Financial Accountability & Management, 23(1), February 2007, 0267-4424

DEVELOPING WHOLE OF GOVERNMENT ACCOUNTING IN THE UK: GRAND CLAIMS, PRACTICAL COMPLEXITIES AND A SUGGESTED FUTURE RESEARCH AGENDA

DANNY S.L. CHOW, CHRISTOPHER HUMPHREY AND JODIE MOLL*

INTRODUCTION

> WGA will provide better quality and more transparent information to assist with the development of fiscal policy, to facilitate better management of public services and to assist with the more effective distribution of resources (Extract from the whole of government accounts website at www.wga.gov.uk/pages/introduction.html).

In the UK, the claims made for consolidated accounts for the whole of government (WGA) have been numerous and substantial, with emphasis placed on the resulting accounting system providing better information for decision-making at all levels of government, and for many forms of governmental activity. The government has suggested that better decision-making will lead to improved economic performance, which in turn will benefit the taxpayer. It has also claimed that publication of the government's financial position and indicators such as 'net worth' will lead to greater public interest and debate over government economic policies, thus improving transparency and public accountability (HM Treasury, 1998b, paras.2.22-2.30).

The UK parliamentary debate on WGA (see Public Accounts Committee, 2000; Standing Committee A, 2000), which took place over the 1999-2000 Parliamentary session, was brief and formed part of the wider debate on what was then the proposed Government Resources and Accounts Bill (GRAB, 2000). However, as the following extracts from the debates (minuted in Hansard)[1]

*The first author is from Birkbeck College, University of London. The second and third authors are from Manchester Business School, University of Manchester. They would like to thank the following people for their helpful comments on earlier drafts of this paper: the anonymous referees; Irvine Lapsley; Fabrizio Panozzo; Sue Newberry; Jean Shaoul; Andy Wynne; Howard Mellett; David Heald; Kieran Rix; and seminar participants at the 9th and 10th Biennial CIGAR conferences on International Trends and Experiences in Government Accounting (Bodø, Norway, June 2003, and Poitiers, France, May 2005), the 27th European Accounting Association Conference, Prague, April 2004 and at the European Academy of Management Conference (EURAM), Munich, May 2005. The preparation of this paper has also been facilitated by the financial support provided by the Association of Chartered Certified Accountants (ACCA).

Address for correspondence: Danny S.L. Chow, School of Management, Birkbeck College, University of London, Malet Street, London WC1E 7HX, UK.
e-mail: d.chow@bbk.ac.uk

illustrate, WGA was clearly seen as being essential by all political parties to the public sector accounting reforms tabled under GRAB (2000):

> Departmental [resource] accounts are meaningless except in the context of the Whole of Government Accounts (Oliver Letwin, Conservative MP, 4:45pm, 11 January, 2000).

> Audited WGA will improve the information available and support the conduct and monitoring of fiscal policy. The accounts will also improve accountability to Parliament and provide greater transparency for taxpayers . . . WGA will be an important extension of resource accounting and will provide Parliament with an overview of public finance, which it has never had before. Clause 10 [of GRAB] will provide the framework to secure that major advance in public accountability (Melanie Johnson, Economic Secretary to the Labour Government, 10:30am, 18 January, 2000).

> The substantive point . . . is that clause 10 allows the Government to stage the preparation of the Whole of Government Accounts, which we think is sensible and a proper and appropriate route (David Davis, Conservative MP, 10:45am, 20 January, 2000).

> We do not need to wait another decade before we get the WGA. There is cross-party support for this, as we all seem to believe that this will make a huge difference and be a paradigm shift in the way in which we look at public finances. Let us therefore get to WGA as soon as possible. Let us not wait or put obstacles in the way. This information is important and will improve the way in which the country is governed. It will . . . enable us to make sure that fiscal policy operates far more effectively and is more readily understandable, not just by this place, but by Ministers and civil servants, because all the information will be there in a comprehensive and, we hope, consistent way. If it is so beneficial and if it will help the Minister and the civil servants do their jobs and enable us to make sure that they are doing their job properly, let us have that information pretty quickly. Let us not waste time (Edward Davey, Liberal Democrat MP, 11:00am, 20 January, 2000).

In the context of the private sector, post-Enron, the reliability of consolidated corporate financial statements has been severely questioned (for example, see Hartgraves and Benston, 2002; and American Accounting Association Financial Accounting Standards Committee (AAAFASC, 2003). A review of the existing literature also reveals that the history of consolidated accounts is one replete with contrasting views of the value of such a reporting format (see Walker, 1976; Bircher, 1988; Hartgraves and Benston, 2002; Nobes, 2002; and Clarke et al., 2003) and regular calls for new models of financial reporting (for example, see ICAEW, 2004). As such, it is interesting to find that consolidated, 'Whole of Government Accounts' (WGA) are increasingly being promoted as an essential way by which governments can improve their management of the economy and processes of public accountability (see Carruthers, 2004; and Likierman, 2003).

Despite the grand claims made for it, there is currently little detailed analysis of WGA and the implications for public services and public sector financial management (for an overview, see Moll et al., 2005). This paper attempts to fill such a gap by analysing the WGA policy initiative in the UK, focusing both on key issues raised by, and inconsistencies inherent within, the WGA project. It also aims to derive a future research agenda from a literature-based analysis of developments to date. Ryan's (1998) agenda-setting paper on the introduction of accruals accounting in Australia and Broadbent and Laughlin's paper (1999) on the UK's Private Finance Initiative (PFI) have demonstrated the value of such an approach in terms of stimulating further debate. WGA is certainly a topic worthy of more substantive research attention, both in the UK and internationally.

The remainder of the paper is divided into four main sections. The first two sections set the context for subsequent analysis and discussion by outlining a brief history of WGA in the UK and considering its essential attraction to government. These attractions include the possibilities that WGA will enhance government decision-making at the macro- and micro-economic levels, based on claims of improved data quality and enhanced public accountability. The third section analyses critically the claims made for WGA, and addresses a number of problematic measurement and accounting issues which seem to challenge the claimed linkage between WGA and its various anticipated benefits. The final section summarises the main findings of the paper and proposes a research agenda for the future study of WGA.

A HISTORICAL OVERVIEW OF THE WGA PROJECT IN THE UK

In 1990, the UK parliament, through the work of the Public Accounts Committee (PAC), expressed interest in a consolidated set of accounts for central government (CGA) that would bring together the income and expenditure and assets and liabilities of central government (see Comptroller and Auditor General (C&AG), 1995, para.32).[2] The PAC argued that such consolidated accounts would help to improve accountability and would simplify the complexity of governmental accounts (particularly the Consolidated and National Loans Funds) for both members of the public and parliament (*ibid.*).

At the time, the Conservative government rejected the idea of CGA because it felt that such accounts would be of little practical value:

> given the differences between the various government departments and other parts of (central) government which they would add together (HM Treasury, 1994, para.2.24).

The government also added that such a consolidation would not necessarily produce:

> a meaningful accounting entity, since it would not equate to or represent any of the usual bases for describing government activity that is central government, general government, or the wider public sector (*ibid.*).

Consequently, it was announced that it did not intend to produce a set of consolidated departmental resource accounts for central government (HM Treasury, 1994, para.2.24).

While the PAC acknowledged the government's arguments that:

> there would be no particular benefits [of a consolidated set of accounts] for departments themselves, [the PAC nevertheless felt that] an audited consolidated account on an accruals basis would allow the public and parliament to see clearly how taxes have been spent, and the assets and the liabilities held on their behalf by central government (C&AG, 1995, para.32).

As a result, the PAC and the C&AG also recommended that the government reconsider its objection to CGA once RAB had been implemented (C&AG, 1995, para.33).[3] At the same time, the Treasury and Civil Service Committee (TCSC)[4] argued that the production of consolidated central government accounts could circumvent any possibility that some of the government's financial transactions may take place outside of departmental boundaries, and hence away from public and parliamentary scrutiny (TCSC, 1995, p.xi, para.29). To this end, the TCSC (para.30) also recommended that HM Treasury reconsider its position on the CGA decision.

In light of these recommendations, the government agreed that, once RAB had been implemented, HM Treasury, with the assistance of the National Audit Office (NAO),[5] would research the feasibility of producing CGA and report its findings back to the TCSC (HM Treasury, 1995a, para.3.10 and para.4.14; HM Treasury, 1995b, para.8). No such research work, however, was undertaken before the May 1997 general election, which saw New Labour replace the Conservatives as the ruling political party. The new government subsequently announced that HM Treasury and the NAO would conduct joint research to examine the merits and feasibility of producing a set of consolidated accrual based accounts, not just for central government but also for the whole of government (WGA).[6] HM Treasury published the conclusions and recommendations of that joint research in the form of a 'WGA scoping study' (see HM Treasury, 1998b).

In March 1998, four months prior to the publication of the scoping study, the government had published an Economic and Fiscal Strategy Report (EFSR), which outlined a number of economic reforms. The EFSR (see HM Treasury, 1998a) announced:

> subject to the outcome of the feasibility study currently underway, RAB could be further enhanced by the development of a whole of government account for the UK (p.24, para.1; see also Likierman, 1998).

Four main governmental objectives for producing WGA were identified in the scoping study (and summarised in NAO, 2002, p.5, para.2.2), namely to:

1. Assist the setting and monitoring of fiscal policy, by improving the quality of information used for macro-economic decision-making;
2. Promote consistency in financial reporting across government, and so assist decisions on funding;

3. Help capital planning, by providing comprehensive information on asset holdings across government; and

4. Provide parliament and other users with an overall audited view of government performance and finances.

While the scoping study had called for further work on the feasibility of extending CGA to WGA, there is no publicly available information to indicate the findings of any subsequent follow-up research prior to parliament passing the Government Resources and Accounts Act (GRAA, 2000) in July 2000 – which gave statutory backing to WGA. The move from CGA to WGA was also not discussed in parliamentary debates leading up to the GRAA.

