



House of Commons  
Public Administration  
and Constitutional Affairs  
Committee

---

**Accounting for democracy:  
making sure Parliament,  
the people and ministers  
know how and why public  
money is spent**

---

**Fourteenth Report of Session 2016–17**





House of Commons  
Public Administration  
and Constitutional Affairs  
Committee

---

**Accounting for democracy:  
making sure Parliament,  
the people and ministers  
know how and why public  
money is spent**

---

**Fourteenth Report of Session 2016–17**

*Report, together with formal minutes  
relating to the report*

*Ordered by the House of Commons  
to be printed 25 April 2017*

## Public Administration and Constitutional Affairs

The Public Administration and Constitutional Affairs Committee is appointed by the House of Commons to examine the reports of the Parliamentary Commissioner for Administration and the Health Service Commissioner for England, which are laid before this House, and matters in connection therewith; to consider matters relating to the quality and standards of administration provided by civil service departments, and other matters relating to the civil service; and to consider constitutional affairs.

### Current membership

[Mr Bernard Jenkin MP](#) (*Conservative, Harwich and North Essex*) (Chair)

[Ronnie Cowan MP](#) (*Scottish National Party, Inverclyde*)

[Paul Flynn MP](#) (*Labour, Newport West*)

[Marcus Fysh MP](#) (*Conservative, Yeovil*)

[Mrs Cheryl Gillan MP](#) (*Conservative, Chesham and Amersham*)

[Kate Hoey MP](#) (*Labour, Vauxhall*)

[Kelvin Hopkins MP](#) (*Labour, Luton North*)

[Gerald Jones MP](#) (*Labour, Merthyr Tydfil and Rhymney*)

[Dr Dan Poulter MP](#) (*Conservative, Central Suffolk and North Ipswich*)

[John Stevenson MP](#) (*Conservative, Carlisle*)

[Mr Andrew Turner MP](#) (*Conservative, Isle of Wight*)

The following members were also members of the committee during the Parliament: [Oliver Dowden MP](#) (*Conservative, Hertsmere*), [Mr David Jones MP](#) (*Conservative, Clwyd West*), [Tom Tugendhat MP](#) (*Conservative, Tonbridge and Malling*) and [Adam Holloway MP](#) (*Conservative, Gravesham*).

### Powers

The Committee is one of the departmental select committees, the powers of which are set out in House of Commons Standing Orders, principally in SO No. 146. These are available on the internet via [www.parliament.uk](http://www.parliament.uk).

### Publication

Committee reports are published on the Committee's website at [www.parliament.uk/pacac](http://www.parliament.uk/pacac) and in print by Order of the House.

Evidence relating to this report is published on the [inquiry publications page](#) of the Committee's website.

### Committee staff

The current staff of the Committee are: Dr Rebecca Davies (Clerk), Ms Rhiannon Hollis (Clerk), Dr Sean Bex (Second Clerk), Dr Henry Midgley (Committee Specialist), Dr Patrick Thomas (Committee Specialist), Mr Jonathan Bayliss (Committee Specialist), Ms Penny McLean (Committee Specialist), Ms Rebecca Usden (Committee Specialist), Mr Alex Prior (PhD Scholar), Ana Ferreira (Senior Committee Assistant), Iwona Hankin (Committee Assistant), and Mr Alex Paterson (Media Officer).

### Contacts

All correspondence should be addressed to the Clerk of the Public Administration and Constitutional Affairs Committee, House of Commons, London SW1A 0AA. The telephone number for general enquiries is 020 7219 3268, the Committee's email address is [pacac@parliament.uk](mailto:pacac@parliament.uk).

# Contents

---

<b>Summary</b>	<b>3</b>
<b>1 Introduction: Departmental and management Accounts</b>	<b>5</b>
The purposes of Government Accounts	5
The current purpose of Government Accounts	5
<b>2 The current format of Government Accounts</b>	<b>7</b>
The current format of Government Accounts	7
Simplifying and Streamlining the Accounts	8
<b>3 The Accounts and the public</b>	<b>10</b>
What the public wants from Accounts	10
Are Annual Reports and Accounts meeting the needs of the public or Parliament?	11
The success of the Treasury Simplifying and Streamlining reforms	15
Further Reform	16
Departmental spend “segmentation”	17
Projects and Programmes	19
Cost Analysis	20
Trend analysis	21
Open Data	23
Electronic Publication	24
The Financial Reporting Advisory Board	24
<b>4 Accounts and Parliamentary accountability</b>	<b>27</b>
The importance of Parliamentary Scrutiny	27
The origins of Parliamentary scrutiny of Government Accounts	27
Current Parliamentary Scrutiny	28
Estimates and the Spending review	29
The Estimates	30
The Spending Review	32
Specific ministerial commitments	33
The success of Parliamentary Scrutiny	34
Training	35
<b>5 Accuracy and credibility of Government Accounts</b>	<b>37</b>
The Importance of accurate and credible Accounts	37
Technical standards applied to UK Government Accounts	37
The benefits of accruals accounting	37

International Financial Reporting Standards	39
Benefits of good quality Accounts	40
The accuracy of Departmental annual Reports and Accounts	40
The accuracy of financial statements	41
The accuracy of Annual Reports and political spin	42
<b>6 Management accounting in Government</b>	<b>46</b>
The purpose of management information	46
Management Accounts and information in the public sector: a persistent weakness	46
Earlier attempts to reform	48
The Financial Management Review	50
Concept	50
Implementation of Single Departmental Plans	51
Public Accountability	54
Current state of published SDPs	54
Arguments in favour of publishing SDPs in full	55
Single Departmental Plans and Annual Reports and Accounts	57
<b>Conclusions and recommendations</b>	<b>59</b>
<b>Annex: Glossary of Terms</b>	<b>70</b>
<b>Formal Minutes</b>	<b>72</b>
<b>Witnesses</b>	<b>73</b>
<b>Published written evidence</b>	<b>74</b>
<b>List of Reports from the Committee during the current Parliament</b>	<b>75</b>

## Summary

The House of Commons is supreme in matters of finance. Parliament however can only exercise this supremacy if it understands how the Government spends money and on what it spends money. Ministers and their Departments can only give Parliament this information if they too know what their Departments spend money on and why. For these reason, this report concerns both the published Departmental Annual Reports and Accounts (hereafter simply referred to as Annual Reports and Accounts), designed for Parliament and the public, and management Accounts, designed for the use of Ministers and officials in managing their Departments.

Citizens should be able to use Annual Reports and Accounts to assess the effectiveness of Government spending. Parliamentarians should be able to use Annual Reports and Accounts to scrutinise the Government's commitments and hold the Government to account for its policies. Both citizens and Parliamentarians should be able to rely upon and be able to understand the information which is published. The Government itself should become better at using financial information to manage its business.

In recent years, the Treasury has made reforms to published Annual Reports and Accounts. However in our view, whilst the reforms are in the right direction, they do not go far enough. While Government accounting has improved, and the UK is a world leader in accruals accounting and the adoption of international standards, accounts are still not being read or used by MPs or citizens as much as they should be. What we currently have is a good base of solid reporting: the Treasury now needs to take the next step and make these documents a cornerstone of democratic accountability, both to citizens and Parliament.

This report lays out a number of steps that the Government should take to make accounts central to accountability in the public sector. Our vision is that accounts should report on the value for money of government services, the commitments made to Parliament by Government and provide a credible record of expenditure and the balance sheet. Currently we believe that they are only meeting the last requirement.

We have made a series of recommendations which we believe will improve government accounting. To ensure citizens are able to work out the value for money of policies and services, we have recommended that Departments report separately about each policy or service that they offer the public (so that we can tell how much was spent on individual services like Child and Adolescent Mental Health). We recommend that they report the unit costs of those services (so that citizens could see the cost of a school place or a police officer visit). To ensure Parliamentarians are able to hold ministers to account, we recommend that the accounts include a statement which sets out ministerial promises of funding and saving and what was achieved against that. To improve the credibility of the accounts, we recommend that the Government should make sure that the performance information in the accounts is independently audited. Lastly we recommend that the Government should ensure that its management Accounts reforms last for more than a single Parliament by ensuring that the political and bureaucratic leadership of all Departments are focused on improving it.

Financial accountability lies at the heart of Parliamentary sovereignty and of democratic government. Parliament can only be what Gladstone described it as - the real authoritative steward of the public finances - if the Government improves the accounts.





# 1 Introduction: Departmental and management Accounts

---

## The purposes of Government Accounts

1. The requirements for Government to manage and account for the spending which it undertakes, and for the taxpayer to see and have confidence in the records which it keeps are vital elements of democracy. Published Annual Reports and Accounts should enable Ministers, MPs and the public to understand how public money is spent and question whether it was spent wisely. Internal management Accounts should enable Ministers and senior officials to manage and control the spending of their Departments effectively. Crucially, published Annual Reports and Accounts are audited by an independent auditor - in the UK, the Comptroller and Auditor General (C&AG) and the staff of the National Audit Office, in a process designed to give confidence that the information which they include can be relied upon.

## The current purpose of Government Accounts

2. In our current constitutional landscape, we believe that good quality Government Accounts and financial information have four main purposes:

- a) To maintain and ensure the House of Commons' control of Government spending, enabling in particular the House of Commons to hold the Government accountable for its spending;
- b) To enable the public and researchers (both in civil society and Parliament) to understand and consider the value for money offered by public spending, so that they can make decisions about the effectiveness, efficiency and economy of particular policies or programmes;
- c) To provide a credible and accurate record which can be relied upon;
- d) To provide managers inside Departments (including both Ministers and civil servants) with the information that they require to run the Departments and its agencies efficiently and effectively.

3. Witnesses to the inquiry told us that these were the four key purposes of the accounts. But we are aware that these purposes can sometimes conflict. For example, good management information generally requires information to be captured and tracked according to lines of management responsibility, so a Department and the Treasury can tell who to hold to account for any overspends. Transparency on the other hand requires that the public can see how money is spent on particular services and achieves results. Often services are split between departments or agencies with each different body responsible for a different portion of the service: for example, victims services are both commissioned by central government and by police and crime authorities. Accounts could either split the spending for such services between each body or they could show the expenditure by service.

4. This report is organised around the four purposes that we have identified. Chapter 2 explains the current format of Accounts. The following chapters deal with each of the four purposes discussed here: Chapter 3 covers value for money; Chapter 4 covers accountability to the House of Commons; Chapter 5 covers the importance of credibility and reliability; and Chapter 6 covers the use of financial data in management within Departments.

5. PACAC's inquiry took place in parallel with the inquiries of two other committees: the Public Accounts Committee's inquiries into Single Departmental Plans and the Whole of Government Accounts and the Procedure Committee's inquiry into the Estimates process.

6. PACAC has held three evidence sessions focussing on Government accounting during this inquiry. These evidence sessions focused on the utility, quality and accessibility of the information presented to Parliament and the public in the annual Accounts and ministers and officials in the management Accounts. PACAC has also received **28** submissions from organisations and individuals. We thank all those who have submitted written or oral evidence to our inquiry. We also thank the staff of the National Audit Office and of the House of Commons Scrutiny Unit for their assistance.

## 2 The current format of Government Accounts

---

### The current format of Government Accounts

7. Over the last twenty years, there have been many efforts to reform Government Accounts.

- a) “Resource Accounting” was introduced by the Treasury in the late 1990s. It required all Departments to produce commercial style accruals based Accounts from 1999–2000.<sup>1</sup> Until this point, the UK had used cash accounting. This change meant that, rather than solely measuring cash movements, Departments began to measure and record expenditure incurred and income generated, as well as assessing the levels of assets and liabilities - often built up over many years past. Resource accounting means that instead of examining only the national debt (the amount of money borrowed cumulatively by the end of each year) which in 2015–16 was £1.6 trillion, we can also examine the accounting debt (which includes items the Government has not yet paid for but is obliged to pay for such as public sector pensions) which stood in 2015–16 at £3.6 trillion.<sup>2</sup>
- b) International Financial Reporting Standards (IFRS) were implemented for the public sector in the UK from 2009–10.<sup>3</sup> IFRS had consequences for the way that the Government reported the value of assets, encouraging Government to value assets at ‘fair value’ and to adopt the concept of ‘substance over form’. This had impacts upon which assets were included and how they were valued within Government including financial assets, obligations under the Private Finance Initiative, assets held for sale, infrastructure assets and intangible assets.<sup>4</sup>
- c) “Clear Line of Sight” was announced in 2007 and implemented from 2011–12. It aimed to align the way spending was reported in Budgets, Estimates and Accounts. The Director General of Public Spending at the Treasury, Julian Kelly, told us that “the clear line of sight arrangements we brought in [ ... ] are precisely supposed to be able to show the budget that is agreed at the Spending Review, the money that is voted by Parliament and then the report on that money being spent at the end of the year in the Accounts”.<sup>5</sup>

8. As part of the Clear Line of Sight reforms, Departmental Annual Reports were combined with the previously separate statutory Accounts to form a single document for each Department, known as the Annual Report and Accounts. Departments were

---

1 [IGA06](#) (HM Treasury)

2 The National debt figure for 2015–16 is given in House of Commons Library [Government borrowing, debt and debt interest: historical statistics and forecasts](#), January 2017, p.6. The accounting liabilities for the same year are included in HM Treasury [Whole of Government Accounts 2015–16](#) p.5.

3 International Financial Reporting Standards have been adopted for corporate Accounts across over 100 jurisdictions including the European Union and two thirds of the G20. The IFRS Foundation [What are IFRS Standards](#)

4 More detail is provided in House of Commons Scrutiny Unit [Adoption of IFRS by central government: briefing note by the House of Commons Scrutiny Unit](#), July 2009.

5 [Q335](#); A fuller description is included in House of Commons Library Standard Note SN/EP/5617, [The Clear Line of Sight Project](#), July 2010.

required for the first time to consolidate spending of their own with that of all of their arm's length bodies, in order to give a clearer picture of all of the spending and activities for which they have ultimate responsibility.

9. The general impact of the various changes, our witnesses agreed, has been to make Government Accounts 'quite comparable' to private sector Accounts.<sup>6</sup> But it is widely recognised that Government Accounts perform a somewhat different function to those of private sector companies. People using Government Accounts have different requirements to the investors who use corporate Accounts: while investors will often want to analyse the profitability of a company, readers of Departmental Annual Reports and Accounts are more likely to be interested in what services have been provided at what cost and how effective the services provided have been. We cover the needs of Government users in Chapter 3 and 4 of the report.

### Simplifying and Streamlining the Accounts

10. In 2014, the Treasury published a command paper, *Simplifying and Streamlining the Statutory Annual Report and Accounts*, which set out proposals for a new format for Annual Reports and Accounts, to be initially implemented in 2015–16.<sup>7</sup> In drawing up its proposals, the Treasury informally consulted the National Audit Office (NAO) and the House of Commons Scrutiny Unit before putting proposals to the Liaison Committee and Public Accounts Committee, who responded, indicating broad support.<sup>8</sup>

11. The changes set out in *Simplifying and Streamlining the Statutory Annual Report and Accounts* involved Departments reorganising their Annual Reports and Accounts into three sections, focussing on performance, accountability and the core financial statements.<sup>9</sup> The Treasury explained the new sections in their evidence to us.

The performance reporting requirement includes a clear statement of the purpose and activities of the organisation, high level financial information with cross references to the audited Accounts and trend information with commentary against trends and performance against policy. The accountability requirement contains a Governance Statement and information on strategic risks to the entity, the Remuneration Report and information on parliamentary accountability, including the Statement of Parliamentary Supply. The final requirement shows the set of financial statements and disclosure notes.<sup>10</sup>

Additionally, the Treasury told Departments to remove "non-material balances" from the Accounts.<sup>11</sup> The Treasury argued that this would make the document shorter and therefore easier to use.

6 [Q96](#) (Sir Amyas Morse). This view was shared by Dr John Pugh MP [Q273](#)

7 HM Treasury, [Simplifying and streamlining statutory annual report and Accounts](#), Cm 8905, June 2014.

8 HM Treasury, [Simplifying and streamlining statutory annual report and Accounts](#), Cm 8905, June 2014, p.3.

9 HM Treasury, [Simplifying and streamlining statutory annual report and Accounts](#), Cm 8905, June 2014, p.7.

10 [IGA08](#) (HM Treasury)

11 Materiality is defined later in this report in Paragraph 128. Broadly a "non-material balance" would not affect someone's view of the organisation the Accounts describe. For example, a Department might previously have had a note concerning financial instruments even in cases where it had no such instruments. HM Treasury, [Simplifying and streamlining statutory annual report and Accounts](#), Cm 8905, June 2014, p.4.

12. These reforms were introduced with effect from 2015–16. Dr John Pugh MP, a member of the Public Accounts Committee and author of a previous report on financial scrutiny in the House of Commons, in his evidence to us confirmed that in 2015–16, “everybody [all Departments] has complied in kind, but not in precisely the same way or with the same degree of clarity”.<sup>12</sup> We return to analyse the effect of these reforms in Chapter 3.

## 3 The Accounts and the public

---

### What the public wants from Accounts

13. Professor Sheila Ellwood, Professor of Financial Reporting at Bristol University, said that Government Accounts are “tied up with democratic accountability”.<sup>13</sup> Ultimately, Members of Parliament “are the proxy for citizen auditors” and for voters.<sup>14</sup> Professor Malcolm Prowle, Professor of Performance Management at the University of Gloucestershire said that the purpose of Accounts “is fundamentally to communicate information, probably financial information”.<sup>15</sup> The International Public Sector Accounting Standards Board (IPSASPB) took the view that Government Accounts should provide ‘useful’ information to taxpayers, legislators and service recipients.<sup>16</sup>

14. Several witnesses told us that citizens needed information to assess the value for money of government services. Professor Prowle said that Governments need to communicate accounting information to their citizens “to discharge the accountability for the use of resources—how well this Government used my money, your money, [collected] from taxation”.<sup>17</sup> Craig Mackinlay MP said Accounts should allow “the public [to]... perceive the performance of... different Departments”.<sup>18</sup> In that context, he argued that the “the important thing is... [the] performance report” not just the accounts because it allows people to match performance to spend.<sup>19</sup> Will Moy, the Director of Full Fact, told us “fundamentally what I think the typical taxpayer wants to know is ‘how is my money being spent and am I happy about that?’”<sup>20</sup> PWC have said “financial information should be transparent in order to effectively hold Government accountable for its use of public funds”.<sup>21</sup>

15. The National Audit Office was clear that readers of Accounts should be able to “track how effectively taxpayers’ money has been used”.<sup>22</sup> The Right Honourable David Gauke MP, the Chief Secretary to the Treasury, also drew attention to Parliament’s need for information from Accounts to scrutinise value for money: he said

I welcome in my role Parliament scrutinising public spending. We have a shared objective to ensure there is good value for money for the taxpayer [ ... ] In order for Parliament and parliamentarians to do this effectively very often this does require a good understanding of Accounts.<sup>23</sup>

Julian Kelly from the Treasury said Annual Reports and Accounts should give “taxpayers and in particular Parliament the ability to hold Departments and the Government to account for the way the money has been spent”.<sup>24</sup>

---

13 [Q80](#)

14 Oral evidence taken before the Procedure Committee, 5 July 2016, [Q98](#) (Meg Hillier).

15 [Q186](#)

16 International Public Sector Accounting Standards Board, [Conceptual Framework](#), 2014, pp.13–14.

17 [Q186](#)

18 [Q262](#)

19 [Q269](#) (Craig Mackinlay MP)

20 [Q228](#)

21 PWC, [Towards a new era in government accounting and reporting](#), April 2013, p.20.

22 National Audit Office, [Accountability to Parliament for Taxpayer’s Money](#), Session 2015–16, HC 849, February 2016, p.40.

23 [Q344](#)

24 [Q298](#)

16. For this objective to be achieved, Annual Reports and Accounts must be clear to the ordinary user. Craig Mackinlay MP, the Parliamentary observer on the Financial Reporting Advisory Board, told us that “the account should be presented in a way that is understandable to the user”.<sup>25</sup> In the opinion of David Kilpin, who describes himself as an accountant with public sector experience, accounting “should not become a cottage industry that no one understands”.<sup>26</sup> The National Audit Office argued that Annual Reports and Accounts “are most useful to users and stakeholders when they are timely, robust, relevant, understandable and comparable”.<sup>27</sup> However, as we shall see below, our witnesses told us Annual Reports and Accounts currently do not completely meet all of these requirements.

**17. The public require good quality, well presented financial information to hold the Government to account. As our witnesses, the Treasury and others have said, the public and Parliament want to use this information in order to assess the performance of Government Departments. To perform this function, Annual Reports and Accounts must be clearly presented so that non-accountants can read and make use of them.**

### Are Annual Reports and Accounts meeting the needs of the public or Parliament?

18. Many witnesses to our inquiry told us that currently, Government Departments’ Annual Reports and Accounts are of limited use to both policy analysts and the public. The King’s Fund told us in their evidence that

in our capacity carrying out research and policy analysis, the Accounts are of limited use.<sup>28</sup>

The Taxpayer’s Alliance told us that

Most A[nnual] R[eports and] A[ccounts] are currently dense and confusing for outsiders, lacking in meaningful output and performance measures, and bulked out with material not helpful in scrutinising value for money.<sup>29</sup>

Ian Makgill of Spend Network (a website which “collates the spending data published by public bodies in England and Wales”) commented that Accounts were “hard to interpret, as well as inconsistent”.<sup>30</sup> The King’s Fund told us that “our experience [ ... ] suggests that many other organisations and individuals are unaware of the existence of the Accounts”.<sup>31</sup>

19. The academic evidence also suggests that limited numbers of people use the Accounts. Professor David Heald, Professor of Public Sector Accounting at the Adam Smith Business School in the University of Glasgow, told the Committee that there is “not much evidence of actual external use” and pointed to a recent study of devolved administration Accounts (prepared on a similar basis) which “has confirmed the conventional wisdom

25 The Financial Reporting Advisory Board advises the Treasury on the implementation of accounting standards in the UK Government. We discuss its role in paragraph 102–109; [Q262](#).

