1 Executive Summary

1.1 CIPFA believes that the quality and timeliness of government departmental annual accounts has improved over the last two decades. With the move from cash to resource accounts both accountability and transparency of public money has improved, as well as the quality, accuracy and timeliness of financial information. This is expressed in a sharp reduction of audit qualifications over a number of years.

1.2 Government departmental accounts compare favourably to other sectors – they comply with the same accounting standards (International Financial Reporting Standards (IFRS)) and undergo the same financial audit rigour as private sector companies.

1.3 However, we believe that there is scope for improving the monthly management accounts. Although there are data summaries and expenditure reports submitted in a standard format, the problem with these is that a standardised ‘one size fits all’ approach doesn’t work.

1.4 In this submission we have identified new forms of reporting such as those being developed in the private sector - Integrated Reporting <IR>. An increasing number of FTSE companies are now publishing integrated reports that reflect a holistic view of their businesses and how they create value. <IR> has the potential to be applied to government departmental reporting.

1.5 Over the years financial scrutiny has not been taken seriously enough nor seen as strategically important. A key challenge is to make the parliamentary financial scrutiny system work. Given the significance of public spending and the challenges involved in meeting austerity targets more attention should be given by Parliament to this area.

1.6 Going forward we believe that there should be training and professional development of parliamentarians to promote a culture of financial awareness and to empower politicians to ask more searching questions on financial matters.

1.7 We also recognise that there is an on-going challenge to stimulate the demand side for receiving financial information for a range of users, including parliamentarians. CIPFA is keen to work with Government and Parliament on exploring new methods of presenting financial information in different formats and utilizing new technologies to raise financial awareness amongst both politicians and the public on how effectively public money is spent.

2 The format of monthly management accounts

2.1 What is the purpose of monthly management accounts? How far do monthly management accounts currently meet this objective? Is their quality consistent?

2.2 In any business whether public or private monthly management accounts are a valuable management tool used by the executive to inform decision-making and by the non-executive to hold the executive to account. They generally include financial
information on actual performance against the budget together with a report on service performance. They are critical for identifying where strategic action needs to be taken, mitigating risk and dealing with significant variances.

2.3 In the case of central government, there are currently no standard monthly management accounts used across Whitehall by Boards and Ministers. Although there are data summaries and expenditure reports submitted in a standard format to HM Treasury and the Cabinet Office that boards are meant to take an interest in, the problem with these and other standardised approaches is that one size does not fit all - a meaningful report for a Board and/or Ministers at the Department of Health would be fundamentally different from one for HM Treasury or HMRC or DWP or MOD as these are all very different businesses. Similarly, in the private sector you would not expect the management accounts of Toyota to look like those of Barclays or Next or GSK. In the same way, each department tailors their own management reporting to their own business needs.

2.4 How can accounts be improved to ensure they are more useful to decision makers, particularly Permanent Secretaries, Departmental Boards and Ministers?

2.5 The format and focus of departments’ monthly management accounts should reflect the extent of their functions and activities in terms of service delivery responsibilities, grant distribution and/or their capital programmes. They need to report on how the inputs have been applied and the outputs delivered, as well as the longer-term outcomes they have contributed to. The extent of the non-financial information required in order to manage the department well, will also need to be determined by the same factors.

2.6 How could outcomes be integrated into the monthly management accounts, such as proposed by the MINIS system promoted by Lord Heseltine?

2.7 Outcomes are the internal and external consequences (positive and negative) as a result of an organisation’s business activities and outputs. They are often only measureable over a period of years, and so data may well not be collected each month, if changes are difficult to measure, or may result from more than one variable. Outputs, which are an organisation’s products and services, can generally be monitored on a monthly, or at least quarterly basis, and so form a more natural part of in-year management reporting.

2.8 How far can the monthly management accounts be made public?

2.9 Management accounts are generally an internal document to inform the decisions of the Executive and Non-Executive. They form part of the internal control mechanisms for controlling expenditure and assessing whether the expenditure has delivered the appropriate service outcomes. We believe that rather than focus on putting management accounts into the public domain more should be done to stimulate demand and interest in the government department annual accounts, which are already in the public domain and capture the overall performance of a government department.