Due to the anticipated scale of the WGA project, HM Treasury planned a three-stage implementation approach. Table 1 shows the timeline of these stages and the intended targets. The first stage involved the production of a dry-run, statistically based 'WGA' for the fiscal year April 2001 to March 2002, based on accounts produced by the Office for National Statistics (ONS). This was very much a stopgap measure, with the UK national accounts data and statistics (currently produced on the basis of the European System of Accounts 1995 or ESA95) being used to construct a consolidated set of WGA accounts until it was deemed feasible to produce a GAAP-based WGA.[7]

The second stage of the WGA project involves preparing consolidated central government accounts (CGA), incorporating the accounts of all central government departments but excluding local government, trading funds and

Table 1

Key Stages for the Development of UK GAAP-Based WGA

Fiscal Year	*Stage*	*Targets*	*Progress to Date (as at 30/06/06)*
2001-2002	1	Publication of statistically-based WGA	Completed
2001-2002	2	Unaudited GAAP-based central government accounts (CGA) dry run for the fiscal year	Completed
2002-2003		Unaudited GAAP-based CGA dry run for the fiscal year	Completed
2003-2004		Publication of audited GAAP-based CGA for the fiscal year. The CGA will be published with an audit certificate from the C&AG in 2005 (C&AG, 2005, paras.1.96-1.97). This will also be the first dry-run WGA.	Almost completed
2004-2005		Continuing development of GAAP-based WGA, and second year of dry-run.	Still developing
2006-2007	3	Publication of audited GAAP-based WGA for the fiscal year (original publication date was 2005-2006)	Not started

Note: None of these publications have been made publicly available yet.

some other non-departmental public bodies (NDPBs). The government (HM Treasury, 1998a, p.63) proposed that, if and when WGA is implemented, CGA should be consolidated first because:

> data quality and consistency are much better for central government, and consolidation at this level would start the process of improving the quality of public sector balance sheet information.[8]

Stage three involves the publication of audited GAAP-based WGA for the relevant fiscal year.

In terms of progress with WGA, stage one has been completed and (as at the end of June, 2006) the second stage is nearing completion. However, delays apparently (due, in substantial part, to problems relating to the quality and timeliness of RAB accounts – see C&AG, 2004, p.4 and pp.11-12; C&AG, 2005, paras.1.24-1.32 – and ongoing difficulties in harmonising accounting standards at the local government level – see CIPFA and Audit Commission, 2004) have meant that the public release of an audited GAAP-based WGA (i.e. the third and final stage of the WGA project) has been pushed back from its original date of fiscal year 2005/6 to 2006/7.[9] The government's stated intention is to make WGA publicly available only when it has progressed from its developmental form to one that is auditable (HM Treasury, 1998b, paras.4.92-4.93).

Section 9(1) of the GRAA (2000) requires the Treasury to prepare WGA accounts for a 'group of bodies each of which appears to the Treasury – (a) to exercise functions of a public nature, or (b) to be entirely or substantially funded from public money'. Section 9(5) of the GRAA (2000) requires that WGA will consist of three core statements: a statement of financial performance (i.e. the income and expenditure account), a statement of financial position (i.e. the balance sheet) and a cash flow statement, in accordance with accrual-based, annual corporate financial statements. Notes to the accounts are also required to explain how certain key figures are derived.[10]

Aside from becoming a whole of government rather than a central government initiative, WGA has crucially moved under New Labour from being primarily concerned with the need for enhanced transparency and accountability of the financial flows between various government departments and public bodies to being linked directly with governmental decision-making, especially at a macro-economic level (see Heald, quoted in the Procedure Committee, 1998, pp.52-53, para.14; and HM Treasury, 1998b, paras.D8-D10). The expansion of WGA has also been held to be critical to complement the economic reforms set out in the 1998 Economic and Fiscal Strategy Report (EFSR) (Heald and Georgiou, 2000; and HM Treasury 2002). The decision to expand WGA was taken despite the government's own acknowledgement that the narrower consolidation of CGA would be sufficient to meet the PAC's demands for greater accountability (HM Treasury 1998b, para.2.37).

With dry-run CGA data already having been prepared (and reviewed privately in government – see C&AG, 2005, paras.19-20, p.5), the bodies included in the

WGA consolidation nearly finalised (with the GRAA (2000) giving HM Treasury a wide ranging remit as to which bodies to include in WGA), and a new Head of the Government Accountancy Service taking up her post in July 2004, it is timely to review some of the key dimensions of the WGA project and consider whether it is shaping up to meet the significant claims made for it.

THE ATTRACTION OF WGA TO GOVERNMENT

New Labour's 1997 election promise was to end the cycle of the 'boom-and-bust' economy that was said to have characterised numerous previous governments. It committed to maintain the long-term economic health of Britain (see Coates and Hay, 2001) and to eliminate the 'short-termist' macro-economic policy-making of past governments by creating a system of economic management that was independent and transparent (HM Treasury, 2002, chapter 1). Two important reforms (which were, as previously stated, formally announced in the EFSR – see HM Treasury, 1998a) included making the Bank of England (the central bank for the UK) independent, with the remit to fight inflation and maintain a sound macro-economic footing, and introducing the Code for Fiscal Stability (CFS). The latter committed the government to managing the macro-economy guided by two key rules – the 'golden rule' and the 'sustainable investment rule'. The golden rule states that the government is only allowed to borrow to invest, and not to fund current expenditure. This rule is designed to try and ensure that inter-generational fairness remains the main prerogative of government borrowing, with current capital spending by government having to take into consideration the needs of both present and future generations. The sustainable investment rule states that net public debt, as a proportion of Gross Domestic Product (GDP), must be held at a stable and prudent level over the 'economic cycle'. This rule is intended to foster 'responsible borrowing' for public investment by government. The EFSR defined the level of responsible borrowing as that where net public debt is below 40% of GDP over the economic cycle.[11]

The government plans to use audited WGA data (particularly the public sector balance sheet in processes of fiscal management (Likierman, 1998)) in order to underpin the operation of the constraints imposed by the CFS (i.e. the golden rule and sustainable investment rule). In this regard, HM Treasury (2002, p.272; and 2004) stated that WGA related information such as the balance sheet 'public sector net worth' figure could be used as a target for the golden rule because the two measures are closely aligned. For instance, if a government only borrows to finance investment but not expenditure (in accordance with the golden rule), the public sector net worth figure would remain broadly unchanged; an increase in liabilities (i.e. government debt) would be matched by an increase in assets on the public sector balance sheet. Borrowing to finance expenditure, however, would result in an increase in liabilities but reveal a decrease in public sector net worth (to account for the reduction in the government's income).

That said, it has to be recognised that predictions of net worth are made more difficult because the balance sheet incorporates asset values adjusted for both revaluations and depreciation (see Hodges and Mellett, 2003, p.7). In fact, the idea of using the public sector net worth figure as a tool to enhance macro-economic management is not a new concept. It can, for instance, be traced back to debates by UK government officials and academics in the mid-1980s, with Odling-Smee and Riley (1985), both from HM Treasury, arguing that it would be ideal for medium to long-term governmental debt to be managed so that the public sector balance sheet's net worth measure remained unchanged. Britton (1987), the then director of the National Institute of Economic and Social Research (NIESR), supported Odling-Smee and Riley when he argued that it would be financially prudent for the government to ensure that the real net worth of the public sector was not eroded, but should instead be made to grow roughly in line with real incomes, unless there were extenuating circumstances to warrant departure from such a policy (e.g., in times of war or in a major emergency). He added that the publication of the government's balance sheet would also serve a second important purpose, in allowing the public to scrutinise the government's management of the public sector net worth.

Odling-Smee and Riley, however, noted that the management of government finances and borrowing based on a net worth measure could face considerable practical problems, given the difficulties in defining and measuring certain public sector assets and liabilities, such as fixed capital stock and North Sea oil revenues. Other advocates, such as Buiter (1985), an economist and former member of the Bank of England's Monetary Policy Committee, also suggested that the adoption of a balance sheet approach could help to improve the quality of information used in the management of public sector finances. Buiter (1985), however, went further than the proposals put forward by Odling-Smee and Riley (1985), arguing for a more 'comprehensive' public sector balance sheet model. His proposed model was very future oriented and sought to take account (using actuarial-based measures) of the present value of future income streams (relying on the government's sovereign right to set taxes in order to justify the reasonableness of such an action), and the present value of future spending commitments (see reviews of the model in HM Treasury, 2002; and Britton, 1987). It was said to be capable of assisting government in improving its management of public sector solvency, sustainability, and inter-generational fairness (Buiter, 1985).[12]

HM Treasury (see Odling-Smee and Riley, 1985), however, dismissed Buiter's model in the mid-1980s, claiming that its implementation would be difficult due to the significant guesswork required in quantifying the forward-looking information. According to HM Treasury (2002), the renewed interest in the balance sheet approach in the late-1990s came through major economic policy changes, such as the CFS and RAB, leading policy-makers to place a greater emphasis on resource use and capital maintenance.

