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The Data Needs of Public Accounts Committees

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The data needs of Public Accounts Committees *

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Abstract This paper presumes that a PAC wants all that financial information that a competent director of a large entity might require if they are to undertake the tasks of stewardship that are rightly entrusted to them. These include the management of income and expenditure and the subsequent accounting for that activity. This duty also extends to the custody of the assets of a government, which requires that sufficient information is available to recover sums owing in tax and for other purposes, as well as to make sure that liabilities are only settled to those to whom they are properly due.

This paper suggests that this requires that a PAC should have available to it:

- Appropriate budgets;
- Tax gap forecasts and outturn data;
- Annual accounts comparing outturns with budgets;
- Registers of those with whom the government contracts;
- Access to financial data on those parties who might have liabilities for tax and other sums owing to the government.

Few governments will have all the information suggested in this report and even fewer PACs have access to it. Each PAC will, therefore, need to review the information that this report suggests it should have available to it and set priorities in seeking to secure that which it requires over a period of time so that it is empowered to undertake the tasks expected of it by the jurisdictions parliament and voters to whom they are ultimately accountable.

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COFFERS EU Horizon 2020 Project

COFFERS
Combating Fiscal Fraud and Empowering Regulators

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Background note

This report was prepared in response to a request from a member of the House of Commons Public Accounts Committee ('PAC') that I suggest the data that a PAC should be in possession of if it was to have a reasonable chance of undertaking the tasks expected of it. The request was made in anticipation of a conference on the role of PACs in March 2017[1].

The House of Commons PAC says of its role that[2]*:*

> *The Committee of Public Accounts is appointed by the House of Commons to examine: "the accounts showing the appropriation of the sums granted to Parliament to meet the public expenditure, and of such other accounts laid before Parliament as the Committee may think fit" (Standing Order No 148).*

They add:

> *This Committee scrutinises the value for money - the economy, efficiency and effectiveness - of public spending and generally holds the government and its civil servants to account for the delivery of public services.*
>
> *As delivery models for public services have changed, so the reach of the Committee, in following the taxpayer's pound, has spread beyond government departments to also examine public bodies and private companies providing public services.*

Whilst warning:

> *The Committee looks at how rather than why public money has been spent and does not examine the merits of Government policy. That role is performed by the relevant Departmental Select Committee.*

Appropriate as these suggestions might be at a functional level they do not adequately describe the role of the committee in governance terms and nor do they explain why that role might differ from that of either an ordinary back bench MP, who has the right to question any minister in the House, or of a member of the public when they have access to a surprising amount of information, even if most are unaware of it[3]*.*

Dame Margaret Hodge MP, who chaired the House of Commons PAC from 2010 to 2105, and enormously increased its status in the process of doing so, suggested in a recent book (Hodge, 2016, 21)[4] *that:*

[1] https://www.uk-cpa.org/news/multilateral-forum-brings-together-uk-overseas-territories-and-the-uk-to-discuss-good-practice-in-public-financial-management/

[2] http://www.parliament.uk/business/committees/committees-a-z/commons-select/public-accounts-committee/role/

[3] For example, each UK government department publishes a set of accounts concerning its own affairs, as does the UK government as a whole.

[4] Hodge, M, 2016 'Called to Account', London: Little, Brown

> *The role of the Public Accounts Committee is to hold the government to account for the way it spends public money.*

Again, whilst I have enormous respect for Margaret Hodge, with whom I have had much contact as our interests often overlapped during the many investigations that she led in the PAC into tax related issues, I do think that this definition, whilst benefitting from succinctness, requires expansion. This is why in this paper I suggest that the best equivalent to the role the PAC undertakes is that of the non-executive directors, acting in unison, on the board of a major company, with ministers in this analogy being the executive directors.

The suggestion has not been chosen lightly. Firstly, non-executive directors are not third party bystanders to the operation of a company. They are insiders. They hold joint and several responsibility with the executive directors for the actions of the entity they are tasked with governing. And if it fails they are accountable for that failure just as much as those who actually directed its day-to-day operations. I think this is true of the PAC. Its members are, like ministers, are parliamentarians. They are not interested outsiders, which might be the role of the shareholders in this analogy, or even concerned observers, as are the stakeholders of a large corporation. They are quite specifically insiders with a definite task to do.

