding flows across the wider public sector, material misstatement might not result from a much higher threshold, for example £5 million. This would reduce the numbers of transactions and balances that an individual body will need to agree. Similarly, a minimum reporting threshold of, for example, £1 million would help reduce the burden of producing accounts for WGA purposes. It is understood that the Treasury is investigating materiality levels and the details of the requirements for elimination and agreement of balances and transactions, in conjunction with the National Audit Office and the Audit Commission. Further guidance may be given in due course.

What issues do local government and NHS bodies need to consider

- 23 Local government and NHS bodies will need to **assign responsibilities for meeting WGA requirements** placed on them as a designated body by the Government Resources and Accounts Act 2000 (although the Treasury is able to specify the person, or kind of person, to be given responsibility for ensuring the body's compliance). Drawing on the experience of CGA, this responsibility will rest with the appointed Consolidation Officer in the body who will normally be the Chief Finance Officer (or equivalent). In central government the Accounting Officer is also the Consolidation Officer. Where there are no Accounting Officers, responsibility is likely to rest with the officer responsible for the accounts of the body.
- 24 Authorities will also need to ensure that their arrangements for **accounts closedown and financial statements preparation meet WGA deadlines**. Achieving this will present a challenge and require effective co-ordination between bodies, central government and auditors. Much emphasis has already been placed on accounts closure, with recent guidance from HM Treasury ('Faster Closing' in its Managing Resources series) and CIPFA ('Early Closing Time' - a Good Practice Guide, published early in 2004). CIPFA's Financial Management Model should also assist in this regard. The Accounts and Audit Regulations 2003 require the date by which English authorities must approve their accounts to be advanced by one month each year, from 31 August in 2003/04 to 31 July in 2004/05 and to 30 June in 2005/06 and thereafter. For Welsh authorities the process begins one year later, so that June approval is reached in 2006/07. Scottish and Northern Ireland authorities are already required to close by 30 June.
- 25 It will be desirable and most cost-effective for local government and NHS bodies to prepare information for WGA purposes in conjunction with their annual accounts. This will ease the overall pressure on local authorities and NHS bodies and help to minimise the additional audit costs. Experience of CGA shows that bodies which adopt this approach experience fewer difficulties in preparing their WGA information and typically produce higher quality information more promptly.
- 26 A key part of any consolidation exercise is the **identification and elimination of intra-group transactions and balances**. The experience with CGA has shown the importance of identifying the relevant categories at an early stage and of regular contact with other bodies with which balances or transactions are likely to be material. Annex B to the Treasury/ODPM letter of 22nd November 2004 has highlighted the anticipated main streams of transactions and balances for local government. NHS bodies are used to such a process in confirming balances with other parts of the NHS, but WGA will increase the number of bodies that need to be taken into consideration.

27 The tasks that are likely to be required in relation to transactions and balances (for example, grant claim balances with government departments) include preparing schedules of relevant balances and transactions and agreeing them with counterparties and certifying to the responsible Government department that the schedules are properly prepared. Audited bodies will need to consider how they can carry out these tasks and the implications – for example, the need to develop their financial systems to capture the information on transactions and balances with other bodies within the WGA umbrella.

28 Bodies preparing **group accounts** will in some cases have to deal with subsidiary bodies with different financial **year ends**. UK GAAP allows only accounts for periods ending three months or less before the group year end, say 31 March, to be consolidated into group accounts at 31 March. International Accounting Standards allow a three month period after 31 March as well. For WGA purposes, HM Treasury will allow the wider range permitted by the International Standards to be used. However, when a subsidiary's year end falls outside the period 31 December – 30 June it will need to be changed if the accounts are to be consolidated and bodies are advised to contact their subsidiaries without delay where this is the case.

Will WGA lead to additional burdens?

29 Whilst the need to meet requirements placed on local government and health bodies will inevitably mean additional work, a key objective of the Government is that the process will be established in a such a way that the additional burdens are kept to the absolute minimum. This objective has been reinforced in the letter of 22nd November 2004 from HM Treasury and ODPM.