The raised profile of the public sector net worth concept has led the government to re-organise how WGA information is constructed. It has extended the consolidation process beyond central government to include other significant public bodies, such as local government and the National Health Service (NHS). This move is held to be vital if the WGA project is to realise its aim of constructing a usable and meaningful (from the viewpoint of a decision-maker in charge of fiscal policy) measure of net worth for the *entire* public sector (HM Treasury, 1998b, para.2.38, emphasis added). The government has stated that the inclusion of 'other significant' bodies is necessary because, collectively, they comprise a sizeable proportion of the public sector, both in terms of fixed assets controlled and net public expenditure. For example, central government only controls approximately a third of public sector fixed assets by value (HM Treasury, 2003b). Local government also accounts for about 25% of net public expenditure (Office for the Deputy Prime Minister and HM Treasury, 2003). The government has also argued that a narrower consolidation for WGA (e.g., CGA) would be inadequate to meet accountability demands, as it would:

> give a less complete picture of the effect of government economic activity ... (para.2.40). CGA ... would therefore be less satisfactory in terms of transparency and accountability. This would limit the use to which the accounts might be made by taxpayers, Parliament and outside commentators (para.2.41). There is also a danger with a more restricted coverage than whole public sector WGA, that there could be a temptation to fudge the boundary at the margin. This would be more difficult at the public/private sector interface than if the boundary were inside the public sector (para.2.42) (HM Treasury, 1998b).

An additional said benefit of consolidated public sector accounting information is the possibility for enhanced organisational management and control of public services – WGA is expected to generate greater convergence of accounting policies across the public sector, thereby enhancing the comparability of performance across organisational units and facilitating the coordination of work across related public services:

> Preparing WGA will require convergence of the various different sets of accounting guidance covering public sector bodies. This will result in greater comparability of performance data, increasing the ability of individual bodies to benchmark their own performance against that of others, in turn supporting their implementation of the Modernising Government agenda. It will also enable targets, both within bodies and externally, to be set and measured on a consistent basis, allowing relative trends in performance to be more accurately evaluated (Extracts from the WGA website at www.wga.gov.uk/pages/faq.html).

The enhanced comparability across the public sector is also expected to produce more efficient resource allocation among various public sector activities (e.g., healthcare, education, defense etc.) and better capital planning (e.g., by introducing programmes to maintain and replace public sector fixed assets) (HM Treasury, 1998b, para.2.14). The government has not, however, publicly released official details or guidance on how such information is to be used for comparative purposes by the various bodies concerned. Instead, efforts have been focused on developing a data system that can be used to meet the stated organisational benefits. The government has also changed the basis on which public sector data are measured, moving from compliance with ESA95 to UK GAAP (as modified for the public sector). ESA95 is the European Union adaptation of an OECD standard (i.e. the 1993 System of National Accounts), which all OECD member countries (including the UK) use for the preparation of their national accounts to allow for international comparisons. The UK government has taken the stance that ESA95 is an inadequate standard for WGA purposes, because it is not fully compatible with a GAAP-based RAB. The government has also stated that this lack of compatibility will hamper its attempts to use WGA to forge a closer link between the macro- and micro-economic frameworks (i.e. linking the management of public sector net worth with the system of planning and controlling public expenditure developed in RAB) (HM Treasury, 1998b, paras.5.1-5.3 and 5.16).[13]

In summary, the attraction of WGA to the New Labour government centres on its claimed ability to deliver enhanced macro-economic policy-making, organisational management and public accountability. If anything, the government would appear to have placed most emphasis on the potential benefits that WGA can provide for economic policy making, well illustrated by a shift in the identified 'main potential users' of WGA. According to the scoping study, the main potential users are key government planners, managers, and ministers, while parliament, taxpayers, academics and the media are relegated to the status of 'other potential users' (HM Treasury, 1998b, paras.2.2-2.3) – a stance reiterated in later publications (for example, see HM Treasury, 2002).

A CRITICAL ANALYSIS OF WGA CLAIMS AND PRACTICE

This section examines the strength of the claimed relationship between WGA and enhanced economic policy-making, exploring how the government intends to use the balance sheet approach and consolidated accounting techniques to manage government finances and financial commitments. It also considers whether WGA is likely to deliver more relevant and reliable accounting information and, in turn, engender improvements in public accountability.

The Usefulness of WGA for Macro-economic Decision-making

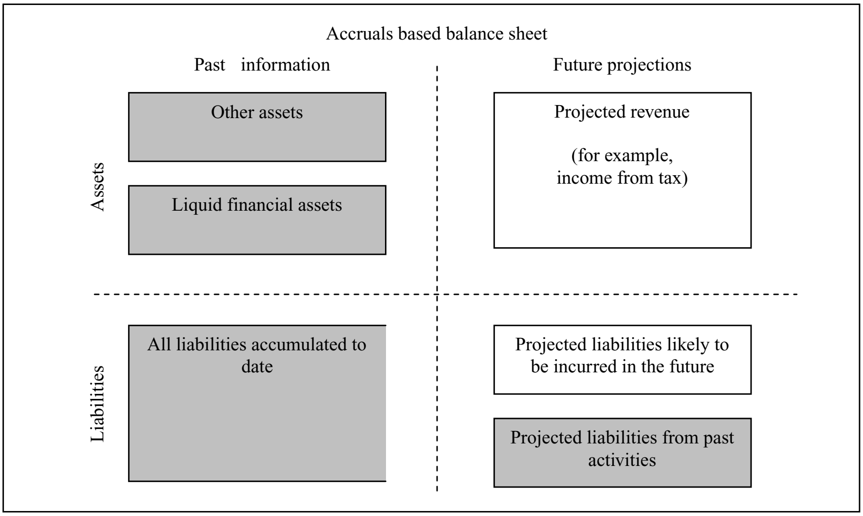
The government's desire for a WGA public sector balance sheet is closely related to its perceived value in providing information that will be useful for macro-economic decision making, particularly in terms of helping it address issues of inter-generational fairness and fiscal sustainability (HM Treasury, 2003a and 2004). Inter-generational fairness has become an important issue for governments in many developed economies (e.g., see Chan, 2003), with the unfunded nature of most public pensions meaning that the burden of supporting an increasingly ageing population falls more heavily on those still of working age. Inadequate consideration of issues of inter-generational fairness increases the risk that governments may pursue unsustainable economic policies, which in the future will require undesirable corrective policy adjustments. The potential problem with relying on WGA to provide a measure of the government's ability to maintain inter-generational fairness (i.e. by maintaining the public sector net worth), however, is that it assumes that the golden rule (and the CFS on which it is based) is conceptually sound (a claim that some have questioned)[14] and/or that WGA will include information essential for management of the golden rule (e.g., information such as demographic projections for tax, pensions and social security, useful lives of fixed assets, maintenance of heritage assets etc.).

According to GAAP, where government provides pensions for public sector employees, such liabilities should be reported on the public sector balance sheet (HM Treasury, 1998b, paras.3.34-3.37). The government made a commitment that it would – in light of *Financial Reporting Standard (FRS) 17* on retirement benefits (ASB, 2000) – include the liabilities of all unfunded pension schemes on its balance sheet once WGA is published (HM Treasury, 2003a, para.3.25, footnote 8). However, such a commitment is problematic in that the C&AG had to qualify both the 2003/4 accounts of the NHS and the Teachers' pensions scheme (C&AG, 2005, paras.1.33-1.36), reporting that central government is experiencing problems in providing reliable, auditable information on public sector pension schemes under *FRS 17* (C&AG, 2004, para.1.73). In relation to the NHS pension scheme, the C&AG's qualification spoke of insufficient audit evidence to support the liability for paying future pensions in these accounts, while it was felt that the Teachers' pension scheme had underestimated the amount of resources required to fund the scheme (C&AG, 2005, paras.1.35-1.36).[15] Similarly, the Audit Commission (2004, pp.21-24) qualified the accounts for the financial year 2002/03 (2001/02) of 14 (6) councils and 6 (4) probation boards due to various problems, including compliance with *FRS 17*'s reporting requirements.[16]

In addition, the sheer scale of the government's pension liabilities is also problematic. Watson Wyatt, an actuarial consultancy, estimated that unfunded public pension liabilities totalled £690bn, or just under one-and-a-half times the size of net public sector debt (at £470bn) (*Financial Times*, 18/02/05, p.1). This has led opposition Members of Parliament (MPs) to call for reforms of what is seen to be an unsustainable position (*Sunday Telegraph*, 31/07/05, web edition). The decision to include pension liabilities on the WGA balance sheet has been accompanied by governmental attempts to minimise any substantial impact on its financial position. For instance, the government (see HM Treasury 2003a; and 2004, para.3.4) has started to reconsider the case for including future taxation revenues alongside required liability disclosures, despite, as noted earlier, this case being rejected on the grounds of 'excessive' subjectivity in the mid-1980s (see discussions in Odling-Smee and Riley, 1985). The government proposed to publish these revenue projections in a statement that will juxtapose with the GAAP-based WGA report. An abridged version of this proposal is illustrated in Figure 1.[17]

Figure 1

Abridged Version of Chart 3.2 taken from HM Treasury (2003a, p.20)



The shaded areas in Figure 1 represent the WGA information based on current UK GAAP, while the unshaded boxes represent the additional information that the government has proposed to include in WGA, such as information on the actuarial projections of future income (e.g., taxation) and future liabilities (e.g., unfunded pensions). The inability to include future unearned income on a GAAP-based balance sheet represents a dilemma for government. Although the government already produces, and uses, forecasts of future tax revenues and liabilities to make macro-economic decisions, such an accounting proposal would not be allowed under current private sector interpretations of GAAP rules on provisions, contingent liabilities and contingent assets. *FRS 12* (see ASB, 1998a), for instance, prohibits the reporting of unearned future income, to 'avoid giving misleading indications of the likelihood of a profit arising' (para.95). It would also be the case that such proposed 'actuarial' information would fall outside the scope of the C&AG's audit opinion on WGA (C&AG, 2003a, para.2.32), which casts doubt on value of non-audited supplementary statements on unearned future income presented to parliament. The government has argued that the exclusion of such information may lead to published WGA statements being misinterpreted, because not all of the financial data used in governmental decision-making will be reflected in the published accounts:

> GAAP-based balance sheet measures exclude future revenues and liabilities except those liabilities that result from past events. This reflects the future uncertainty of the private sector where a company may decide, or be forced, to cease trading. In the public sector though, much greater certainty is attached to future revenues and liabilities as a result of government's sovereign 'right to tax' future taxpayers and its

ongoing commitment to provide services such as healthcare and education. These are much more certain than in the private sector but still do not meet the criteria for inclusion in a GAAP-based measure. The omission of these future cash flows and the fact that it is a snapshot at a particular moment in a year, limits the use of a balance sheet in assessing long-term fiscal stability. This limitation is widely recognised (HM Treasury, 2003a, para.3.29; see also HM Treasury 2004, chapter 3).