The fact that they exercise that role in a committee suggests, however, that there are other facets to their work. This structure implies that there is a collective duty. Furthermore, it suggests it is continuing: the duty of the member is to be part of an on-going body of work that in turn requires they uphold its integrity. It also permits the attribution of powers to the collective that the individual might not have, and it is very clear that the PAC does enjoy such status.

This power and responsibility does then demand that a PAC accept the weighty task given to it. But that also requires that it demand the powers that go with that task, including the right to access information that is required for it to form and then exercise its judgement. Again the comparison with a board of directors is appropriate. A non-executive director is assumed to have as much access to the data of a corporation as the executive directors do. And they are presumed to have the right to demand additional data if it is required for their purposes, again just as the executive might. What is more, they are expected to ensure that in their role as Board members the information provided for their collective consideration is fit for purpose.

This paper suggests that the House of Commons PAC is not supplied with information fit for its purposes at present. As example, at the most basic level the accounting data produced by government departments does not compare outcomes with budgets. Bizarrely, those budgets and accounts are even prepared on different accounting bases; UK government budgets being cash based and government accounting being accruals based. There are then considerable issues that the UK PAC and those other PACs that seek to emulate its work need to face if they are to secure the data that they need to undertake their work to the standard that their electorates expect of them.

The paper is intended to provoke discussion, not least, it is hoped, with the PAC itself. Comments are welcome.

1 Introduction to the report

The UK House of Commons Public Accounts Committee (PAC) gas been invigorated and given new life since 2010 under the chairmanship of Margaret Hodge MP and Meg Hillier MP. The Committee has been most noted for its work on various aspects of taxation but has also undertaken invaluable work over a much wider range of issues, holding ministers, civil servants and others to account for their work in raising and expending public revenues.

That said there have been considerable constraints on the PAC's work. In particular it has been hard for it to resource its own investigation and it has frequently had difficulty in securing information required from ministers and others whilst commercial confidentiality or simple lack of data has prevented it pursuing some issues.

Despite these problems there are plans to replicate the work of the PAC in the parliaments of other jurisdictions. This does however pose the question as to what data a PAC should ideally have access to and how that information should be organised to ensure that the necessary evidence is available to assist its work. The purpose of this paper is to consider those issues. In doing so three things are noted.

The first is that data overload can be as disadvantageous as an absence of information. The suggestions made here are considered proportionate when it is accepted that appropriate materiality limits will be applied in the supply of them all.

Second, it is suggested that the PAC does not play the role of the shareholders in a publicly quoted company when scrutinising the work of government. The PAC is, instead, equivalent to the non-executive directors on the board of a commercial company. It is they who have to hold the executive to account: the role of the public is, like the shareholders in a company, to assess their ability in undertaking that task and then vote for their re-election, or not.

Third, this necessarily means that a PAC will require data in more depth than the public might demand. This paper reflects that fact. As a result it suggests the provision of information that has not to date always been in the public domain, or which should be supplied in formats different to that in which many governments will be used to supplying it. This, however, reflects the growing demand for accountability within the political process. That accountability, and the good governance that goes with it, the oversight of which is the task at the heart of the work of a PAC, cannot be undertaken without information. If the confidence of the public in the governments that they elect is to be maintained then high quality data that demonstrates that appropriate standards of conduct and management have been maintained is a price worth paying.

2 Questions that a PAC needs to ask

The questions that a PAC might like to ask of itself, based on the analysis in this paper, are:

1. Does the PAC have access to an adequate budget for the jurisdiction's anticipated income and expenditure?

2. Does the jurisdiction appropriately budget its theoretical taxable income, its total tax expenditures and its anticipated tax gap?