26 [IGA22](#) (David Kilpin)

27 [IGA07](#) (National Audit Office)

28 [IGA20](#) (King’s Fund)

29 [IGA02](#) (Taxpayer’s Alliance)

30 [IGA24](#) (Ian Makgill)

31 [IGA20](#) (King’s Fund)



of limited external use”.<sup>32</sup> Professor Noel Hyndman, Professor of Accounting at the Queen’s Management School at Queen’s University, Belfast, said that Accounts were seen within and outside the public sector as “unnecessarily complex [and] very difficult to understand”.<sup>33</sup>

20. Professor Hyndman’s criticism of the Accounts’ complexity was echoed by other evidence to our inquiry. The King’s Fund contended that whilst they used the Accounts, other organisations found them “daunting to use”.<sup>34</sup> Spend Network told us they were “overly complex”.<sup>35</sup> The Plain English Campaign told us that Annual Reports and Accounts were “consistently badly-written and in serious need of a rewrite”.<sup>36</sup> The C&AG agreed that “some are badly written”.<sup>37</sup> The Institute for Government told us that “much of the information in Departmental Accounts could be presented more succinctly than it currently is”.<sup>38</sup>

21. Witnesses to our inquiry alleged that currently Annual Reports and Accounts are not designed for citizens and Parliamentarians. Professor Ellwood told us that Annual Reports and Accounts were “not designed for the purpose of parliamentary accountability”.<sup>39</sup> Professor Hyndman has said that there are concerns the Accounts have been “overly embracing commercial models in their development, not focusing on key public sector issues”.<sup>40</sup> Craig Mackinlay MP said that in his view Departments write Annual Reports and Accounts “without really understanding what is the point of them to the user”.<sup>41</sup>

22. There is some good practice within the public sector. Craig Mackinlay MP pointed to the Annual Report and Accounts of the Department for Work and Pensions (DWP) which he said “have got to a pretty good place”.<sup>42</sup> The Taxpayer’s Alliance told us that they also found the DWP Accounts to be “one of the better examples”.<sup>43</sup> They pointed to DWP’s use of “easily understood charts and tables showing the key statistics” about their priorities as an example of good practice.<sup>44</sup> David Gauke MP, the Chief Secretary to the Treasury, told us that

there are particularly some Departments... where it [the annual report and Accounts] doesn’t just provide dry information, which it needs to do, but also explains more fully and in a more digestible way the way in which a Department works, what its objectives are and how it delivers. Of course there is always room for improvement.<sup>45</sup>

---

32 [IGA12](#) (Professor David Heald)

33 N. Hyndman, *‘Accrual accounting, politicians and the UK—with the benefit of hindsight’*, Public Money and Management, Vol.36, Issue 7, September 2016.

34<sup>34</sup> [IGA20](#) (King’s Fund)

35 [IGA24](#) (Ian Makgill)

36 [IGA10](#) (Plain English Campaign)

37 [Q99](#)

38 [IGA15](#) (Institute for Government)

39 [Q198](#) (Professor Ellwood)

40 N. Hyndman, *‘Accrual accounting, politicians and the UK—with the benefit of hindsight’*, Public Money and Management, Vol.36, Issue 7, September 2016.

41 [Q270](#)

42 [Q265](#) (Craig Mackinlay MP)

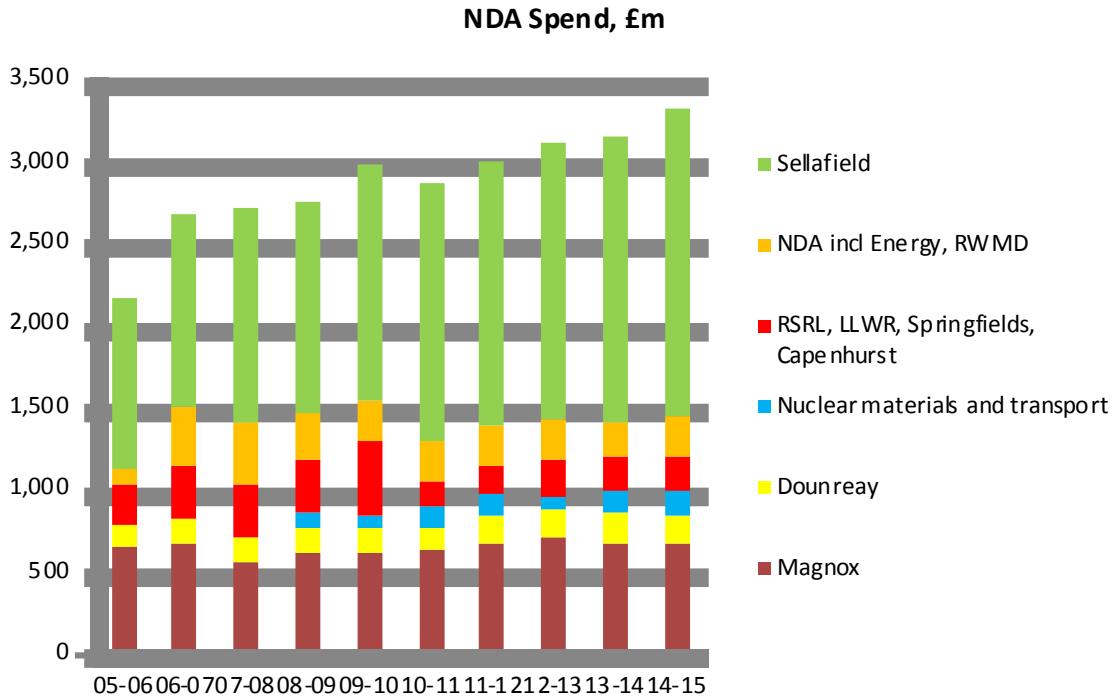
43 [IGA02](#) (Taxpayer’s Alliance)

44 [IGA02](#) (Taxpayer’s Alliance)

45 [Q299](#)

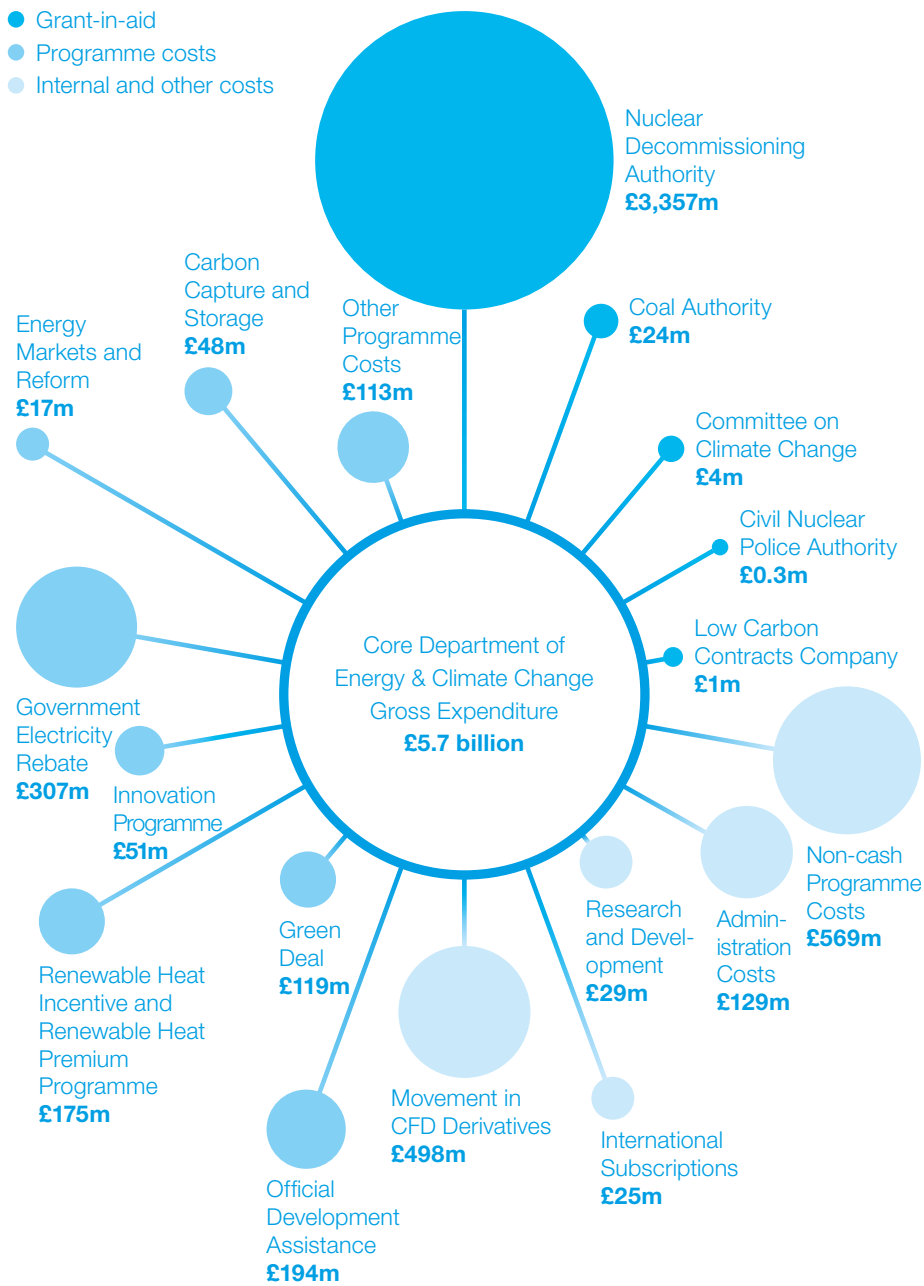


23. The National Audit Office every year co-sponsors the Building Public Trust Awards: these awards include categories such as good reporting about strategy, risks and outcomes and a separate category for “understandability”.<sup>46</sup> For example, for the year 2014–15, the NAO singled out this chart from the Nuclear Decommissioning Authority Accounts which shows how much NDA spends at its sites.



In the same year the NAO pointed to the way that the Department of Energy and Climate Change displayed how it spent its money.

46 The last awards given were for Accounts for the year 2014–15. These were presented in March 2016. National Audit Office, [Building Public Trust Awards](#), March 2016.



24. The consensus of evidence to our inquiry makes it clear that many Government Departments' Annual Reports and Accounts remain badly written and difficult to understand or follow, despite recent reforms, and despite being prepared to a high technical standard (as we discuss in Chapter 5). Organisations like the King's Fund and the Taxpayer's Alliance say they find the Annual Reports and Accounts difficult to use and do not automatically turn to them to find out about the Government's actions. Academics have told us that the format and content of Accounts has not been designed for the purpose of democratic scrutiny. Most of the available evidence suggests a very limited community of people actually use the Annual Reports and Accounts. In most cases Annual Reports and Accounts appear to be currently failing in their purpose of explaining to the public and Parliament the effectiveness of Government spending.

We believe Accounts would be better used if they were prepared more often with the ultimate readers in mind, for example commentators on public policy, peers and MPs and their researchers.

25. Some Annual Reports and Accounts within the public sector are clearly currently better than others. For instance, witnesses to our inquiry pointed to the presentation of performance data by DWP in its Annual Report and Accounts as a good example of what all Departments could and should do. Whilst no Department's Accounts are perfect, the Treasury should identify good practice, and share and encourages its adoption by other Departments.

26. At the moment the Treasury does not collect information on who reads Annual Reports and Accounts, making it impossible to assess this problem fully. Professor Malcolm Prowle and Dr. Don Harradine from Nottingham Trent University said there was a “general dearth of empirical evidence in this area and especially in the UK”.<sup>47</sup> Professor Prowle suggested that the Treasury should fill this gap by publishing readership statistics.<sup>48</sup> The Treasury conceded that this would be possible.<sup>49</sup>

27. *It is clear that Annual Reports and Accounts are hard to follow. Non-accountants and commentators like the King's Fund and Taxpayer's Alliance do not find them as useful as they should be. Professor Prowle and Dr. Harradine are right to call for more systematic information about who is using Accounts, what figures and facts they are using from them and what they think about the documents. We recommend that the Treasury carries out research to identify how many people are buying and downloading Annual Reports and Accounts, who current readers are, what those readers think and who the potential readership is likely to, or should, include. We further recommend that the Treasury should regularly seek to find out what potential users of the Annual Reports and Accounts (including those who submitted evidence to our inquiry) think about how they could be improved to make it easier to assess the effectiveness of Government spending.*

### **The success of the Treasury Simplifying and Streamlining reforms**

28. The Treasury's recent reforms to Annual Reports and Accounts contained in their command paper, *Simplifying and Streamlining the Statutory Annual Report and Accounts*, were intended to better focus the Annual Reports and Accounts on the needs of users, removing unnecessary material and improving structure and clarity (see Chapter 2 for further explanation of the reforms). Witnesses to our inquiry have cautiously welcomed the reforms. David Kilpin described the new structure as a “welcome change” Will Moy from Full Fact, told us that in his view “progress has clearly been made”.<sup>50</sup>

29. However, witnesses also told us that more work was needed. The C&AG agreed that “the Treasury should be encouraged to continue with its streamlining review”.<sup>51</sup> The NAO advocated “removing immaterial disclosures to enable more focus on the material issues, helping readers see the wood from the trees”.<sup>52</sup> Full Fact and the Taxpayer's

47 [IGA13](#) (Professor Malcolm Prowle and Dr Don Harradine)

48 [Q189](#)

49 [Q316](#)

50 [IGA22](#) (David Kilpin); [Q245](#).

51 [Q92](#)

52 [IGA29](#) (National Audit Office)

Alliance said “more progress” was required to make Accounts useful for the public and Parliament.<sup>53</sup> Professor Ellwood told us that the format of Accounts barely changed in the Treasury’s recent reforms. She commented that she “welcomed integrating finance into wider performance” but thought that “the accountability part seems to largely mirror the private sector governance statements.” She also pointed out that the actual Accounts are still “very much... the basic statements and the formal disclosures as you would have for a large limited company”.<sup>54</sup>

30. The first set of Annual Reports and Accounts under the *Simplifying and Streamlining* reforms were produced for the financial year 2015–16 and published in the summer of 2016. The Treasury were unable to say in December 2016 whether any users of the Accounts had changed the way they interacted with them since the reforms.<sup>55</sup>

**31. We welcome the Treasury’s reforms (contained in *Simplifying and Streamlining the Statutory Annual Report and Accounts*) and the intention behind them to make Accounts simpler and more user- friendly. Departments and the Treasury should consider always that the demands of public sector users of financial information differ from those of private sector users and therefore they may need to provide them with additional explanations and information.**

*32. Whilst the Treasury’s reforms are a good first step, the way they have been implemented by different Departments, within a broad framework, currently varies widely. It is clear from the evidence provided to us that, on their own, the reforms as currently implemented will not necessarily provide Annual Reports and Accounts that completely fulfil the needs of potential users. Departments should make concerted efforts to present financial data in a way that clearly links measurable outputs and outcomes, and is useful to readers.*

*33. It is disappointing that the Treasury have not monitored any changes in the way that accounts have been used since the reforms of 2015–16. As we recommend above, the Treasury should monitor the use of accounts to identify good practice. Where good practice already exists, Departments should be encouraged to learn from it. We also believe further reform is needed to address more directly the need for greater transparency and address needs of users.*

*34. The Treasury should update its guidance to Departments setting out that Annual Reports and Accounts should include statistics on staff turnover within the Department and also the staff engagement scores for the Department from the latest Civil Service People Survey. The average figures for the Civil Service should also be included.*

### **Further Reform**

35. In our view, as well as implementing previous reforms more effectively, further reform is needed before the members of the public can properly assess the performance of Government Departments from looking at a set of Annual Reports and Accounts. The following sections make recommendations for additional improvements that we think will improve disclosure and the helpfulness of Annual Reports and Accounts. In

---

53 [Q245](#); [IGA02](#) (Taxpayer’s Alliance)

54 [Q201](#)

55 [Q314](#) (Julian Kelly)

particular we think Departments need to better report spending against activities and services rather than primarily between units of management or organisation. Secondly, the public need better information about what the costs of Government activity are and what the spending actually provides. Thirdly, readers need to be provided with better information about trends and changes in spending over time. Lastly, this information needs to be presented in such a way that it is easy for researchers and the general public to understand and use.

### **Departmental spend “segmentation”**

36. Annual Reports and Accounts need to do more than just report spending by organisation and management structure. While reporting in this way may help identify who can be held accountable for spending public money, it often does little to explain how and why money has been allocated and what the spending is designed to achieve. Departments will often have a variety of differing types of spending with different sorts of objectives and different lifespans. For instance, Departments, directly or indirectly, often run or fund big public services like schools and hospitals. Departments may also run programmes with a finite lifespan and specific objectives or projects—perhaps involving the construction of assets over a series of years—like HS2 or Trident. In each case, witnesses to our inquiry called for more disclosures to be made (as outlined in the following paragraphs).

37. There was a consensus to our inquiry that Annual Reports and Accounts should enable people to understand the Department’s objectives. As David Gauke MP, the Chief Secretary to the Treasury argued, helpful Annual Reports and Accounts ensure Departments can “be assessed against... [their] objectives”.<sup>56</sup>

38. Consequently the Taxpayer’s Alliance told us that “the Performance section of the proposed new A[nnual] R[eport and] A[ccounts] should be structured around the services delivered to taxpayers [for example, primary or secondary education] rather than around Departmental organisation”.<sup>57</sup> This, in their view, would help the Government “demonstrate its services deliver value for money”.<sup>58</sup> Professor Ellwood agreed, saying that “getting some meaningful information by programme and service would be very useful, and would fit parliamentary accountability”.<sup>59</sup> Ed Poole from the Welsh Governance Centre at Cardiff University thought that it would be useful for the public to have “more programme—or policy-related expenditure data”.<sup>60</sup> The Institute for Government have recently called for just this information to be published: for the Government to prepare what it called a Performance Tracker, “matching spending in public services to an assessment of demand, scope and quality”.<sup>61</sup>

39. Currently it is often difficult to scrutinise government performance through the accounts, because the accounts do not report spending information for services. For example, Child and Adult Mental Health Services (CAMHS) are not separately identified in the Department of Health’s Accounts. Consequently when the think tank Centre

56 [Q308](#)

57 [IGA02](#) (Taxpayer’s Alliance)

58 [IGA02](#) (Taxpayer’s Alliance)

59 [Q197](#) (Professor Ellwood)

60 [IGA26](#) (Ed Poole)

61 Institute for Government, [Performance Tracker A data-driven analysis of the performance of government](#), February 2017, p.5.

Forum examined the policy area, they found it difficult to piece together information about expenditure. They relied upon a Parliamentary answer from 2013, a freedom of information request to all Clinical Commissioning Groups from the charity Mind and an NHS announcement about local plans for CAMHS. These data sources may, as they suggest, be incompatible. They said that “it is very difficult to analyse trends in funding of CAMHS because there is no transparency in the way that data is collected”.<sup>62</sup>

40. The C&AG said he was ‘sympathetic’ to splitting Accounts by service objective rather than organisational unit, however he thought “it would be quite difficult to accomplish by, so to speak, restructuring the whole of the Accounts”. He proposed that this reporting happen within the business commentary in the Annual Report.<sup>63</sup> David Gauke MP said that he believed Accounts should report about accountability; he was concerned that “if one moved away from a Departmental basis to a policy objective basis ... ; how do you fit that into an accountability framework?”<sup>64</sup>

41. Currently Departments report spending in their Annual Report and Accounts a number of ways, but none necessarily provides information broken down in a way that is of wide use.

- a) The Statement of Parliamentary Supply shows spending against voted limits and against Estimates subheads, often reflecting organisational structures or high level priorities.<sup>65</sup> The Estimates subheads are determined by the relevant Department in consultation with Departmental select committees, and while they are sometimes helpful to the reader there is much inconsistency of approach in determining how expenditure is structured
- b) The Statement of Operating Costs by Operating Segment shows spending by main areas of business activity—generally reflecting management or organisation structure. This is a requirement of IFRS.<sup>66</sup>
- c) Other notes. Other notes to the Accounts break down spending into costs types (eg staff, rental costs); or programme costs. These can be variable in usefulness, sometimes reflecting spending programmes (eg tax credits) and sometimes expenditure types (eg consultancy costs)

42. This means that Departments often do not report the information that our witnesses called for. Instead, Departments report their spending split by Departmental segments. For example in the Department of Health’s Accounts for 2015/16, the Department’s segments are its affiliated bodies such as NHS England, Public Health England, NHS Charities and NHS companies.<sup>67</sup> In some cases the information tells the reader something about the different policy priorities of the Department. In the Home Office, for example, spend is split between the Crime and Policing Group, the Office for Security and Counter Terrorism, Counter Extremism, Immigration Enforcement, UK Visas and Immigration, International and Immigration Policy, Border Force, HM Passport Office and Enablers.

62 Emily Frith, *Centre Forum Commission on Child and Adolescent Mental Health: State of the Nation*, April 2016.

63 [Q155](#)

64 [Q324](#) (David Gauke MP)

65 Estimates are the proposed budget for the financial year. We cover their relationship to the Accounts in paragraphs 74–9. Also further detail about the estimates (both the main estimate and the supplementary estimate) is included in the glossary.

66 [IFRS 8 Operating Segments](#)

67 Department of Health, [Annual Report and Accounts 2015–16](#), p.140.



However, 70% of the Department’s spend comes under one heading: Crime and Policing Group. The Accounts do not break down the services provided by these groups into categories the public would recognise, for example types of crime investigated by the police.<sup>68</sup>

43. The National Audit Office is alert to this issue. They commented in a study they performed on the enforcement of confiscation orders within the criminal justice system that the relevant Accounts should include “information on confiscation order cost and performance, which could further help transparency and therefore accountability”.<sup>69</sup>

44. **Witnesses to our inquiry said that the public need information about spending on individual services from the Accounts. However, Departments’ current reporting is primarily based around their organisational structure. While this enables Parliament to hold senior officials to account for their budgets, in many cases, such as the Department of Health (see paragraph 39), these breakdowns do not clearly reflect the services offered to the public. For an area such as Child and Adult Mental Health Services, for instance, it is almost impossible for the public to find out from the Department of Health’s Annual Report and Accounts how much is being spent on this, or other types of service, and therefore to assess the value for money of that spending.**

45. *We recommend that the Treasury explore how Annual Reports and Accounts can be made more useful by requiring Departments to report not just by organisational unit but also by policy area. This could be achieved by, for instance, restructuring the Estimates subheads or providing additional spending breakdowns of spending within the notes to the Accounts. Senior officials would remain accountable for the money they have spent through reporting by organisational unit. Audited statements for policy area should include both performance and financial data so that citizens can evaluate how effectively Departments are spending money.*

### **Projects and Programmes**

46. The Government runs specific projects and programmes designed to achieve its outcomes. Programmes are discrete initiatives with separate governance and budgeting structures and a timetable. Current examples would include the Troubled Families Programme, Universal Credit or the Work Programme. Projects are similar to programmes but involve specific deliverables and outcomes as well as having a limited lifespan. Current Government-funded projects include HS2, Crossrail and Trident replacement.

