

**Written evidence from Dr Henry Midgley<sup>1</sup>, Professor Laurence Ferry<sup>2</sup> and Aileen Murphie<sup>3</sup>**  
**(PBI 06)**

**Public Administration and Constitutional Affairs Committee**  
**Public Bodies inquiry**

**Introduction**

We welcome the Public Administration and Constitutional Affairs Committee (PACAC) inquiry into public bodies. Our evidence is mainly directed to two questions asked in the call for evidence:

“Are there adequate governance and transparency requirements set out for all types of Public Bodies and are they applied consistently?”

“Is oversight by other bodies such as Parliament sufficient?”

Our evidence is mainly directed towards examining the role of government accounts; the importance of public sector audit and lastly the support available to Parliament for scrutinising financial information coming from non-departmental public bodies. We believe that government accounting and auditing are central to the answers to these questions.

Our summarised conclusions are that:

1. Financial accounts ought to be vital (and sometimes are) for the scrutiny of Public Bodies.
2. The current purposes of accounts have been drafted largely for the use of government departments; there has been no consideration of whether any specific purposes should be drafted for Public Bodies.
3. There are currently large gaps in the information contained in the financial accounts of Public Bodies because spending on key policy areas is not broken down to enable scrutiny.
4. A functioning audit of the value for money delivered by public bodies and their financial accounts is vital to the accountability of public bodies. The Committee should reaffirm the principles set out by the Sharman report of 2001 that all public bodies must be audited by the NAO.
5. The House of Commons service needs to reconsider the resources that it currently allocates to the scrutiny of Public Bodies.

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<sup>2</sup> Professor Laurence Ferry is Full Professor of Accounting at Durham University (UK) and Senior Distinguished Visiting Fellow at Rutgers University (USA). Internationally, Laurence is recognised as a ScholarGPS (2024) Highly Ranked Scholar, placing him in the Top 0.05% worldwide in both specialisms of government and local government. Nationally, in the UK, he has a long career in central and local government finance and served as a Parliamentary Fellow, working with the Housing, Communities and Local Government Select Committee between 2017 and 2019.

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Our evidence is outlined against these headings below.

### **1. The importance of accounts**

Non-departmental public bodies put together their accounts on the basis of guidance published by HM Treasury. Their accounts are then often consolidated into departmental accounts and then into the Whole of Government Accounts. The accounts for the individual bodies include more detail about the body's operations than the consolidated documents. Parliament has in the past used the accounts of Public Bodies to discover things that it could not have discovered from departmental accounts. For example, in 2016-17, the National Offender Management Service (who at that time, ran prisons and probation) reported that the costs of prison maintenance had not been understood and contracts for prison maintenance were underfunded: a point taken up by your predecessors on this committee in their inquiry into the collapse of the outsourcer Carillion (National Offender Management Service, 2017, p. 69; PACAC, 2018, p. 23). This issue was not reported in the Ministry of Justice's accounts at the time. Public body accounts are therefore often an indispensable element of the accountability of the UK state.

What makes these figures different from other sources of information about government spending, including on Public Bodies, is that they are audited figures. The National Audit Office (NAO) audits most of these bodies; is independent from the government and audits their accounts with the same rigour used for a set of commercial accounts (indeed in many cases more rigour) (Midgley et al., 2024). This is very different to other figures published by these bodies; for example, on their performance, which may not be checked by an independent body at all or if they are checked will be checked with much less rigour. Consequently, accounting numbers are more useful because they are more credible than many other numbers which the government publishes.