3. Are appropriate lines of responsibility identified for all sources of income and expenditure so that proper accountability can be demanded for them?
4. Are appropriate distinctions between capital and revenue income and expenditure identified in the government's accounting systems?
5. Are appropriate accounting policies adopted for use in the jurisdiction's government accounts?
6. Are appropriate and timely annual accounts prepared for each government ministry or department as well as for the government as a whole?
7. Do those annual accounts compare outcomes with budgets so that variances can be established and accountability for them be upheld?
8. Is the actual tax gap reported on annually?
9. Does the government maintain a register of all the persons with whom it contracts?
10. Is the government able to secure appropriate information on the trading of the entities with whom it contracts so that their ownership and financial performance, as well as their settlement of local taxation liabilities, can be determined if required?

3 Information requirements

3.1 Basic information requirements

The role of a PAC is to terming whether or not a government gets good value for money when collecting its revenues and expending its budget. This requires that a PAC secure from that government:

1. A comprehensible budget;
2. Appropriate government revenue reporting;
3. Appropriate government spending reporting;
4. Necessary data on those whom the government expects to tax;
5. Relevant information on those with whom the government contracts.

3.2 Budgets

The essential qualities of the budget that a PAC should review are that they are:

1. Timely;
2. Comprehensive;
3. Comprehensible;
4. Plain language should be used when we possible;

5. All acronyms should be explained in context;
6. Key assumptions, unusual or non-recurring items should be highlighted and areas of uncertainty should be clearly specified;
7. Comparable over time;
8. Comparable with similar jurisdictions.

In addition they should:

1. Indicate accountability;
2. Be compatible with the format used for reporting budget out-turns;
3. Be subject to out-turn reporting so that lessons are learned;
4. Be sufficiently detailed so that an informed user secures the information that they need to understand the anticipated levels of planned revenue and expenditure. This requires that materiality limits for disclosure are specified for each budget area. It is inappropriate to assume that materiality is consistent across all budgets because the sensitivity of some decisions will always suggest otherwise.

3.3 Government revenue reporting

Appropriate accounting for government revenues requires that:

1. All sources of revenue, including those not expected to be derived from tax, be reported;
2. Non-tax revenues, their reasons and the risks associated with them must be stated;
3. Non-tax revenues must be split between recurring and non-recurring items;
4. If any revenues relate to sales of assets there should be stated if it is material, or in total:
5. What is being sold;
6. Its original cost;
7. The reason for sale;
8. The revenues being foregone over the following ten year period as a result of the sale;
9. The use for the anticipated proceeds of sale.
10. The key economic assumptions that underpin the revenue budget should be stated.

With regard to tax revenues:

1. The theoretical yield from each tax be specified: this is a theoretical calculation assuming there are no allowances and reliefs and no tax abuse;

2. The cost of all the major reliefs and allowances that reduce the theoretical day yield be specified. This is what is technically described as ‘tax expenditure’ and it makes up what is also called the ’tax policy gap’. It is the amount that the government decides to give away in tax reliefs and allowances to promote social, economic, industrial and other policy objectives. The justification for each relief and allowance should be specified to justify its continuing provision;

3. The actual anticipated revenue from each tax should be stated. This sum is the theoretical yield less the cost of reliefs and allowances and less the tax that will not be paid whether because of tax evasion, tax avoidance or the taxpayer not making settlement, these last three items making up the tax compliance gap. The tax compliance gap should be stated separately for each tax and its anticipated breakdown between tax evasion, tax avoidance and taxpayer non-settlement should be specified. The reasons for the assumptions made should be stated.

3.4 Government spending reporting

Appropriate accounting for government revenues requires that government spending be clearly specified by area of spend and line of accountability:

1. This will usually require that spend be specified by ministry. It is inappropriate that spend be categorised by controllability. This means that breaking spend between discretionary (managed) budgets and those driven by economic events (levels of unemployment, demand for healthcare, etc., where external events do to some degree drive demand) is inappropriate because it describes spending by function and not accountability and destroys the latter. There is, in addition, no such thing as non-discretionary spending. A minister should always accept accountability for all expenditure. If it is desired that expenditure be categorised by recurring (even if variable) commitment and discretionary spending then this split should be made within a ministry’s budget;

2. Spending should be categorised within ministry or departments between revenue and capital expenditure using the split used for Whole of Government Accounting purposes;

