Guide

National Audit Office

Understanding central government's accounts

An introductory guide for those with an oversight role

Contents

Introduction

The purpose of this guide

The audited Annual Report and Accounts of each government department, which are presented to Parliament each year, are a fundamental part of the parliamentary accountability cycle. Departmental financial statements can sometimes be difficult to understand if readers are not familiar with the accounting and reporting requirements that apply in the central government sector. This guide aims to help readers of government's accounts to more easily navigate and understand them. The guide focuses on departmental Annual Reports and Accounts, but is also relevant to annual reports and accounts of other central government bodies, such as executive agencies and non-departmental public bodies.

This guide is aimed at those who have an oversight role in relation to central government's accounts, such as non-executive board members and audit and risk assurance committee members. Robust, independent scrutiny and challenge of an organisation's accounts is an important driver of transparent financial reporting and accountability. Reviewers need to have a good understanding of central government's financial statements if they are to discharge their challenge role effectively; this guide can help non-accountant readers of government's accounts understand better what is being reported in them and what it means.

How to use this guide

This guide can be used by reviewers as a companion guide when they are considering a department's Annual Report and Accounts. The guide goes through each of the main sections and statements in the Annual Report and Accounts. For each section, it covers:

- the purpose of the statement/section – what is it telling you?
- a summary of the format of the statement; and
- links and cross-references to other parts of the accounts and notes which provide further analysis.

Each section also includes suggested challenge questions to help reviewers of accounts scrutinise them more effectively.

The tabs at the top of each page are clickable and can be used to navigate to specific sections of the guide.

A note on examples

This guide provides examples to illustrate the typical features of a set of departmental accounts. Each example has been taken from a recent published set of accounts of a department (the department has been identified in each case). The examples have been selected simply to be illustrative; they do not necessarily represent best practice.

Additionally, we have selected our examples from across the range of central government departments, rather than selecting one department. This means that the examples don't tie in to each other.

National Audit Office, March 2014

High level overview of departmental funding and accountability cycle

Departments' financial resources are formally allocated to them by Parliament each year.

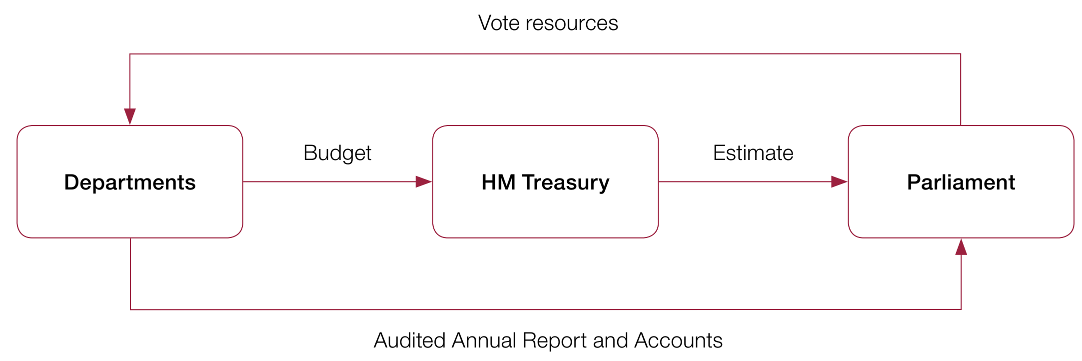
The cycle starts with departments preparing their annual budgets and submitting them to HM Treasury.

HM Treasury reviews and challenges these, before presenting them to Parliament in the form of the Estimates for each department.

Parliament then authorises this expenditure by 'voting' on it.
The details of the authorised amounts are set out in a Supply and Appropriation Act.

The cycle is completed after the end of the year when departments report back to Parliament, in their audited Annual Report and Accounts, their actual outturn for the year compared with their authorised amounts.

A fundamental element of the parliamentary accountability cycle is the presentation of each department's Annual Report and Accounts, which have been audited by the Comptroller and Auditor General. It is through this mechanism that each department demonstrates how much of its voted resources it has used, shows what it has used its resources for and explains the outcomes it has achieved with them.



The Annual Report

What is it telling you?

The front section of the Annual Report and Accounts contains predominately narrative information; it provides the context to the financial statements by explaining what the organisation set out to do during the year, what it has achieved and its plans for the future. It also explains how the organisation is governed. This report is similar to the directors' report found in company accounts.

Annual guidance issued by HM Treasury sets the areas to be covered by the report. Generally, the Annual Report is not audited, though the auditor will read it to ensure that it is consistent with the financial statements and with their knowledge of the business. The one section that is subject to audit is the Remuneration Report.

The main difference between a company's directors' report and the Annual Report of a departmental group is the inclusion of core tables in the departmental report. These tables present the spending of the departmental group analysed in a number of ways. These tables are not subject to audit other than the auditor considering whether the information is consistent with that in the financial statements.

Purpose

The purpose of the Annual Report and Accounts is to present a clear picture of the department's aims, activities, functions and performance, linking performance delivered over the past year with expenditure during the same period.

The report should be straightforward and accessible, focusing on factual information rather than being a lengthy narrative.

The narrative sections of the Annual Report are presented in a number of discrete sections. There is prescribed core content, the Governance Statement, the Sustainability Report, the Remuneration Report and the Statement of the Accounting Officer's Responsibilities. These sections are then followed by the financial statements.

Core content

While there may be changes to some of the specific requirements year-by-year, as a minimum requirement, based on the 2013-14 guidance, the core contents in a department's Annual Report should include:

- details of what the department has achieved in the financial year;
- a Management Commentary which discloses the department's performance against its priorities, the Transparency Agenda, structural reform plans and indicators;
- a series of common core tables (see below for more detail); and
- a section on Non-Executive Board Members, comprising a report from the departmental lead non-executive; and a statement of how performance evaluation of the board, its committees and board members has been conducted.