47. Currently there is very little information about individual projects and programmes within the Government’s Accounts. For example, in the Home Office Annual Report and Accounts for 2015–16, there is no separate disclosure for the amount of money spent on the Prevent counter-terrorism programme.<sup>70</sup> There is a disclosure for the Office of Security and Counter-Terrorism.<sup>71</sup> Prevent is mentioned in the Annual Report and Accounts but

68 Home Office, *Annual Report and Accounts 2015–16*, p.128.

69 National Audit Office, *Confiscation orders: progress review*, Session 2015–16, HC 886, March 2016, p.9.

70 The Home Office website says that: “The Prevent Programme Responds to the ideological challenge we face from terrorism and aspects of extremism, and the threat we face from those who promote these views, provides practical help to prevent people from being drawn into terrorism and ensure they are given appropriate advice and support; and works with a wide range of sectors (including education, criminal justice, faith, charities, online and health) where there are risks of radicalisation that we need to deal with.” Home Office, [What is Prevent](#).

71 Home Office, *Annual Report and Accounts 2015–16*, p.128.

there is no way to separate its costs from the costs of other programmes in that directorate, despite the fact that the programme has different objectives to the other programmes in the directorate, and uses different methods than them.<sup>72</sup>

48. Professor Prowle told us that what Parliament needed for effective scrutiny was “an analysis about programme[s], how much was planned to be spent, how much was spent, how well it has been spent”.<sup>73</sup> The C&AG told us that “if you [a Department] are running a very major programme, it is quite material to understanding what is happening in the Department, to have a narrative about it”.<sup>74</sup>

49. Professor John McEldowney, Professor of Law at the University of Warwick, suggested that there should be extra scrutiny of particular projects.<sup>75</sup> David Gauke MP, the Minister, agreed that “projects clearly need to be included” in the process of holding Government to account.<sup>76</sup> Julian Kelly, Director General, Public Spending and Finance, noted that “the Government publishes each year a report on how, what we call the Government’s major programmes—in which HS2 would be included—are doing”.<sup>77</sup> This report - the Annual Report on Major Projects - provides summary data for all major projects across Government. This report provides cross-Government information, including a summary of spend by Department, projects which have concluded in-year, confidence rating in how successful the project will be, case studies and a list of projects with their aims.<sup>78</sup>

**50. *Departments should disclose both financial and performance information about significant programmes in their Annual Reports and Accounts and clearly relate spending to outputs, outcomes and performance. Annual Reports and Accounts should disclose useful information about each programme, such as its planned duration, its current and forecasted cost and its current performance. This information, which should be audited, should be disclosed for all financially material or politically significant programmes within the Departmental boundary.***

**51. *Departments should also report data about significant projects, such as Trident and HS2 (which is the largest infrastructure project in Europe), in their Annual Reports and Accounts. This data, which should also be audited, should include spend to date for each project, spend in the year for each project, milestones met or not met and forecasted end date for the project. It should be provided for all projects that are significant in terms of the delivery of the Government’s priorities or that have a lifetime budget that is above materiality. Some of this data may be similar to the data held in the Annual Report on Major Projects, in which case the Department should clearly identify links to the Major Projects report within individual Departmental Annual Reports and Accounts so that the reader can swiftly access the data concerned.***

## Cost Analysis

52. In order to fully understand the value for money and efficiency of services, the public need to understand the unit cost of each particular output. For example the public should

72 Home Office, [Annual Report and Accounts 2015–16](#), p.10.

73 [Q197](#) (Professor Prowle)

74 [Q153](#) (Sir Amyas Morse)

75 Oral evidence taken before the Procedure Committee, 4 May 2016, [Q48](#) (Professor John McEldowney).

76 [Q322](#) (David Gauke MP)

77 [Q323](#) (Julian Kelly)

78 Cabinet Office, [Annual Report on Major Projects 2015–16](#), July 2016.



be able to compare the costs in one year of a primary school place with the costs of the same place a year later. As the Taxpayer’s Alliance argued, “to properly scrutinise value for money, we need quantified information on both service costs and service outputs, and we need to be able to link the two”.<sup>79</sup>

53. The National Audit Office have also called for more published cost information. In their report on accountability to Parliament for taxpayers’ money they said that “robust cost and performance data” was amongst the “accountability essentials”. As they argued,

Accurate, comparable and up-to-date data enable Parliament to hold to account those responsible for performance, provide the basis for good management, and allow service users to make informed choices among providers or services.<sup>80</sup>

The Taxpayer’s Alliance echo the National Audit Office’s call for comparability: they suggest that Departments publish, where possible, ‘benchmark comparisons’.<sup>81</sup> They suggest Departments might consider historical comparisons and international comparisons where appropriate.

54. There are a number of different ways of classifying costs. In Government, there have been recent attempts to separate administrative from service delivery costs. In the opinion of Professor Hood and Dr Ruth Dixon from Oxford University these definitions often change. Furthermore Professor Hood and Dr Dixon argue that the division between administrative and other expenditure has often been opaque to outsiders.<sup>82</sup>

***55. Alongside information on the effectiveness of its services, Departments should publish the costs of basic elements of those services. We recommend that Departments in future publish the full public sector unit costs (on a consistent basis) for key services (including those mentioned in their Single Departmental Plan and Annual Report) - for example the cost of a prison place, a court hearing, a school place or a hospital stay - on a consistent basis over time. Collecting and publishing comparative unit cost data across regions, and over time, and perhaps also against international comparators, would enable Government and public alike to assess how cost effective Government policies and programmes are, to understand how cost effective service delivery is, and identify where action is needed to address poor value for money.***

### **Trend analysis**

56. Currently, most parts of the Annual Reports and Accounts cover spending only for a single year, with a prior year for comparison. The exceptions are the “core tables”, which provide summary spending and spending plans for several years past, current and future, although these do not form part of the formal financial statements subject to full audit; instead they are audited only for “consistency” with the financial statements. Balance sheets and other financial information with the audited Accounts are rarely shown for more than the year being reported on, and a past year comparator.

79 IGA02 (Taxpayer’s Alliance)

80 National Audit Office, *Accountability to Parliament for Taxpayer’s Money*, Session 2015–16, HC 849, February 2016, p.51, a point the NAO reiterated in National Audit Office *Confiscation Orders Progress Report*, March 2016, p.34.

81 IGA02 (Taxpayer’s Alliance)

82 Christopher Hood and Ruth Dixon, *UK Government running costs: high claims, big stakes, low transparency*, November 2016.

57. It is clear that one off events, occurring in a single year, can distort a reader's impression of spending if looked at in isolation. For example, if an organisation incurs a liability in-year through losing a legal case, then its expenditure in that year will appear high compared to the following year. Greater use of longer time series within the Annual Reports and Accounts would enable such events and patterns of spending to be better understood. Ideally this should be accompanied by helpful narrative, explaining where major changes in spending, or in the balance sheet, have occurred, and what the causes and effects of those changes are.

58. The NAO have called for Annual Reports and Accounts to contain “greater use of trend analyses”.<sup>83</sup> They suggest that the Accounts should show “how different types of income, expenditure, assets or liabilities change over a longer period enabling more effective scrutiny instead of comparing performance only to the previous year”.<sup>84</sup>

59. Dr Dixon and Professor Hood argue that for trend analysis to work, reporting must be consistent. For example, when there are changes in accounting policy between years, similar patterns of underlying spending could end up looking very different. Departments frequently change boundaries as well. Recently the Government reallocated responsibility for the Charities sector from the Cabinet Office to the Department of Culture Media and Sport. Consequently in the latest supplementary estimate, the Cabinet Office now has a budget which is £273.5 million less than it was.<sup>85</sup> Although Departments are usually required to provide comparable figures for a prior year's spending alongside the year being reporting on within their Accounts, this usually makes comparisons over longer than two years very difficult to make.<sup>86</sup> Professor Hood and Dr Dixon argue that in these cases, Departments should report overlapping figures (ie on both new and old bases) for a number of years so analysts can understand what has happened.<sup>87</sup>

**60. *In addition to the “core tables” which are already published, Annual Reports and Accounts should expand reporting of other information, wherever possible to show longer time series of other data. In each case this should be accompanied with narrative, to explain to the reader information, such as explanations for spending variations over time, which might not be evident from the figures alone. Time series and accompanying trend analysis should cover a rolling period of five years past: for income, assets, liabilities and expenditure. Where possible, projections of future spending should also be extended forward into the remainder of the Spending Review period. Expenditure and balance sheet trends should be shown broken down between different policy areas and programmes and accompanied by helpful narrative explaining the main causes of changes and impacts on service activity. Information should be adjusted for any changes in the responsibilities of Departments (such as the movement of the Office for Civil Society from the Cabinet Office to the Department of Culture, Media and Sport) or accounting policies, so that it is comparable across a number of years.***

---

838<sup>3</sup> IGA29 (National Audit Office)

84 IGA29 (National Audit Office)

85 HM Treasury, [Supplementary Estimates and new Estimates 2016–17](#), February 2017, pp.462–63.

86 For example, if a Department has new responsibilities it will display comparable figures which include the new responsibilities in the Department's spend for the previous year.

87 Christopher Hood and Ruth Dixon, [UK Government running costs: high claims, big stakes, low transparency](#), November 2016.

## Open Data

61. Open Data is defined by the Open Data Institute in the following ways:

- can be linked to, so that it can be easily shared and talked about;
- is available in a standard, structured format, so that it can be easily processed;
- has guaranteed availability and consistency over time, so that others can rely on it; and
- is traceable, through any processing, right back to where it originates, so others can work out whether to trust it.<sup>88</sup>

Lord Maude, when Minister for International Trade said that “the UK led the Industrial Revolution of the 19th century, we’re leading the world on the open data revolution”.<sup>89</sup> The Right Honourable Ben Gummer, Minister for the Cabinet Office and Paymaster General, reaffirmed the Government’s commitment to open data in 2017.<sup>90</sup> Departments such as DEFRA are increasingly making non-financial information available in this way and we see no reason why accounting data should be different.<sup>91</sup>

62. In 2014, our predecessor committee, the Public Administration Select Committee (PASC) published a report on Open Data.<sup>92</sup> PASC received evidence from Full Fact which laid out a five star system of evaluating “the usability of Government statistics”.<sup>93</sup> PASC recommended that this scheme should be adopted by the Cabinet Office.<sup>94</sup> Full Fact’s written evidence to that inquiry lays out that scheme in detail: the lowest rating (0 stars) presumes that the data is presented in pdf format whereas higher stars are achieved by publications which present data with ONS metadata attached, in machine readable and open formats.<sup>95</sup> The same basic principles should apply to Accounts and statistical data.

63. The Annual Reports and Accounts are currently published as pdf documents. Spend Network told us that “since they [Annual Reports and Accounts] are published in pdf form, [they are] inaccessible”.<sup>96</sup> As the King’s Fund argued

none of the tables are provided in Excel or other easily useable formats. Instead they are incorporated into longer documents and published as PDFs, which does not lend itself to secondary analysis or use as a database. This format and presentation may also send a signal to outsiders that the Government is not encouraging or perhaps even expecting anyone to use this data.<sup>97</sup>

---

88 Open Data Institute, *What makes data open*.

89 Lord Maude, *Open data and government transparency*, November 2015.

90 Rt Hon Ben Gummer MP, *Government at your service*, February 2017.

91 For DEFRA see <https://defradigital.blog.gov.uk/category/open-data/>

92<sup>92</sup> Tenth Report from the Public Administration Select Committee, Session 2013–14, *Statistics and Open Data: Harvesting unused knowledge, empowering citizens and improving public services*, HC 564, March 2014.

93<sup>93</sup> OD11 (Full Fact), evidence to PASC inquiry on Open Data.

94 Tenth Report from the Public Administration Select Committee, Session 2013–14, *Statistics and Open Data: Harvesting unused knowledge, empowering citizens and improving public services*, HC 564, March 2014, p.33.

95 OD11 (Full Fact), evidence to PASC inquiry on Open Data.

96 IGA24 (Ian Makgill)

97 IGA20 (King’s Fund)

In the Institute for Government’s opinion, “all Departments should publish the basic tables in excel, and not just in pdf format, to allow easy analysis of the numbers”.<sup>98</sup>

**64. *Annual Reports and Accounts should routinely be published in Excel or another similar usable format, so that analysts (whether inside Parliament, for which see below in Chapter 4, or outside in civil society) can swiftly extract the data and make use of it. The Treasury, working with Departments, should strive to improve Annual Reports and Accounts against the open data ranking system devised by Full Fact and endorsed by the Public Administration Select Committee in 2014.***

### **Electronic Publication**

65. Government Accounts and annual reports by their nature are long documents. The C&AG told us that they should be shortened and he advocated “replacing lengthy narrative with insightful graphics and summary data and better use of accompanying narrative, in concise, plain English”.<sup>99</sup> David Kilpin suggested “if Government made best use of technology, Accounts could be presented in dashboards that are touch screen friendly”, enabling users of the Accounts to choose how to stratify and compare data.<sup>100</sup> The National Audit Office also suggested Accounts should be “tablet-friendly” and Ed Poole from the Wales Governance Centre at Cardiff University suggested “an online dashboard tool”.<sup>101</sup> The Taxpayer’s Alliance suggested that the Annual Reports and Accounts should link to other documents (for example statistical releases, Parliamentary reports or Government announcements) so that a reader can further investigate issues.<sup>102</sup>

**66. *The Government should use modern technology to make the Accounts useful to outsiders, for example making them touchscreen friendly so that the data can be organised in different ways. The accompanying narrative should be shorter, written in plain English and accompanied by summary data and insightful graphics.***

### **The Financial Reporting Advisory Board**

67. The Government Resource and Accounts Act 2000 says that “Accounts shall be prepared in accordance with directions issued by the Treasury”.<sup>103</sup> The Act says that the Treasury’s standards should allow Departments to “present a true and fair view” of their finances in the Accounts and “conform to generally accepted accounting practice”.<sup>104</sup>

68. The Financial Reporting Advisory Board (FRAB) was established in 1996 after the publication of a White Paper, *Better Accounting for Taxpayer’s Money*, in 1995.<sup>105</sup> Since the Government Resource and Accounts Act 2000 came into force, FRAB has advised the Treasury on how to apply and, where necessary, adapt international accounting standards (used in the corporate sector) into use within Government.<sup>106</sup> Currently FRAB includes representatives from the accountancy profession, accountancy standards

98 [IGA15](#) (Institute for Government)

99 [IGA29](#) (National Audit Office)

100 [IGA22](#) (David Kilpin)

101 [IGA29](#) (National Audit Office); [IGA26](#) (Ed Poole).

102 [IGA02](#) (Taxpayer’s Alliance)

103 [Government resource and Accounts act 2000](#), Section 5(2).

104 [Government resource and Accounts act 2000](#), Section 5(3).

105 Financial Reporting Advisory Board, [The role of FRAB](#).

106 [Q278](#) (Craig Mackinlay MP)

setters, academia, the National Audit Office, Government Departments, the devolved Governments, the Office for National Statistics and the Treasury. Craig Mackinlay MP serves as a Parliamentary observer on FRAB.<sup>107</sup>

69. Mr Mackinlay told us that he felt “if there is a deficiency on FRAB it may be that we are light on people who are there to understand the Accounts rather than those who are charged with putting the Accounts together”.<sup>108</sup> A number of our other witnesses agreed with him. Professor Prowle told us that there is “very little representation from potential users of Accounts”.<sup>109</sup> David Kilpin said that FRAB’s “impact may benefit from more members who are consumers of financial information”.<sup>110</sup> Mr Kilpin suggested all MPs with an accounting qualification should be encouraged to join FRAB.<sup>111</sup> In recognition of the need to consider users, some Departments have taken the initiative; for instance, the King’s Fund told us that they were consulted by the Department of Health about changes to their annual report.<sup>112</sup>

70. The Organisation for Economic Cooperation and Development told us that a “quarter of countries have taken a step further and set up national standard setting boards independent from the Government”.<sup>113</sup>

71. Parliament currently has no formal role in setting accounting standards. Professor Ellwood suggested that FRAB and the Treasury should operate within “some sort of framework for how new standards were supposed to conform to the needs of Parliament”.<sup>114</sup> Will Moy from Full Fact told us that “Parliament has a very important role in setting a direction for what it thinks is the future of information about Government spending”.<sup>115</sup> He further suggested that select committees might wish to hold annual investigations into the presentation of information by each Department.<sup>116</sup> Julian Kelly from the Treasury signalled that the Treasury would welcome this kind of involvement by committees: he said

I think the area where we just need to keep on improving, and we will improve faster is—much like this process in the Committee—as people start to use them and if they use them to question what is in the Accounts and ask questions and even start to ask for certain bits of information to be included on a regular basis.<sup>117</sup>

**72. The Financial Reporting Advisory Board mainly includes representatives of those who prepare Accounts, and the accountancy profession. They advise the Treasury largely from a technical perspective on the application (and possible adaptation) of international reporting standards to the core financial statements. Their work is not focused on the coherence of the Annual Reports and Accounts document as a whole and**

---

107 Financial Reporting Advisory Board, [Membership](#).

108 [Q278](#) (Craig Mackinlay MP)

109 [Q203](#) (Professor Prowle)

110 [IGA22](#) (David Kilpin)

111 [IGA22](#) (David Kilpin)

112 [IGA20](#) (King’s Fund)

113 [IGA21](#) (Organisation for Economic Cooperation and Development)

114 [Q203](#) (Professor Ellwood)

115 [Q254](#) (Will Moy)

116 [Q255](#) (Will Moy)

117 [Q319](#) (Julian Kelly)

its usefulness to users. Apart from the parliamentary observer, there are no consumers of Accounts represented on the Board. At present, Parliament itself has no formal role in setting accounting standards.

*73. We recommend that the Treasury make FRAB more representative of the consumers of Accounts and more attuned to users' requirements, by increasing representation on the Board of users or user groups. We further recommend that Treasury and FRAB should consider how, within the framework of recognised accounting standards, Accounts could be made more useful and responsive to the needs of users, providing the sort of information we have proposed within this report.*

*74. Select Committees should consider the suggestion made by the Director of Full Fact that they should have an annual hearing not simply on the Annual Report and Accounts, but on the information published by Government Departments (including Accounts) more generally. Departments should take note of what select committees have to say on how Annual Reports and Accounts of individual Departments could be made more useful to their readership, within the general requirements of accounting standards, audit and consistency. The Treasury should also influence Departments to follow the example of the Department of Health in consulting specialist think tanks and researchers about what information they would like the Department's Annual Reports and Accounts to disclose (in addition to the information the Treasury mandates to maintain consistency between Departments).*



## 4 Accounts and Parliamentary accountability

---

### The importance of Parliamentary Scrutiny

75. There was a consensus amongst our witnesses that Annual Reports and Accounts are vital for Parliamentary scrutiny of the executive. The Comptroller and Auditor General told us that the purpose of Accounts was to provide “a credible record to all interested parties of how the resources voted by Parliament have been used”.<sup>118</sup> John Pugh MP contended that

Parliament, who are also answerable to the taxpayer for the use of their resources, need to be able to understand what any Government has done, what Government expenditure has turned out like and what has happened within the basic administration of Government.<sup>119</sup>

76. This Chapter analyses Parliamentary scrutiny of the Annual reports and Accounts. Specifically Parliament is responsible for scrutinising whether the expenditure it granted has been spent in the way it approved. However scrutiny goes beyond that as well.

### The origins of Parliamentary scrutiny of Government Accounts

77. Finance has been central to Parliamentary control of the Government since the Middle Ages. In Magna Carta (1215), King John granted that “no... ‘aid’ may be levied in our kingdom without its general consent”.<sup>120</sup> In the Petition of Right (1628), Parliament petitioned Charles I that “your subjects have inherited this freedom, that they should not be compelled to contribute to any tax, tallage, aid or other like charge, not set by common consent in Parliament”.<sup>121</sup> In the Grand Remonstrance (1641), the House of Commons condemned Charles I’s advisors for promoting the “arbitrary power pretended to be in His Majesty of taxing the subject or charging their estates without consent in Parliament”.<sup>122</sup>

78. After the Civil War and the Glorious Revolution, the Bill of Rights (1688) confirmed Parliament’s position in the civil war that “levying Money for or to the Use of the Crowne by pretence of Prerogative without Grant of Parlyament for longer time or in other manner then the same is or shall be granted is Illegall”.<sup>123</sup>

79. From 1688 onwards, the power of the House of Commons over taxation has been unquestioned and consequently the focus in the House turned to scrutiny of expenditure. There had been earlier attempts to do this; in 1406, the House of Commons first demanded audited Accounts to assist them in approving taxation.<sup>124</sup> These demands arose again in the

---

118 [Q80](#)

119 [Q262](#)

120 [Magna Carta](#)

121 ‘The Petition of Right’ in S.R. Gardiner ed., *The Constitutional Documents of the Puritan Revolution 1625–1660*, 3rd Edition, Oxford, 1968, p.67.

122 ‘The Petition of Right’ in S.R. Gardiner ed., *The Constitutional Documents of the Puritan Revolution 1625–1660*, 3rd Edition, Oxford, 1968, p.222.

123 [Bill of Rights](#), 1688.