3. Capital spending budgets should specify (taking materiality into account):
   - The major projects or types of project being undertaken;
   - The total cost of the projects in progress being undertaken;
   - The part of that cost being undertaken in the current year;
   - Any variation in anticipated total costs on material projects since the last budget and the impact that this has on current year capital spending;
   - The anticipated lives of the projects in question;
   - The location of the projects and the justification for their being undertaken;

4. Revenue budges should specify the reasons for the expenditure and the major underlying assumptions driving the budgeted level of spend. For example it may be appropriate to note assumptions on:
   - The number of pensioners;
   - The claimant count by benefit type;

  - Number of NHS patient contacts by type;
  - Number of children in education by age group;
  - Population trends and location that underpin demand for social services, policing, other emergency services, etc.;
  - The number of prosecutions, prisoners and those on probation;
  - The number of embassies and scale of operation;
  - And so on;

5. Revenue budgets should also note key cost assumptions such as:
  - Staffing assumptions e.g. numbers of staff, changes in staffing levels, remuneration rates, personnel on costs such as social security and pension expenditure and costs of accommodation, each to be separately identified together with other items if material such as recruitment, training and redundancy;
  - Consumable costs categorised by type used for reporting purposes
  - Non-recurring or discretionary revenue spending by type stating objectives for the spend, total likely duration and total costs, anticipated benefits and success criteria;
6. Key performance indicators used to manage each material budget area should be specified.

3.5 Necessary data on those the government expects to tax

Tax cannot be collected unless a number of criteria are met. These are that:

1. The tax base can be properly defined;
2. The tax base can be located;
3. The ownership of the tax base can be identified;
4. A legal claim can be successfully made to require that the tax be paid;
5. The tax can be recovered from the taxpayer if they refuse to make settlement .

A PAC does need to be satisfied in the case that:

1. A tax authority has correctly identified the risks that exist in the definition of its tax base. Regular reports should be required in this issue;
2. The tax authority has in place all appropriate information agreements that might identify those with liability to pay tax including:
3. Country-by-country reporting for tax purposes;
4. OECD standard automatic information exchange agreements with as wide a range of jurisdictions as possible;
5. Equivalent domestic information exchange from sources such as banks, credit card providers, payment platforms such as PayPal, trading platforms such as eBay, financial services providers and those other agencies that might help identify those with taxable sources of income or gains;

6. There is an effective company registry for the jurisdiction that maintains records on:
7. the identity of all limited liability entities, trusts, foundations, charities, and other arrangements formed as a result of statutory provisions that trade or undertake potentially taxable activity in the jurisdiction whether incorporated within it or elsewhere;
8. The beneficial ownership of such entities;
9. The accounts required from all such entities;
10. In the event that the tax liabilities of limited liability entities are not paid there are mechanisms available to breach the protection of limited liability so that in the event of abuse those persons permitting such abuse are liable for the tax owing.

3.6 Information on those with whom the government contracts

A PAC should be satisfied that:

1. The government maintains a complete register of all those with whom it contracts for the supply of services;
2. All public procurement is with companies that are tax compliant and that there are appropriate guarantees with regard to tax payments secured from parent undertakings and related parties in the event that liabilities arising from a contract are not paid.

3.7 Out-turn reporting

To ensure that revenues and expenditure performance can be compared with outcome it is essential that:

1. Accounts for each ministry or department are prepared on a consistent and timely basis;
2. That Whole of Government Accounts are prepared on the same basis. These should reflect the consolidated financial performance of the government for the period in question;
3. Appropriate accounting policies are adopted for the preparation of such reports. These are unlikely to be those used for commercial financial reporting as the needs of the users of each type of financial report are likely to differ;
4. The accounts in question compare outcomes with the budget for a period as well as with the previous financial year even of this is not the format used for the presentation of financial statements of commercial organisations;
5. The differences between outcomes and budgets be highlighted in these accounts;
6. Ministers are required to explain the reasons for variances between outcomes and budgets whenever these are material;
7. Tax gap outcomes are reported and variances explained;
8. A PAC has the opportunity to question such variances and require further evidence to support explanations supplied if necessary.