There are a number of other requirements for the Annual Report. These include specified matters relating to pay and staff costs:

- An explanation of the pay multiple or ratio from comparing the highest paid director with the median pay of employees. These disclosures will include an explanation for movements between years.
- Details of spending on consultancy and temporary staff.
- Data relating to the tax arrangements of members of staff that are not paid through the payroll.

If there have been any complaints to the Parliamentary and Health Service Ombudsman these should be reported and explained.

Core tables

The Annual Report includes a series of tables of financial data. These tables provide data for a number of previous years allowing users of the accounts to see trends as they develop. These tables should be supported by explanations for trends and changes.

The content of the tables is set out in annual guidance issued by HM Treasury. These tables include the overall spending of the department analysed into its key activity areas; the values of assets used by the department, the number of staff employed and (where applicable) a geographical analysis of the activity spending by country and region.

Remuneration Report

The Remuneration Report requirements follow closely the remuneration disclosures that companies are required to make under the Companies Act 2006. This report should explain the basis on which executive remuneration is determined and the governance around it. It sets out the remuneration payable to the board and senior management in respect of services for the year.

Remuneration includes – in addition to basic salary – any benefits in kind, severance payments, bonuses and tax settled on behalf of individuals.

Additional disclosures relating to pension entitlements are also included. These disclosures include the Cash Equivalent Transfer Value (CETV) of these entitlements; this is the overall value, as calculated by an actuary, of the pension entitlement. It is not the annual pension they would receive and neither is it a lump sum that they would be able to access. It relates to the anticipated cost of providing the pension throughout retirement.

The Remuneration Report should be signed and dated by the Accounting Officer.

Governance Statement

The Governance Statement brings together all disclosures relating to corporate governance, risk and control. It aims to support better governance and drive more consistent, coherent and transparent reporting.

The Governance Statement should be assembled from work through the year to gain assurance about the organisation's governance, performance and risk profile, its responses to the identified and emerging risks, and its success in tackling them. Board members, with the support of the audit and risk assurance committee where appropriate, should evaluate the quality of the systems of internal control and governance, assess the risks facing the organisation, and advise on any significant omissions from the statement which may necessitate further disclosure.

Sustainability Report

The Sustainability Report follows detailed HM Treasury guidance and principally covers carbon emissions from buildings and travel, water use, waste generation and recycling. Additionally, data on the costs associated with each area must also be provided.

By using a format that covers both financial and non-financial performance, HM Treasury's aim is that both the benefits and cost implications associated with an organisation's sustainability are recognised.

Challenge

Does the description of the department's aims and activities clearly and adequately reflect reality?

Is the Governance Statement a balanced reflection of the department's activities in this area? Are risks and weaknesses openly and honestly considered?

Additional information available

NAO Factsheet: Governance Statements: Good practice observations from our audit experience: **www.nao.org.uk/report/fact-sheet-governance-statements-good-practice-observations-from-our-audits-3/**

NAO Factsheet: Governance Statements – a summary of the requirements of the guidance: **www.nao.org.uk/report/governance-statements-previously-statement-on-internal-control-3/**

HM Treasury Sustainability reporting: **www.gov.uk/government/publications/public-sector-annual-reports-sustainability-reporting-guidance**

High level overview of accounts

The departmental group

Departments are required to prepare consolidated financial statements that incorporate the results of all of the bodies within the departmental 'family'. This is known as the departmental group. The bodies in the departmental group are the same as those included in the department's Estimate, by which departmental group expenditure is authorised by Parliament. If there is no departmental 'family', for example departments that have no agencies or arm's-length bodies, then the department does not prepare consolidated accounts.

Each year, all the bodies to be included in the departmental group are set out in a statutory instrument. Changes to the group year-on-year are usually few, arising most commonly when new bodies are set up (or bodies are closed) or where organisations move statutorily from one part of government to another, through 'machinery of government' changes. Typically, bodies included in the group are in some way reliant on funding from the parent department, for example, they may be non-departmental public bodies receiving grant-in-aid funding from their sponsor department, and their remit is to deliver services within the policy responsibilities of the department.

Departmental group financial statements are presented in a three-column format, for both the current year and prior year comparative figures. The accounts, therefore, generally follow the format shown in **Box 1**.

Most examples of statements and notes in this guide follow this three-column format. Some, however, only include two columns, for departments which do not have any agencies, such as the Cabinet Office.

Box 1: The three-column format for financial statements

	201Y-201Z			201X-201Y		
	Core Department	Core Department plus Agencies	Departmental Group	Core Department	Core Department plus Agencies	Departmental Group
Outturn						

Content of the financial statements

A department's accounts consist of the following summary statements. These are often referred to as the 'primary statements'.

- **Statement of Parliamentary Supply (SoPS)** – this is the primary parliamentary accountability statement and is unique to central government financial reporting. It reports the total outturn (how much has been spent) for the departmental group compared with the amounts approved by vote by Parliament in the Estimate, in the various categories of expenditure included in the Estimate. For more detail, see the SoPS section.
- **Consolidated Statement of Comprehensive Net Expenditure (SoCNE)** – this is the performance statement, the equivalent of the old 'Profit and Loss' Account and Statement of Total Recognised Gains and Losses. It reports a summary of the departmental group's expenditure and income for the financial year, along with its gains and losses, in the three-column format described above. For more detail, see the SoCNE section.
- **Consolidated Statement of Financial Position (SoFP)** – previously known as the balance sheet, it provides a snapshot of the assets and liabilities of the group as at the end of the reporting period. For more detail, see the SoFP section.
- **Consolidated Statement of Cash Flows (SoCF)** – a statement that reports the cash flows during the financial year from operating, investing and financing activities. For more detail, see the SoCF section.
- **Consolidated Statement of Changes in Taxpayers' Equity (SoCTE)** – a statement which explains the movements in the department and departmental group's net assets between the start and end of a financial year. For more detail, see the SoCTE section.