124 C. Givens-Wilson, *Henry IV*, New Haven, 2016, p.294.

English civil war.<sup>125</sup> After the Bill of Rights, in the 1690s, the House of Commons started regularly requesting and properly scrutinising the Government’s annual expenditure plans - the Estimates.<sup>126</sup>

80. In the 19th century, the House of Commons created public sector audit to ensure a check on whether Departments had spent money in accordance with the Estimates. In 1866, the House passed the Exchequer and Audit Act which made “provisions for the more complete examination [and audit] of the public Accounts of the United Kingdom”.<sup>127</sup> This act created the office of Comptroller and Auditor General to audit the Accounts.

81. The creation of the office of Comptroller and Auditor General completed the cycle of Parliamentary accountability, from taxation, to approval of spending plans in the estimates, to audited Accounts reporting against those plans. William Gladstone, in 1891, confirmed the importance of these new arrangements and their relevance to our constitutional rights

The finance of a country is ultimately associated with the liberties of a country. It is a powerful leverage by which English liberty has been gradually acquired... If the House of Commons by any possibility lose the power of the control of the grants of public money, depend upon it, your very liberty will be worth very little in comparison. That powerful leverage has been what is commonly known as the power of the purse - the control of the House of Commons over public expenditure.<sup>128</sup>

For Gladstone, Parliament was “the real authoritative steward of public monies” and from this it derived its supremacy over policy.<sup>129</sup>

82. In 1983, the National Audit Act extended Parliament’s control over public expenditure by making the Comptroller and Auditor General (C&AG) an independent officer of the House of Commons.<sup>130</sup> Prior to this date, the C&AG had been an officer of the Treasury. The Act also formally created the concept of value for money audit, defined as the audit of the efficiency, economy and effectiveness of public spending.<sup>131</sup> We have discussed the value for money scrutiny of the accounts in Chapter 3.

## Current Parliamentary Scrutiny

83. Currently, financial scrutiny is one of the key functions of the House of Commons. The Liaison Committee, in the last Parliament, said that

Effective monitoring of Government expenditure—and ultimately the exercise of effective control over it—is one of the core functions of the House of Commons. This function is pursued day in and day out by the House,

125 Council of the Army *To the Supream Authoritie the Parliament of the Commonwealth of England. The Humble Petition of the Officers of the Army...* London, 1652.

126 D. Hayton, ‘*The Politics of the House*’, in D. Hayton, E. Cruickshanks and S. Handley ed., *The History of Parliament: the House of Commons 1690–1715 (2002)* [online at the History of Parliament website](#)

127 *Exchequer and Audit Department Act*, 1866.

128 Gladstone quoted in P. Einzig, *The Control of the Purse: progress and decline of Parliament’s financial control*, London, 1959, p.3.

129 Hansard HC Deb, 01 March 1866, vol 181, col. 1373.

130 *National Audit Act*, 1983.

131 Value for money audits had been performed up until this date. The Exchequer and Audit Department published the results of these audits as reports upon particular Accounts. *National Audit Act*, 1983.



through inquiry and debate on the policies underlying expenditure, on priorities, and on overall Government spending, and through examination by the National Audit Office (NAO) and the Committee of Public Accounts (PAC) of past expenditure.<sup>132</sup>

84. In order to exercise this control and scrutiny, the House of Commons has, historically, insisted on the provision of Accounts. The accounts inform the Commons about how much Departments have spent and what they have spent it on. They are (as discussed in Chapter 5) audited by the Comptroller and Auditor General. These Accounts are scrutinised in two ways.

- a) The Public Accounts Committee: this committee is established “for the examination of the Accounts showing the appropriation of the sums granted by Parliament to meet the public expenditure, and of such other Accounts laid before Parliament as the committee may think fit”.<sup>133</sup>
- b) Select Committees: The Liaison Committee set out in 2013 the core tasks for select committees. These tasks include examining “the expenditure plans, outturn and performance of the Department and its arm’s length bodies, and the relationships between spending and delivery of outcomes”.<sup>134</sup>

85. Tom Scholar, the Permanent Secretary to the Treasury, told the Public Accounts Committee that

There are three main routes through which information is provided [to Parliament for scrutiny]. The first is through Estimates [ ... ] The second process is the Annual Report and Accounts that each Department provides, and that also includes a wealth of information. The third process, which is still relatively in its infancy, is the Single Departmental Plan. Taking those three together, I would hope that there would be a great deal of information to meet any reasonable requirement.<sup>135</sup>

## Estimates and the Spending review

86. Originally, Government Accounts were introduced in order to ensure that Departments would only spend the money Parliament had allocated for them, in a given year, for a given purpose.<sup>136</sup> This requirement survives. Present day Annual Reports and Accounts are part of the cycle whereby the House of Commons controls and authorises expenditure. This begins when the Government announces the outcomes of multi-year Spending Reviews. These reviews are effectively statements of policy by a Government with no formal or statutory effect. Instead they form the basis for subsequent annual

132 Liaison Committee, *Financial Scrutiny: Parliamentary Control over Budgets*, Session 2008–09, HC 804, June 2009, p.5.

133 Standing Order No.148 House of Commons, *Standing Orders of the House of Commons*, February 2016.

134 Liaison Committee *Core tasks*, January 2013.

135 Public Accounts Committee *Spending Review* Q76.

136 M.J. Daunton, *Trusting Leviathan: the politics of taxation in Britain, 1799–1914*, Cambridge 2001, pp.58–71; W. Funnell, *Accounting for War: Financial Control of the British Army, 1846–1899*, New South Wales, 2003, p.75.

Estimates, presented to the House for formal authorisation of spending plans by the House of Commons each year.<sup>137</sup> The Procedure Committee have recently published their separate report into the format and process of the Estimates.

### *The Estimates*

87. The Main Estimates, usually published in April, set out the Government’s requests for each Department’s funding for the new financial year. They are prepared on a consolidated basis - so that each Department includes not only its own spending, but that of its agencies and arm’s length bodies. Each Department sets out in its Estimate its proposed spending limits and what it plans to spend the money on (the “ambit”). Towards the end of the year, Departments may, if they need to, submit plans to Parliament for changes to these plans through an additional Supplementary Estimate. The Supplementary Estimate may request new money (for example to respond to an unanticipated event like the floods of the winter of 2015), reduce spending limits where the full amount is no longer required that year (for example if construction on a project such as a road is running late), reallocate money to reflect machinery of Government changes (as the Supplementary Estimates did in 2016–17 to reflect the creation of new Departments such as the Department of International Trade) or reallocate money internally between priorities.

88. The Annual Report and Accounts report back on this process. Consequently, the C&AG told us in his evidence

The financial statements (the Accounts) are a main accountability document forming the statutory, publically audited record of a Department’s financial conduct in its use of public money to deliver public services, and of its compliance with parliamentary authorities. Government Accounts are the bedrock of the parliamentary accountability cycle.<sup>138</sup>

89. Dr Wehner from the London School of Economics linked the quality of the Annual Report and Accounts to the quality of the Estimates

the quality of the annual Accounts is inextricably linked to the quality of the Estimates and of the appropriations based on them. Put differently, accountability to Parliament through the scrutiny of the Annual Report and Accounts will only be effective if the Estimates and the appropriations are designed to support this.<sup>139</sup>

90. The Estimates follow a format and structure determined by the Treasury’s budgeting framework which in turn is based largely on the National Accounts. Annual Reports and Accounts, on the other hand, as discussed above (Chapter 2) are prepared on the basis of International Financial Reporting Standards.<sup>140</sup> Back in 2009, a Treasury led project known as “Clear line of Sight” or “alignment” (see Paragraph 13c) sought to reduce the inconsistencies between treatment in the Estimates and Accounts and as a result many

---

137 Main Estimates set out initial plans for spending, and Supplementary Estimates any subsequent revisions to those plans.

138 [IGA29](#) (National Audit Office)

139 [IGA11](#) (Dr Joachim Wehner)

140 [IGA03](#) (Dr Josette Caruana)

of the differences in reporting were removed. Nevertheless, some inevitably remain<sup>141</sup>. Consequently in the Annual Reports and Accounts, Departments offer a reconciliation between the totals reported in the core financial statements and the totals set out in the Estimates. Dr. Josette Caruana, Lecturer in Accountancy at the University of Malta, criticised the differences between the Estimates and the Accounts, saying they leads to ‘technical’ reconciliations in the Accounts that politicians and officials do not understand. She said that

it is important for subsequent financial reports provided to Parliament to be compatible with the format of the Estimates.<sup>142</sup>

**91. Annual Reports and Accounts should be a cornerstone of Parliamentary accountability. The House of Commons should, through the Accounts, have the ability to hold the executive to account for its spending, against plans announced in the Estimates and Spending Review.**

*92. The Annual Reports and Accounts should continue to report on spending against the Estimates. The Treasury should consider whether future Annual Reports and Accounts need to be adjusted to reflect any changes suggested by the Procedure Committee in its report on the Estimates process. Given that the Accounts report against what the Government promised to do in the estimates, it is vital that the link between the two documents is completely clear. The Treasury should continue to review how the Estimates and Accounts can be made more consistent with each other (greater “alignment”).*

### Excess Votes

93. Departments are expected to spend in line with the Estimates. However, if a Department spends more than Parliament granted it through the Estimate, it is subject to a process called an excess vote. The Public Accounts Committee scrutinises excess votes on behalf of Parliament to examine why the excess vote occurred and to approve them in retrospect.

94. In her evidence to the Procedure Committee, Meg Hillier, Chair of the Public Accounts Committee argued that the Public Accounts Committee were not given enough time to scrutinise excess votes effectively. According to Meg Hillier, “on one [excess vote] in particular we [the Public Accounts Committee] would have liked to have asked questions of the permanent secretary or somebody in the Department”. However she said that “the timetable was too fast to be able to do that” and consequently the Committee have complained and asked the Government to change its practice for future years.<sup>143</sup> The Public Accounts Committee said in their report on the excess votes in 2014–15, that they would, as they judged appropriate, “request evidence from the accounting officers of the bodies that exceed their allocated resources” in 2015–16.<sup>144</sup>

141 For instance, research and development spending is treated entirely as capital spending in the National Accounts, Budgets and Estimates, whereas IFRS and hence the Annual Reports and Accounts split such spending into capital and resource depending upon whether the spending leads to the creation of an asset.

142 [IGA03](#) (Dr Josette Caruana)

143 Meg Hillier later confirmed that this related to the Northern Ireland Office’s estimate and accounts. Qq95; 102 [Procedure Committee Scrutiny of Supply Estimates](#).

144 Twenty Second Report from the Public Accounts Committee, [Excess Votes 2014–15](#), Session 2015–16, HC 787, p.3.

95. **The Estimates and Accounts process only works if the House of Commons has sufficient time for scrutiny. We support the Public Accounts Committee and its Chair in their intention to take evidence from senior civil servants about excess votes where the Committee deem it necessary. We urge the Government to consult with the Public Accounts Committee to ensure it has enough time to do this.**

### *The Spending Review*

96. The Procedure Committee, in its Estimates inquiry, received evidence from the Study of Parliament Group. They called for greater transparency in the links between the Spending Review and the Estimates so that Parliament can see how plans have altered over time.<sup>145</sup> Sir Stephen Laws, former First Parliamentary Counsel, in his evidence to the Procedure committee told them that

The really important thing is to put the Estimates in context so that you can see how they fit in with the Spending Review and how they fit in with expenditure last year, the year before and the other years in the same Spending Review period, because that gives Parliament the opportunity to say, “Why have things changed over that period? What is the difference?”<sup>146</sup>

97. The Institute for Government complained that “it is often difficult to establish how spending changed from the Government’s original plans”. Consequently, it is difficult to hold the Government to account for the commitments they made in the Spending Review or the Budget. The Institute suggest a note in the Accounts “that shows how expenditure changed from the level first announced in a Spending Review to the final outturn figure” with a narrative which describes why the changes have happened.<sup>147</sup>

98. The Treasury disagreed. Julian Kelly, the Director General, Public Spending and Finance told us that they announced budgets at the Spending Review and that these were updated at each fiscal event (for example the annual budget). He argued that “you can track [ ... ] that number [from the Spending Review or the Budget]” in the Estimates. He then argued that the Accounts showed changes between the amount Departments said they would spend (disclosed in the Estimates) and the amount that Departments actually spent (disclosed in the Accounts).<sup>148</sup> Consequently by comparing the Spending Review totals to the Estimates and the Estimates to the Accounts, the Treasury asserted Parliament could compare the Accounts to the Spending Review.

99. **The House of Commons is responsible for the scrutiny of public expenditure. The Procedure Committee has recently conducted an inquiry into the Estimates process and we expect that the Government will accept and implement its recommendations for reform. Currently the Accounts report back against the totals in the Estimates. We think Annual Reports and Accounts should go further, showing also how actual spending related to the original plans in the Spending Review and how those plans changed over time. While it may be possible, as the Treasury argues, to trace how spending plans have altered from Spending Review to Estimates through to Accounts under the current arrangements, the entire story is not an easy one to follow and is**

145 [EST09](#) (Study of Parliament Group)

146 Procedure Committee (Sir Stephen Laws) [Oral Evidence 4 May 2016](#) Q31.

147 [IGA15](#) (Institute for Government). They repeat this point in Institute for Government [Whitehall Monitor](#), January 2017, p.12.

148 [Q335](#) (Julian Kelly)

contained in a number of different documents. Annual Reports and Accounts do not directly report against the Spending Review and show how plans have evolved through to final actual spending reported in the Accounts, or what might be the causes of those variations.

100. *In our view, the Annual Reports and Accounts should enable the reader to see how final outturn compares to the original plans, set out in the Spending Review as the Institute for Government has suggested. To do this currently involves tracking figures between several documents (the Spending Review, Main Estimates, Supplementary Estimates and Accounts) and is complicated and technical. Annual Reports and Accounts should provide a simple summary of why the figures have changed from the Government’s original plans in the Spending Review or the Budget. This should be incorporated into the annual analysis that we recommend above. This will enable the House of Commons to hold the Government to account for changes to its spending plans.*

### Specific ministerial commitments

101. The Government’s formal means of proposing and announcing spending totals is through the Estimates process. But the Government also makes specific spending commitments not only in set piece events such as the Spending Review, the Autumn Statement and the Budget, but also throughout the year, not only in ministerial statements to the House of Commons, but through ad hoc press releases, speeches and Ministerial visits. David Kilpin told us in his evidence that Annual Reports and Accounts currently do not say, when this happens, “where this funding comes from (more money from HM Treasury, underspends in other areas or cuts to other areas) or how and when it was spent”.<sup>149</sup>

102. Ed Poole of Cardiff University and David Kilpin both suggested that the Annual Report and Accounts should separately report on these commitments, how much was committed, how much was spent and any related outcomes data. Ed Poole suggested in his evidence that there should be a “ministerial statement reconciliation statement, giving the date, description and spending commitment pledged by the Minister, and whether and where these funds were spent during the reporting year”.<sup>150</sup> He said that commitments from the Spending Review and Autumn Statement should also be included.<sup>151</sup> David Kilpin agreed, saying that “the financial and non-financial outcome of each announcement could be reported in a new section of the Annual Report and Accounts”.<sup>152</sup> Dr John Pugh MP told us that it was “bizarre” this did not already happen.<sup>153</sup> On behalf of the Treasury, the Minister said that he was “more than happy to look at that”.<sup>154</sup>

103. *Parliamentary scrutiny of the Government’s commitments to Parliament should not be limited to the announced spending limits. The House of Commons should be able to scrutinise, through the Annual Reports and Accounts, how actual spending and activity compared to any financial commitments announced to Parliament, in press releases, or through the media to spend on or cut particular programmes or policy*

149 [IGA22](#) (David Kilpin)

150 [IGA26](#) (Ed Poole)

151 [IGA26](#) (Ed Poole)

152 [IGA22](#) (David Kilpin)

153 [Q291](#) (Dr John Pugh MP)

154 [Q343](#) (David Gauke MP)

*priorities. The Annual Report and Accounts should include an audited statement reconciling, as far as reasonably practicable, the financial commitments made with what eventually happened. This would include financial commitments made in ministerial announcements to Parliament (either in select committees or in debates), the Spending Review, the Budget, the Manifestos of the elected parties and Departmental press releases.*

## The success of Parliamentary Scrutiny

104. Experts have criticised the House of Commons' scrutiny of the Government's finances. The Chartered Institute of Public Finance and Accountancy said

Over the years financial scrutiny has not been taken seriously enough [in Parliament] 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.

105. Select Committees usually hold an oral evidence session on the Annual Report and Accounts every year, in the autumn after the Annual Report and Accounts is published. Only 13 of the 17 main Government Departmental Annual Reports and Accounts from 2014–15 formed the subject of a dedicated select committee oral evidence session in 2015–16.<sup>155</sup> The accounts are often not covered in depth during these sessions even when they are held. Across the 13 evidence sessions, the average number of questions asked by the Committee per session was 103, but the average number of questions relating to the accounts per session was just 12. 7 of the 13 committees asked fewer than five questions about the Accounts in their hearing on the Annual Report and Accounts. Committee members consequently used this session to explore other topics, apart from the Annual Report and Accounts. Committees often will write to Departments with queries about Accounts instead.

106. Committees appear most interested in the Annual Report and Accounts when those Accounts had been qualified and/or were published late - and rarely take much interest where the auditors have said that the Accounts are free from material errors. For example, 48% of the questions asked by committees about Accounts in 2015–16 were those by the Education committee when the Department for Education's Accounts were qualified in a number of respects and published three months beyond the usual statutory deadline. Whereas it is obviously important to scrutinise the failures in financial management that lead to qualified accounts, unqualified accounts should contain information that MPs and others find useful for the purpose of scrutinising the government.

107. Since 2002, the House of Commons Scrutiny Unit has been supporting select committees in their core financial scrutiny task. Analysts in the Scrutiny Unit review all the Accounts of the major Departments, and where requested smaller bodies too, providing written and oral briefing, and suggested questions for briefs and for correspondence for Committees. The unit also comments upon and follows up as requested responses received.

<sup>155</sup> This figure is based on committee staff analysis of committee hearings about departmental annual reports and Accounts from 2014–15. These hearings happened in 2015–16.



108. **Current Parliamentary scrutiny of Government’s annual reports and Accounts is limited. While committees frequently engage in correspondence with Departments on the Annual Reports and Accounts, based on Scrutiny Unit advice, the focus of hearings held is often only loosely connected to the Annual Reports and Accounts themselves. Where committees do refer to the information in these documents, the Committee interest is strongest where Annual Reports and Accounts show clear evidence of failure, for instance through being qualified - often indicative of deeper underlying problems. Committees’ reluctance to conduct detailed analysis of Annual Reports and Accounts is likely to stem, in part, from the nature of the information those documents provide, and the difficulties of using them as they stand to, for instance, monitor performance over time, value for money, or how efficient and effective the Department has been.**

## Training

109. Many witnesses to our inquiry suggested that MPs should be trained to carry out their financial scrutiny role. The Chartered Institute of Public Finance and Accountancy said “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”.<sup>156</sup> Craig Mackinlay MP agreed, “I think there is a role to be had for some training sessions to get a better understanding of what we are all looking at”.<sup>157</sup> The C&AG said that “MPs could be better trained in understanding accounting, and we are willing to play a part in that”.<sup>158</sup> David Gauke MP for the Treasury agreed, saying “improved training for parliamentarians” was necessary and said “from a Treasury perspective, if there are steps that we can take to help that, then I am sure that we would do that”.<sup>159</sup>

110. Formal training may not always be enough. MPs and journalists may also need specific guidance on the Accounts when they are published. Will Moy from Full Fact told us that in statistics

The rule is—and this is part of a statutory code of practice—that every statistical release should have a named statistician on it so that you know who to ring up and say, “What does this mean?”<sup>160</sup>

Mr Moy told us that this enabled statisticians to discuss any caveats needed to understand the numbers. As he said, the wider community of those who use statistics “depend on access to that expertise”.<sup>161</sup> The Kings Fund told us that they found published Annual Reports and Accounts difficult to understand but that this had been mitigated by the “the generally supportive and co-operative nature” of staff at the Department of Health.<sup>162</sup>

---

156 [IGA08](#) (Chartered Institute of Public Finance and Accountancy)

157 [Q274](#) (Craig Mackinlay MP)

158 [Q92](#) (Sir Amyas Morse)

159 [Q318](#) (David Gauke MP)

160 [Q243](#) (Will Moy)

161 [Q243](#) (Will Moy)

162 [IGA20](#) (King’s Fund)

111. MPs have found help and guidance in using the accounts useful. In the debate about Supplementary Estimates in February 2017, Karin Smyth, the MP for Bristol South said

I thank the National Audit Office for the support that it has given to me and many other hon. Members to help us understand and interrogate this year's Accounts [ ... ] Helping Members to understand the Accounts and what they mean for our constituents is an important and oft-neglected part of what the public hear about Parliament.<sup>163</sup>

Likewise, Sir Alan Beith described the Scrutiny Unit's assistance as "extremely valuable".<sup>164</sup>

**112. In-house specialists like the Scrutiny Unit and external experts in the National Audit Office have a key role to play in explaining and helping Members understand what financial documents like the Annual Reports and Accounts can tell us. Members may not have the time to carry out detailed examination of all that the Annual Reports and Accounts contain, and will continue to require the support of specialist accountants, economists and others like the Scrutiny Unit to provide detailed analysis, training and to direct them to matters of potential interest.**

*113. Many Members of Parliament will wish to continue to rely upon the work of the National Audit Office and the Scrutiny Unit to alert them to issues in the accounts. However, it is also clear that Members have welcomed the opportunity to understand more about what information is available within these documents and how they and their staff can use them. We therefore encourage the National Audit Office and Scrutiny Unit to continue to publicise the information contained in the accounts and to offer training to Members, their staff and other Parliamentary staff in how to use the accounts.*

*114. When Government statistics are published, the publishing Department names a statistician that MPs and journalists can approach with queries about the meaning of the published data. A similar practice should be brought into effect with Annual Reports and Accounts. We recommend that every published Annual Report and Account should in future contain the contact details of named individuals within the Department's finance function whom journalists, MPs, House staff and members of the public can approach with queries about how the accounting data can be used for example to illuminate how much is spent on a particular policy priority or how much a department owes on a Private Finance contract.*

---

163 [Hansard, Vol. 622, 27 February 2017](#), col. 111.