In addition to restrictions imposed by GAAP, the reporting of future revenue is also constitutionally restricted. Parliament has formally to vote on the amount of tax revenue that the government is allowed to raise, in addition to other government spending plans (see section 2 of GRAA, 2000). For this reason, it could be argued that the government cannot include future tax revenues (apart from short-term accrued revenues) on the WGA balance sheet; to do so would imply a *fait accompli*, in terms of parliament's effective acquiescence to any future governmental plan to raise or cut taxes. In the future, however, parliament may find that their constitutional powers are effectively being eroded, as government decisions on meeting expected future liabilities would be taken on the basis of data that is published outside the scope of official financial reports presented to parliament.

In addition, there is also a real risk that in seeking to make WGA information more useful from an economic perspective (and hence more valuable for governmental macro-economic decision-making), the government may be neglecting one of the principal reasons for producing public sector financial reports, namely public accountability. Hodges and Mellett (2004) point out that while the objective of economic decision-making in private sector financial reporting is to aid investors in their decision to buy or sell shares in a company, users of public services and the reports produced by public sector organisations usually have no such option available to them. As a result, it has been claimed that public sector financial statements should focus on providing greater accountability for the stewardship of public resources – with the public here defined as the key user (Wynne, 2004). Barton (2005a), in an Australian context, suggests that private sector accounting standards need substantial modification if they are to be more reflective of public sector financial position and performance. For example, he argues that the valuation of heritage assets using private sector accounting methods of valuation (e.g., fair value) is unsound because these assets are public goods, and are often held in trust and cannot be sold off (also see Hooper et al., 2005; Barton 2005b; and Carnegie and West, 2005). This means that the government should not be allowed to take advantage of any increases in the values of heritage assets from revaluations to maintain the public sector net worth figure; for example, by using these increases to off-set the deficits caused by growing pensions obligations. For purposes of accountability, it is more important to ensure that information such as the costs of conservation, preservation and maintenance of such assets are reflected as accurately as possible in the government's accounts (Hooper et al., 2005).

Struggling to Cope with Consolidated Government 'Debt'

The government's long-term targets for net public debt, as set out in the EFSR,[18] necessitate the preparation of aggregate figures of all public sector debt. The WGA has been held out by the government as being capable of providing such aggregate data, under the proviso that public sector bodies such as local government, the National Health Service (NHS), and non-departmental public bodies (NDPBs) are also included in the WGA consolidation. As noted earlier, the government has argued that less comprehensive forms of consolidation such as CGA will not meet the needs of the EFSR and CFS, because of limited coverage of total government economic activity (HM Treasury, 1998b, paras.2.38-2.40).

Such official declarations, however, are inconsistent with the government's apparent desire in practice to keep a large portion of public sector debt (and as previously argued, other substantial liabilities such as pension obligations) 'off-balance sheet', usually by restructuring public service providers such that they become, under various accounting definitions, private companies. Such a state of affairs is highlighted by the C&AG and HM Treasury's long running 'dispute' on the accounting treatment of the £21bn debts of Network Rail.[19] Here, the C&AG disagreed with the ONS classification that the debts, in order to be compliant with *ESA95*, should be off-balance sheet (see C&AG and ONS, 2002). The C&AG, applying UK GAAP rather than *ESA 95* principles, concluded that Network Rail should be on-Balance Sheet – because the government was giving security to the providers of the debt finance and acting as a lender of last resort, it was effectively bearing the risk that otherwise would be borne by the shareholders of Network Rail. The then head of the ONS, Len Cook, and the C&AG subsequently issued a joint statement that sought to provide an official reconciliation of such differing views as to the Balance sheet status of Network Rail. This asserted that the two classifications should not be compared as they were based on separate sets of statistical and accounting rules:

> We have recently given our respective views on the accounting treatment and statistical treatment of Network Rail. The financial statements of central government and the National Accounts are each prepared for different purposes and under different sources of guidance. They are not therefore alternative views on the same issue but fundamentally different activities undertaken for separate purposes, and hence can lead to different conclusions. (C&AG and ONS, 2002, para.13).

Whatever the relative merits of the two standpoints, the Treasury Committee (2003) – a cross-party parliamentary select committee – decided that the government should adopt the C&AG's recommendation and include Network Rail's debts on the WGA balance sheet.[20] Such an approach to classifying public sector debt is aligned with the definitions of *International Public Sector Accounting Standard (IPSAS) 6*,[21] issued nearly three years previously in May 2000. *IPSAS 6* defines control using the following two criteria: (1) power (i.e. 'the power to govern the financial and operating policies of another entity') and (2) benefit (i.e. 'the ability of the controlling entity to benefit from the activities of the other entity') (paraphrased from *IPSAS 6*, para.26). *IPSAS 6* also suggests that control may exist even when the controlling entity is not involved in the day-to-day management of the controlled entity (para.29). Application of the *IPSAS 6* control criteria would clearly mean that Network Rail should be consolidated.[22]

In addition to Network Rail, other contentious off-balance sheet issues include the accounting treatment for PFI schemes. It would seem that under the general principles set out in *FRS 5* (which deals with 'reporting the substance of transactions' – see ASB, 1994), these schemes should be included in any such consolidation, since the government does derive benefit from them and bears a long-term contractual obligation to finance them.[23] In a recent case study on the interpretation of *FRS 5*'s principles for the public sector, Hodges and Mellett (2005) claimed that behind-the-scenes lobbying by HM Treasury during the standard-setting process for *FRS 5* resulted in a compromise with the ASB and the publication of Application Note F (ASB, 1998b) on defining the accounting treatment for PFI schemes (see also Broadbent and Laughlin, 2005). The implication of this compromise is that the original principles of *FRS 5* (e.g., substance over form) as drafted by the ASB remain intact, but HM Treasury has been given considerable leeway with which to interpret the standard, such that PFI deals can be structured to remain off-balance sheet (also see Broadbent and Laughlin, 1999 and 2005).

The NAO has expressed concern with this off-balance sheet 'manoeuvring', whereby the assets and liabilities of the companies which run such schemes in partnership with the government do not fall under the scope of the public sector's balance sheet and are also capable of being excluded from the balance sheet of the special purpose entity (SPE) of the private consortium delivering the project (e.g., see C&AG, 2003a, para.1.16). For example, Edwards et al. (2004) reported that the accounts of the Department for Transport, one of the largest users of PFI projects/public private partnerships (PPPs), do not include information crucial to WGA, such as the contingent liabilities that government departments continue to underwrite on such projects. The NAO has also stated that on-going issues relating to the off-balance sheet implications of PFI projects could affect the usability of WGA information and also 'impact on incorporating [within WGA] the local government and health sectors' (C&AG, 2004, paras.3.31-3.34). The effects on the public sector balance sheet, and by implication, WGA, are made plain by Hodges and Mellett (2003, p.11):

> We are left with the contradictory position that the Government, while promoting the application of accrual-based accounting in the public sector, is actively encouraging off-balance sheet financing schemes, such as the PFI. The accounting reports of such schemes effectively revert to a cash basis with the amounts of cash paid to the private consortium included as expenses in the income statement. The result is that the stock of resources used and the related obligations to pay for them are not recognized in public sector entity balance sheets.

From an accountability point of view, the challenge for the UK government is to design a system that reflects all of its financial obligations on the public sector balance sheet, with notes to indicate the various levels of certainty of the obligations maturing (HM Treasury, 2004, para. 3.9). This is a two fold-process: any accounting standard used has to be appropriate for the public sector context, and the standard has to be applied accurately. Applying such a perspective to the above analysis, it would appear that serious questions clearly reside on both counts with respect of the accounting treatment for PFI/PPP projects.

The Problematic Nature of Consolidated Accounting Techniques

> Whether consolidation accounting practices should be tolerated is contestable. Accounting data are reasonably expected to reflect financial reality in its legal, social and economic contexts. And whereas reality might be less than transparent, consolidated financial data cannot by any stroke of the imagination be considered a realistic reflection of the aggregative wealth and progress of the related companies, being as they are aggregations of their separate conventional accounting data – some as they appear in the originals, some adjusted to accommodate presumed, often counterfactual, characteristics of the transactions between them (Clarke et al., 2003, p.218).