These primary statements are supported by a series of **Notes to the Accounts** that provide further analysis and explanation. These notes also provide explanatory information about other items that are not included in the primary statements. For more detail, see the Notes section. One of these notes will contain a list of all the entities that have been consolidated into the departmental group.

SoPS – The Statement of Parliamentary Supply

What is it telling you?

The Statement of Parliamentary Supply (SoPS) is the primary parliamentary accountability statement and is unique to central government. It reports the outturn for the departmental group against the final annual spending limits authorised through a vote by Parliament. These spending limits are often referred to as control totals. Any spending in excess of the amounts authorised by Parliament is irregular. Where excesses are reported in the SoPS, the Comptroller and Auditor General 'qualifies' his audit opinion and reports the excess to the Public Accounts Committee.

Unlike the other primary statements, the SoPS is not an IFRS-based disclosure, therefore it and its supporting notes are separated from the other primary statements and notes in the Annual Report and Accounts.

Format

The SoPS is split into three sections: the summary of resource and capital outturn, the net cash requirement, and administration costs.

The first section, the **summary of resource and capital outturn**, presents the outturn against the five fiscal spending controls. These are set out in **Box 2**.

These spending control totals align with national accounts and budgeting. Expenditure under each of these control totals is usually authorised through the annual vote procedure in the Supply and Appropriation Acts. There are certain categories of expenditure (for example some benefit payments and some healthcare costs) that are not subject to annual approval in this way and they are included, still against the fiscal control areas, under the heading 'non-voted'. The inclusion of both voted and non-voted expenditure means that the reported outturn more closely aligns with both the financial reporting and the budgeting processes.

The classification of expenditure between the control totals is explained fully in the detailed *Consolidated Budgeting Guidance* issued by HM Treasury.

The **net cash requirement** is the amount of cash that the department requires in order to support the above expenditure.

Should the department overspend against any of these voted control totals, this will be shown as an excess on the SoPS. An explanation for any such excess should be provided in the Management Commentary.

The SoPS also reports the actual **administration costs** as compared to the amount anticipated in the Estimate. Administration costs are a part of the resource DEL voted control total.

Although the anticipated administration costs are not explicitly voted by Parliament, they are sufficiently important to be reported on in this primary statement. Administration costs are controlled by HM Treasury and an overspend would usually result in the C&AG qualifying his audit opinion.

Box 2: Control totals

The control totals are:

- Departmental Expenditure Limit (DEL): DEL covers the day-to-day, planned and controllable departmental expenditure. It is analysed between:
  - resource DEL – for revenue expenditure; and
  - capital DEL – for capital investment, purchases of assets and capital grants.
- Annually Managed Expenditure (AME): AME is more volatile and less predictable. Again, it is analysed between:
  - resource; and
  - capital.
- Non-budget expenditure – resource: this is where any grants to devolved administrations or prior period adjustments would be shown. Most departments do not have any entries against this category.

Notes to the Statement of Parliamentary Supply (SoPS)

As the SoPS is not prepared under International Financial Reporting Standards (IFRS), its notes are presented separately from the notes to the other primary statements. They are as follows:

Accounting Policies Note (Note SoPS 1)

The SoPS Accounting Policy note explains the statutes under which the SoPS is prepared, which is usually the *Government Financial Reporting Manual* (FReM), the *Consolidated Budgeting Guidance*, and the *Supply Estimates Guidance Manual*.

The accounting policy note also sets out the key differences between the SoPS and the IFRS-based statements for the departmental group, including (where appropriate):

- **PFI and other service concession arrangements**, which can be treated differently depending on whether they are on- or off-balance sheet, leading to differences between the SoPS and the SoCNE.
- **Capital grants**, which are treated as Capital DEL in the SoPS, but are included in the SoCNE as resource expenditure.
- **Equity withdrawals**, which are resource income in the SoCNE, but may qualify as capital repayments in the SoPS.
- **Prior period adjustments (PPA)** resulting from errors or from changes in accounting policy initiated by the department, which are treated as current year transactions in the SoPS (as Parliament must vote them in the current year), but as adjustments to the prior year comparative figures in the IFRS-based statements. If there is a PPA from a new/modified accounting standard, there is no difference, as these changes do not affect the Estimate.
- **Excess receipts:** where receipts are in excess of the amounts anticipated in the Estimate or where not anticipated they will often be included in the SoPS only up to the budgeted amount, but included in the SoCNE at the full amount.
- **Provisions: administration and programme expenditure** provisions raised under IFRS accounting are included in the SoCNE as an expense and in the SoPS as resource AME when the provision is first raised, but included in the SoPS as resource DEL and negative resource AME when the settlement of the provision occurs.

Analysis of net outturn (Note SoPS 2)

The parliamentary control totals as shown on the SoPS do not explain what activities the department has undertaken. This information is provided in SoPS Note 2. This note provides a detailed breakdown of each of the parliamentary control totals into the activities or policy areas under which the department planned its expenditure. Again, this note compares the net actual expenditure with the net expenditure anticipated in the Estimate.