30 If the WGA process is to be carried out as efficiently and effectively as possible, it is essential that it uses the same data and works to the same time scale as other financial processes, particularly the preparation of the annual accounts and the preparation of information and returns required by ODPM. Indeed the importance of integration with existing financial procedures has been a key lesson from the dry runs of the CGA project. To a considerable degree the data requirements for WGA can be integrated with standard returns so as to improve the efficiency of their collection and minimise the burdens on authorities. Preparation of WGA data returns should quickly become an integral part of the year-end accounts process (as is already the case with NHS Trusts).

31 The impact of the WGA process will also be lessened by de minimis exemptions for small transactions and balances, with the aim of reducing the additional burden of preparing and auditing the consolidation schedules.

How will auditors be affected

32 The extent of the additional work required during the dry runs and upon full implementation will depend upon the extent of consistency between the body's data returns and the financial statements, and the level of business that it has with other members of the WGA group.

33 In the same way that for individual bodies the amount of additional information needed for WGA purposes compared to that needed in any event for annual accounts is likely to be small, the audit arrangements for individual bodies for WGA are intended to be a modest extension of the audit work on the annual accounts. Section 10 of the Government Resources and Accounts Act 2000 makes it a responsibility of the designated body to arrange for the financial information it provides for consolidation to be audited.

34 For CGA, the Treasury's guidance refers to "the relevant statutory auditor". Applying this to local government and NHS bodies, the implication is that the audit arrangements for WGA will take the form of extending the responsibilities of the body's existing external auditor.

35 These new responsibilities will affect the relationship between audited bodies and their auditors. Specifically, the relationship will be influenced by a particular provision of sections 10 and 11 of the Act – that the external auditor shall give such information and explanations to the auditors of the consolidation exercise as the latter may reasonably require. Once engaged, the auditor will then have a responsibility towards the auditors of the relevant government department and the C&AG. Local government and NHS bodies should recognise the relationship that their auditors will have with others, especially with regard to the information that might be passed between them.

36 The arrangements for communication between the C&AG and other auditors mirror the arrangements in the private sector between the auditors of a group and those of its subsidiaries. These are well-established and in accordance with the requirements of SAS 510. It is expected that C&AG will place as much reliance as possible upon specified procedures, including standard questionnaires, especially when reviewing the consolidations of smaller bodies. This approach should keep the cost of additional audit work to a minimum. The audit of WGA will not mean extending NAO access rights to bodies where they do not already have access rights.

37 Once WGA is in place, the external auditor's role will be to review and report on the data returns prepared by a body. The actual procedures carried out will vary according to particular circumstances, but will largely comprise

- confirming that the body has complied with the Treasury's administrative instructions for preparation of the consolidation schedules;
- reviewing the basis of preparation of the schedules from the body's financial records, seeking to place reliance on the work already carried out as part of the audit of the financial statements;
- collecting evidence to substantiate any material differences between the consolidation schedules and the financial statements;
- reviewing any other information included in the consolidation schedules that was not covered by the audit of the financial statements; typically the analysis of transactions and balances with other bodies; and
- reporting their opinion whether the consolidation schedules are consistent with the financial position and results of the body.

Audited bodies are advised to talk to their appointed auditors as part of their preparation for WGA.

Where can I find out more?

38 The Treasury has set up a website that provides information about WGA. It also has details about the process and timetable for the preparation of the dry run CGA and WGA for 2001/02 and subsequent years and updates on the bodies currently included. The address is: www.wga.gov.uk

39 The NAO has also set up a website containing information in respect of the role of the C&AG and NAO as the auditor of CGA and WGA www.nao.gov.uk/guidance/wga

40 The Office of the Deputy Prime Minister has a section about WGA on its website www.local.odpm.gov.uk/finance/wga

41 Further information about the Audit Commission is available from its website www.audit-commission.gov.uk

42 CIPFA has a section on its website devoted to WGA. www.cipfa.org.uk/pt/wga

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