Consolidated accounting, which in the UK gained widespread acceptance in the 1930s, is rooted in a desire to transcend the legal boundaries of reporting entities and give a clearer indication of the economic position of the group (Bircher, 1988). Over the last 70 years, this has continued to be the generally accepted viewpoint, although there has been periodic debate, often triggered by major corporate scandals, on the extent to which consolidated accounting methods improve the quality and/or quantity of information presented or in the effectiveness of decision-making (Walker, 1976 and 1978; Bircher, 1988; Hartgraves and Benston, 2002; AAAFASC, 2003; and Clarke et al., 2003). While it is acknowledged that consolidated accounting techniques are currently being promoted worldwide by, amongst others, the International Accounting Standards Board (IASB),[24] there are a number of important lessons that the public sector can learn from debates on the usefulness of consolidated accounting methods.

Walker (1976 and 1978), for instance, argued that the production of consolidated reports (in comparison to individual reports of the parent company and its subsidiaries) does not necessarily increase or improve the ability of shareholders and creditors to assess the potential for future earnings and/or ability to repay debt. According to Walker (1976, p.80, para.1), the aggregation process required by consolidation can hide the losses of weaker subsidiaries in the group and downplay the profits of the stronger subsidiaries, which can mislead creditors (also see Clarke et al., 2003). The implication of this for the UK Government is that WGA will hide some weaker performing government units and play down the contribution of higher performing ones, and thus may not, in itself, provide key government planners and ministers with sufficient information to assess adequately the government's financial position and performance.

More contemporary evidence, including the notorious collapse of Enron, has cast further doubt on the presumed value of consolidated accounting, particularly in light of continued reported difficulties in defining economic control and consolidation boundaries (Hartgraves and Benston, 2002; and AAAFASC, 2003). Post-Enron, various bodies have proposed and/or implemented a number of measures to strengthen consolidated accounting methods. For example, the AAAFASC (2003) suggested a tightening of the rules for bodies that are included in consolidated accounts (especially the type of SPEs used by Enron),[25] as well as increasing the emphasis on reporting the economic substance of transactions, rather than just their legal form (for an overview of recent discussions on these matters, see Clarke, 2006). Any attempts to improve private sector consolidation methods, however, face additional hurdles when applied in a public sector context, due to the added complexity of having to report on the basis of political accountability, in addition to economic substance. For example, the boundaries of what constitutes the public sector are not particularly well-defined, reflecting the diverging needs of a disparate group of users. Heald and Georgiou (2000; p.163, para.1) illustrated this through the variety of definitions used for the public sector, ranging from statistical-based definitions designed to monitor government activities for the purposes of fiscal stability and international comparisons (e.g., *ESA95*) to those based on Whitehall departmental boundaries (e.g., RAB) or the identification of a general government sector (i.e., central government plus local government). These boundary definitions each reflect a different type of political accountability – the first one being to ensure that the EU's macro-economic stability is not breached by the profligacy of any one of its member states; the second reflecting the scope of ministerial responsibilities; and the third illustrating the figures that the government uses to target public sector expenditure at a macro-level (e.g., see HM Treasury, 1998a).

Due to the existence of various constitutional features of, and safeguards associated with, public sector bodies, notions of economic control may not be universally applicable for all forms of consolidation between such bodies. Indeed, this very argument was used by the previous Conservative government, in its initial opposition to the production of WGA (HM Treasury, 1994). The Conservatives argued that the inclusion of bodies such as NDPBs, local government and nationalised industries as part of WGA would be 'misleading,' because these bodies are constitutionally independent of central government, and central government does not own any of their assets and liabilities (op cit., para.2.22). Local government members, for instance, are elected independently of central government, and hence may have a separate mandate (Heald and Georgiou, 1995). However, if the constitutional independence of such bodies is respected, there remains the counter argument that WGA will be incomplete since it will exclude bodies that are clearly receiving significant levels of funds from (and, therefore, dependent on) central government (HM Treasury, 2002, p.266). In this regard, what is or is not included in WGA does look destined to remain an essentially subjective, or political, decision – and not one driven purely by economic (control) or accounting principles. Such problems are also likely to be exacerbated by the fact that the GRAA (2000) has a far broader basis for consolidation, compared to notions of control as defined in GAAP. As noted earlier, section 9(1) of the GRAA states that:

> bodies that exercise functions of a public nature, *or* are entirely or substantially funded from public money all have to be included in WGA.

However, this has yet to lead to a number of bodies, such as Higher Education Institutions and some housing associations, that all have public functions and receive substantial public funding, being included in WGA – just as some PFI bodies remain excluded.[26]

Leonard et al. (2003), writing in a private sector audit context, spoke of the problems that complex group structures and non-consolidated control relationships can present to external auditors. It is evident that the audit of WGA in the UK is far from a simple task. Not only are there complicated control and accountability relationships between various public sector organisations, but there is a major task of coordinating the work of all the various bodies involved in public sector audits. For instance, the main auditor of WGA, the C&AG, is responsible for the audit of all CGA bodies (and the final WGA consolidation), while other (secondary) WGA auditors – such as the Audit Commission (who audit English local governments and oversee the audit of NHS trusts by private sector auditors), the Scottish Accounts Commission, the Northern Ireland Audit Office, the Wales Audit Office and a number of private sector auditors from the big four accounting firms (auditing NHS trusts) – all have their own separate audit jurisdictions (deriving, for example, from the constitutional independence of English local governments and the devolved governments of Scotland, Northern Ireland and Wales). Such an audit arrangement, when viewed through the lens of WGA is potentially fraught with difficulties, particularly given the longstanding nature of problems of main (or primary) auditors relying on the work of secondary auditors (as illustrated by the Parmalat scandal, see *Financial Times* 22/12/03, p.18).[27]

With more than 1,300 organisations to be included in WGA (see *Statutory Instrument No.489* 2003), it is likely that the C&AG will have to rely on the work of a large number of auditors (in this regard, it should also be noted that while the C&AG is responsible for the audit of the majority of non-departmental public bodies or NDPBs, the Audit Commission and various private sector auditors appointed by the C&AG also assist in the audits of some NDPBs). In order for the C&AG to manage the work of all these other 'secondary' auditors, he will need the right to veto their work should it be lacking in quality. According to Moizer et al. (1986), this is one of the fundamental responsibilities of the primary auditor involved in the audit of consolidated private sector group accounts. However, the lack of a clear line of audit authority (the GRAA, 2000; does not give the C&AG

authority or veto powers over other WGA auditors), coupled with the presence of turf wars between public sector audit bodies (see Bowerman et al., 2003), gives the impression that the WGA audit process has some major structural weaknesses – which will be exposed if there is a major disagreement between the various audit bodies over issues of accounting recognition.

Even if all of the above problems relating to definitions of the reporting boundary and the complexity of the primary/secondary auditor relationship can be overcome, the value of a consolidated account is only ever as good as the underlying accounts on which it is based. The NAO has said that, operationally, some government bodies are struggling to implement accruals-based accounting systems, a supposed pre-requisite for WGA (C&AG, 2003a and 2004).[28] In particular, while a significant percentage of central government accounts have moved to an accruals basis, according to the NAO, accounting for taxation income (one of the largest elements of governmental income) is still being prepared on a cash basis due to technical difficulties in obtaining information on taxes due but not yet paid (C&AG, 2004, paras.1.50-1.55; and 2005, para.1.94). Heald (2005) has questioned the timeliness and quality (defined as the receipt of an unqualified audit opinion) of departmental RABs[29] – and such unresolved problems clearly threaten the claimed usefulness of WGA for governmental decision-makers.

CONCLUSIONS AND A FUTURE RESEARCH AGENDA

In reviewing WGA developments to date, this paper has identified a number of issues that need to be addressed for WGA to live up to the claims made for it. This concluding section summarises the main arguments of the paper and identifies the essential elements of a research agenda for future investigations of WGA.

In tracing the development of WGA, this paper has shown how the original request for consolidated whole of central government accounts (CGA) was transformed into a wider concept of consolidation when New Labour came into power in 1997. The original intention of 'improved accountability to parliament' was replaced by a multi-faceted purpose, whereby WGA was also heralded as a key construct to improved decision-making, at both a macro-economic level and at a micro-level, within public sector organisations. To date, however, there has been very limited analysis of the relative strengths and weaknesses of existing financial reporting systems[30] and no real consideration of the validity of frequent claims that additional consolidated accounting information (in the form of WGA) will deliver tangible benefits.

The analysis presented in this paper questions whether it is possible for WGA to satisfy the numerous claims made for it, particularly in terms of providing information that is useful from both economic policy-making and public accountability perspectives. Overall, there appears to be a major contradiction between the pursuit of WGA for purposes of better accounting and accountability.

Central government seems to be pursuing more creative accounting methods to demonstrate that it can meet its financial commitments, including seeking to capitalise future taxation revenues, off-balance-sheet financing and inconsistent applications of accounting policies. Likewise, there seems to be a real mismatch between the (hypothetical) claims that WGA will enhance organisational decision-making and the practical value to a disaggregated set of public sector bodies of a massively aggregated set of public sector financial accounting numbers. Indeed, for all the supposed modern nature of WGA, the government does seem somewhat caught in a rather more traditional accounting dilemma – of needing to reconcile the desire for decision-useful, but inherently uncertain, information with public accountability demands for a prudent and auditable approach to the management of governmental finances –see Whittington (1983) for a discussion of such contradictions in the arena of inflation accounting.

The current state of development with WGA is suggestive of a challenging, international research agenda for those interested in consolidated government accounting. The key questions to emerge from our analysis concern three specific dimensions, namely: the value of WGA information, the motives underpinning WGA reform and the broader, international, implications of such developments.

What is the Value-in-Use of WGA Information?