Where a department has spent more than anticipated in any particular policy area which is separately identified in the accounts, they have the authority to vire (transfer) the budgetary provision from an underspent section. Such virements are only permitted within each parliamentary control total. There are various rules as to which virements the department can authorise and which require HM Treasury approval. More detail can be found in the *Consolidated Budgeting Guidance* published by HM Treasury.

Reconciliation of outturn to net operating cost and against administration budget (Note SoPS 3)

Note SoPS 3 provides a numerical analysis of the differences between the outturn (taken from the SoPS) and the net operating cost (taken from the SoCNE), for both total expenditure and separately for administration costs. It presents the financial effects of the differences noted in the Accounting Policies Note (Note SoPS 1).

Reconciliation of net resource outturn to net cash requirement (Note SoPS 4)

Note SoPS 4 shows how the cash required during the year relates to the resource and capital outturn for the year from the SoPS. The reconciling items relates to non-cash items (for example depreciation) and other movements in working capital balances (for example settlement of liabilities).

Analysis of income payable to the Consolidated Fund (Note SoPS 5)

Note 5 shows what, if any, income receivable by the department which it is not allowed to retain and which is surrenderable to HM Treasury on receipt.

Challenge

Can management explain any significant differences between this year and last year?

Given that the Estimates that support the parliamentary control totals are supposed to be realistic and taut, can management provide explanation for any sizable overspends or underspends shown in the Statement of Parliamentary Supply?

Considering the detail in Note SoPS 2:

- Can management provide explanation for any significant over or underspends?
- Are individual board or management team members aware of over or underspends in their areas of responsibility?
- Where there are underspends are these indicative of a failure to provide planned-for frontline services?

Do management's explanations of variances between outturn and Estimate conform to your knowledge of the department's activities?

Have management sufficiently explained the basis for any prior year restatements? Are such explanations appropriate? And do the subsequent financial statements appropriately reflect any restatements?

Example of a SoPS: Home Office 2012-13

STATEMENT OF PARLIAMENTARY SUPPLY

Summary of Resource and Capital Outturn 2012-13

£000								2012-13	2011-12
				Estimate			Outturn	Voted outturn compared with Estimate:	Outturn
	Note	Voted	Non-Voted	Total	Voted	Non-Voted	Total	saving/ (excess)	Restated Total
Departmental Expenditure Limit									
- Resource	2	**8,577,406**	-	8,577,406	**8,303,748**	-	8,303,748	**273,658**	8,835,170
- Capital	2	**461,467**	-	461,467	**442,109**	-	442,109	**19,358**	487,507
Annually Managed Expenditure									
- Resource	2	**1,414,118**	-	1,414,118	**1,260,214**	-	1,260,214	**153,904**	1,060,092
- Capital	2	**-**	-	-	**-**	-	-	**-**	-
Total Budget		**10,452,991**	-	10,452,991	**10,006,071**	-	10,006,071	**446,920**	10,382,769
Non-Budget									
- Resource		-	-	-	-	-	-	-	-
Total		**10,452,991**	**-**	**10,452,991**	**10,006,071**	**-**	**10,006,071**	**446,920**	**10,382,769**
Total Resource		9,991,524	-	9,991,524	9,563,962	-	9,563,962	427,562	9,895,262
Total Capital		461,467	-	461,467	442,109	-	442,109	19,358	487,507
Total		**10,452,991**	**-**	**10,452,991**	**10,006,071**	**-**	**10,006,071**	**446,920**	**10,382,769**

Net Cash Requirement 2012-13

		2012-13		2012-13	2011-12
				Outturn compared with Estimate:	
	Note	Estimate	Outturn	saving/ (excess)	Outturn
Net Cash Requirement	4	**10,160,441**	**9,790,866**	**369,575**	**9,991,249**

Administration Costs 2012-13		2012-13	2012-13	2011-12
		Estimate	Outturn	Outturn
	3.2	540,796	**477,448**	548,558

SoCNE – The Statement of Comprehensive Net Expenditure

What is it telling you?

The second of the primary statements is the Statement of Comprehensive Net Expenditure (SoCNE), which reports the income and expenditure for the year on an accruals basis. This statement is sometimes known as an Income and Expenditure Account or the Profit and Loss Account.

The consolidated SoCNE shows the department's expenditure and income for the financial year, analysed between the core department, the core department and its executive agencies, and the departmental group as a whole (that is, including all non-departmental public bodies).

Unlike IFRS-based accounts, the SoCNE is not presented with expenses and income grouped by nature or by function, though the notes provide this further detail.

Format

The top half of the SoCNE shows the department's operating expenditure and operating income (excluding parliamentary funding, as this is not income).

Operating expenditure and income is analysed between administration and programme. Programme relates to the delivery of services and administration is for the running of the departmental group more generally.

Other Comprehensive Income/Expenditure

In following IFRS there are gains and losses that arise and need to be reported but do not yet represent operating income or expenditure. Such gains and losses are therefore not included in the upper section of this statement, instead they are reported in the lower section of the SoCNE. Typical things that are included here are:

- revaluations of non-current assets (fixed assets); and
- changes in the valuation of pension schemes arising from changes in actuarial assumptions.

Further information in the notes

The notes to the financial statements provide additional information and analysis of the amounts reported in the SoCNE.

The first such note relates to an analysis by operating segment. The purpose of this note is to provide a breakdown of the income and expenditure reported in the SoCNE between the different areas by which the executive manages and controls the departmental group throughout the year. The note also describes each of the segments (for example, how they are identified as such, how their results are reported to the executive, how inter-segment transactions are accounted for, and any changes to segments in year).