164 [Hansard, Vol. 584, 16 July 2014](#), col. 901.



## 5 Accuracy and credibility of Government Accounts

### The Importance of accurate and credible Accounts

115. There was a consensus amongst the witnesses to our inquiry that the Accounts need to be accurate and credible. Julian Kelly, from the Treasury, told us that it was key that Annual Reports and Accounts were set out “in a way that Parliament then knows is a true and fair view”.<sup>165</sup> The Organisation for Economic Cooperation and Development told us that most Governments have adopted independent standards for their Accounts, to ensure they meet “the need for objectivity, independence, and integrity”.<sup>166</sup>

116. In order to explore whether this important standard is being met, this Chapter first analyses the format of the UK Government Annual Reports and Accounts. Secondly we analyse the accuracy of the information contained in Annual Reports and Accounts and lastly the independence of the Comptroller and Auditor General.

### Technical standards applied to UK Government Accounts

117. There is a consensus amongst professionals that current UK public sector accounting practice is considered as an exemplar of best practice internationally. The International Federation of Accountants (IFAC) said that the UK “is a model to which other countries might well aspire”.<sup>167</sup> The Chartered Institute of Public Finance and Accountancy (CIPFA) said “the quality and timeliness of Government Departmental annual Accounts has improved over the last two decades”.<sup>168</sup> Both the Institute of Chartered Accountants in Scotland and the Institute of Chartered Accountants in England and Wales agreed with these views.<sup>169</sup> The rest of this section explains why this adherence to accounting standards is a positive position for the UK.

### *The benefits of accruals accounting*

118. Experts agree that accruals accounting enables better scrutiny of Government finances than cash accounting. Despite this, progress in adopting the practice has been slow, with still only 72% of OECD members currently using accrual accounting.<sup>170</sup> The International Federation of Accountants (IFAC) provided, in their evidence, a practical example of how this information enables better scrutiny:

In the past, the UK Governments may have increased employees’ future pensions instead of offering a pay raise. This potentially solved an immediate cash flow (and cash budget) concern; but created a present obligation that had to be settled in the future (a liability).<sup>171</sup>

165 [Q298](#)

166 [IGA21](#) (OECD)

167 [IGA16](#) (International Federation of Accountants)

168 [IGA08](#) (Chartered Institute of Public Finance and Accountancy)

169 [IGA18](#) (Institute of Chartered Accountants in Scotland); [IGA09](#) (Institute of Chartered Accountants in England and Wales)

170 [IGA21](#) (OECD)

171 [IGA16](#) (International Federation of Accountants)

119. For instance the Whole of Government Accounts now includes details of estimated public sector pension liabilities. This has become the basis for public debate about the real size of the deficit. For example, in 2016, the Adam Smith Institute, Telegraph and City AM used this figure to suggest that the UK’s fiscal challenge was bigger than most conventional analysis suggested.<sup>172</sup>

120. This example is one instance where, as Dr. Lawrence Ferry, Associate Professor in Accounting at Durham University, and Dr. Danny Chow, Lecturer in Accounting at Durham University, argue “under accrual accounting the revenue and expenditure statement will include items previously hidden from view”.<sup>173</sup> For this reason, the National Audit Office told us that “accrual Accounts can provide insight because they reflect, transparently and comprehensively, the financial consequences of each decision made” by the Government.<sup>174</sup>

121. Other related developments have also helped. For a number of years Parliament has been able to see how much expenditure is meant for investment (capital spending) compared to how much is devoted to running costs and consumption (resource spending). For instance, in 2017, the House of Commons held a debate on the way in which, for the third year running, the Department of Health’s Supplementary Estimate moved budget from capital to resource. The Department therefore moved money from its budget for investment in buildings and machinery to its budget for running costs. The Chair of the Public Accounts Committee, Meg Hillier MP, described the switch as ‘worrying’, commenting that “those sorts of capital expenditures are important to save money in the long term, so the Estimate really is very short-sighted”.<sup>175</sup> Without a separate capital and resource budget and account, Parliament would have been unable to see and comment on this switch in the estimate.

122. Annual Reports and Accounts have also been appearing earlier. While the statutory deadline for Government Accounts of 31 January (10 months after the end of the financial year) remains, due to a “faster closure” initiative within Government most Annual Reports and Accounts are audited and published within four months of the end of the financial year, before the summer Parliamentary recess.

**123. Currently, in terms of accruals accounting, timeliness, standards of preparation, technical standards, and audit, UK Government Accounts meet international standards for good practice—indeed they are recognised as amongst the best in the world. The Government is right to manage public spending and publish its Accounts on an accruals basis, enabling consistency between in-year budgets and end year Accounts and discouraging the use of cash movements to distort in year spending patterns. Accruals accounting has allowed Parliament and the public to gain a better understanding of how the Government uses its resources and manages its assets and liabilities. Accruals accounting is therefore a good basis for the further work we believe the accounts also need to do (described in other parts of this report).**

172 Nigel Hawkins, *UK PLC: Britain’s debt timebomb*, Adam Smith Institute, April 2016; Ben Riley Smith *Every Briton faces £53k debt for public sector pensions and other unfunded schemes*, *The Telegraph*, 18 April 2016; William Turvill *Successive governments accused of being “wildly reckless” as report finds public sector pensions and unpaid student loans add up to create £1.85 trillion liabilities “timebomb”*, *City AM*, 18 April 2016.

173 IGA04 (Dr Lawrence Ferry and Dr Danny Chow)

174 IGA07 (National Audit Office). This point was supported by Professor Ellwood [Q193](#).

175 [Hansard, Vol. 622, 27 February 2017](#), col. 87.

## **International Financial Reporting Standards**

124. Currently Government Accounts are prepared according to International Financial Reporting Standards (IFRS), as interpreted for the public sector by the Treasury, on the advice of the FRAB (Financial Reporting Advisory Board) (discussed in Chapter 4). 41% of OECD members use international accounting standards.<sup>176</sup> The Treasury, under the Government Resources and Accounts Act 2000 is charged with consulting with FRAB about how it implements the accounting standards in the UK .

125. The use of IFRS permits comparison between Government and other bodies. David Kilpin, in his evidence, said that “the use of International Financial Reporting Standards (IFRS) permits accountants and economists inside and outside Government, and across the world to understand what basis the Accounts have been prepared under”.<sup>177</sup> The NAO have described IFRS as the “global language” of finance.<sup>178</sup> The C&AG argued that using the same basis as the private sector gave public sector Accounts “more credibility”.<sup>179</sup> The NAO also told us that the UK are leading in this area and that “other national Governments are adopting similar accounting frameworks”.<sup>180</sup>

126. Much of the effect of IFRS is benign. Craig Mackinlay MP said that often IFRS are introduced to ensure that liabilities are accurately reported. He said

There has been for years and years and years the tendency to try to hide liabilities, and that is what a lot of the new IFRSs are trying to get into Accounts.<sup>181</sup>

Mr Mackinlay told us about one important example: the Private Finance Initiative (PFI). PFI is effectively a loan from the private sector to the public sector to construct an asset, often paid back over many years. IFRS forced the UK Government to disclose more about the debt that the Government had acquired through constructing buildings using PFI.<sup>182</sup>

127. While IFRS offers consistency and high standards of reporting, it is not always necessarily ideally suited to the particular circumstances of the public sector. Professor Ellwood told us that IFRS Accounts were not designed for the normal users of Government information but “for investors in the capital markets. Those are defined as the primary users of IFRS statements”.<sup>183</sup> Professor Prowle said that

What I have observed in the last 30, 35 years in this country is that with the Accounts for public bodies, Government bodies, we have basically followed practice in the private sector blindly. We have ended up with a set of Accounts that are mirroring what happens in the private sector and we are talking about very different things.<sup>184</sup>

---

176 [IGA21](#) (OECD)

177 [IGA22](#) (David Kilpin)

178 [IGA29](#) (National Audit Office)

179 [IGA07](#) (National Audit Office)

180 [IGA07](#) (National Audit Office)

181 [Q272](#) (Craig Mackinlay MP)

182 [Q272](#) (Craig Mackinlay MP)

183 [Q194](#) (Professor Ellwood)

184 [Q191](#) (Professor Prowle)

128. **International standards can assist transparency, by ensuring that Government accounts reflect all the results of Government policy. However, it is important that the Treasury recognises that Accounts in the public sector do very different things to Accounts in the private sector and their design should reflect the different group of people that use them. Given that, it is important that although the accounts currently meet the international standards, the Government makes additional disclosures (discussed in Chapter 3 and 4 for example about spend on particular policies) above and beyond standard corporate accounting. Otherwise both Parliament and citizens will be unable to use these documents to hold the government to account.**

### **Benefits of good quality Accounts**

129. Professor Heald, in his evidence, told us that Annual Reports and Accounts were useful even if there were limited numbers of users. He pointed to the fact that auditors of the Accounts check whether monies have been spent in line with Parliamentary, Treasury and Departmental approvals as a key control.

Even if there were no actual external user, knowledge that Government entities have delivered Accounts and secured clean audit certificates is highly relevant to public confidence in the management of public finances.<sup>185</sup>

Professor Heald told us that it was impossible for a member of the public to find out how many Government Departments had secured clean audit certificates. He argued that the NAO should resume publishing a report (which ceased publication in 2004) that showed the public and Parliament how many Accounts it had qualified in each year and why. Such a report would give the public and Parliament useful insights into the quality of Government’s financial management. The C&AG told us that he “will give some thought” to how “this information could be made available”.<sup>186</sup>

**130. Professor Heald argues that Accounts give us assurance that the Government knows what it spends money on, and can measure it accurately. At the moment, we do not have summarised data that enables us to check how many of the Government’s published Accounts are either accurate or properly compiled. The National Audit Office should publish an annual report which identifies how many Accounts are qualified, why they were qualified and what that tells us about the Government’s ability to manage its finances effectively.**

### **The accuracy of Departmental annual Reports and Accounts**

131. This next section explains the arrangements in place to ensure that the Annual Reports and Accounts are accurate and makes recommendations to improve the accuracy of the documents.

---

185 [IGA12](#) (Professor David Heald)

186 [IGA28](#) (National Audit Office)

### *The accuracy of financial statements*

132. The Comptroller and Auditor General (C&AG), assisted by the NAO, audits the financial information in Annual Reports and Accounts.<sup>187</sup> In their evidence, the NAO said that “a key measure of the robustness of a set of Accounts is the opinion provided by the external auditor”, as they note

For the 2014–15 year of account the C&AG qualified his audit opinion for 15 Accounts out of almost 400 Accounts he audited.<sup>188</sup>

The 400 Accounts include Accounts from Departments but also other Government bodies. The NAO note that they found inaccuracy in only 6 of the 15 qualifications.<sup>189</sup> We understand that the number of qualifications is similar in 2015–16.

133. The Right Honourable David Gauke MP, Chief Secretary to the Treasury agreed that the role of the National Audit Office, as Government’s external auditor is important: he said that “the role of the NAO and the independence of the NAO is something that we recognise and support”.<sup>190</sup>

134. The National Audit Office will only qualify Accounts on the basis that there is an error that is material to someone’s view of the Accounts. They define three types of errors that might affect a person’s view of the Accounts.

- Errors that are material by value. There are errors that are large enough to influence someone’s view of the reliability of the information in the Accounts. For example, the National Audit Office would only inform Parliament if an account was incorrectly stated by a large amount of money. They would not inform Parliament if there was an error of a couple of pounds or pence. The precise level of materiality by value (the level below which errors are not reported) is set by the NAO.
- Errors that are material by nature. These are errors that by their nature need to be reported to anyone relying on the Accounts. For example, a Ministerial salary must be reported accurately for people to understand how much each minister is paid and hold the Government to account for that.
- Errors that are material by context. These are errors that may be small in themselves but when put in context would alter anyone’s view of the Accounts. For example, Departments sometimes spend up to the money allocated them by Parliament. A small item of expenditure might be enough to make them breach their limit and if they left it out, the Accounts would inaccurately suggest that the Department had not breached its limit. In this case, despite the size of the error, the auditors would inform Parliament of it because of the impact it has on the rest of the account.

135. Currently the National Audit Office does not disclose the level above which they would consider an error to be material by value. David Kilpin told the Committee:

---

187 The NAO audits the financial statements, remuneration report and Statement of Parliamentary Supply fully, but other sections of the Annual Report and Accounts only for consistency.

188 [IGA07](#) (National Audit Office)

189 [IGA07](#) (National Audit Office)

190 [Q326](#) (David Gauke MP)

Auditors are required to disclose their materiality in the private sector. As I understand it, this allows stakeholders to understand the margin of error that figures may be subject to.<sup>191</sup>

The Institute for Chartered Accountants in Scotland supported further disclosure about materiality. They argue that more discussion of materiality could aid both auditors and those who prepare Accounts in the public sector to understand which information needs to be included.<sup>192</sup>

136. In evidence to us, the C&AG and Kate Mathers, then Director of Financial Audit Practice and Quality at the NAO, said that the National Audit Office were considering publishing their materiality levels.<sup>193</sup>

**137. It is crucial that Accounts are accurate, so that MPs, the public and others can take decisions on the basis of good quality information. The low numbers of qualified Accounts is an important index revealing that in the vast majority of cases the public and Parliament can and should have confidence in the accuracy of the figures reported by Government in published Accounts.**

*138. Materiality for Government Accounts should be disclosed. Whilst witnesses to our inquiry raised concerns about interest from the media and others pushing down materiality, this has not happened in the private sector where materiality is already disclosed. Materiality helps people understand how detailed the audit of the Accounts has been and how far they should rely upon the auditor’s assurance about the accuracy of the figures.*

*139. The Government’s support for the Comptroller and Auditor General and the NAO is welcome and important. The NAO’s role is constitutionally vital, both as the auditor of value for money in the public sector and as the auditor of the Accounts. As Government’s independent auditor, the NAO assures Parliament that it can rely upon the financial data published in unqualified Accounts to scrutinise the Government. Irrespective of the format or the contents of Annual Reports and Accounts, the NAO’s valuable role must be protected.*

### **The accuracy of Annual Reports and political spin**

140. Whilst, as the previous section discusses, the financial accounts are subjected to a rigorous audit, this is not true of all of the rest of the annual report. The links between different parts of the Annual Reports and Accounts are not always clear. As we show in Chapter 3 however, the Annual report is a key document as it enables MPs and others to link performance information to the financial accounting data in the accounts.

141. The Annual Report has been criticised by experts in evidence to our inquiry. Professor David Heald told us that “good technical processes are marred by abusive political practices, creating distrust in official numbers”.<sup>194</sup> The National Audit Office informed us

191 [IGA22](#) (David Kilpin)

192 [IGA18](#) (Institute of Chartered Accountants in Scotland)

193 [Qq143–44](#)

194 [IGA12](#) (Professor David Heald)



that there is “too much “positive spin” in annual reports and Accounts.<sup>195</sup> The Taxpayer’s Alliance agreed and pointed out, as an example, that the Home Office Annual Report and Accounts for 2014–15 did not explain the

failure to deliver the Government’s promised reduction in net immigration. There is widespread concern and dissatisfaction about this, yet the HO ARA doesn’t acknowledge the scale of the failure or provide a proper explanation.<sup>196</sup>

Craig Mackinlay MP said that “there is a tendency... within all Departmental Accounts to put a rosy gloss on things”.<sup>197</sup> The Institute for Chartered Accountants in Scotland argued the Annual Reports were “overly focused on the [Department’s] achievements”.<sup>198</sup>

142. Will Moy, the Director of the fact checking organisation Full Fact, said that he found these comments about the positive spin on Annual Reports “striking” and said that this would be “unacceptable” in official statistics and should be unacceptable in the context of annual reports as well.<sup>199</sup> ICAS said that the Treasury should adopt the “stronger emphasis” in the UK Corporate Governance Code, which applies to private sector companies and mandates “fair, balanced and understandable” reporting.<sup>200</sup>

143. The UK Statistics Authority (UKSA) have proposed that Annual Reports and Accounts could be bound by principles similar to those set out in the statistical Code of Practice.<sup>201</sup> UKSA in their evidence suggested adopting principles of “impartiality and objectivity, ... integrity ... [and] frankness and objectivity”.<sup>202</sup> UKSA define these values in their evidence and argue that statisticians should present figures “impartially and objectively” and prepare “commentary and analysis that aid interpretation and provide factual information about the policy of operational context”.<sup>203</sup> In particular, UKSA say that the “public interest should prevail over organisational, personal or political interests”.<sup>204</sup>

144. UKSA are currently redrafting the code to expand its remit and cover administrative data used by Government Departments. In their exposure draft, they say that

Departments publish a wide range of other types of information, including management information and research, and in some cases the public value of this information might be enhanced if it complied more fully with the Code.<sup>205</sup>

---

195 [IGA07](#) (National Audit Office)

196 [IGA02](#) (Taxpayer’s Alliance)

197 [Q263](#) (Craig Mackinlay MP)

198 [IGA18](#) (Institute for Chartered Accountants of Scotland)

199 [Q234](#) (Will Moy)

200 Financial Reporting Council, [The UK Corporate Governance Code](#), September 2012, p.6; [IGA18](#) (Institute for Chartered Accountants of Scotland)

201 UK Statistics Authority, [Code of Practice for Official Statistics](#).

202 [IGA27](#) (UK Statistics Authority)

203 [IGA27](#) (UK Statistics Authority)

204 [IGA27](#) (UK Statistics Authority)

205 UK Statistics Authority, [Stocktake of the Code of Practice for Official Statistics Exposure draft](#), November 2016, p.4.



145. Will Moy, Director of Full Fact, compared the independent oversight of Government statistics with the way that Accounts production is governed. He said that

we should recognise what the Statistics Authority offers, which is guaranteed independence, structural independence, an overview of the whole field and a set of principles that govern the whole activity that are independently published and that have a basis in statute. That is a different picture of machinery than Government accounting. The Government financial profession does not have the same professional accountability to the national statistician, and ultimately the Statistics Authority, which sits independently of Government.<sup>206</sup>

Statistics within Government must be produced in line with the statistics code of practice in order to be described as National Statistics. The Director General for Regulation at UKSA leads on “the assessment and reassessment of official statistics and their compliance with the Code of Practice for Official Statistics”.<sup>207</sup>

**146. Annual Report and Accounts must impartially describe the activity of the Department during the year. Parliament can take comfort from the work of the National Audit Office and its vital constitutional role as an independent guardian of financial fact in auditing the financial statement parts of the Annual Reports and Accounts. However, there is no audit of the performance information presented in the Annual Report and Accounts, and narrative often appears to be too open to positive, rather than fully balanced, presentation. The Annual Reports should include an honest assessment of the Department’s performance to aid scrutiny. Government seeks to present itself in a favourable light, but it is missing the opportunity to present fully credible performance information. It is unacceptable that the Annual Report parts of Annual Reports and Accounts are, in the opinion of Professor Heald, the Institute for Chartered Accountants of Scotland and the NAO, often spun or subject to political bias.**

*147. Several of our witnesses have suggested that there is bias or spin in the Annual Report sections of Annual Reports and Accounts. The Government should move to address this by adopting the same principles to which National Statistics are subject (frankness, impartiality, objectivity and accessibility) for all the data in the Annual Report and Accounts. The new revised UKSA statistical Code of Practice should be extended to all accounting data within Departments. The National Audit Office and UKSA should work together to ensure that the code is adopted by Departments and to notify Parliament and the public where Annual Reports and Accounts are currently falling short of its requirements.*

148. Whilst the financial data in the Accounts is audited by the National Audit Office, the performance information is not audited.<sup>208</sup> The Annual Report is only audited for consistency with the Accounts rather than for accuracy. Craig Mackinlay MP told us that he was unsure “whether they [performance reports] were accurate” and thought auditors

---

206 [Q235](#) (Will Moy)

207 [UKSA Director General for Regulation](#).

208 The NAO audits the financial statements and some of the accountability disclosures in the annual report. They look at other data in the annual report to check its consistency with the financial statements.

should look into this.<sup>209</sup> The Treasury told us that it is the responsibility of the Department “to make sure that the information it is publishing [in the performance section] is true and fair and not misleading”.<sup>210</sup>

***149. Departments should also subject the performance data and commentary in their Annual Report to an authoritative audit of the accuracy, completeness and objectivity of the data and statements made, to enable citizens and their representatives to obtain a full and unbiased view of the Department’s performance. This audit should go further than the NAO’s current audit of the annual report for consistency with the accounts. This audit should be conducted by an independent body, potentially the NAO, if it considers it appropriate, or UKSA. This audit should assess the accuracy of the statistics used in assessing performance, whether the Department has used a complete set of statistics in that assessment, and how true and fair the commentary provided in the report is.***

---

209 [Q269](#) (Craig Mackinlay MP)

210 [Q315](#) (Julian Kelly)

## 6 Management accounting in Government

---

### The purpose of management information

150. Management information is used by organisations to understand their own activity. Senior managers such as senior civil servants and ministers in the public sector use this management information to take decisions. The Chartered Institute of Management Accounting said in their evidence to us that good management information and accounting consisted of “making relevant information available to decision makers when they need it”.<sup>211</sup> Consequently management information varies in content and form. It could take the following forms:

- Management Accounts: that are often used by a board on a quarterly or monthly basis to make decisions about an entire business or Department.
- Information on a particular unit within a business or Department (for example a civil service directorate) which is used to manage that directorate or area of the business.
- Information on a particular project is used to manage that project and might identify risks to its successful delivery.

Management information often consists of both performance and financial information.