The paper's analysis has raised a number of concerns about current proposals for WGA in the UK. In particular, it questions the appropriateness of such an ambitious consolidation project, given: (1) the problems experienced by the private sector over its use of consolidated accounting (Hartgraves and Benston, 2002; AAAFASC, 2003; and Clarke et al. 2003), (2) the conceptual and operational difficulties in adapting consolidated accounting techniques for public sector use (Odling-Smee and Riley, 1985; Buiter, 1985 and 2001; Britton, 1987; Heald and Georgiou, 1995 and 2000; and Ellwood 2003), and (3) the doubts expressed over the value and efficiency of accruals accounting (on which consolidated public sector accounts are based) in a public sector context (see Mellett, 1997 and 2002; Ryan, 1998; Barton, 2004, 2005a and 2005b; Heald, 2005; Newberry and Ellwood, 2004; Carnegie and West, 2005; and Hooper et al., 2005). Given these claimed short-comings, there is a pressing need now to assess the value-in-use of WGA information, particularly as WGA moves into a more operational mode within public sector organisations. This will require a close, empirical association with key user groups to understand their WGA usage requirements, and their practical experiences.

Some academics (e.g., Barton, 2005a; and Ellwood, 2003) attribute problems of usability and accountability to the lack of an accounting conceptual framework designed specifically for the public sector. The ASB (2005) has recognised this deficiency, and has recently attempted to develop an underlying framework when putting forward a proposal that reinterprets the Statement of Principles for Financial Reporting to take account of Public Benefit Entities. Others (e.g., Jones

2000a, 2000b and 2003) suggest that the problem is more fundamental, arguing that the assumption that a unified data system can be created to suit multi-faceted government objectives (e.g., for international comparisons, national economic policy-making, processes of parliamentary accountability etc.) is not realistic (and potentially intractable). This is because different objectives require data derived from different frameworks (e.g., accounting principles of prudence and conservatism may be more suitable for purposes of managerial accountability to shareholders and less so for macro-economic decision-making), although this does not prevent attempts being made to reconcile data derived from different bases (see IFAC, 2005). A research programme is needed to examine more closely the diverging needs of various WGA users and the extent to which they are being met by a single set of financial statements prepared under one particular set of accounting assumptions.

Is the WGA Reform Driven by Political Motives?

A well-rounded research agenda has to move beyond 'technical' accounting issues to include consideration of the broader (and potentially more important) political dimensions of the role of WGA, both in the UK and internationally. There appears to be three main potential lines of enquiry. The first is to explore whether WGA reform is primarily an instrument used to impose changes in the management culture and practices of civil servants (i.e., to get them to work more efficiently and effectively), rather than about enhancing governmental macro-economic management or processes of accountability. For example, some (e.g., Heald, 2005) have claimed that whatever public sector accounting reforms may (or may not) achieve, they have at least increased the attentiveness of government departments to the matter of accounting systems and the need to improve their decision making structures.

The second line of enquiry suggests that WGA is a system designed to increase central government's political control over independent bodies, albeit under the pretext that WGA will help to improve reporting across the public sector. Newberry and Ellwood (2004) assert that WGA boundary definitions may undermine key checks and constraints on government decision-making, by (indirectly) putting constitutionally independent bodies more under the control and oversight of central government (e.g., in a UK context, requiring local government and the devolved national governments of Scotland, Northern Ireland and Wales to subscribe to central government reporting requirements). The third line of enquiry is one which views WGA as a tool for legitimising governmental actions, wherein what really matters is the appearance of reform and change rather than direct, practical achievements. Such a view resonates with the findings of other UK-related public sector accounting research (e.g., see Jones and Pendlebury, 2004), which suggests that the adoption of private sector (consolidated) accounting techniques in the public sector is more of a means by which the government can seek to legitimate its accounting systems, rather than improve the usability of external or internal reports deriving from such systems. Researchers interested in pursuing these lines of enquiry will need to interact closely with key actors involved in the reforms, in order to capture the informal (and often unrecorded) but nevertheless significant political influence that may have been exerted (see Hodges and Mellett, 2005).

What are the Implications of the International Promotion of WGA?

It is evident that particular 'epistemic communities' have served to spread notions of 'New Public Management' (NPM) or 'New Public Financial Management' (NPFM) internationally (Laughlin and Pallot, 1998; and Guthrie et al., 2005). Key issues that need addressing are the extent to which WGA (UK) is being promoted around the world as a better system of governmental accounting and macro-economic management, whether the empirical basis on which such promotion is being made is sufficiently strong and convincing, and, what international comparisons, in themselves, can add to our national based understandings of such NPFM reforms in action. Sir Andrew Likierman, the supposed chief architect of RAB and WGA reforms in the UK, has claimed that the use of RAB reflects international trends and represents an indispensable part of the NPM reform agenda – with the implementation of WGA constituting a further continuation and extension of this trend (Likierman, 1995, 1996 and 2003). However, in many respects such statements are merely assertions and are not supported by strong, detailed empirical evidence. Indeed, such claims continue to be made, despite the growing evidence in the public sector academic accounting literature questioning the practical achievements and value of such reforms. The initial review of WGA presented in this paper demonstrates that there are considerable grounds for investigating further what is being achieved (and/or hindered, prevented, resisted or obscured) in the name of WGA – and the factors and forces shaping and influencing the construction and practical impact of WGA. Such a reform process cannot be allowed, by default, to define what is leading public sector accounting practice.

At present, there does seem to be some evident signals of WGA in the UK being an image-driven project, rather than one underpinned and driven by the government's major economic policy changes, as suggested by HM Treasury (2002). This is made plain by the lack of reporting on the details and problems that the UK government has faced and continues to seek to overcome in implementing WGA. It could also be argued that governments in countries such as Australia, New Zealand and the UK appear to be competing for the label of leading NPFM reformer (for more discussion, see Moll et al., 2005). The UK Treasury, for instance, has claimed that:

> once complete, WGA will represent one of the most complex consolidations in the world and place the UK at the forefront of public sector financial reporting (HM Treasury, 2004, para.3.14).

Such claims to financial reporting prominence and excellence have to be subjected to empirical evaluation. For instance, what has the UK learned from the experiences of its antipodean WGA predecessors? What has it achieved over and above other countries pursuing similar WGA reforms? Have other countries achieved things with their WGA equivalents which are not possible to secure in the UK? Are achievements contextually specific or are there real grounds for advocating the application of WGA (UK) in other national contexts, with different cultural, political and economic standpoints? The tensions, contradictions and ambiguities revealed in this paper with respect to the historical development and current shape of WGA in the UK suggests that answers to such questions are not likely to be straightforward and well worthy of further reflection, analysis and debate. It has recently been suggested (see Humphrey, 2005) that public sector accounting researchers need to draw more explicitly on the strength of their academic 'epistemic community' and present more coherent and substantive challenges to the myths that exist with respect to public sector accounting and management reform. An international symposium focused explicitly on analysing experiences with WGA would be an important starting point.

NOTES

1 A summary of the decisions and votes that lead to the Government Resources and Accounts Act (2000) are reported in Standing Committee A (2000). The full text of the debates is available on Hansard, the searchable database of the parliament's website (www.parliament.uk).

2 The UK government has a two-tier structure. Government functions which concern the entire nation are organised at a central level in the form of departments (e.g., Ministry of Defence, Department for Transport, Department of Health), which are classed as Central Government (CG). More regional concerns are addressed at the local or devolved government level (e.g., Manchester City Council; the Welsh Assembly). In addition, there are some public bodies performing functions outside the auspices of central and local governments, which are classed as non-departmental public bodies (NDPBs).

3 RAB was proposed by the previous Conservative government in 1994 (HM Treasury, 1994). The intention of RAB was to modernise the accounting practices of government by introducing accruals-based accounting and budgeting, to replace the then cash-based government accounting systems.

4 This parliamentary committee has been reorganised and replaced by the Treasury Committee.

5 Sir John Bourn, the current Comptroller and Auditor General (C&AG), heads the NAO. He is also parliament's appointed auditor for central government in the UK. The terms C&AG and the NAO used in this paper reflect the stated authorship of official documentation.

6 Proposals for WGA would produce a consolidated account incorporating CGA, as well as all local and devolved governments, NDPBs, the NHS, public corporations and nationalised industries.

7 The ESA95-based WGA was produced for the 2001-2 dry run, but this report is not publicly available. ESA95 is the legally mandated reporting standard for national statistics that is set by the European Union (EU), to ensure that member states produce data that is comparable and complies with EU-wide fiscal targets outlined in the Stability and Growth Pact and the Maastricht treaty on government deficits. More importantly, *ESA95* serves as the basis from which contributions of individual member states to the EU central fund are calculated.

8 Bodies that have to be included in the CGA are designated by a Statutory Instrument (SI 489, 2003). The list of bodies was agreed between the departments and the NAO before it was given a statutory basis.

9 CIPFA and the Audit Commission (2004) have outlined some problematic issues that the government may face with local government and the NHS.

10 The intention of the accrual reporting format for the WGA was to keep the process 'simple' and in a 'familiar' corporate reporting style (HM Treasury, 1998b). The GRAA also mandated the creation of a new oversight committee in the form of the Financial Reporting Advisory Board (FRAB) to ensure that there are checks and balances with regards to standard setting and enforcement of government accounting.

11 There is a need to recognise that the definition of an 'economic cycle' is subjective. There are press reports that HM Treasury has changed the start and end dates that define an 'economic cycle' in order to present public finances in a better light (*Financial Times*, 23 March, 2006, p.2).