Following this, there are two notes that analyse the non-staff administration and programme costs. Both notes list specific expenditure items, usually in descending order of magnitude, such as rentals under operating leases, interest charges, non-cash items (depreciation, amortisation, profit/loss on disposal of assets, auditors' remuneration, etc.).

A further note (usually note 6) analyses the income reported in the SoCNE, again listing specific expenditure items usually in descending order of magnitude.

Challenge

Can management explain any significant differences between this year and last year?

Do any of the analyses of expenditure or income include significant amounts categorised as 'other'. If so, what does this relate to?

Are the disclosed operating segments consistent with your understanding of how the department functions, and how it reports and informs its decision-making processes?

Have management sufficiently explained the basis for any prior year restatements? Are such explanations appropriate?

Example of a SoCNE: Department for Communities and Local Government, 2012-13

Consolidated Statement of Comprehensive Net Expenditure

For the year ended 31 March 2013

£'000

	Note	2012-13 Core Department	2012-13 Core Department & Agency	2012-13 Departmental Group	2011-12 Core Department	2011-12 Core Department & Agency	2011-12 Departmental Group
Administration Costs							
Staff Costs	7	97,583	130,434	179,579	105,525	133,673	205,604
Other Costs	8	95,634	109,178	148,862	100,362	113,684	193,725
Income	10	(24,214)	(34,848)	(42,783)	(14,437)	(23,396)	(60,350)
Programme Costs							
Staff Costs	7	1,869	1,869	6,690	3,332	3,338	22,873
Other Costs	9	27,319,622	27,321,040	28,838,630	38,248,714	38,249,897	40,644,534
Income	11	(635,150)	(635,235)	(776,320)	(14,968,019)	(14,968,019)	(15,076,849)
Grant-in-aid to NDPBs		1,175,801	1,175,801	-	2,270,765	2,270,765	-
Net Operating Costs for the year ended 31 March		**28,031,145**	**28,068,239**	**28,354,658**	**25,746,242**	**25,779,942**	**25,929,537**
Total Expenditure		28,690,509	28,738,322	29,173,761	40,728,698	40,771,357	41,066,736
Total Income		(659,364)	(670,083)	(819,103)	(14,982,456)	(14,991,415)	(15,137,199)
Net Operating Costs for the year ended 31 March		**28,031,145**	**28,068,239**	**28,354,658**	**25,746,242**	**25,779,942**	**25,929,537**
Other Comprehensive Net Expenditure							
Net (Gain) / Loss on:							
Pension Schemes	24	(301)	(421)	7,278	108	108	32,491
Disposal of available for sale assets recognised in net expenditure		-	-	876	-	-	3,330
Revaluation of property, plant and equipment	12	(395)	(422)	(435)	(1,275)	(1,275)	(1,438)
Revaluation of inventories	19	-	-	(37,110)	-	-	(72,023)
Fair value gain on available for sale assets	16	-	-	(3,226)	-	-	17,108
Income tax on items in other comprehensive expenditure		-	-	10,794	-	-	16,854
Total comprehensive expenditure for the year ended 31 March		**28,030,449**	**28,067,396**	**28,332,835**	**25,745,075**	**25,778,775**	**25,925,859**

All activities are continuing.

Note the three-column format showing the results for the core department, the core department plus agencies, and for the departmental group, which includes all the non-departmental public bodies (NDPBs).

Funding provided to NDPBs is an expense for the core department and its agencies and is called grant-in-aid. When the NDPBs are added into the consolidation the funding received by them is matched against the funding paid by the department and hence is eliminated in the departmental group column.

These are the various additional changes in carrying values of assets and liabilities that need to be reported in the SoCNE but are not part of the operating costs, as explained on page 17.

SoFP – The Statement of Financial Position

What is it telling you?

The Statement of Financial Position (SoFP) presents a snapshot of the organisation's assets, liabilities and equity at a specific point in time: the accounting year-end. Departments' SoFPs are very similar to a private sector entity's SoFP. The SoFP was formerly known as the Balance Sheet.

Format

As with the SoCNE, a three-column format is used to provide this information for the core department, the core department and its agencies, and for the departmental group. The SoFP is structured around three components – assets, liabilities and equity – and the three-column format enables the user to see where in the group these are held and controlled.

Assets, in general, are the things owned and/or controlled by the organisation. Assets also include amounts owed to the entity, termed receivables.

Liabilities represent amounts at the year-end that are payable to someone else at the year-end, including payables to suppliers (including where goods and services have been received during the year but the invoice has not yet been paid – accruals) and provisions, where the department is probably liable but the timing and/or amount of the payment is uncertain.

Assets and liabilities are classified by:

- Type – current or non-current, depending on the duration over which the reporting entity expects to derive economic benefit from its use; current for those assets expected to generate all their economic benefits within the next reporting year, and non-current for those which will provide benefits for a period extending past one year.

- Nature – tangible and intangible, receivables, cash and cash equivalents, payables, provisions.

Equity – this part of the statement sets out the value of the taxpayers' interest or investment in the entity, the remaining value of the entity after deducting liabilities from assets (that is, its net assets).