**Conclusion: financial accounts as a standardised, audited document are vital to the accountability of public bodies for their spending of public money.**

### **2. The purposes of accounts**

However, there have been widespread criticisms of accounts in Parliament, criticisms that the financial accounts of local authorities and central government departments do not provide adequate information for the scrutiny of government (PACAC, 2017; 2018a; Levelling up, Housing and Communities Committee, 2023). Academics have argued that these inquiries reflect a profound lack of trust in government accounts as they currently stand (Ferry and Midgley, 2024; Ferry et al., 2024a). In 2017, your predecessors proposed new purposes for departmental accounts and specific reforms to enhance those documents (PACAC, 2017). These new purposes were adopted by HM Treasury and have subsequently been published in the Financial Reporting Manual for subsequent years (Treasury, 2019; 2024). They are:

- "To maintain and ensure the House of Commons' control of Government spending, enabling in particular the House of Commons to hold the Government accountable for its spending;
- To enable the public and researchers (both in civil society and Parliament) to understand and consider the value for money offered by public spending, so that

they can make decisions about the effectiveness, efficiency and economy of particular policies or programmes;

- To provide a credible and accurate record which can be relied upon; and
- To provide managers inside Departments (including both Ministers and civil servants) with the information that they require to run the Departments and its agencies efficiently and effectively.” (PACAC, 2017, p. 5)

These proposals were originally put together for government departments and there has been no consideration specifically of them for Public Bodies as a whole. The wide variety of public bodies also suggests more thought needs to be given as to what their accounts and annual reports should look like. Some reasons which suggest a revision for public bodies (or for some public bodies) might be necessary include:

- The specialist nature of public bodies and their missions create dilemmas about the way that transparency should affect them. Public Bodies were often created for a specific reason or to carry out a specific function; for example, to serve as a tribunal or to run a service and it is not clear at the moment how far their accounts reflect their individual missions.
- Some public bodies are very small: the Valuation Tribunal Service for example employs 57 people, the Civil Service Commission employs 43 Staff and the Judicial Appointments Commission employs 102 staff and yet all these bodies produce a full set of accounts (Valuation and Tribunal Service, 2024, Civil Service Commission, 2023, Judicial Appointments Commission, 2024). Many, for example, Wilton Park, which spends about £4 million are below the materiality level (the level of error which auditors consider matters to the users of the accounts) of the department they are consolidated into: this means that even if their accounts were completely wrong, the auditors would issue a clean opinion on the accounts of their parent department. This generates a number of imbalances:
  - Bodies are preparing accounts which are clearly disproportionate to what they do. For example, the Valuation and Tribunal Service has approximately two pages of accounts for every single person it employs!
  - This is expensive. It requires accounting teams at many of these bodies to be employed to put together complex accounts, which are seldom read because the bodies are too small to attract much Parliamentary attention.
  - This is expensive for Parliament as well as government. Parliament’s auditor, the NAO, has increasingly diverted money from its value for money work to its financial audit work partly because audit regulation has grown stricter and partly because it is required to do a technically complex audit of these small bodies’ accounts (Midgley et al., 2024). Consequently, there is an opportunity cost to this work for the House of Commons.
  - These bodies need to be accountable, but the Committee might wish to consider
    - Proposing minimal accounting standards for these bodies. The Marshall Aid Commemoration Commission only publishes its main statements without any notes (Marshall Aid Commemoration Commission, 2023) and could be an example to others. The Committee could suggest that bodies below a certain size should only publish accounts of their expenditure or have a statement within their

parent department's accounts setting out base data like their expenditure and assets.

- Part of the reason for the existence of these tiny accounts lies in the fact that these bodies have their own estimate. The committee might wish to consider the opportunity cost to Parliament of approving estimates for this kind of body, which it seldom scrutinises, as opposed to including them in the estimate of the department they are either part of or sponsored by. There will be other matters to consider in this decision such as the sensitivity of the function that the public body performs, the relationship Parliament has with the sponsoring department, the relationship between the sponsoring department and the public and Parliamentary interest in its estimate.
  - This issue has been investigated in the case of local authorities (Lakoma et al., 2024) but we are unaware of similar work for public bodies.
  - Any suggestion for minimal accounting policies for small bodies or changing which bodies require estimates might require legislation so could be a longer-term goal.
- Many of the proposals underlying the principles developed by your predecessors, and accepted by the Treasury, related to Departments that had ministers. For example, the Committee suggested that when a minister makes a commitment to the Commons then the department's accounts should report back on that commitment- a point subsequently accepted for major commitments by the government (PACAC, 2017; Treasury, 2019; PACAC, 2019). There is a question about whether some of these bodies, especially when they are considered to be independent, should have the same duties placed upon them.