12 Buiter (2001) has recently reiterated his support for a future oriented public sector balance sheet model.

13 Despite making this claim, the government has not explained in any great detail why GAAP is better than *ESA95*. While the original WGA scoping study probably offers the most detail here, the government argument has been that GAAP-based data provides 'better quality information' (because of a 'better organised collection of consistent information for the public sector') and 'new' information, such as accruals-based estimates of unfunded pension liabilities, taxation, and social security (paras.5.17 and 5.25). For full details of differences between GAAP and *ESA95*, see HM Treasury (1998b, annex E and 2004, annex A) and IFAC (2005).

14 Buiter (2001), for example, argues that the rule does not fully capture all of the non-financial benefits that accrue from government spending on social services. This may lead to overly conservative public spending plans, because the political gains for government in return for their commitment to spending more on services that are not captured by the golden rule is small, in relation to the much higher costs of breaking the rule's imposed limits.

15 The NHS pension scheme was also qualified on the basis of insufficient audit evidence for the year 2004/05 (C&AG, 2006, para.1.20).

16 Other problems include overspent budgets (which remains a persistent problem for the NHS – see NAO and Audit Commission, 2005) and lack of compliance with relevant professional standards for local government, such as the Statement of Recommended Practice (SoRP).

17 This proposal to include future oriented information has been reiterated in HM Treasury (2004).

18 For a more recent update, see HM Treasury (2004).

19 Network Rail is a company limited by guarantee that was established to take over the ownership and operation of the British railway infrastructure from the existing license holder, Railtrack PLC.

20 Interestingly, the ONS has recently reclassified London and Continental Railways (LCR), the company that built the channel tunnel rail link between the UK and France, as a public body. This is because the ONS has discovered that the government had a number of controls over LCR, which the ONS did not know about when they classified LCR as a private company (*Financial Times*, 21 February, 2006, p.1).

21 Issued by the International Accounting Standards Board (IASB), *IPSAS 6* (2000) is based on the 1998 version of *International Accounting Standard (IAS) 27* on *Consolidated and Separate Financial Statements*, which has subsequently been revised in 2005.

22 Para.30 of *IPSAS 6* provides an illustration, involving a hypothetical former public railway company being privatised, of how the definition of control (reported in the main text) should be interpreted. The illustration is uncannily similar to that of the UK experience with Network Rail.

23 The significance of the issue of accounting for PFI schemes should not be underestimated – the schemes form a material part of public sector spending and service delivery, with the NAO estimating that payments to PFI schemes currently total £105 billion (C&AG, 2003b, para.2.41). For a theoretical critique of accounting treatment in PFIs, see Heald (2003).

24 See, for instance, a joint declaration by the IASB and the American Financial Accounting Standards Board (FASB) to improve and align international consolidated accounting standards (IASB, 2005).

25 SPEs are separate corporate bodies set up by a parent company to achieve a specific purpose. The accounting treatment is such that these bodies are not consolidated on the balance sheet of the parent company.

26 In the scoping study, HEIs are classified as 'private sector not-for-profit bodies'. This classification is based on the control definitions of *ESA95*.
27 For a general discussion on the issue of reliance on secondary auditors, see Moizer et al. (1986).
28 There are, however, some signs that departments are improving. For example, the Ministry of Defence has received unqualified audit opinions for the last three years now (*Accountancy Age*, 20 July, 2006).
29 The government in 2002 launched a 'faster closing initiative', in an attempt to improve the timeliness of accounts submissions from departments, with mixed results (e.g., see C&AG, 2004, para.1.18-1.24).
30 See Mellett (1997 and 2002) for examples of critical accounting literature on RAB reforms.

REFERENCES

Accountancy Age (2006), 'MoD Accounts Out of the Firing Line', 20/07/06 (www.accountancyage.com).
American Accounting Association Financial Accounting Standards Committee (2003), 'Comments on the FASB's Proposals on Consolidating Special-Purpose Entities and Related Standard-Setting Issues', *Accounting Horizons*, Vol. 17, No. 2, pp. 161–73.
ASB (1994), *FRS 5: Reporting the Substance of Transactions* (April).
——— (1998a), *FRS 12: Provisions, Contingent Liabilities and Contingent Assets* (September).
——— (1998b), Responses for the Public Record. Amendment to FRS 5, *Reporting the Substance of Transactions*: *The Private Finance Initiative* (September).
——— (2000), *FRS 17: Retirement Benefits* (November).
——— (2005), *Statement of Principles for Financial Reporting: Proposed Interpretation for Public Benefit Entities*, Exposure Draft (August).
Audit Commission (2004), *Stewardship and Governance: A Review of the Work of the Audit Commission's Appointed Auditors in 2003* (www.audit-commission.gov.uk).
Barton, A. (2004), 'How to Profit From Defence: A Study in the Misapplication of Business Accounting to the Public Sector in Australia', *Financial Accountability & Management*, Vol. 20, No. 3, pp. 281–304.
——— (2005a), 'Professional Accounting Standards and the Public Sector – A Mismatch', *Abacus*, Vol. 41, No. 2, pp. 138–58.
——— (2005b), 'The Conceptual Arguments Concerning Accounting for Public Heritage Assets: A Note', *Accounting, Auditing & Accountability Journal*, Vol. 18, No. 3, pp. 434–40.
Bircher, P. (1988), 'The Adoption of Consolidated Accounting in Great Britain', *Accounting and Business Research*, Vol. 19, No. 73, pp. 3–13.
Bowerman, M., C. Humphrey and D. Owen (2003), 'Struggling For Supremacy: The Case of UK Public Audit Institutions', *Critical Perspectives on Accounting*, Vol. 14, No. 1-2, pp. 1–22.
Britton, A. (1987), 'Taxpayers' Capital: The Public Sector Balance Sheet', *Fiscal Studies*, Vol. 8, No. 2, pp. 24–34.
Broadbent, J. and R. Laughlin (1999), 'The Private Finance Initiative: Clarification of a Future Research Agenda', *Financial Accountability & Management*, Vol. 15, No. 2, pp. 95–114.
——— (2005), 'Government Concerns and Tensions in Accounting Standard-setting: The Case of Accounting for the Private Finance Initiative in the UK', *Accounting and Business Research*, Vol. 35, No. 3, pp. 207–28.
Buiter, W.H. (1985), 'A Guide to Public Sector Deficits and Debts', *Economic Policy*, Vol. 1, No. 1, pp. 13–79.
——— (2001), 'Notes on a "Code For Fiscal Stability"', *Oxford Economic Papers*, Vol. 53, No. 1, pp. 1–19.
Carnegie, G.D. and B.P. West (2005), 'Making Accounting Accountable in the Public Sector', *Critical Perspectives on Accounting*, Vol. 16, No. 7, pp. 905–28.
Carruthers, I. (2004), 'The Whole Picture', *Public Finance* (16 January) (www.publicfinance.co.uk).
Chan, J.L. (2003), 'Government Accounting: An Assessment of Theory, Purposes and Standards', *Public Money and Management*, Vol. 23, No. 1, pp. 13–20.
CIPFA and the Audit Commission (2004), *Whole of Government Accounts* (November), (www.cipfa.org.uk).

Clarke, F. (2006), 'Introduction: True and Fair – Anachronism or Quality Criterion Par Excellence?', *Abacus*, Vol. 42, No. 2, pp. 129–31.
——— G. Dean and K. Oliver (2003), *Corporate Collapse: Accounting, Regulatory and Ethical Failure* (Cambridge: Cambridge University Press).
Coates, D. and C. Hay (2001), 'The Internal and External Face of New Labour's Political Economy', *Government and Opposition*, Vol. 36, No. 4, pp. 447–71.
Comptroller and Auditor General (1995), *Resource Accounting and Budgeting in Government*, Session 1994-95, HC 123 (HMSO).
——— and the Office for National Statistics (2002), *Network Rail: NAO-ONS Joint Statement*, 24 October (www.statistics.gov.uk).
——— (2003a), *Financial Auditing and Reporting: General Report of the Comptroller and Auditor General 2001-02*, Session 2002-03, HC 517 (HMSO).
——— (2003b), *Managing Resources to Deliver Better Public Services*, Session 2003-04, HC 61-1 (HMSO).
——— (2004), *Financial Auditing and Reporting: General Report of the Comptroller and Auditor General 2002-03*, Session 2003-04, HC 365 (HMSO).
——— (2005), *Financial Auditing and Reporting: General Report of the Comptroller and Auditor General 2003-04*, Session 2004-05, HC 366 (HMSO).
——— (2006), *Financial Auditing and Reporting: General Report of the Comptroller and Auditor General 2004-05*, Session 2005-06, HC 1015 (HMSO).
Edwards, P., J. Shaoul, A. Stafford and L. Arblaster (2004), *Evaluating the Operation of PFI in Roads and Hospitals*, ACCA Research Report No. 84 (www.accaglobal.com).
Ellwood, S. (2003), 'Bridging the GAAP Across the UK Public Sector', *Accounting and Business Research*, Vol. 33, No. 2, pp. 105–21.
Financial Times (2003), *Europe's Enron: The Parmalat Collapse has Ramifications far Beyond Italy* (23 December), p. 18.
——— (2005), *Public Pension Costs Soar: Liabilities Now Dwarf State Debt, Actuaries Say* (18 February), p. 1.
——— (2006), *Treasury Gets Pounds 5bn LCR Debt Amid Talks* (23 February), p. 1.
——— (2006), *Chancellors' Optimistic Outlook at Odds with His Own Figures* (23 March), p. 2.
Government Resources and Accounts Act (2000) (accessed at www.parliament.uk).
Government Resources and Accounts Bill (2000) (accessed at www.parliament.uk).
Guthrie, J., C. Humphrey, L. Jones and O. Olson (eds.) (2005), *International Public Financial Management Reform: Progress, Contradictions and Challenges* (USA: Information Age Press).
Hartgraves, A.L. and G.J. Benston (2002), 'The Evolving Accounting Standards for Special Purpose Entities and Consolidations', *Accounting Horizons*, Vol. 16, No. 3, pp. 245–58.
Heald, D. (2003), 'Value for Money Tests and Accounting Treatment in PFI Schemes', *Accounting, Auditing and Accountability Journal*, Vol. 16, No. 3, pp. 342–71.
——— (2005), 'The Implementation of Resource Accounting in UK Central Government', *Financial Accountability & Management*, Vol. 21, No. 2, pp. 163–89.
——— and G. Georgiou (1995), 'Resource Accounting: Valuation, Consolidation and Accounting Regulation', *Public Administration*, Vol. 73, No. 4, pp. 571–79.
——— ——— (2000), 'Consolidation Principles and Practices for the UK Government Sector', *Accounting and Business Research*, Vol. 30, No. 2, pp. 153–67.
HM Treasury (1994), *Better Accounting For the Taxpayer's Money: Resource Accounting and Budgeting in Government*, Cm 2626 (HMSO).
——— (1995a), *Better Accounting for the Taxpayer's Money: The Government's Proposals; Resource Accounting and Budgeting in Government*, Cm 2929 (HMSO).
——— (1995b), *Treasury Minute On the 15th and 18th to 25th Reports From the Committee of Public Accounts*, Session 1994-95, Cm 2990 (HMSO).
——— (1998a), *Stability and Investment for the Long Term: Economic and Fiscal Strategy Report 1998*, Cm 3978 (HMSO).
——— (1998b), *Whole of Government Accounts (WGA) Scoping Study* (www.wga.gov.uk).
——— (2002), *Reforming Britain's Economic and Financial Policy: Towards Greater Economic Stability* (Basingstoke: Palgrave).
——— (2003a), *Long-Term Public Finance Report: Fiscal Sustainability with an Ageing Population*, December (www.hm-treasury.gov.uk).
——— (2003b), *Whole of Government Accounts: Improving Public Sector Financial Reporting*, Press Release 133/03, 11 December (www.hm-treasury.gov.uk).