Example of a SoFP: Cabinet Office, 2012-13

£000		As at 31 March 2013		As at 31 March 2012	
	Note	Core Dept	Departmental Group	Core Dept	Departmental Group
Non-current assets					
Property, plant and equipment	10	162,093	162,093	175,857	175,857
Investment properties	11	62,265	62,265	-	-
Intangible assets	12	6,190	6,190	4,406	4,406
Interests in joint ventures	13	5,882	5,882	-	-
Other financial assets	15	1,404	1,404	1,403	1,403
Other non-current assets	18	-	-	354	354
Total non-current assets		**237,834**	**237,834**	**182,020**	**182,020**
Current assets					
Assets to be transferred	17	-	-	44,145	44,145
Inventories		459	459	417	417
Trade and other receivables	18	54,440	54,440	59,860	59,860
Other financial assets	15	284	284	20	20
Cash and cash equivalents	19	7,093	7,093	38,978	38,978
Total current assets		**62,276**	**62,276**	**143,420**	**143,420**
Total assets		**300,110**	**300,110**	**325,440**	**325,440**
Current liabilities					
Trade and other payables	20	(95,533)	(95,600)	(169,615)	(169,779)
Provisions	21	(1,884)	(1,884)	(4,288)	(4,288)
Total current liabilities		**(97,417)**	**(97,484)**	**(173,903)**	**(174,067)**
Non-current assets less net current liabilities		**202,693**	**202,626**	**151,537**	**151,373**
Non-current liabilities					
Provisions	21	(10,829)	(10,829)	(13,036)	(13,036)
Total non-current liabilities		**(10,829)**	**(10,829)**	**(13,036)**	**(13,036)**
Total assets less liabilities		**191,864**	**191,797**	**138,501**	**138,337**
Taxpayers' equity and other reserves					
General fund		130,338	130,271	85,093	84,929
Revaluation reserve		61,526	61,526	53,408	53,408
Total equity		**191,864**	**191,797**	**138,501**	**138,337**

Assets

Liabilities

Equity

Further information in the notes

Additional analysis and supplementary explanatory information is provided in the notes to the accounts. A reference to the supporting note is shown on the face of the SoFP.

Property, plant and equipment (PPE) and intangible assets

The notes in respect of property, plant and equipment assets and those for intangible assets (such as IT, software licences, website development etc.) provide considerably more information in respect of these values.

The notes show the valuation and accumulated depreciation charged in previous years for such assets, summarised by their main groups (for example, land and buildings, plant and machinery, equipment).

The in-year movements for additions, disposals, revaluations and depreciation are also presented for each category. Under the FReM, departments are required to revalue their PPE and intangible assets each year, using the most appropriate valuation methodology (usually professional valuers for property, and indexation for other assets).

The narrative supporting this information will explain when assets were last valued and by whom. There will also be details of any assets held for sale; these are non-current assets for which the entity is committed to a plan to sell.

Trade and other receivables and trade and other payables

Notes relating to trade and other receivables and trade and other payables provide a more detailed breakdown of the nature of the balances included. For example, the Trade and other payables will be made up of trade payables (amounts owed to suppliers), amounts due to HMRC for PAYE, NIC and VAT, accruals (where services have been received but no invoice has been received yet), and other payables. There may also be an amount due to be repaid to the consolidated fund, where more cash has been drawn down during the year than was needed.

These notes contain comparative information, so it would be clear if there had been significant changes in the extent of such balances during the year.

Provisions for liabilities and charges

For any provisions in the SoFP, there will be details in the notes to the accounts that explain what the provisions are for. The notes will also explain the movements on individual provisions during the year so it can be seen to what extent the amounts provided for at the end of last year have been used in the current year.

The narrative information should explain the nature of any uncertainties relating to the provisions (such as the outcome of a court case that will determine liability) and the basis on which the values have been estimated.

Challenge

Can management explain any significant differences between this year and last year? Does the explanation accord with your knowledge of the department's activities?

Are there significant current or non-current liabilities (including provisions) on the SoFP? Do they represent future risks to the department which should be included in the risk register?

Have management sufficiently explained the basis for any prior year restatements? Are such explanations appropriate?

SoCF – The Statement of Cash Flows

What is it telling you?

The Statement of Cash Flows (SoCF) is the fourth primary statement in departmental group accounts and explains the movements in the cash position during the year. It also shows the department's cash funding received from government within 'Financing Activities'. It is very similar in format to a private sector entity SoCF.

The statement is required to be presented for the entire departmental group and also for the core department and its agencies. Some departments continue with the familiar three-column format and voluntarily also present the details for the core department.

Format

The Statement of Cash Flows is split into three main sections:

- **Cash flows from operating activities** – this shows the impact on cash of the net expenditure reported in the Statement of Comprehensive Net Expenditure. This section reconciles the net expenditure (taken from the SoCNE) to the underlying cash impact of that expenditure by making adjustments to remove non-cash items (such as depreciation) and also for the effects of changes in working capital (that is, the changes in current assets and liabilities such as receivables and payables).

  This section is a key indicator of the net cost of service delivery, and the extent to which the department's operations are funded by income from service recipients.

- **Cash flows from investing activities** – this shows cash flows from the acquisition or disposal of non-current assets, such as property, and loans to (or repayments from) other bodies. It indicates how much cash the department is using on resources which are intended to contribute to its future service delivery.

- **Cash flows from financing activities** – for departments this is mainly funding from the Consolidated Fund and the National Insurance Fund, as well as capital elements of payments for finance leases and other borrowing arrangements.

The bottom of the SoCF states the amount of cash and cash equivalents at the beginning of the financial year and at the end of the financial year. These should agree to the values shown on the Statement of Financial Position.

Further information in the notes

The cash and cash equivalents note (usually Note 14) provides a breakdown of the opening and closing balances of cash and cash equivalents, separating the balances held in:

- Government Banking Service (successor to the Office of the Paymaster General, government's main banking provider, where cash balances are managed centrally to reduce the government's borrowing);

- commercial banks and cash in hand (all other cash held at banks and any physical cash held); and

- short term investments (other non-cash balances which meet the definition of cash equivalents).