151. The Chartered Institute for Management Accountants have said that management information typically includes “non-financial information as well as financial [information]”, “a budget or plan with which to compare actual performance”, “a re-forecast or updated estimate of year-end performance” and “variance analysis and exception reporting in relation to the reporting of the performance against the plan”.<sup>212</sup>

### Management Accounts and information in the public sector: a persistent weakness

152. Numerous commentators have suggested that management Accounts have been persistently weak in the public sector. Lord Browne, formerly the lead non-executive director for Government and Chief Executive of BP, told our predecessor committee, the Public Administration Select Committee, that he was shocked when he came into Government by “how much lack of measurement there was of where things were, where you started from and where you were going”.<sup>213</sup> His comments were supported by a review conducted by Dr Martin Read for the Treasury.<sup>214</sup> Dr Read said that “the poor quality of much of the management information available to Government has been a recurrent theme of independent reports to Government over many years”.<sup>215</sup>

---

211 [IGA19](#) (Chartered Institute of Management Accountants)

212 [IGA19](#) (Chartered Institute of Management Accountants)

213 Oral evidence taken before PASC, 10 July 2012, [Q5](#) (Lord Browne).

214 Dr Martin Read, [Practical steps to improve management information in government](#), July 2012.

215 Dr Martin Read, [Practical steps to improve management information in government](#), July 2012, p.3.

153. The Government’s own independent auditors, the National Audit Office (NAO), have also frequently commented on the weakness of management information.

- In 2014, the NAO’s report on forecasting in Government found that only 39% of the analysts, who prepare forecasts for the Government, believed that their forecasts were well used by senior management in their Department; it also noted that there was a poor relationship between analysts working on forecasting and staff in finance and accounts. Analysts identified accounting functions in Departments as a ‘black box’ and were unclear about the relationship between their forecasts and the financial projections for the Departments.<sup>216</sup>
- The NAO has also noted particular problems with management information on contractors: in 2014 they said that few managers had portfolio information on key suppliers, some Departments did not have registers of their contracts, did not possess copies of running contracts and had no information systems that joined up commercial managers, financial managers and managers of contract performance.<sup>217</sup>
- In September 2015, the National Audit Office published analysis of project management in Government, demonstrating that decisions on improving performance “might not be informed by information that matters”.<sup>218</sup>

154. Sir Ian Cheshire, the Government’s Lead Non-Executive Director, told us that “in my experience it [management information] was unfocused. It did not reflect priorities. If anything it had too much data and not enough information”.<sup>219</sup> He described board reporting, before the Treasury reforms, as “a very unwieldy smorgasbord of information”.<sup>220</sup>

155. The National Audit Office and other commentators have documented the consequences of poor management information in the public sector. For example, the Public Accounts Committee in their report on Transforming Rehabilitation criticised the Ministry of Justice for its lack of reliable data about the programme’s performance, especially for short term offenders.<sup>221</sup> The Committee said that without this data the Ministry would be unable to determine whether its reforms were having the intended impact. Furthermore, the NAO have said that the lack of clear, consistent data contributed to the Government’s poor track record in completing major projects successfully.<sup>222</sup>

156. The C&AG argued in an interview for the Financial Times, that especially in services where Departments delivered through local bodies, a lack of good information made it hard to target austerity. As he said “If you are going to do radical surgery, it would be nice if you knew where the heart was, you are slightly more likely not to stick a knife into it by mistake”.<sup>223</sup>

216 National Audit Office, *Forecasting in Government to achieve value for money*, January 2014, pp.8; 28.

217 National Audit Office, *Transforming Government’s contract management*, September 2014, pp.10; 13.

218 National Audit Office, *Managing business operations: what Government needs to get right*, September 2015, p.6.

219 Q5; Lord Browne made similar comments to PASC in 2012, Oral Evidence taken before PASC, [10 July 2012](#), (Lord Browne).

220 Q6

221 Seventeenth Report from the Public Accounts Committee, *Transforming Rehabilitation*, Session 2016–17, September 2016.

222 National Audit Office, *Delivering major projects in government: a briefing for the Committee of Public Accounts*, January 2016, p.6.

223 Sarah Neville and Chris Giles [Watchdog fears ‘radical surgery’ of cuts](#), *Financial Times*, 15 March 2015.

157. **There is a consensus that management information in the public sector has been poor for a number of years. This relates to costs, forecasting and performance. Management information has often in the past been unfocused and not helpful to senior officials and politicians in making decisions.**

158. **Poor management information has consequences both for the success of individual policies and the success of any overall fiscal strategy. During a period in which public finances are constrained, it is even more vital that the Government knows what it is spending money on, what effect that has and what impact a cut or a change in spending is likely to have.**

### Earlier attempts to reform

159. Efforts have been made to improve management information in the public sector since the 1980s. Lord Heseltine, when he was a Minister, began the process with his Management Information System for Ministers (MINIS). He introduced the system into the Department of the Environment in 1980. The system reported on the Department's activities, performance and finances in a single document.<sup>224</sup> Professor Sir Andrew Likierman, commenting at the time, said that MINIS did have a positive effect on the Department of the Environment. However, he commented that other Departments were unlikely to adopt the system, unless the Treasury and Cabinet Office drove change.<sup>225</sup>

160. The Institute for Government argued that in the mid-1990s, after his appointment as Deputy Prime Minister, Lord Heseltine sought to provide this central stimulus. He 'pushed for the development of a major public sector benchmarking project that would enable cross agency comparisons of performance. However these efforts were met with opposition from the Treasury and individual agencies and never took off'.<sup>226</sup>

161. In 1998, the Labour Government announced that Departments would report against Public Service Agreements (PSAs). The Institute for Government summarised the performance of PSAs in a recent report:

PSAs began life with an unambitious agenda, weak leadership and virtually no operating model, but were electrified by the Prime Minister's desire to grab hold of the public services agenda after the 2001 election [ ... ] The regime was refreshed in 2004 in an attempt to ameliorate criticism of top-down targets. In 2007, the move to cross-cutting PSAs was a far more ambitious attempt to reinvent the Government's performance management framework and [was] supported by many senior politicians and officials.<sup>227</sup>

In 2010, the then Coalition Government abolished Public Service Agreements. The then Prime Minister, David Cameron, described them as "a system of bureaucratic accountability".<sup>228</sup> He argued that they created bureaucracy, bred inefficiency and focused the public sector upon short term targets at the expense of long term aims.

224 K. Ennals, *'The management information system for ministers in the Department for the Environment' Local Government Studies Vol. 7 No. 1, 1981, pp.39–46.*

225 A. Likierman, *Management information for Ministers: the MINIS system in the Department for the Environment, Public Administration Vol. 60 No. 2, 1982, pp.127–42.*

226 Institute for Government, *Civil service reform in the real world: patters of success in UK civil service reform, 2014, p.31.*

227 Institute for Government, *Public Service Agreements and the Prime Minister's Delivery Unit 1998–2010, 2014.*

228 David Cameron, *PM's speech on business plans, November 2010.*

162. In 2012, Lord Heseltine published a report into stimulating growth in the UK economy. In the report, Lord Heseltine suggested

A single Departmental management information system for Whitehall should be introduced as soon as possible. If done properly, it will be possible not only to cost activities and monitor progress against priorities, but also to provide for much more comprehensive scrutiny and the identification of activity that could be delivered more effectively by the private sector. This is not just a cost cutting exercise. It will reveal areas where important tasks are not being effectively carried out and need more resource.<sup>229</sup>

Lord Heseltine repeated this view in evidence to PASC in 2012.<sup>230</sup>

163. The National Audit Office noted that despite these efforts

by the end of the 2010–15 Parliament there was no functioning crossGovernment approach to business planning, no clear set of objectives, no coherent set of performance measures and serious concerns about the quality of data that was available.<sup>231</sup>

164. Dr Martin Read, in his 2013 review, identified a lack of leadership both within Departments and in the Cabinet Office and Treasury as impediments to improved management information.<sup>232</sup> The National Audit Office agreed that there was “a lack of sustained leadership and poor engagement of civil servants” with these initiatives.<sup>233</sup>

165. The National Audit Office have said that reforms need to last to be successful. They identified that any framework

should be stable and enduring, existing independent[ly] of political priorities—whatever your objectives, there are some fundamentals you will need to allow you to plan and manage effectively, even (or perhaps especially) as you change priorities.<sup>234</sup>

**166. Governments of different complexions have made repeated efforts to reform management information. Most of these efforts have concentrated on obtaining performance information and matching it to financial information. While many of these reforms were positive, as we shall see below, most appear to have been abandoned, often because of the departure of key individuals, lack of consistent leadership and focus from the Treasury and Cabinet Office.**

**167. *The Government must give priority to improving management information. This will mean ensuring the political and administrative leadership of all Departments is committed to good management information. This commitment should be included in***

229 Lord Heseltine, *No stone unturned in the search for growth*, October 2012, p.72.

230 Oral evidence taken before PASC, 5 December 2012, [Q34](#) (Lord Heseltine).

231 National Audit Office, *Government’s management of its performance: Single Departmental Plans*, July 2016, Session 2016–17, HC 872, p.12.

232 Dr Martin Read, *Practical steps to improve management information in government*, July 2012, p.12.

233 National Audit Office, *Government’s management of its performance: Single Departmental Plans*, July 2016, Session 2016–17, HC 872, p.17.

234 National Audit Office, *Government’s management of its performance: Single Departmental Plans*, July 2016, Session 2016–17, HC 872, p.6.



*the appraisal of the work of Permanent Secretaries and Executive Departmental Board members. The Government should make clear that it expects the Single Departmental Plan framework to last for the long term.*

## The Financial Management Review

### Concept

168. This section explains the origins of the current Treasury reforms to management information in government. These encompass the Financial Management Review and the Single Departmental Plans.

169. In 2013, the Treasury published the Financial Management Review.<sup>235</sup> The Financial Management Review made recommendations to improve the finance function across Government. Its three main recommendations were to improve management information, linking costs to outputs and outcomes, delegate financial authority to the officials with the “greatest access to relevant information, who are best placed to judge the value of the expenditure and corresponding opportunities and risks” and to create a central leadership for finance with a new Director General of Public Expenditure and Finance.<sup>236</sup>

170. The first objective is the most relevant to this report. The Financial Management Review made a set of recommendations for improving management information. These included making an investment in management information, creating standards for costing and adopting a common system to record financial information.

171. Following this, in 2015, the Government adopted Single Departmental Plans (SDPs) as a vehicle for this monitoring. John Manzoni, Chief Executive of the Civil Service, announced these plans in July 2015 and said that

we are bringing together efficiency, spending round and activity plans into the SDP. Crucially, since SDPs are completely aligned with the Spending Review, they will enable us to bring together inputs (especially funding) with outputs—thus making clear the trade-offs and choices.<sup>237</sup>

The Single Departmental Plans were to come in two formats: an internal detailed plan and a published summary document. The Cabinet Office and Treasury led initial discussions with Departments about these plans in the summer of 2015.<sup>238</sup>

172. Unpublished SDPs were put in place to help focus reporting. Sir Ian Cheshire, the Government’s Lead non-executive director, told us that in Government “the MI issue was not a lack of willingness to provide data; it was a question of what are you [the Department] reporting against”.<sup>239</sup> Single Departmental Plans were supposed to focus a Department’s reporting, especially its performance reporting.

235 HM Treasury, *Financial management review*, December 2013.

236 HM Treasury, *Financial management review*, December 2013, pp.5–6.

237 John Manzoni, *Clarifying our priorities: Single Departmental Plans*, July 2015.

238 National Audit Office, *Government’s management of its performance: Single Departmental Plans*, July 2016, Session 2016–17, HC 872, p.23.

239 [Q7](#)



173. Several witnesses told us that the unpublished Single Departmental Plans were similar to previous efforts to reform, including Lord Heseltine’s. Sir Ian Cheshire, the Government’s lead non-executive director, told us that

I think his [Lord Heseltine’s] recommendation will end up being implemented by the tracking of the Single Departmental Plans, because the metrics in there very much correlate with what I think he was looking to do.<sup>240</sup>

174. David Gauke MP, the Chief Secretary to the Treasury told us that “what we [the Government] have in place at the moment builds on MINIS”.<sup>241</sup> The National Audit Office told us that unpublished Single Departmental Plans “are expected to link inputs to outcomes on a consistent basis through performance measures”.<sup>242</sup>

**175. The Treasury’s and Cabinet Office’s plans to improve management information are welcome. Reporting against the new unpublished Single Departmental Plans contain many of the features of the MINIS system recommended by Lord Heseltine in his report No Stone Left Unturned (2012). The adoption of a system like MINIS will allow Departments to understand the links between resources and people and outcomes and outputs. To be of real value Single Departmental Plans will need to be used both as a way for Departments to measure their own performance, and to report progress to a wider public audience. Single Departmental Plans have potential but clearly need to be used and published in order to fulfil that potential. The Treasury’s additional commitments through the Financial Management Review to share best practice and train staff in producing management information are also welcome.**

### **Implementation of Single Departmental Plans**

176. There is evidence of some improvement in management information since 2012. Sir Ian Cheshire, the Government’s lead non-executive director, told the committee

I would not for a second pretend this [management accounting in the public sector] is perfection but neither do I think it is quite as bad as it was a while back.<sup>243</sup>

177. However, National Audit Office reports in 2016 still point to significant weaknesses in the management information that Government produces in relation to important programmes. For example, in September 2016, the NAO found in the Syrian vulnerable persons resettlement programme the Government had “no estimate of the total cost of the programme to the UK”.<sup>244</sup> In October 2016, the NAO found that the Department of Education had “little information on outcomes for children who are, or have been, in need of services”.<sup>245</sup>

178. The NAO also reported concerns about optimism bias. The C&AG told us that “they [Departments] do not find having awkward evidence all that desirable” and “there is a

240 [Q33](#)

241 [Q350](#)

242 [IGA07](#) (National Audit Office)

243 [Q10](#)

244 National Audit Office, *The Syrian vulnerable persons resettlement programme*, Session 2016–17, HC 626, September 2016, p.9.

245 National Audit Office, *Children in need of help or protection*, Session 2016–17, HC 723, October 2016, p.8.

lot of optimism bias in Government, that is to say things are presented as being highly probable, which are in fact only likely to happen if things go really well”.<sup>246</sup> Furthermore, the C&AG told us that, in his judgement, Departments focused too much on meeting their annual budget rather than understanding the long-term value of their spending. As he argued, Departments are “still, in my view, largely dominated by controlling against the excess vote”.<sup>247</sup>

179. The NAO have evaluated the unpublished Single Departmental Plans themselves. They said, whilst the Government “starts from a low base”, the unpublished Single Departmental Plans “represent a clear advance on previous systems”.<sup>248</sup> The NAO argued, however, that there are substantial risks to their success

The civil service does not have a strong track record in making changes to its culture and the risks to SDPs, as with other past initiatives, lie in a lack of sustained leadership and poor engagement of civil servants within Departments. Now that the SDPs are agreed between the centre and Departments there is a risk that the leadership focus and momentum to keep improving and embedding them is lost. More work is needed to develop a set of measures that over all areas of the business and clearly link spending and performance. Based on the experience of PSAs, without concerted effort this may not be complete before the end of the Parliament. There is also a risk that Departments fail to take the opportunity of SDPs to change their performance culture and involve all parts of the delivery system, including arm’s-length bodies, resulting in top-down, surface changes only.<sup>249</sup>

180. The Public Accounts Committee share the NAO’s view. They acknowledge that “Government has made some progress in the way it plans and manages its business”. However they received evidence from the Cabinet Office that as yet budgets are not linked to the teams that deliver objectives in the “majority of cases”.<sup>250</sup> The Committee also have said that “there is still a long way to go before either the Government or the taxpayer can see what money has been spent on a given objective and what value has been delivered”.<sup>251</sup>

181. Even the Government told us that progress was mixed. Sir Ian Cheshire, the Government’s lead non-executive director, told the Committee that management information “varies quite significantly from Department to Department”.<sup>252</sup> Julian Kelly from the Treasury told us

My personal experience is there are some Departments that are already quite good at thinking into the medium term and there are some that just have not built up enough of what I think my colleague John Manzoni

---

246 [Qq164; 166](#) (Sir Amyas Morse)

247 [Q122](#)

248 National Audit Office Government’s Management of its performance progress with the single departmental plans, pp.41; 51.

249 National Audit Office Government’s management of its performance progress with the single departmental plans, p.17.

250 [Q47](#) (Sir Amyas Morse and John Manzoni) PAC Performance

251 Twenty Seventh Report from the Public Accounts Committee [Managing Government’s spending and performance](#), Session 2016–17, HC 710, p.5.

252 [Q3](#)

describes as the muscle, but the discipline of just constantly planning into the medium term. Therefore I do not meet anyone who says this is a bad idea but it is getting really good practice embedded.<sup>253</sup>

The Chief Secretary told us that one reason not to publish the full unpublished Single Departmental Plan was that they “are a relatively new process and I think we need to wait and see how they operate first before making any significant reforms”.<sup>254</sup> We comment in the publication of these plans in the following section of the report.

182. The Institute for Government have been more positive about the implementation of these changes than other commentators. However, they have also commented that

The next phase of the reform should try to connect with Departmental leaders beyond finance directors—that is, permanent secretaries and the wider Departmental leadership teams—to ensure that they have a greater interest in the success of the FMR [Financial Management Review]. This can be achieved by demonstrating how the FMR enables Departments to deliver their core objectives and is more than a ‘nice to have’.<sup>255</sup>

**183. A good management information system links together financial data and performance metrics. Such a system would map spending plans and forecasts, against the priorities of the Department. Such a system would be regularly updated and give a snapshot of the Department’s delivery of value for money, and forecasts for its future delivery of value for money to the taxpayer. Whilst the Government intends to do this, performance on this is varied. Forecasting is unreliable and still has an optimism bias. Some Departments are not planning for the medium term. It is disappointing that there is still a long way to go before either the Government or the taxpayer can see what money has been spent on a given objective and what value has been delivered.**

*184. The Treasury and Cabinet Office should work together in making sure that Departments use Single Departmental Plans internally. The Government should ensure that all their major decisions are made on the basis of a full understanding of the practically available data. They should also move forward with the other aspects of the Financial Management Review, developing, for example, better information on the costs of activity in the public sector and on realistic forecasting.*

*185. Management information should be seen as a key function of a Department. It should not be seen as a ‘nice to have’ nor confined to the Finance team. The Treasury and Cabinet Office should ensure that all senior civil servants are aware that it is impossible for them to deliver public services effectively or efficiently without good data linking outcomes to spending and realistic medium term plans.*

---

253 [Q355](#)

254 [Q359](#)

255 Institute for Government, [Getting to the heart of decision making: Whitehall’s financial management reform](#), December 2016, p.23.

## Public Accountability

### *Current state of published SDPs*

186. In 2016, the Government published summaries of the Single Departmental Plans. These summaries did not include all the information included in the plans. The Treasury told us that

In February 2016 every Department published a summary of their SDP. Each SDP lays out the Department’s objectives, the political commitments it has made, its business-as-usual activity, and headline indicators to demonstrate progress. Data against each of these indicators is being regularly updated with the latest management information. Departments will also report in full on progress against their SDP through their annual reports and Accounts.<sup>256</sup>

The Treasury said in their evidence that publication of the full plans was not necessary as

this is not what routinely happens or is considered best practice in the private sector. Some data is sensitive or classified, and publication could affect national security. Often, data is used to inform policy development, where decisions have not yet been taken. Other data is commercially sensitive, and could affect ongoing negotiations or the UK economy if released without appropriate context. It is important that management information is approved before publication, which can take time.

The Treasury offered no reason why it was appropriate to compare access to private and public sector management Accounts in this way.

187. The National Audit Office said

The published SDPs do not meet the Government’s stated aim to be “the most transparent Government ever”. The great majority of the detailed SDP content is not included in the public version. Although it is not reasonable to expect the Government to share every detail of its plans and progress—we recognise the need for a ‘safe space’ for ministers to make decisions before options are finalised—we would expect to see greater detail than has been published.<sup>257</sup>

188. The points made by the National Audit Office are supported by their analysis of the Single Departmental Plans. Seven of the seventeen SDPs do not assign budgets to the Department’s objectives and only 11% of “significant areas” have budgets allocated to them.<sup>258</sup>

189. The Institute for Government agreed with the NAO. In their recent Whitehall Monitor, the Institute described the Single Departmental Plans as a “step backwards”,

---

256 [IGA06](#) (HM Treasury)

257 National Audit Office, *Government’s management of its performance: progress with single departmental plans*, Session 2016–17, HC 872, July 2016, p.15.

258 National Audit Office, *Government’s management of its performance: progress with single departmental plans*, Session 2016–17, HC 872, July 2016, p.40.

criticising in particular the lack of priorities in the published plans.<sup>259</sup> The Institute for Government argue that the current published documents “give no sense of priority” and many Departments have too many objectives.<sup>260</sup> For example, they say that the Department of Transport listed one hundred priorities and the Institute commented that the published plans contained “little more than a laundry list of nice-to-haves”.<sup>261</sup>

### **Arguments in favour of publishing SDPs in full**

190. Several of our witnesses argued that Single Departmental Plans should be published. The Public Accounts Committee has also called for the publication of the plans. Our witnesses and other commentators have offered three main reasons for the publication of these documents.

- a) The plans would if published enable Parliament to scrutinise the future work of Government Departments, and this appears to be part of their intended purpose. David Gauke MP, the Chief Secretary to the Treasury, told us he sees SDPs as a “forward-looking” document against which Parliament can hold the Government to account.<sup>262</sup>
- b) They would, if published, enable Parliament and other commentators to assess and advise about the quality of the Government’s management information. Currently this is impossible without relying on the auditor’s assessment.<sup>263</sup>
- c) If properly constituted, they would enable scrutiny of projects before and during the process rather than at the end, as recommended by Lord O’Donnell during our civil service inquiry.<sup>264</sup>

191. Several witnesses suggested to us that Parliament should request more information. The C&AG thought Parliament should ask for more management information from Government.<sup>265</sup> The OECD noted that whilst no other countries publish their management Accounts, two thirds of countries publish monthly budget statements which include financial information on the same basis as their budgets and some include performance information with that.<sup>266</sup> Lord Heseltine told the Public Administration Select Committee in 2012 that he could see no objections to publishing management information”.<sup>267</sup>

192. To enable better scrutiny, the C&AG recommended that Departments publish quarterly updates on progress against the Single Departmental Plans.<sup>268</sup> Craig Mackinlay MP said, from his experience as a local councillor, quarterly updates were provided in local Government against a council’s plans but told us that “we do not seem to be translating that within Parliament”.<sup>269</sup>

---

259 Institute for Government, [Whitehall Monitor](#), p.62.

260 Institute for Government, [Whitehall monitor 2017: the civil service as it faces Brexit](#), January 2017, p.7.

261 Institute for Government, [Whitehall monitor 2017: the civil service as it faces Brexit](#), January 2017, p.7.

262 [Q320](#) (David Gauke MP)

263 [Q205](#) (Professor Prowle)

264 [Q8](#) Oral Evidence 8 November 2016, Civil Service Inquiry.

265 [Q179](#)

266 [IGA21](#) (Organisation for Economic Cooperation and Development)

267 Oral evidence taken before PASC, 5 December 2012, [Q55](#) (Lord Heseltine).

268 [Q180](#)

269 [Q281](#) (Craig Mackinlay MP)

193. In September 2016, the Public Accounts Committee published a report assessing publication of Single Departmental Plans.<sup>270</sup> They recommended that:

Departments should publish the same up to date information about performance that they use for monitoring themselves, subject to any national security or similar essential restrictions. There should be regular public reporting of Government’s performance, at least twice yearly.<sup>271</sup>

194. The PAC concluded that the SDP’s should be published in full. However, the Treasury in its response to the Committee rejected this Committee’s recommendation.<sup>272</sup> They said:

the Treasury and Cabinet Office consider further improvements can be made and will promote greater access to information in the refreshed, published Single Departmental Plans (SDPs) by including a schedule of supporting statistics and their frequency. Headline indicators will be updated at least twice a year, or more regularly, when new data becomes available [ ... ] The Government considers that, with these improvements, the right balance is struck between transparency of information and allowing Departments a “safe space” to manage their own affairs. The Treasury and Cabinet Office will continue to consider where further improvements can be made in future.<sup>273</sup>

The Government has committed to publishing new SDPs for all Departments by May 2017, including the new Departments created since June 2016.<sup>274</sup> Again, though, it is expected that the Government will not publish the full internal documents.

**195. Currently the published Single Departmental Plans are not sufficient for accountability purposes. They contain too little detail on either spending or performance. In seven of the seventeen Departments it is unclear how spending is allocated between priorities. Nor is it known at present, how often data will be updated and whether it will be possible for the user to observe progress, through seeing time series for indicators over a period of time. Parliament is unable, therefore, using the current Single Departmental Plans, to use them to hold Government to account.**

**196. Lord O’Donnell is right to argue that earlier scrutiny of Government projects (during their operation rather than after they have happened) would allow those outside Government to assist in identifying issues and avoiding mistakes. This would require information about milestones, performance and financial data and could easily be published through updates to the Single Departmental Plan. Fuller publication of Single Departmental Plans could assist outside observers in making suggestions to improve them in the future and will assist in embedding a culture of management information within Government.**

---

270 Twenty Seventh Report from the Public Accounts Committee [Managing Government’s spending and performance](#), Session 2016–17, HC 710.

271 Twenty Seventh Report from the Public Accounts Committee [Managing Government’s spending and performance](#), Session 2016–17, HC 710, p.8.

272 HM Treasury, [Government responses to the Committee of Public Accounts on the Twenty Sixth, the Twenty Seventh and the Twenty Ninth to the Thirty Fourth reports from Session 2016–17](#).

273 HM Treasury, [Government responses to the Committee of Public Accounts on the Twenty Sixth, the Twenty Seventh and the Twenty Ninth to the Thirty Fourth reports from Session 2016–17](#), pp.7–8.

274 HM Treasury, [Government responses to the Committee of Public Accounts on the Twenty Sixth, the Twenty Seventh and the Twenty Ninth to the Thirty Fourth reports from Session 2016–17](#), p.7.



197. *The Treasury and Cabinet Office should work with Departments to ensure that the full Single Departmental Plans are published, subject to necessary omissions on grounds of national security or commercial confidentiality. Departments must, on a quarterly basis, share the full un-redacted Single Departmental Plans with the Comptroller and Auditor General and his staff. Unaudited progress reports against the Single Departmental Plans (with the restrictions above and full access for the National Audit Office) should be published on a quarterly basis (as recommended by the Comptroller and Auditor General) so that Parliament is informed of Departmental progress. These should include commentary on performance and, where required, actions being taken to improve outcomes. It is disappointing that the Treasury have rejected a similar recommendation from the Public Accounts Committee; we urge them to reconsider.*

198. *The Government should ensure that past performance information published on performance against Single Departmental Plans remains available when new information is published so they can be used as accountability documents in the future, and progress over time can be easily monitored. As with Annual Reports and Accounts, data from the Single Departmental Plans should be available in excel format so that users are able to analyse that data more thoroughly.*

### **Single Departmental Plans and Annual Reports and Accounts**

199. The Treasury also told us that the Single Departmental Plan will be used in the future to structure the Annual Report and Accounts. Julian Kelly, Director General of Public Spending and Finance, said that “Increasingly we are trying to make sure that we have a clear link between published Departmental business plans, what we call the Single Departmental Plans, [and] the Accounts in the annual reports”<sup>275</sup>

200. Currently SDPs do not match in all cases to the published annual reports.

- In the Home Office’s SDP, the Department says its objectives are to “prevent terrorism, cut crime, control immigration, promote growth [and] [deliver] efficiently: [transform] the Home Office”.<sup>276</sup> In their Annual Report, the Home Office lists its objectives as

keeping the United Kingdom safe from the threat of terrorism and extremism, securing the UK border and controlling immigration, including considering applications to enter and stay in the UK and issuing passports and visas, reducing and preventing crime, and ensuring people feel safe in their homes and communities [and] supporting visible, responsible and accountable policing by empowering the public and freeing up the police to fight crime.<sup>277</sup>

Whilst these priorities overlap, it is clear that they are different.

- The Foreign Office’s priorities for 2015–20 according to their Single Departmental Plan are to “protect our people, project our global influence [and] promote our prosperity”.<sup>278</sup> In their Annual Report, the Foreign Office said that its

275 [Q317](#) (Julian Kelly)

276 Home Office, [Single Departmental Plan](#), February 2016.

277 Home Office, [Annual Report and Accounts 2015–16](#), p.6.

278 Foreign Office, [Single Departmental Plan](#), February 2016.



objectives were “security, prosperity and consular’. It said that its purpose was to “protect the security of the UK and its citizens, promote UK prosperity and project our values”. Fulfilling this purpose would involve eight separate aims, including improving relationships with European allies and the United States, with developing countries, maintaining an overall network and supporting democracy.<sup>279</sup>

**201. The Government says it intends to integrate management information from Single Departmental Plans with the Annual Reports and Accounts. This is a welcome trend. Parliament requires much of the same information that management in a Department requires. Whilst Parliamentary accountability will always mean that Annual Reports and Accounts need to include more than just management information (for example, statements about the Spending Review and ministerial commitments), it is important that with respect to programmes, policies and the general activity of Departments, that everyone is looking at the same version of the truth.**

***202. Departments should report against their Single Departmental Plan in their Annual Report and Accounts in a consistent format throughout. Such reporting should provide a complete financial and performance picture of the Department’s activity for the year.***

---

279 Foreign Office, [Annual Report and Accounts 2015–16](#), p.8.

# Conclusions and recommendations

---

## What the public wants from accounts

1. The public require good quality, well presented financial information to hold the Government to account. As our witnesses, the Treasury and others have said, the public and Parliament want to use this information in order to assess the performance of Government Departments. To perform this function, Annual Reports and Accounts must be clearly presented so that non-accountants can read and make use of them. (Paragraph 17)

## Are Annual Reports and Accounts meeting the needs of the public or Parliament?

2. The consensus of evidence to our inquiry makes it clear that many Government Departments' Annual Reports and Accounts remain badly written and difficult to understand or follow, despite recent reforms, and despite being prepared to a high technical standard (as we discuss in Chapter 5). Organisations like the King's Fund and the Taxpayer's Alliance say they find the Annual Reports and Accounts difficult to use and do not automatically turn to them to find out about the Government's actions. Academics have told us that the format and content of Accounts has not been designed for the purpose of democratic scrutiny. Most of the available evidence suggests a very limited community of people actually use the Annual Reports and Accounts. In most cases Annual Reports and Accounts appear to be currently failing in their purpose of explaining to the public and Parliament the effectiveness of Government spending. We believe Accounts would be better used if they were prepared more often with the ultimate readers in mind, for example commentators on public policy, peers and MPs and their researchers. (Paragraph 24)
3. Some Annual Reports and Accounts within the public sector are clearly currently better than others. For instance, witnesses to our inquiry pointed to the presentation of performance data by DWP in its Annual Report and Accounts as a good example of what all Departments could and should do. Whilst no Department's Accounts are perfect, the Treasury should identify good practice, and share and encourages its adoption by other Departments. (Paragraph 25)
4. *It is clear that Annual Reports and Accounts are hard to follow. Non-accountants and commentators like the King's Fund and Taxpayer's Alliance do not find them as useful as they should be. Professor Prowle and Dr. Harradine are right to call for more systematic information about who is using Accounts, what figures and facts they are using from them and what they think about the documents. We recommend that the Treasury carries out research to identify how many people are buying and downloading Annual Reports and Accounts, who current readers are, what those readers think and who the potential readership is likely to, or should, include. We further recommend that the Treasury should regularly seek to find out what potential users of the Annual Reports and Accounts (including those who submitted evidence to our inquiry) think about how they could be improved to make it easier to assess the effectiveness of Government spending.* (Paragraph 27)

5. We welcome the Treasury's reforms (contained in Simplifying and Streamlining the Statutory Annual Report and Accounts) and the intention behind them to make Accounts simpler and more user- friendly. Departments and the Treasury should consider always that the demands of public sector users of financial information differ from those of private sector users and therefore they may need to provide them with additional explanations and information. (Paragraph 31)
6. *Whilst the Treasury's reforms are a good first step, the way they have been implemented by different Departments, within a broad framework, currently varies widely. It is clear from the evidence provided to us that, on their own, the reforms as currently implemented will not necessarily provide Annual Reports and Accounts that completely fulfil the needs of potential users. Departments should make concerted efforts to present financial data in a way that clearly links measurable outputs and outcomes, and is useful to readers.* (Paragraph 32)
7. *It is disappointing that the Treasury have not monitored any changes in the way that accounts have been used since the reforms of 2015–16. As we recommend above, the Treasury should monitor the use of accounts to identify good practice. Where good practice already exists, Departments should be encouraged to learn from it. We also believe further reform is needed to address more directly the need for greater transparency and address needs of users.* (Paragraph 33)
8. *The Treasury should update its guidance to Departments setting out that Annual Reports and Accounts should include statistics on staff turnover within the Department and also the staff engagement scores for the Department from the latest Civil Service People Survey. The average figures for the Civil Service should also be included.* (Paragraph 34)
9. Witnesses to our inquiry said that the public need information about spending on individual services from the Accounts. However, Departments' current reporting is primarily based around their organisational structure. While this enables Parliament to hold senior officials to account for their budgets, in many cases, such as the Department of Health (see paragraph 38), these breakdowns do not clearly reflect the services offered to the public. For an area such as Child and Adult Mental Health Services, for instance, it is almost impossible for the public to find out from the Department of Health's Annual Report and Accounts how much is being spent on this, or other types of service, and therefore to assess the value for money of that spending. (Paragraph 44)
10. *We recommend that the Treasury explore how Annual Reports and Accounts can be made more useful by requiring Departments to report not just by organisational unit but also by policy area. This could be achieved by, for instance, restructuring the Estimates subheads or providing additional spending breakdowns of spending within the notes to the Accounts. Senior officials would remain accountable for the money they have spent through reporting by organisational unit. Audited statements for policy area should include both performance and financial data so that citizens can evaluate how effectively Departments are spending money.* (Paragraph 45)
11. *Departments should disclose both financial and performance information about significant programmes in their Annual Reports and Accounts and clearly relate*

*spending to outputs, outcomes and performance. Annual Reports and Accounts should disclose useful information about each programme, such as its planned duration, its current and forecasted cost and its current performance. This information, which should be audited, should be disclosed for all financially material or politically significant programmes within the Departmental boundary. (Paragraph 50)*

12. *Departments should also report data about significant projects, such as Trident and HS2 (which is the largest infrastructure project in Europe), in their Annual Reports and Accounts. This data, which should also be audited, should include spend to date for each project, spend in the year for each project, milestones met or not met and forecasted end date for the project. It should be provided for all projects that are significant in terms of the delivery of the Government's priorities or that have a lifetime budget that is above materiality. Some of this data may be similar to the data held in the Annual Report on Major Projects, in which case the Department should clearly identify links to the Major Projects report within individual Departmental Annual Reports and Accounts so that the reader can swiftly access the data concerned. (Paragraph 51)*
13. *Alongside information on the effectiveness of its services, Departments should publish the costs of basic elements of those services. We recommend that Departments in future publish the full public sector unit costs (on a consistent basis) for key services (including those mentioned in their Single Departmental Plan and Annual Report) - for example the cost of a prison place, a court hearing, a school place or a hospital stay - on a consistent basis over time. Collecting and publishing comparative unit cost data across regions, and over time, and perhaps also against international comparators, would enable Government and public alike to assess how cost effective Government policies and programmes are, to understand how cost effective service delivery is, and identify where action is needed to address poor value for money. (Paragraph 55)*
14. *In addition to the "core tables" which are already published, Annual Reports and Accounts should expand reporting of other information, wherever possible to show longer time series of other data. In each case this should be accompanied with narrative, to explain to the reader information, such as explanations for spending variations over time, which might not be evident from the figures alone. Time series and accompanying trend analysis should cover a rolling period of five years past: for income, assets, liabilities and expenditure. Where possible, projections of future spending should also be extended forward into the remainder of the Spending Review period. Expenditure and balance sheet trends should be shown broken down between different policy areas and programmes and accompanied by helpful narrative explaining the main causes of changes and impacts on service activity. Information should be adjusted for any changes in the responsibilities of Departments (such as the movement of the Office for Civil Society from the Cabinet Office to the Department of Culture, Media and Sport) or accounting policies, so that it is comparable across a number of years. (Paragraph 60)*
15. *Annual Reports and Accounts should routinely be published in Excel or another similar usable format, so that analysts (whether inside Parliament, for which see below in Chapter 4, or outside in civil society) can swiftly extract the data and make*

*use of it. The Treasury, working with Departments, should strive to improve Annual Reports and Accounts against the open data ranking system devised by Full Fact and endorsed by the Public Administration Select Committee in 2014. (Paragraph 64)*

16. *The Government should use modern technology to make the Accounts useful to outsiders, for example making them touchscreen friendly so that the data can be organised in different ways. The accompanying narrative should be shorter, written in plain English and accompanied by summary data and insightful graphics. (Paragraph 66)*

### The Financial Reporting Advisory Board

17. The Financial Reporting Advisory Board mainly includes representatives of those who prepare Accounts, and the accountancy profession. They advise the Treasury largely from a technical perspective on the application (and possible adaptation) of international reporting standards to the core financial statements. Their work is not focused on the coherence of the Annual Reports and Accounts document as a whole and its usefulness to users. Apart from the parliamentary observer, there are no consumers of Accounts represented on the Board. At present, Parliament itself has no formal role in setting accounting standards. (Paragraph 72)
18. *We recommend that the Treasury make FRAB more representative of the consumers of Accounts and more attuned to users' requirements, by increasing representation on the Board of users or user groups. We further recommend that Treasury and FRAB should consider how, within the framework of recognised accounting standards, Accounts could be made more useful and responsive to the needs of users, providing the sort of information we have proposed within this report. (Paragraph 73)*
19. *Select Committees should consider the suggestion made by the Director of Full Fact that they should have an annual hearing not simply on the Annual Report and Accounts, but on the information published by Government Departments (including Accounts) more generally. Departments should take note of what select committees have to say on how Annual Reports and Accounts of individual Departments could be made more useful to their readership, within the general requirements of accounting standards, audit and consistency. The Treasury should also influence Departments to follow the example of the Department of Health in consulting specialist think tanks and researchers about what information they would like the Department's Annual Reports and Accounts to disclose (in addition to the information the Treasury mandates to maintain consistency between Departments). (Paragraph 74)*

### Estimates and Spending review

20. Annual Reports and Accounts should be a cornerstone of Parliamentary accountability. The House of Commons should, through the Accounts, have the ability to hold the executive to account for its spending, against plans announced in the Estimates and Spending Review. (Paragraph 91)
21. *The Annual Reports and Accounts should continue to report on spending against the Estimates. The Treasury should consider whether future Annual Reports and Accounts need to be adjusted to reflect any changes suggested by the Procedure Committee*



*in its report on the Estimates process. Given that the Accounts report against what the Government promised to do in the estimates, it is vital that the link between the two documents is completely clear. The Treasury should continue to review how the Estimates and Accounts can be made more consistent with each other (greater “alignment”).* (Paragraph 92)

22. The Estimates and Accounts process only works if the House of Commons has sufficient time for scrutiny. We support the Public Accounts Committee and its Chair in their intention to take evidence from senior civil servants about excess votes where the Committee deem it necessary. We urge the Government to consult with the Public Accounts Committee to ensure it has enough time to do this. (Paragraph 95)
23. The House of Commons is responsible for the scrutiny of public expenditure. The Procedure Committee has recently conducted an inquiry into the Estimates process and we expect that the Government will accept and implement its recommendations for reform. Currently the Accounts report back against the totals in the Estimates. We think Annual Reports and Accounts should go further, showing also how actual spending related to the original plans in the Spending Review and how those plans changed over time. While it may be possible, as the Treasury argues, to trace how spending plans have altered from Spending Review to Estimates through to Accounts under the current arrangements, the entire story is not an easy one to follow and is contained in a number of different documents. Annual Reports and Accounts do not directly report against the Spending Review and show how plans have evolved through to final actual spending reported in the Accounts, or what might be the causes of those variations. (Paragraph 99)
24. *In our view, the Annual Reports and Accounts should enable the reader to see how final outturn compares to the original plans, set out in the Spending Review as the Institute for Government has suggested. To do this currently involves tracking figures between several documents (the Spending Review, Main Estimates, Supplementary Estimates and Accounts) and is complicated and technical. Annual Reports and Accounts should provide a simple summary of why the figures have changed from the Government’s original plans in the Spending Review or the Budget. This should be incorporated into the annual analysis that we recommend above. This will enable the House of Commons to hold the Government to account for changes to its spending plans.* (Paragraph 100)

### Specific Ministerial commitments

25. *Parliamentary scrutiny of the Government’s commitments to Parliament should not be limited to the announced spending limits. The House of Commons should be able to scrutinise, through the Annual Reports and Accounts, how actual spending and activity compared to any financial commitments announced to Parliament, in press releases, or through the media to spend on or cut particular programmes or policy priorities. The Annual Report and Accounts should include an audited statement reconciling, as far as reasonably practicable, the financial commitments made with what eventually happened. This would include financial commitments*

*made in ministerial announcements to Parliament (either in select committees or in debates), the Spending Review, the Budget, the Manifestos of the elected parties and Departmental press releases. (Paragraph 103)*

26. Current Parliamentary scrutiny of Government's annual reports and Accounts is limited. While committees frequently engage in correspondence with Departments on the Annual Reports and Accounts, based on Scrutiny Unit advice, the focus of hearings held is often only loosely connected to the Annual Reports and Accounts themselves. Where committees do refer to the information in these documents, the Committee interest is strongest where Annual Reports and Accounts show clear evidence of failure, for instance through being qualified - often indicative of deeper underlying problems. Committees' reluctance to conduct detailed analysis of Annual Reports and Accounts is likely to stem, in part, from the nature of the information those documents provide, and the difficulties of using them as they stand to, for instance, monitor performance over time, value for money, or how efficient and effective the Department has been. (Paragraph 108)
27. In-house specialists like the Scrutiny Unit and external experts in the National Audit Office have a key role to play in explaining and helping Members understand what financial documents like the Annual Reports and Accounts can tell us. Members may not have the time to carry out detailed examination of all that the Annual Reports and Accounts contain, and will continue to require the support of specialist accountants, economists and others like the Scrutiny Unit to provide detailed analysis, training and to direct them to matters of potential interest. (Paragraph 112)
28. *Many Members of Parliament will wish to continue to rely upon the work of the National Audit Office and the Scrutiny Unit to alert them to issues in the accounts. However, it is also clear that Members have welcomed the opportunity to understand more about what information is available within these documents and how they and their staff can use them. We therefore encourage the National Audit Office and Scrutiny Unit to continue to publicise the information contained in the accounts and to offer training to Members, their staff and other Parliamentary staff in how to use the accounts. (Paragraph 113)*
29. *When Government statistics are published, the publishing Department names a statistician that MPs and journalists can approach with queries about the meaning of the published data. A similar practice should be brought into effect with Annual Reports and Accounts. We recommend that every published Annual Report and Account should in future contain the contact details of named individuals within the Department's finance function whom journalists, MPs, House staff and members of the public can approach with queries about how the accounting data can be used for example to illuminate how much is spent on a particular policy priority or how much a department owes on a Private Finance contract. (Paragraph 114)*

### Technical standards applied to UK Government Accounts

30. Currently, in terms of accruals accounting, timeliness, standards of preparation, technical standards, and audit, UK Government Accounts meet international standards for good practice- indeed they are recognised as amongst the best in the world. The Government is right to manage public spending and publish its Accounts



on an accruals basis, enabling consistency between in-year budgets and end year Accounts and discouraging the use of cash movements to distort in year spending patterns. Accruals accounting has allowed Parliament and the public to gain a better understanding of how the Government uses its resources and manages its assets and liabilities. Accruals accounting is therefore a good basis for the further work we believe the accounts also need to do (described in other parts of this report). (Paragraph 123)

31. International standards can assist transparency, by ensuring that Government accounts reflect all the results of Government policy. However, it is important that the Treasury recognises that Accounts in the public sector do very different things to Accounts in the private sector and their design should reflect the different group of people that use them. Given that, it is important that although the accounts currently meet the international standards, the Government makes additional disclosures (discussed in Chapter 3 and 4 for example about spend on particular policies) above and beyond standard corporate accounting. Otherwise both Parliament and citizens will be unable to use these documents to hold the government to account. (Paragraph 128)
32. *Professor Heald argues that Accounts give us assurance that the Government knows what it spends money on, and can measure it accurately. At the moment, we do not have summarised data that enables us to check how many of the Government's published Accounts are either accurate or properly compiled. The National Audit Office should publish an annual report which identifies how many Accounts are qualified, why they were qualified and what that tells us about the Government's ability to manage its finances effectively.* (Paragraph 130)

### The accuracy of Departmental annual Reports and Accounts

33. It is crucial that Accounts are accurate, so that MPs, the public and others can take decisions on the basis of good quality information. The low numbers of qualified Accounts is an important index revealing that in the vast majority of cases the public and Parliament can and should have confidence in the accuracy of the figures reported by Government in published Accounts. (Paragraph 137)
34. *Materiality for Government Accounts should be disclosed. Whilst witnesses to our inquiry raised concerns about interest from the media and others pushing down materiality, this has not happened in the private sector where materiality is already disclosed. Materiality helps people understand how detailed the audit of the Accounts has been and how far they should rely upon the auditor's assurance about the accuracy of the figures.* (Paragraph 138)
35. *The Government's support for the Comptroller and Auditor General and the NAO is welcome and important. The NAO's role is constitutionally vital, both as the auditor of value for money in the public sector and as the auditor of the Accounts. As Government's independent auditor, the NAO assures Parliament that it can rely upon the financial data published in unqualified Accounts to scrutinise the Government. Irrespective of the format or the contents of Annual Reports and Accounts, the NAO's valuable role must be protected.* (Paragraph 139)

36. Annual Report and Accounts must impartially describe the activity of the Department during the year. Parliament can take comfort from the work of the National Audit Office and its vital constitutional role as an independent guardian of financial fact in auditing the financial statement parts of the Annual Reports and Accounts. However, there is no audit of the performance information presented in the Annual Report and Accounts, and narrative often appears to be too open to positive, rather than fully balanced, presentation. The Annual Reports should include an honest assessment of the Department's performance to aid scrutiny. Government seeks to present itself in a favourable light, but it is missing the opportunity to present fully credible performance information. It is unacceptable that the Annual Report parts of Annual Reports and Accounts are, in the opinion of Professor Heald, the Institute for Chartered Accountants of Scotland and the NAO, often spun or subject to political bias. (Paragraph 146)
37. *Several of our witnesses have suggested that there is bias or spin in the Annual Report sections of Annual Reports and Accounts. The Government should move to address this by adopting the same principles to which National Statistics are subject (frankness, impartiality, objectivity and accessibility) for all the data in the Annual Report and Accounts. The new revised UKSA statistical Code of Practice should be extended to all accounting data within Departments. The National Audit Office and UKSA should work together to ensure that the code is adopted by Departments and to notify Parliament and the public where Annual Reports and Accounts are currently falling short of its requirements.* (Paragraph 147)
38. *Departments should also subject the performance data and commentary in their Annual Report to an authoritative audit of the accuracy, completeness and objectivity of the data and statements made, to enable citizens and their representatives to obtain a full and unbiased view of the Department's performance. This audit should go further than the NAO's current audit of the annual report for consistency with the accounts. This audit should be conducted by an independent body, potentially the NAO, if it considers it appropriate, or UKSA. This audit should assess the accuracy of the statistics used in assessing performance, whether the Department has used a complete set of statistics in that assessment, and how true and fair the commentary provided in the report is.* (Paragraph 149)

### Management Accounts and information in the public sector: a persistent weakness

39. There is a consensus that management information in the public sector has been poor for a number of years. This relates to costs, forecasting and performance. Management information has often in the past been unfocused and not helpful to senior officials and politicians in making decisions. (Paragraph 157)
40. Poor management information has consequences both for the success of individual policies and the success of any overall fiscal strategy. During a period in which public finances are constrained, it is even more vital that the Government knows what it is spending money on, what effect that has and what impact a cut or a change in spending is likely to have. (Paragraph 158)

### Earlier attempts to reform

41. Governments of different complexions have made repeated efforts to reform management information. Most of these efforts have concentrated on obtaining performance information and matching it to financial information. While many of these reforms were positive, as we shall see below, most appear to have been abandoned, often because of the departure of key individuals, lack of consistent leadership and focus from the Treasury and Cabinet Office. (Paragraph 166)
42. *The Government must give priority to improving management information. This will mean ensuring the political and administrative leadership of all Departments is committed to good management information. This commitment should be included in the appraisal of the work of Permanent Secretaries and Executive Departmental Board members. The Government should make clear that it expects the Single Departmental Plan framework to last for the long term.* (Paragraph 167)

### The Financial Management Review

43. The Treasury's and Cabinet Office's plans to improve management information are welcome. Reporting against the new unpublished Single Departmental Plans contain many of the features of the MINIS system recommended by Lord Heseltine in his report *No Stone Left Unturned* (2012). The adoption of a system like MINIS will allow Departments to understand the links between resources and people and outcomes and outputs. To be of real value Single Departmental Plans will need to be used both as a way for Departments to measure their own performance, and to report progress to a wider public audience. Single Departmental Plans have potential but clearly need to be used and published in order to fulfil that potential. The Treasury's additional commitments through the Financial Management Review to share best practice and train staff in producing management information are also welcome. (Paragraph 175)
44. A good management information system links together financial data and performance metrics. Such a system would map spending plans and forecasts, against the priorities of the Department. Such a system would be regularly updated and give a snapshot of the Department's delivery of value for money, and forecasts for its future delivery of value for money to the taxpayer. Whilst the Government intends to do this, performance on this is varied. Forecasting is unreliable and still has an optimism bias. Some Departments are not planning for the medium term. It is disappointing that there is still a long way to go before either the Government or the taxpayer can see what money has been spent on a given objective and what value has been delivered. (Paragraph 183)
45. *The Treasury and Cabinet Office should work together in making sure that Departments use Single Departmental Plans internally. The Government should ensure that all their major decisions are made on the basis of a full understanding of the practically available data. They should also move forward with the other aspects of the Financial Management Review, developing, for example, better information on the costs of activity in the public sector and on realistic forecasting.* (Paragraph 184)

46. *Management information should be seen as a key function of a Department. It should not be seen as a ‘nice to have’ nor confined to the Finance team. The Treasury and Cabinet Office should ensure that all senior civil servants are aware that it is impossible for them to deliver public services effectively or efficiently without good data linking outcomes to spending and realistic medium term plans. (Paragraph 185)*

### Public Accountability

47. Currently the published Single Departmental Plans are not sufficient for accountability purposes. They contain too little detail on either spending or performance. In seven of the seventeen Departments it is unclear how spending is allocated between priorities. Nor is it known at present, how often data will be updated and whether it will be possible for the user to observe progress, through seeing time series for indicators over a period of time. Parliament is unable, therefore, using the current Single Departmental Plans, to use them to hold Government to account. (Paragraph 195)
48. Lord O’Donnell is right to argue that earlier scrutiny of Government projects (during their operation rather than after they have happened) would allow those outside Government to assist in identifying issues and avoiding mistakes. This would require information about milestones, performance and financial data and could easily be published through updates to the Single Departmental Plan. Fuller publication of Single Departmental Plans could assist outside observers in making suggestions to improve them in the future and will assist in embedding a culture of management information within Government. (Paragraph 196)
49. *The Treasury and Cabinet Office should work with Departments to ensure that the full Single Departmental Plans are published, subject to necessary omissions on grounds of national security or commercial confidentiality. Departments must, on a quarterly basis, share the full un-redacted Single Departmental Plans with the Comptroller and Auditor General and his staff. Unaudited progress reports against the Single Departmental Plans (with the restrictions above and full access for the National Audit Office) should be published on a quarterly basis (as recommended by the Comptroller and Auditor General) so that Parliament is informed of Departmental progress. These should include commentary on performance and, where required, actions being taken to improve outcomes. It is disappointing that the Treasury have rejected a similar recommendation from the Public Accounts Committee; we urge them to reconsider. (Paragraph 197)*
50. *The Government should ensure that past performance information published on performance against Single Departmental Plans remains available when new information is published so they can be used as accountability documents in the future, and progress over time can be easily monitored. As with Annual Reports and Accounts, data from the Single Departmental Plans should be available in excel format so that users are able to analyse that data more thoroughly. (Paragraph 198)*
51. The Government says it intends to integrate management information from Single Departmental Plans with the Annual Reports and Accounts. This is a welcome trend. Parliament requires much of the same information that management in a Department requires. Whilst Parliamentary accountability will always mean

that Annual Reports and Accounts need to include more than just management information (for example, statements about the Spending Review and ministerial commitments), it is important that with respect to programmes, policies and the general activity of Departments, that everyone is looking at the same version of the truth. (Paragraph 201)

52. *Departments should report against their Single Departmental Plan in their Annual Report and Accounts in a consistent format throughout. Such reporting should provide a complete financial and performance picture of the Department's activity for the year.* (Paragraph 202)

## Annex: Glossary of Terms

---

**Accruals or Resource accounting:** A method of recording expenditure as it is incurred (ie when the activity which generates the costs arises), and income as it is earned, rather than when cash is paid or received. This method of accounting is now used in the UK throughout the public and private sectors (with the exception of very small charities and businesses). In the public sector context it is also sometimes known as ‘Resource’ accounting.

**Annual Reports and Accounts:** Annual Reports provide a narrative about the department’s activities in the previous year. The Accounts are the core financial statements of the department. Annual Reports and Accounts have been published together since the Clear Line of Sight reforms. The more recent Treasury Simplifying and Streamlining reforms have led to Annual Reports containing sections on performance, accountability and the core financial statements.

**Audit:** Independent auditors examine Accounts and their supporting documentation. They certify that the Accounts are true and fair, prepared according to the chosen standards and, in the public sector, that income and expenditure was regular (in line with Parliamentary intention).

**Cash Accounting:** A method of accounting which records cash payments and cash receipts as they occur in an accounting period. While cash accounting was used for UK Government Departments and other public bodies for many years it was replaced by accruals accounting in the UK in 2002.

**Clear Line of Sight:** reforms which aimed to align the way spending was reported in Budgets, Estimates and Accounts. The same reforms brought together the Annual Reports and Accounts in a single document.

**Comptroller and Auditor General:** The head of the National Audit Office, and an officer of Parliament, who is wholly independent of Government. He gives an opinion (“certifies”) the Accounts of all major Government departments and many Arm’s Length Bodies.

**Estimates:** See entry for Main Estimate and Supplementary Estimate

**Excess Votes:** Where a Department has spent more - as recorded in its audited end year Accounts - than was voted by Parliament in its Estimate, or has spent beyond the coverage of its ambit i.e. its voted authority has been exceeded. In such cases Parliament retrospectively authorises the departmental overspends, approving a Statement of Excesses. Excess votes automatically lead to accounts being qualified by the Comptroller and Auditor General, which will often lead to a hearing by the Public Accounts Committee.

**Financial Reporting Advisory Board:** An independent committee overseeing financial reporting standards in the public sector. It considers forthcoming changes to International Financial Reporting Standards and whether any adaptations are necessary for the public sector. The Treasury is required by the Government Resource and Accounts Act 2000 to consult FRAB on changes to the accounting standards for central government. FRAB members include representatives from the accounting profession, Government departments and Arms Length Bodies, academia, the NAO and Parliament.



**House of Commons Scrutiny Unit:** The Unit exists to provide specialist help to select committees in the scrutiny of the Government’s financial and performance reporting and of draft bills. It also carries out other work for select committees as resources permit. The Unit also supports the evidence-taking work of Public Bill Committees.

**International Financial Reporting Standards (IFRS):** A set of standards for producing Accounts and which are widely used throughout the world. In the UK, the FRAB advises on possible adaptations to IFRS before they are adopted in the public sector.

**Management Accounts:** A set of internal accounts used by private or public sector organisations to report internally about what the organisation is doing. These accounts will normally include both financial forecasts and outturns and also performance measures.

**National Audit Office:** The body which audits and scrutinises public spending on behalf of Parliament. It audits the Accounts of all central government departments and agencies, as well as a wide range of other public bodies, and reports to Parliament on the economy, efficiency and effectiveness with which they have used public money. It is totally independent of Government. The NAO is headed by the Comptroller and Auditor General.

**Simplifying and streamlining the Annual Report and Accounts:** In 2014, the Treasury published a command paper, *Simplifying and Streamlining the Statutory Annual Report and Accounts*, which set out proposals for a new format for Annual Reports and Accounts, to be initially implemented in 2015–16. The Treasury proposed that Departments should reorganise their Annual Reports and Accounts into three sections, focussing on performance, accountability and the core financial statements.

**Single Departmental Plans:** Single Departmental Plans have two forms. Firstly there is an internal document which sets out the department’s priorities and spend. Secondly there is a published plan set out, stating priorities, objectives and key performance indicators. The published plan is updated from time to time and is much less detailed than the internal document.

**Spending Review:** Internal Government reviews of future spending plans held every few years. The outcome of a Spending Review is announced in Parliament, and sets out the proposed Resource and Capital DEL limits for each department for each of a number of years ahead. (Departmental Expenditure Limit (DEL) expenditure is expenditure which it is assumed government departments can control like their pay bill, as opposed to Annually Managed Expenditure (AME) which is difficult to predict, manage or forecast like the level of unemployment benefit.) The Spending Review totals form the basis of subsequent Main Estimates voted by Parliament.

**Statistical Code of Practice:** The Statistics and Registration Service Act 2007 required the UK Statistics Authority to prepare and publish a Code of Practice and to assess compliance against it. Official statistics assessed as compliant are to be designated as National Statistics. Bodies that produce National Statistics are required to ensure that the Code continues to be observed.

**UK Statistics Authority:** The UK Statistics Authority was established under the Statistics and Registration Service Act 2007. The Authority is an independent statutory body. The Authority has a statutory objective of promoting and safeguarding the production and publication of official statistics that ‘serve the public good’.

# Formal Minutes

---

**Tuesday 25 April 2017**

Members present:

Mr Bernard Jenkin, in the Chair

Ronnie Cowan	Kelvin Hopkins
Paul Flynn	Dr Dan Poulter
Marcus Fysh	John Stevenson
Mrs Cheryl Gillan	Mr Andrew Turner

Draft Report (*Accounting for democracy: making sure Parliament, the people and ministers know how and why public money is spent*), proposed by the Chair, brought up and read.

Question put, That the draft Report be read a second time, paragraph by paragraph.

Committee divided.

Ayes	Noes
Ronnie Cowan	Paul Flynn
Marcus Fysh	
Mrs Cheryl Gillan	
Kelvin Hopkins	
Dr Dan Poulter	
John Stevenson	
Mr Andrew Turner	

Question accordingly agreed to.

Paragraphs 1 to 202 read and agreed to.

Annex agreed to.

Summary agreed to.

*Resolved*, That the Report be the Fourteenth Report of the Committee to the House.

*Ordered*, That the Chair make the Report to the House.

*Ordered*, That embargoed copies of the Report be made available, in accordance with the provisions of Standing Order No.134.

[The Committee adjourned.]

## Witnesses

---

The following witnesses gave evidence. Transcripts can be viewed on the [inquiry publications page](#) of the Committee's website.

### Tuesday 24 May 2016

*Question number*

**Sir Ian Cheshire**, Government Lead Non-Executive and Non-Executive Board Member, Cabinet Office and **Amy Stirling**, Non-Executive Board Member and Chair of the Audit and Risk Committee, Cabinet Office [Q1–77](#)

**Sir Amyas Morse**, Comptroller and Auditor General, and **Kate Mathers**, Director of Financial Audit Practice and Quality, National Audit Office [Q78–184](#)

### Tuesday 6 September 2016

**Professor Malcolm Prowle**, University of Gloucestershire, and **Professor Sheila Ellwood**, University of Bristol [Q185–226](#)

**Will Moy**, Director, Full Fact [Q227–260](#)

### Tuesday 6 December 2016

**Craig Mackinlay MP** and **Dr John Pugh MP** [Q261–295](#)

**Rt Hon David Gauke MP**, Chief Secretary, and **Julian Kelly**, Director General, Public Spending and Finance, HM Treasury [Q296–360](#)

## Published written evidence

---

The following written evidence was received and can be viewed on the [inquiry publications page](#) of the Committee's website.

IGA numbers are generated by the evidence processing system and so may not be complete.

- 1 Chartered Institute of Management Accountants (CIMA) ([IGA0019](#))
- 2 Chartered Institute of Public Finance and Accountancy ([IGA0008](#))
- 3 David Kilpin ([IGA0022](#))
- 4 Dr Joachim Wehner ([IGA0011](#))
- 5 Dr Josette Caruana ([IGA0003](#))
- 6 Dr Laurence Ferry ([IGA0004](#))
- 7 Ed Poole ([IGA0026](#))
- 8 FlyingBinary Limited ([IGA0025](#))
- 9 HM Treasury ([IGA0006](#))
- 10 Institute for Chartered Accountants of Scotland (ICAS) ([IGA0018](#))
- 11 Institute for Government ([IGA0015](#))
- 12 Institute of Chartered Accountants in England and Wales ([IGA0009](#))
- 13 International Federation of Accountants ([IGA0016](#))
- 14 Mr David Chassels ([IGA0023](#))
- 15 Mr Jason Beckley ([IGA0001](#))
- 16 National Audit Office ([IGA0007](#), [IGA0028](#))
- 17 National Council of Voluntary Organisations ([IGA0005](#))
- 18 Organisation for Economic Co-operation and Development ([IGA0021](#))
- 19 Plain English Campaign ([IGA0010](#))
- 20 Professor David Heald ([IGA0012](#))
- 21 Professor Johan Christiaens ([IGA0017](#))
- 22 Professor Malcolm Prowle ([IGA0013](#))
- 23 Professor Sheila Ellwood ([IGA0014](#))
- 24 Spend Network ([IGA0024](#))
- 25 Taxpayers Alliance ([IGA0002](#))
- 26 The King's Fund ([IGA0020](#))
- 27 UK Statistics Agency ([IGA0027](#))

# List of Reports from the Committee during the current Parliament

All publications from the Committee are available on the [publications page](#) of the Committee's website.

The reference number of the Government's response to each Report is printed in brackets after the HC printing number.

## Session 2015–16

First Report	Follow-up to PHSO Report: Dying without dignity	HC 432 (HC 770)
Second Report	Appointment of the UK's delegation to the Parliamentary Assembly of the Council of Europe	HC 658
Third Report	The 2015 charity fundraising controversy: lessons for trustees, the Charity Commission, and regulators	HC 431 (HC 980)
Fourth Report	The collapse of Kids Company: lessons for charity trustees, professional firms, the Charity Commission, and Whitehall	HC 433 (HC 963)
Fifth Report	The Future of the Union, part one: English Votes for English laws	HC 523 (HC 961)
Sixth Report	Follow up to PHSO Report of an investigation into a complaint about HS2 Ltd	HC 793 (HC 258)
Seventh Report	Appointment of the Commissioner for Public Appointments	HC 869
Eight Report	The Strathclyde Review: Statutory Instruments and the power of the House of Lords	HC 752
Ninth Report	Democracy Denied: Appointment of the UK's delegation to the Parliamentary Assembly of the Council of Europe: Government Response to the Committee's Second Report of Session 2015–16	HC 962
First Special Report	Developing Civil Service Skills: a unified approach: Government Response to the Public Administration Select Committee's Fourth Report of Session 2014–15	HC 526
Second Special Report	Lessons for Civil Service impartiality for the Scottish independence referendum: Government Response to the Public Administration Select Committee's Fifth Report of Session 2014–15	HC 725
Third Special Report	Follow-up to PHSO Report: Dying without dignity: Government response to the Committee's First Report of Session 2015–16	HC 770
Fourth Special Report	The Future of the Union, part one: English Votes for English laws: Government response to the Committee's Fifth Report of Session 2015–16	HC 961
Fifth Special Report	The collapse of Kids Company: lessons for charity trustees, professional firms, the Charity Commission, and Whitehall: Government Response to the Committee's Fourth Report of Session 2015–16	HC 963

Sixth Special Report	The 2015 charity fundraising controversy: lessons for trustees, the Charity Commission, and regulators: Government response to the Committee's Third Report of Session 2015–16	HC 980
----------------------	--	--------

### Session 2016–17

First Report	PHSO review: Quality of NHS complaints investigations	HC 94 (HC 742)
Second Report	Appointment of the Chief Investigator of the Healthcare Safety Investigation Branch	HC 96
Third Report	Better Public Appointments?: The Grimstone Review on Public Appointments	HC 495
Fourth Report	Appointment of the First Civil Service Commissioner	HC 655
Fifth Report	Follow-up to PHSO report on unsafe discharge from hospital	HC 97 (HC 1016)
Sixth Report	The Future of the Union, part two: Inter-institutional relations in the UK	HC 839
Seventh Report	Will the NHS never learn? Follow-up to PHSO report 'Learning from Mistakes' on the NHS in England	HC 743
Eighth Report	Appointment of the Parliamentary and Health Service Ombudsman	HC 810
Ninth Report	Appointment of the Chair of the UK Statistics Authority	HC 941
Tenth Report	Lessons still to be learned from the Chilcot Inquiry	HC 656
Eleventh Report	Better Public Appointments? Follow-up and the Government Response to the Committee's Third Report, Better Public Appointments?: The Grimstone Review on Public Appointments	HC 1062
Twelfth Report	Lessons learned from the EU Referendum	HC 496
Thirteenth Report	Managing Ministers' and officials' conflicts of interest: time for clearer values, principles and action	HC 252
First Special Report	Follow up to PHSO Report of an investigation into a complaint about HS2 Ltd: Government and HS2 Ltd responses to the Committee's Sixth Report of Session 2015–16: First Special Report of Session 2016–17	HC 258
Second Special Report	PHSO review: Quality of NHS complaints investigations: Government response to the Committee's First Report of Session 2016–17	HC 742
Third Special Report	Follow-up to the PHSO report on unsafe discharge from hospital: Government response to the Committee's Fifth Report of Session 2016–17	HC 1016