



HM TREASURY

Making Financial Statements More Useful to End-Users

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Main statements

- Appropriations
- Resource Accounts/Statutory Accounts
- Public Expenditure Statistical Analyses (PESA)
- National Accounts
- Public Sector Finances
- Statements that accompany fiscal events
- Whole of Government Accounts (WGA)



Main Users

- Parliament
- General public/tax payers
- Think tanks
- Academics
- HM Treasury
- Ministers
- Internal decision makers



WGA Recap

- Set of consolidated financial statements for the public sector that has the look and feel of private sector accounts - includes circa 1,500 bodies
- Based on EU adopted International Financial Reporting Standards as adapted and interpreted for the public sector
- Improve transparency and accountability to Parliament and to the taxpayer, bringing together in one place public sector accounts - and is the only audited set of data
- Objectives are transparency, accountability, completeness, comparability and the complementary information which has the potential to support longer term fiscal forecasting and management



Whole of Government Accounts 2009-10

- Published unaudited summary 13 July
- Published audited account 29 November
- True and fair, except for issues in relation to:
 - Boundary
 - Consistency of accounting policies
 - Counterparty eliminations
 - Treatment of the sale of 3G
 - Qualification of the Ministry of Defence's accounts which were material to WGA



Public Accounts Committee Response to WGA

- PAC generally reacted positively to WGA.
- The hearing picked up points on:
 - how WGA will help the quality of decision making and financial management over time – balance sheet management
 - Scope of WGA
 - How provisions were being managed (nuclear decommissioning and clinical negligence provisions)
 - Measurement of pension liabilities
 - Differences in long term discount rates
 - Qualification of underlying accounts
 - Length of time to produce WGA
 - Outstanding tax and tax written off



Public Accounts Committee Recommendations

- 1: Treasury needs to make better use of the WGA to identify and address risks to public finances.
- 2: Treasury should require its Spending Teams to confirm that decisions taken by accounting officersare affordable over time and have been made with an understanding of the comprehensive impact of individual commitments on the aggregate financial position.
- 3: Treasury should show how and when it intends to address and resolve each of the reasons for the qualifications in future accounts.
- 4: Treasury should prepare the WGAin line with international financial reporting standards. (scope)
- 5: Treasury should be transparent in explaining its reasoning for adopting a particular discount rate and apply that rate consistently when estimating long term liabilities and identify ways to minimise volatility in this rate.
- 6: Treasury should ensure that local bodies are obliged to provide prepare transparent, timely and accurate information.
- 7: Treasury should develop plans with interim milestones that clearly set out how it and the organisations covered in WGA will deliver the next WGA faster.



Quotes from other users

OBR: *The publication of the WGA is a long awaited and welcome development that will increase the transparency of the UK public finances*

ICAEW: *...powerful new tool....can use to scrutinise public spending, understand our future financial obligations and to manage future public debt.*

CIPFA: *The publication of WGA also highlights the risks that government around the world take in managing fiscal policy using National Accounts produced by statistical offices alone rather than complementing them with accounts produced using IFRS.*

Moody's: *....are credit positive because they will add further strength to the process of developing the country's long-term fiscal policy objectives.*



Key issues

- Statutory accounts do not get sufficiently used
- Parliament does not use the information that it already has
- Reluctance to use for fiscal management as no international comparisons and balance sheet volatility
- Timeliness of the data
- Generating demand
- Media has an important role



Constraints

- Parliamentary requirements – e.g. laying paper copies rather than using modern technology
- Parliamentary timetable
- Legal requirements – sundry annual reporting requirements may need to be reviewed, or interpreted more flexibly
- Political environment
- Accounting standards



Accounting Standards

- Private vs public sector
- Materiality in applying financial reporting standards
- Disclosure requirements under IFRS
- International comparability
- Prevalence of statistical based measures



Other issues raised by C&AG

- Segmental reporting
- Inclusion of comparison to budgets and targets
- Additional disclosures
- Timeliness
- Too early to see whether WGA will achieve objectives
- Questioned the need for additional powers to improve compliance and to strengthen the quality and depth of information provided



Use of financial statements

- Long term fiscal forecasting and decision making
- Balance sheet management (e.g. Provisions, Pension liabilities, Bad debts/impairments)
- Act as a catalyst to improve the quality of underlying accounts
- Better enable strategic decisions using hard and fast accounting information, which can feed into policy development
- Gives Parliament a line of sight across the whole public sector
- Gives Parliament and the public additional information to help it assess Treasury's delivery of public sector's financial position, public spending and financial reporting.



Actions already taken

- Clear line of sight reforms
- Combining annual report and accounts
- Cutting clutter
- Publishing WGA
- Open dialogue with end users
- Consultation with Parliament on the format of appropriations
- Public consultation on PESA
- Additional commentary to accompany statistics
- Educate end users



Potential developments

- Development of accounting standards – public sector conceptual framework, truly global accounting standards, harmonisation with national accounts
- Long term fiscal forecasting
- HM Treasury spending and fiscal decision making
- Consider media for getting information to users
- Summarised accounts may be one approach
- Interim reporting
- Role of assurance – how much needs to be assured