**Conclusion: the purposes of government accounts were initially designed for departments which have ministers of the crown. There may be additional purposes which are important for public bodies which are responsible for policy implementation and have no directly controlling minister. In addition, a de minimis level below which a public body only has to produce a set of expenditure figures rather than full accounts should be considered**

### **3. Gaps in accounting information for public bodies**

There is still disquiet about whether Public Body accounts, even after PACAC published its principles for Departmental Accounts, provide MPs with the information they require to hold the government to account. For example,

- The HM Prison and Probation Service does not disclose the amount spent on women's prisons (HM Prison and Probation Service, 2024).
- The HM Prison and Probation Service does not disclose the amount spent on mental health or other services to prisoners (HM Prison and Probation Service, 2024).
- Whilst some figures for expenditure on individual diseases are broken down in the NHS England accounts (including some figures for mental health) there is no breakdown in those accounts of NHS spend by disease or by type of disease (NHS England, 2024). Its operating segments are also hard to decipher for those not directly involved in the organisation of healthcare in the UK such as the ordinary

citizen or Parliamentarian envisaged by the Treasury as the user of the accounts (Treasury, 2019; NHS England, 2024).

- The Environment Agency accounts provide a breakdown of activity but no breakdown of spend by geographical area across England (Environment Agency, 2024).
- The most recent set of British Council accounts provide a list of the countries they operate in but does not break down spending by country (British Council, 2023). The lack of such a disclosure means that it is difficult for Parliament to evaluate claims that the Council might have to close operations in 30-40 countries given its current financial difficulties (Adams, 2024).
- The National Physical Laboratory's annual report say that its main priorities include "provid[ing] scientific research and development". While a cost for research is reported in their accounts, nowhere is this broken down by area or sub-sector. Furthermore, the corporate plan for 2023 to 2027 (and its successor for 2024-8) outlines five pillars of National Physical Laboratory's work but nowhere in the accounts is NPL's spending broken down according to these pillars (National Physical Laboratory, 2023; 2024; 2024a).
- The Government committed in 2019 (through evidence given to PACAC by James Bowler, then Director General of Public Spending at HM Treasury) to disclosing whether the government actually spent money when it had "major commitments" to do so (PACAC, 2019, Q51). When pressed, Mike Driver, then Head of Government Finance at HM Treasury and Chief Financial Officer at the Ministry of Justice, said that one such major commitment was made by the then Prime Minister, Boris Johnson, to create 10,000 prison places, and that the accounts would disclose whether that had been met. (PACAC, 2019, Q54). The Government did mention this commitment in 2021 in the HM Prison and Probation Service accounts but did not reflect on progress against it, then the commitment was not mentioned again in subsequent Prison Service accounts and at no point was a quantified metric of progress or spend discussed in the accounts (Her Majesty's Prison and Probation Service, 2021; 2022; 2023).

This information may be disclosed in other places (for example in answers to Parliamentary Questions) but crucially the financial data in the accounts are audited whereas other information published by the government is not.

Furthermore, these gaps are not in the spirit of the principle accepted by the Treasury that accounts should "enable the public and researchers (both in civil society and Parliament) to understand and consider the value for money offered by public spending" nor do they match Parliamentary answers given by ministers and officials about the need for accountability for public money (Treasury, 2019; PACAC, 2019; Treasury, 2024).

The NAO's predecessor department, the Exchequer and Audit Department, committed in 1977 to report to Parliament about any inadequacy in government accounting and its link to accountability (Expenditure Committee, 1977, p. 595; Midgley et al., 2024, p. 37). The Committee may therefore wish to ask the NAO whether it would examine all the accounts of public bodies to identify where there are further gaps in the disclosure of information that Parliament would find useful for its scrutiny.