The note is presented in the three-column format, for the core department, core department plus agencies and the departmental group.

Challenge

Can management explain any significant differences between this year and last year?

Does the SoCF demonstrate use of resources in line with the department's priorities? For example, does the 'Cash flows from investing activities' section reflect investment in future assets or infrastructure?

Are there any non-descriptive lines (for example, which include the word 'other')? If so, what do these relate to, and is it right that they are included in the Statement of Cash Flows?

Does the cash and cash equivalents note indicate significant cash balances outside of the Government Banking Service (GBS)? If so, would these sums obtain better value for the Exchequer if they were within the GBS?

Have management sufficiently explained the basis for any prior year restatements? Are such explanations appropriate?

Example of a SoCF: Ministry of Justice, 2012-13

Consolidated Statement of Cash Flows

for the year ended 31 March 2013

	Note	2012–13 Core Department & Agencies £000	2012–13 Departmental Group £000	2011–12 Core Department & Agencies £000	2011–12 Departmental Group £000
Cash flows from operating activities					
Net operating cost	CSoCNE	(8,560,256)	(8,382,203)	(8,850,029)	(8,683,607)
Adjustments for non-cash transactions		784,890	3,090,683	668,975	3,115,120
Finance (income)/costs		11,474	9,297	12,218	9,159
Movements in pensions		(208)	37,433	(213)	5,261
Interest received		-	(41)	-	194
Interest paid		-	(147)	-	(191)
(Increase)/decrease in trade and other receivables	17	87,726	86,932	(119,576)	(83,765)
Less: Movements in receivables not passing through the Consolidated Statement of Comprehensive Net Expenditure (CSoCNE)		(66,951)	(67,612)	92,662	63,544
(Increase)/decrease in inventories	16	202	202	(748)	(748)
Increase/(decrease) in trade and other payables	19	(124,193)	(205,121)	178,330	202,305
Less: Movements in payables relating to items not passing through the CSoCNE		28,963	32,252	(61,868)	(35,442)
Utilisation of provisions	20	(237,434)	(2,666,595)	(152,170)	(2,800,348)
Less: Utilisation of provisions settled with cash from the Consolidated Fund		11,056	11,056	6,682	6,682
Other		262	262	-	-
Net cash outflow from operating activities		**(8,064,469)**	**(8,053,602)**	**(8,225,737)**	**(8,201,836)**
Cash flows from investing activities					
Purchase of property, plant and equipment		(254,473)	(257,290)	(460,285)	(462,511)
Purchase of intangible assets		(33,835)	(51,065)	(39,424)	(49,213)
Proceeds on disposal of property, plant and equipment		1,497	1,530	33,963	34,043
Proceeds on disposal of intangible assets		18	18	-	-
Proceeds on disposal of assets held for sale		47,465	47,465	28,128	28,128
Interest received		-	139	-	90
Net cash outflow from investing activities		**(239,328)**	**(259,203)**	**(437,618)**	**(449,463)**
Cash flows from financing activities					
From the Consolidated Fund (Supply)		8,126,310	8,126,310	8,660,000	8,660,000
Grants from bodies external to the Department		-	-	-	39,210
From the Consolidated Fund (Non-Supply)		141,267	141,267	142,039	142,039
Advances from the Contingencies Fund		70,000	70,000	-	-
Repayments to the Contingencies Fund		(70,000)	(70,000)	-	-
Capital element of finance leases and on-balance sheet Private Finance Initiative (PFI) contracts		(21,936)	(62,876)	(71,658)	(76,093)
Repayment of Met Police and local authority loans		(2,916)	(2,916)	(3,121)	(3,121)
Movement in third party balances		3	3	(16,331)	(16,331)
Interest paid		(11,474)	(11,474)	(12,218)	(12,218)
Net cash inflow from financing activities		**8,231,254**	**8,190,314**	**8,698,711**	**8,733,486**
Net increase/(decrease) in cash and cash equivalents in the period before adjustment for receipts and payments to the Consolidated Fund		**(72,543)**	**(122,491)**	**35,356**	**82,187**
Receipts due to the Consolidated Fund outside the scope of the Department's activities		-	-	3,098	3,098
Payments of amounts due to the Consolidated Fund		(4,544)	(4,544)	(37,970)	(37,970)
Net increase/(decrease) in cash and cash equivalents in the period after adjustment for receipts and payments to the Consolidated Fund		**(77,087)**	**(127,035)**	**484**	**47,315**
Cash and cash equivalents at the beginning of the period	18	**74,333**	**325,188**	**73,849**	**277,873**
Cash and cash equivalents at the end of the period	18	**(2,754)**	**198,153**	**74,333**	**325,188**

SoCTE – The Statement of Changes in Taxpayers' Equity

What is it telling you?

The Statement of Changes in Taxpayers Equity (SoCTE) is the fifth and final primary statement in a set of departmental group accounts and shows the increase or decrease in a department's net assets between the start and end of the financial year. The changes are shown by each separate reserve that an entity may have, that is, General Fund, Revaluation Reserve, Pension Reserve etc.

Details of the total parliamentary funding received by the department are shown in this statement, unlike the SoCF, which shows only the cash funding received.

Format

The SoCTE details the changes in each of the reserves found in the equity section of the Statement of Financial Position.