3 The current utility of departmental accounts

3.1 How useful are the accounts as a tool to scrutinise the Government?

3.2 We believe that Parliament’s scrutiny of revenue and expenditure of public services is fundamental to the relationship between parliament the government and the citizen. The UK government’s financial framework is world class, with budgets, appropriations, in-year, and outturn reports all accrual-based, and prepared on the
basis of international financial reporting standards, as well as being one of only two countries that prepares a consolidation covering its entire public sector. In this light, we believe that the departmental annual accounts are a useful tool for scrutinizing government departments both in relation to financial performance and service performance.

3.3 Rather than the departmental annual reports not providing useful information for select committees to scrutinise Government, we believe that it is the current system of financial scrutiny is not working effectively. Despite the considerable efforts of the Public Accounts Committee (PAC) and NAO in highlighting significant savings and areas for improvement we believe that select committees are overburdened, which squeezes the amount of parliamentary time available to review the departmental annual reports. For example, in health over the years there was a lot of public, media and think tank interest in the annual accounts, even though the complexity meant interpretation took some time. But there was almost no parliamentary committee interest. It is difficult to find an example of an occasion where the health select committee used the annual accounts as the basis for a hearing. The PAC have used to have an annual hearing on the NHS summarised accounts, but their annual expenditure inquiry never drew on these.

3.4 Although the underlying focus of the departmental annual accounts differ from department to department according to the nature and scale of their activities, they at least follow a consistent format that allows comparisons to be made between the quality and comprehensiveness of financials and service performance. For example, they set out the objectives of the government department and outline whether these objectives have been met. They also link resources to meeting key priorities. They also highlight costs that are not included in statistical reporting, such as pension liabilities and contingent liabilities. We strongly believe that departmental annual reports provide valuable information for select committees to hold government departments to account. The fact that they are audited is important in ensuring their objectivity.

3.5 However, we also acknowledge that the quality of the departmental annual reports can also be variable and have suffered from criticisms, such as the lack of reporting and explanation for variations on the core tables included in the accounts or the reporting of performance against objectives. A common criticism is the lack of balance in reporting resulting in spin - highlighting the positives and ignoring the negatives. We understand that government departments are seeking to address these issues.

3.6 Over a number of years the scrutiny of departmental annual reports by select committees has been variable. Generally when a select committee decides to review a departmental annual report it will often draw on the support from the scrutiny unit in the House of Commons and/or the NAO. The scrutiny unit was established in 2002 to assist select committees in improving financial and performance scrutiny, as well as conduct pre-legislative scrutiny. The scrutiny unit continues to be staffed by professional accountants, statisticians and economists and their role is to provide select committees with technical support so that inquiries into a government department’s financial performance are effective.

3.7 Since the scrutiny unit’s introduction fourteen years ago, its resources have been reduced which has meant less support provided to select committees and a reduction in the valuable financial scrutiny work performed, such as providing a cross-cutting review of the departmental annual reports to highlight good practice and areas for improvement. The Liaison Committee of the House of Commons discussed the last report of this kind in 2009.
3.8 Another impediment to the effective scrutiny of the departmental annual reports comes from select committees themselves, in that, there is a preference to scrutinise government policy rather than finance. Finance is often seen as being too technical. This is perhaps why so little parliamentary time is set aside for questioning the finances of government departments. Also, select committees prefer to engage with the budget setting process when the policy decisions are made rather than focusing on the annual reports that are largely retrospective. Scrutinising how decisions have been implemented is at least as important in holding the executive to account.

3.9 Which parts of the accounts are used by those scrutinising the Government? Which parts are not?

3.10 All select committees have a responsibility to review the departmental annual reports at least once in a parliamentary cycle. These reports are critical for holding government departments to account for financial performance both past, present and future. For example, the balance sheet highlights future liabilities that may or may not impact on the sustainability of a government department's operations and/or policies and highlights how well it is managing its assets. Similarly, the performance reports that go with them are useful for assessing whether or not value for money has been achieved, in particular outcomes.

