1. The questions asked by the Public Administration and Constitutional Affairs Committee reflect similar concerns raised by researchers in Public Sector Accounting over time. This is basically the reason why I am submitting these comments. This evidence proposes to highlight aspects in the UK Government Accounts process that raise concern in the research community, being:
   - The basis of preparation used for the estimates and the accounts
   - The utility of the reconciliation tables
   - The level of consolidation
   - Accountability and publication
   - International practices

2. It would be useful to link the inquiry into Government Accounts with that on Financial Estimates. Given that the Financial Estimates (that is, budgeting) are at the heart of Parliamentary accountability and scrutiny of public spending, it is important for subsequent financial reports provided to Parliament to be compatible with the format of the estimates.

3. This requirement immediately encounters the first problem because the Financial Estimates and the Government Accounts are not prepared on the same basis. The Financial Estimates are prepared on a similar basis to the national accounts and comply with the European System of National and Regional Accounts (ESA) as adapted and interpreted in the consolidated budgeting guidance issued by the Treasury. Whereas the Government Accounts are prepared on a different set of standards, being the International Financial Reporting Standards (IFRS) as adapted by the Treasury for the Public Sector.

4. These standards are fundamentally different. It is not the purpose of this evidence to elaborate on this because literature exists on this fact. While attempts are being made to converge these standards (IPSASB 2005; 2012), the differences are still there.

5. The effect of these differences in the basis of preparation between the Estimates and the Accounts necessitates the reconciliation of certain figures contained in both reports. While the reconciliations are technically possible, and are in fact required by the FReM and presented as part of the Government Accounts, they are hardly understandable. The actual utility of these technical reconciliations for Parliament are doubtful. The reconciliations purport to provide the link between figures shown in the Estimates and those in the Accounts, but it would be difficult to envisage how decisions taken on the Estimates would ultimately affect the Accounts, and vice versa. While these reconciliations are important for accountability, they do not facilitate the decision making required by departmental managers and ministers because it would be difficult for them to trace (or anticipate) the effect of their decisions from the estimates to the final figures reported in the accounts.

6. Turning the focus on the government accounts, even here the format chosen for the Statement of Cash Flows necessitates the use of another technical reconciliation that can very easily be eliminated thus making the Statement more meaningful and useful to the reader. The financial

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reporting standards allow this statement to be prepared using either the direct or indirect method. The Accounts use the indirect method, which results in the first part of the Statement of Cash Flows to be a technical reconciliation of the net expenditures as reported in the SoCNE to the ‘Net cash flows resulting from operating activities’. On the other hand, if the direct method is chosen, the first part of the Statement of Cash Flows would very clearly report how cash has been spent on operating activities. The results would be the same, but the link to cash expenditures would be more obvious. This would help the managers and the ministers in their decision making and in the discharge of accountability to Parliament.

7. The direct format for the Statement of Cash Flows should also facilitate the traceability of the net cash requirement in the Statement of Parliamentary Supply to this Statement of Cash Flows, and hence the link between the Estimates and the Accounts is more straightforward.

8. Having said this, the potential of this link is blurred because of the level of consolidation used in the Financial Statements. I am referring here to the move from three columns (department; core department and agencies; group) to two columns (core department and agencies; group) in the Financial Statements. Such a move facilitates the work of the Treasury to eventually consolidate the results in the whole of government accounts, but reduces the utility of the financial statements for the department concerned and the responsible minister. It also negatively affects the level of parliamentary accountability, because the actual results and performance of the department concerned would be ‘lost’ as it is integrated with the results of other agencies. Such situation is exacerbated if the agencies included in the consolidation have a different year end from the core department, or prepare accounts using different standards. Moreover, the objectives of agencies may differ from that of the core department, which would consequently require different performance measures.

9. The Statement of Parliamentary Supply is a key accountability statement to Parliament. The removal of prior year comparative figures, however, reduces the level of accountability and potential utility of this statement. A trend of persistent overspending or underspending is important and would affect any decisions taken on the information presented in this statement.

10. Monthly management accounts are intended to inform departments and agencies about their operation and finances. They are an important tool for planning, control and decision making at all levels of management, up to and including the responsible minister. Monthly management accounts need not be made public, because the public is not interested in this level of detail. The public could be interested in the outcomes and the delivery of political promises. Also, the fact that management accounts are not audited reinforces the argument of their non-publication because the reliability of the figures is not backed by appropriate assurance.

11. There is a difference between how the public scrutinizes the Government and how the Government (Parliament) scrutinizes its own administrative operations. The first part of the Departmental Annual Report dealing with performance is highly readable and informative to a layperson. The other two parts dealing with Accountability and the Financial Reports may not interest the general public, but are crucial for Parliamentary control. In this respect, the comments contained in this evidence could help to make these more useful, in that the budget is maintained at the core of this control, and obfuscation in the name of accounting norms and rules is avoided.
12. The preparation of financial reports just for the sake of their preparation is counterproductive, because the cost of their preparation is borne by the taxpayer at the end of the day. It is important that the cost of preparation does not exceed the expected benefit; in the sense that the purpose of the report needs to be justified. This consideration applies especially for consolidated accounts, at whatever level.

13. Does best practice in public sector accounts across the world exist? The research community of which I am part is constantly investigating this question (see for example, Brusca et al., 2015). It is interesting that while all governments target the same objectives (credibility, transparency, accountability), they all appear to have their own way of achieving these desirables:

While it is necessary to be clear about the nature and amount of diversity across Europe, the governmental accounting systems in every country face essentially the same problems but sometimes solve these problems by quite different means, though very often with similar results. (Jones, 2007, pp. 109)

Led by the particular situation and demands of the economy of their country, governments design their own modes of administration and consequent budgeting, reporting and audit requirements: Every society keeps the records most relevant for its major values (Lazarsfeld, 1959, pp. 108, cited in Hopwood, 1984, pp. 167).

14. With reference to the Committee’s question regarding best practice in the private sector, I conclude by referring to a sample article available in the literature (Ellwood and Newbury, 2006) - one of many on a similar theme.

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References: