WHOLE OF GOVERNMENT ACCOUNT

An NAO Perspective

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Agenda

- Scale of the technical challenge
- The external audit challenge
- Audit approach
- What it is and what it isn't!

Scale of the Technical Challenge

What happens worldwide

- Boundaries:
  - Australia: Departments of State, Parliament, judiciary, prescribed agencies, Commonwealth bodies – not States/Territories.
  - New Zealand: Crown bodies incl. departments, Parliament offices, state owned enterprises – not local authorities.
  - France: central government bodies – not municipalities or rail system.
  - USA: designated Federal agencies including Office of the President, Departments of State, and other entities such as NASA.

Technical Challenge 2

- External Auditors' Reports:
  - Australia: Unqualified audit opinion. Give a true and fair view.
  - New Zealand: Unqualified audit opinion. "Fairly reflects" the financial position.
  - France: Qualified true and fair opinion.
  - USA: Material weaknesses prevent GAO from giving an opinion on the accrual based consolidated financial statements for y/e 30 Sept 2010 and 2009.

Technical Challenge 3: UK

UK's WGA will consolidate c. 1,300 bodies controlled by government:

- Central government, its agencies, and devolved administrations
- Local government
- Health bodies
- Public Corporations (such as BBC)

But not:

- Monarchy
- Parliament and its offices

……..as not controlled by government!

This is a more ambitious scope than elsewhere.

Audit Challenge

- Highly complex set of accounts designed to give a true and fair view of the whole of government. How do you decide "true and fair" for such a unique product (e.g. on boundary)?
- Commentary on the UK's financial position and state of affairs.
- Need to reconcile with other information published elsewhere e.g. National Accounts.
- Inconsistent accounting framework and policies (e.g. between sectors).
- Risks to auditors in forming an opinion on the alignment of this information.
- So, how does NAO compile robust and supportable evidence to support C&AG's Opinion?

Audit Approach

- Relies on effective compilation of consolidation packs and consistent application of guidance by bodies themselves.
- Gathering evidence (effectively and efficiently) – use of Group Audit Instructions and reliance on the work of a network of public and private sector auditors.
- Audit of central consolidation and assessment of draft WGA (e.g. eliminations).
- Review of the Accounts – do they portray a full and materially correct picture of the government's state of affairs?
- Assessing audit results and "errors" – what do these mean for the Opinion?

Audit Issues

- What more can (should) be done by preparers and auditors (including NAO)?
- For the future, can WGA audit process be better embedded as part of the statutory accounts preparation and audit timetable?
- Will publication of WGA allow improved "buy-in" from the preparer/auditors communities (once they can see what their figures lead to)?
- Clear Line of Sight may help in allowing greater consistency in application of accounting framework and policies?

What WGA does or doesn't do

- Won't show (for first year) comparatives i.e. movements in the UK's public sector – but it will begin to do this from 2010-11.
- Won't show ALL the public sector – "only" that controlled by government in all its forms.
- Will show UK's public sector asset base and its consumption, and extent of public sector liabilities (but under some inconsistent accounting policies).
- Will be transparent, based on underlying statutory accounts, but in the first few years of its evolution may have (material) flaws.
- Won't show the UK's sustainable fiscal position – but will provide information for others to use to derive this.