3.11 Although these financial statements are potentially useful for scrutiny, a key challenge is to engage select committees and make the financial information within the annual reports more accessible to those with little knowledge of finance. It is unrealistic to expect politicians to be technical experts. Therefore, we believe that there is a need to identify ways in which the capacity of parliamentarians to carry out financial scrutiny can be strengthened through the provision of better information, specialist support and/or training. The role of the scrutiny unit in the House of Commons and the NAO are valuable in providing technical expertise, but these have to be adequately resourced.

4 Reforms to the format of departmental accounts

4.1 How could Departmental Accounts be improved to meet the needs of Parliament and the public?

4.2 The quality and timeliness of departmental accounts has improved significantly over the last two decades. With the move from cash to resource accounts it has increased accountability and transparency of public money, as well as the quality, accuracy and timeliness of financial information.

4.3 We now see the challenge as stimulating the demand side for annual accounts with a range of users, including parliamentarians. Therefore, as outlined earlier in this submission, the key challenge is to make the parliamentary financial scrutiny system work. Government is large and complex, so to some extent we have to accept that departmental financial information is complex. This is no different from the corporate sector and that it is difficult to see how an average member of parliament can be expected to understand this level of complexity without adequate access to financial expertise.

4.4 Going forward we need to ensure that financial scrutiny is not seen as separate to all other aspects of policy. It is essential that a link be made between finance and public policy. New forms of reporting are emerging in the corporate sector which would facilitate this, such as Integrated Reporting <IR> developed by an independent body the 'International Integrated reporting Council’ <IIRC>. Multi-national companies such as Philips and IBM are using <IR> to communicate a
clear, concise and integrated story that explains how all of their resources are creating value. <IR> is helping businesses to think holistically about their strategy and plans to improve investor confidence and improved future performance. <IR> has the potential to be applied to government department reporting and more widely the public sector as a whole. For example, Crown Estates has successfully adopted this model of reporting over the past three years and can be considered as a beacon of good practice.

4.5 At the same time both Parliament and government departments could incorporate coverage of financial matters into their own communication and media strategies so that departmental annual reports gain the attention of the public.

4.6 What is best practice in public sector accounts across the world and why is it best practice?

4.7 The UK public sector financial reporting framework is based on the International Financial Reporting Standards (IFRSs) developed by the International Accounting Standards Board (IASB), adapted as necessary for the public sector context. The Financial Reporting Advisory Board (FRAB) reviews these adaptations and reports to Parliament annually on whether the adaptations proposed by HM Treasury and the other ‘Relevant Authorities’ that are responsible for the financial reporting frameworks in the devolved governments, the NHS and local government, are appropriate in the context. In developing these adaptations, the Relevant Authorities follow an agreed approach, which is based on the ‘rules of the road’ approach applied by the International Public Sector Accounting Standards Board (IPSASB). As a result the UK framework is 95% IPSAS-compliant.

4.8 IPSASB is an independent global standard setter, which operates under the auspices of the International Federation of Accountants (IFAC), and is comprised of 18 board members from around the world who are experts in public finance. The International Public Sector Accounting Standards (IPSASs) that they set are developed through a defined due process that requires full public consultation, and is subject to oversight by a Public Interest Committee comprising the World Bank, IMF, OECD and INTOSAI.

4.9 How far should other government accounts (for NDPBs and Agencies) reflect the format of Departmental accounts?

4.10 The overall formats for agency and NDPB accounts should be consistent with those of their parent departments, as they form part of the departmental budget group and are consolidated into the results of their parent department. Within the overall format requirements, there should be scope to allow such entities to provide such additional disclosure as is necessary to explain their activities.

5 Future improvements to accounts.

5.1 Who should have control over the format of Departmental Accounts and the Whole of Government Accounts?

5.2 HM Treasury has generally controlled the format of accounts with the advice of the Financial Reporting Advisory Board (FRAB). The latter was established in 1996 with the introduction of resource accounts in order to introduce an independent element into the standard setting process. In consultation with others, both bodies ensure that the format of accounts follow consistent standards and comply with the relevant international financial reporting accounting standards. This arrangement has worked successfully over a period of two decades and continues to do so. FRAB has been a driving force for securing improvements in government accounts and for
driving the accounts simplification process, as a result of its ability to report annually to Parliament and the devolved governments whether IFRS adaptations proposed are appropriate for the public sector context.

5.3 It is critical that one department, in this case, the Treasury oversees the production of the Whole of Government Accounts so that information is co-ordinated in the most efficient and effective way. The production of the Whole of Government Accounts (WGA) is overseen by WGA Advisory Group. CIPFA is a member and ensures we play a full part it making future improvements to the WGA.

5.4 How can we judge the success of departmental accounts as disclosures of information to the public?

5.5 Never in our lifetime has so much financial data been placed in the public domain improving both transparency and openness. Yet there is little evidence to show that it is being used. The ‘arm chair’ auditors predicted by Rt. Hon Eric Pickles didn’t materialize.

5.6 We need to be realistic about the extent to which a member of the general public with no specialist financial knowledge can really engage with departmental accounts. However that does not mean that the accounts themselves do not have significant value for accountability purposes. Instead we need to seek out new ways to engage them through the use of new technology, pictorial representation, diagrams and charts. However, we also see this issue and inter linked to the broader issue of widespread political disengagement. In our view success will be achieved when select committees carry out financial scrutiny effectively and government continues to work with the accountancy profession to explore new ways of presenting & communicating financial information. For example, select committees can provide the ideal forum for hearing the views and evidence from the public on annual accounts.

6 Improving scrutiny of financial information from the Government

6.1 How can financial scrutiny of Departments in both Parliament and outside be improved?

6.2 Parliament has a responsibility to exercise robust financial scrutiny on behalf of the public and shine a light on waste and inefficiency, as well as follow up recommendations to ensure they are actioned. Whilst generally the Treasury Committee, PAC and NAO are the driving forces for financial scrutiny in the House of Commons they have little time for following up recommendations because of the number of reports they have to review – 60 value for money reports a year in the case of the PAC.

6.3 In our view select committees are the ‘engine rooms’ of parliament and an important means for holding governments to account. They have a number of strengths, including the ability to facilitate technical debate and scrutiny, but they also have a number of challenges, such as a lack of financial skills, lack of action in following-up recommendations and general inability to influence government policy through their reports - research by the Constitution Unit in the UK highlighted that 40% of select committee recommendations were accepted by the government and roughly the same proportion were implemented, but this still left a significant number unactioned.

6.4 Going forward we believe that there should be training and professional development of parliamentarians to promote a culture of financial awareness and to empower politicians to ask more searching questions on financial matters.
Switzerland at the beginning of any new Parliament parliamentarians undergo mandatory financial training.

6.5 Overall, financial scrutiny has not been taken seriously enough nor seen as strategically important. The financial crisis has spurred little change. Given the significance of public spending, severity of austerity targets and continuing sovereign more attention should be given by Parliament to this area.

6.6 Parliamentarians should have access to a research facility so that they are able to gain sufficient knowledge about often-complex financial issues, such as sovereign debt issues. They should also have access to learning and development support. For example, the parliamentary scrutiny unit has hosted a number of financial management and reporting workshops for MPs, but the key problem was that they are not well attended.

6.7 Also, outside of the annual reporting process we are of the view that sufficient parliamentary time and effective timetabling should be made available to promote discussion of the budget and estimates day debates. The outdated ‘estimates supply votes’ is a key barrier to effective parliamentary financial scrutiny. Parliament cannot realistically amend spending proposals and because of this there is no real possibility it will reject such proposals. Instead, they are confined to assenting to spending proposals as they are put to them. This antiquated estimates system present specific challenges to effective parliamentary scrutiny and it is difficult to see how these will be overcome without significant structural and cultural change. Parliamentarians see little point in getting involved in the technical detail of estimates that they will have little chance of influencing. As the Hansard Society outlines, ‘the government decides the value of the cheque, to whom it should be paid and when, and Parliament simply signs it’ (Brazier and Ram 2006).

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