**Conclusion: despite the recent improvements to accounts, there are still fundamental gaps in the disclosures especially those made about policy spending in accounts. This is true for public bodies as well as for the main departments and the Government should improve the situation. The NAO has committed in the past to informing Parliament of defects in accounts for the purpose of accountability: the Committee might wish to request that the NAO review all public body accounts to identify similar flaws to those identified above.**

#### **4. The importance of audit**

The accounts are the most useful document for the scrutiny of public finances because they are the only document disclosing spending numbers which is independently audited. Academic literature acknowledges the vital importance of audit to the credibility of accounting data and the lack of this has severely undermined local government accountability recently in the UK (Ferry et al., 2024). In the case of public bodies, they are audited by the NAO. This arrangement was the product of a long campaign by the House of Commons, led by the Public Accounts Committee under both the late Lord Sheldon and Sir David Davis, which culminated in the Sharman review of 2001 which secured the NAO's access to public bodies (Sharman, 2001; Midgley et al., 2024).

The NAO's audits of the accounts of public bodies is vital to their credibility as discussed above. The constitutional centrality of the NAO's role as the check on accounting figures was noted by your predecessor committee in 2017 when they reported on government accounts (PACAC, 2017, p. 42). Maintaining it in the case of public bodies is vital. In cases where the NAO is not currently the auditor (for example the National Physical Laboratory), the NAO should become the auditor (National Physical Laboratory, 2024).

The NAO's right to do financial audits on these bodies gives rise to a second right, to conduct examinations of the economy, efficiency and effectiveness with which public bodies use their resources (commonly called in the UK, value for money) (National Audit Act, 1983, s. 6(3.c,d)). These examinations are vital to securing accountability to Parliament for the use of resources. The NAO reports the results of these examinations to Parliament on a regular basis and supplies roughly 60 of them to the Public Accounts Committee for their evidence sessions. Increasingly, over the last fifteen years, the NAO has also supported other committees with these examinations (Midgley, 2019). The NAO however has cut the amount of money available for such work in recent years and any extension of its role would require more resources hypothecated to value for money work (Midgley et al., 2024). Parliament controls the NAO budget and could therefore through the Public Accounts Commission request this (Midgley et al., 2024). Furthermore, it is not clear at the moment whether the investigations the NAO does are directed at public bodies as well as departments. Anecdotally, over the last fifteen years, there has been a tendency for the NAO to direct its attention to departments or the largest public bodies, while doing less value for money work on medium sized public bodies (except for regulators) who often have significant policy responsibilities and impact.

**Conclusion: the Sharman report was correct to extend the access of the NAO for both financial audit and value for money audit to public bodies. This principle should be continued for all new public bodies and extended to all current public bodies. Furthermore, there is scope with increased resources for the NAO to play more of a role in**

**supporting the Commons (including other select committees as well as the Public Accounts Committee) in scrutinising public body expenditure in the future.**

### **5. The coverage of the Scrutiny Unit**

The Commons conducts its scrutiny of public spending with the assistance of the experts on the Scrutiny Unit. The Scrutiny Unit employs a small group of experts in accounting and economics to provide its expertise on a non-partisan basis to select committees (Ferry et al., 2021). The Unit works well with small resources, but its level of resource means that it concentrates mostly on departmental accounts. When one of the authors of this submission worked in the unit, it had less than ten staff devoted to financial scrutiny and consequently most of their time was spent working on the departments rather than moving on to public bodies (unless such a public body was often in contact with a select committee like the Parliamentary Health Service Ombudsman is with PACAC).

The NAO also publishes guidance which explains financial information for select committees and puts it in the context of policy developments (Midgley, 2019). These are normally called Departmental Overviews. However, again these focus mostly on departmental accounts and do not focus much on public bodies. Again, the NAO might need more resources to provide more information to Parliament about these bodies so there is a trade-off to consider between the cost of extra scrutiny and its value, both democratically and administratively, that the committee should consider. However, departmental overviews especially of significant public bodies like the Parliamentary Health Service Ombudsman, NHS England or the National Physical Laboratory would clearly be in the public interest.

**Conclusion: there is a case for providing extra resources to the Scrutiny Unit so that it can provide more support in scrutinising the accounts and other financial and economic data emerging from public bodies. Furthermore, the Committee could encourage the NAO to provide more departmental overviews of significant Public Bodies.**

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