HM Treasury (2004), *Long-Term Public Finance Report: An Analysis of Fiscal Sustainability*, December (www.hm-treasury.gov.uk).

Hodges, R. and H. Mellett (2003), 'Reporting Public Sector Financial Results', *Public Management Review*, Vol. 5, No. 1, pp. 1–15.

——— ——— (2004), 'Reporting PFI in Annual Accounts: A User's Perspective', *Public Money and Management*, Vol. 24, No. 3, pp. 153–58.

——— ——— (2005), 'Accounting for the UK's Private Finance Initiative: An Interview-Based Investigation', *Abacus*, Vol. 41, No. 2, pp. 159–80.

Hooper, K., K. Kearins and R. Green (2005), 'Knowing the "Price of Everything and the Value of Nothing": Accounting for Heritage Assets', *Accounting, Auditing and Accountability Journal*, Vol. 18, No. 3, pp. 410–33.

Humphrey, C. (2005), 'The Questionable Nature of 'Third Hand' Public Sector Accounting Solutions: A Case for Change?', *European Accounting Review*, Vol. 14, No. 2, pp. 341–51.

IAS 27 (2005), *Consolidated and Separate Financial Statements*.

IASB (2005), 'IASB and FASB Publish First Joint Proposals to Improve the Accounting and Reporting of Business Combinations', Press Release (30 June).

ICAEW (2004), *Information for Better Markets: New Reporting Models for Business*.

IFAC (2005), *International Public Sector Accounting Standards (IPSASs) and Statistical Bases of Financial Reporting: An Analysis of Differences and Recommendations for Convergence*, Research Report (January).

IPSAS 6 (2000), *Consolidated Financial Statements and Accounting for Controlled Entities*.

Jones, R. (2000a), 'National Accounting, Government Budgeting and the Accounting Discipline', *Financial Accountability & Management*, Vol. 16, No. 2, pp. 101–16.

——— (2000b), 'Public Versus Private: The Empty Definitions of National Accounting', *Financial Accountability & Management*, Vol. 16, No. 2, pp. 167–78.

——— (2003), 'Measuring and Reporting the Nation's Finances: Statistics and Accounting', *Public Money and Management*, Vol. 23, No. 1, pp. 21–27.

——— and M. Pendlebury (2004), 'A Theory of the Published Accounts of Local Authorities', *Financial Accountability & Management*, Vol. 20, No. 3, pp. 305–25.

Laughlin, R. and J. Pallot (1998), 'Trends, Patterns and Influencing Factors: Some Reflections', in O. Olson, J. Guthrie and C. Humphrey (eds.), *Global Warning! Debating International Developments in New Public Financial Management* (Cappelen Akademisk Forlag, Oslo), chap. 13, pp. 376–99.

Leonard, S., D. Lindsell and S. Turley (2003), *Improving the Auditing of Entities Subject to Common Control*, A Study Prepared for the Auditing Practices Board (Croner CCH).

Likierman, A. (1995), 'Resource Accounting and Budgeting: Rationale and Background', *Public Administration*, Vol. 73, No. 4, pp. 562–70.

——— (1996), 'The UK Government's Accounting and Budgeting Revolution', *Research in Governmental and Non-Profit Accounting*, Vol. 9, pp. 303–22.

——— (1998), 'Report: Recent Developments in Resource Accounting and Budgeting (RAB)', *Public Money and Management*, Vol. 18, No. 4, pp. 62–64.

——— (2003), 'Planning and Controlling UK Public Expenditure on a Resource Basis', *Public Money and Management*, Vol. 23, No. 1, pp. 45–50.

Mellett, H. (1997), 'The Role of Resource Accounting in the UK Government's Quest for 'Better Accounting'' *Accounting and Business Research*, Vol. 27, No. 2, pp. 157–68.

——— (2002), 'The Consequences and Causes of Resource Accounting', *Critical Perspectives on Accounting*, Vol. 13, No. 2, pp. 231–54.

Moizer, P., S. Turley and D. Walker (1986), 'Reliance on other Auditors: A UK Study', *Accounting and Business Research*, Vol. 16, No. 64, pp. 343–52.

Moll, J., C. Humphrey and D. Chow (2005), 'Policy Transfer and Learning? International Developments in Consolidated Accounting', Paper presented at HM Treasury Central Accountancy 2005 CPD Event: Developments in Accountancy (16 December, London).

National Audit Office (2002), *Strategy For the Audit of Central Government Accounts For the Year Ending 31 March 2002*, revised version (October) (www.nao.gov.uk).

——— and Audit Commission (2005), *Financial Management in the NHS: NHS (England) Summarised Accounts 2003-04.* Session 2005-06, HC 60-I (HMSO).

Newberry, S. and S. Ellwood (2004), 'Public Sector Accrual Accounting: Institutionalising Neo-Libertarian Principles?', Paper presented at the 4th Asian Pacific Interdisciplinary Research in Accounting Conference (APIRA, 4-6 July, Singapore).

Nobes, C. (2002), 'An Analysis of the International Development of the Equity Method', *Abacus*, Vol. 38, No. 1, pp. 16–45.

Odling-Smee, J. and C. Riley (1985), 'Approaches to the PSBR', *National Institute Economic Review*, No. 113 (August), pp. 65–80.

Office of the Deputy Prime Minister and HM Treasury (2003), Inclusion of Local Government in Whole of Government Accounts, memorandum dated 11 December (accessed at www.wga.gov.uk).

Procedure Committee (1998), *Resource Accounting and Budgeting, Together with the Proceedings of the Committee Relating to the Report, Minutes of Evidence and Appendices*, 2nd Report, Session 1997-98, HC 438 (HMSO).

Public Accounts Committee (2000), *Government Resources and Accounts Bill, Together with the Proceedings, Evidence and a Memorandum*, 9th Report, Session 1999-2000, HC 159 (HMSO).

Ryan, C. (1998), 'The Introduction of Accrual Reporting Policy in the Australian Public Sector – An Agenda Setting Explanation', *Accounting, Auditing and Accountability Journal*, Vol. 11, No. 5, pp. 518–39.

Standing Committee A (2000), *Government Resources and Accounts Bill, Minutes of Proceedings*, Session 1999-2000, HC 187 (HMSO) (see also Hansard).

Statutory Instrument (SI) No. 489 (2003), *The Whole of Government Accounts (Designation of Bodies) Order*.

Sunday Telegraph (2005), 'How Much?' City Column, web edition (31 July).

Treasury and Civil Service Committee (1995), *Simplified Estimates and Resource Accounting*, 4th Report, Session 1994-95, HC 212 (HMSO).

Treasury Committee (2003), *National Statistics: The Classification of Network Rail*, 1st Report, Session 2002-03, HC154 (HMSO).

Walker, R.G. (1976), 'An Evaluation of the Information Conveyed by Consolidated Statements', *Abacus*, Vol. 12, No. 2, pp. 77–115.

——— (1978), 'International Accounting Compromises: The Case of Consolidation Accounting', *Abacus*, Vol. 14, No. 2, pp. 97–111.

Whittington, G. (1983), *Inflation Accounting: An Introduction to the Debate* (Cambridge: Cambridge University Press).

Wynne, A. (2004), 'Public Sector Accounting – Democratic Accountability or Market Rules?' *Public Money and Management*, Vol. 24, No. 1, pp. 5–7.