The majority of the changes will go through the General Fund, as the other reserves are for specific items. The General Fund will usually show three lines of information that relate to parliamentary funding:

- **Net parliamentary funding – drawn down** – this is the amount of cash received from the Consolidated Fund which should match the 'Consolidated Fund Supply – current year' figure in the Statement of Cash Flows.
- **Net parliamentary funding – deemed** – this is any Supply drawn down in the previous year but not spent at that year-end and, therefore, was available to be spent in this financial year.
- **Supply (payable)/receivable adjustment** – if this figure is a payable (a negative figure), then this is the amount of drawn down cash that remains unspent at year-end and is owed back to the consolidated fund. If it is a receivable (a positive figure), then this is the amount by which cash expenditure in year (that is, the net cash requirement on the SoPS) has exceeded the combined deemed and drawn down supply, and is therefore due to the department from the Consolidated Fund.

There may also be another line relating to Consolidated Fund Extra Receipts (CFERs), which is any monies received by the department over and above that which is expected to be received in the Main Supply Estimate. These are also payable to the Consolidated Fund.

The General Fund column will also show the 'comprehensive expenditure for the year' which is the profit/loss, usually called 'Net Operating Costs', taken directly from the SoCNE.

The final type of adjustments shown in the General Fund are for notional charges: charges that are reported in the accounts as expenditure but are never settled in cash. The most common type of notional charge for departmental accounts is the auditor's remuneration.

There may also be other entries that are shown under General Fund, such as transfers between reserves and changes due to accounting policy changes that will be specific to the particular department in the accounting year in question.

The details shown under the other reserves tend to be specific account entries particular to the reserve in question e.g.

- the pension reserve will show the actuarial loss or gain in the liability of any pension scheme that the department is liable for. This should match the detail in the pension note.
- the revaluation reserve will show any gains or losses on values of property, plant and equipment, or intangible assets where a prior revaluation has been recorded.

Departments are required to show the comparative figures from the previous year, so the SoCTE will start with the opening position from the previous year's Statement of Financial Position: for example, if the year-end for the current set of financial statements is 31 March 2014, the first figure in the SoCTE will be the balance at 1 April 2012.

Challenge

Can management explain any significant differences between this year and last year?

Are there any unusual reserves, or transfers between reserves, that require explanation?

Have management sufficiently explained the basis for any prior year restatements? Are such explanations appropriate?

Example of a SoCTE: Foreign & Commonwealth Office, 2012-13

Consolidated Statement of Changes in Taxpayers' Equity for the year ended 2013

	Note	Core Department			Core Department & Agencies			Departmental Group		
		General Fund £000	Revaluation Reserve £000	Total £000	General Fund £000	Revaluation Reserve £000	Total £000	General Fund £000	Revaluation Reserve £000	Total £000
Balance at 31 March 2011		**1,046,133**	**1,075,317**	**2,121,450**	**1,048,312**	**1,075,317**	**2,123,629**	**1,049,489**	**1,075,317**	**2,124,806**
Prior period adjustment to reflect Inclusion of BBC World Service	28	-	-	-	-	-	-	128,700	-	128,700
Restated Balance as at 1 April 2011[1]		**1,046,133**	**1,075,317**	**2,121,450**	**1,048,312**	**1,075,317**	**2,123,629**	**1,178,189**	**1,075,317**	**2,253,506**
Net operating cost for the year	CSCNE	(2,281,179)	-	(2,281,179)	(2,281,475)		(2,281,475)	(2,272,597)		(2,272,597)
Other comprehensive (net expenditure) / Income	CSCNE	(21,217)	107,659	86,442	(21,217)	107,659	86,442	(21,217)	107,659	86,442
Total comprehensive expenditure for the year		**(2,302,396)**	**107,659**	**(2,194,737)**	**(2,302,692)**	**107,659**	**(2,195,032)**	**(2,293,814)**	**107,659**	**(2,186,155)**
Net Parliamentary Funding - drawn down		2,194,015	-	2,194,015	2,194,015	-	2,194,015	2,194,015	-	2,194,015
Supply receivable adjustment		(45,905)	-	(45,905)	(45,905)	-	(45,905)	(45,905)	-	(45,905)
Net Parliamentary Funding - deemed		41,058	-	41,058	41,058	-	41,058	41,058	-	41,058
Forward contracts unrealised losses adjustment		9,493	-	9,493	9,493	-	9,493	9,493	-	9,493
Non-cash charges - auditors remuneration	8	245	-	245	265	-	265	265	-	265
Transfers between reserves		31,310	(31,310)	-	31,310	(31,310)	(0)	31,310	(31,310)	-
Consolidation and other in-year adjustments		995	-	995	1,055	-	1,055	(1,782)	-	(1,782)
Balance at 31 March 2012 (restated[1])	CSoFP	**974,948**	**1,151,666**	**2,126,614**	**976,911**	**1,151,666**	**2,128,578**	**1,112,829**	**1,151,666**	**2,264,495**
Net operating cost for the year	CSCNE	(2,162,014)		(2,162,014)	(2,162,228)		(2,162,228)	(2,191,504)		(2,191,504)
Other comprehensive (net expenditure) / Income:										
Net Gain/(loss) on revaluation of property, plant and equipment	CSCNE	-	46,088	46,088	-	46,088	46,088	-	46,088	46,088
Net Gain/(loss) on revaluation of intangibles	CSCNE	-	490	490	-	490	490	-	490	490
Net Gain/(loss) on revaluation of assets held for sale	CSCNE	-	(476)	(476)	-	(476)	(476)	-	(476)	(476)
Actuarial (gain)/loss on defined benefit pension schemes	CSCNE	(3,611)	-	(3,611)	(3,611)	-	(3,611)	(3,611)	-	(3,611)
Total comprehensive expenditure for the year		**(2,165,625)**	**46,102**	**(2,119,523)**	**(2,165,839)**	**46,102**	**(2,119,737)**	**(2,195,115)**	**46,102**	**(2,149,013)**
Net Parliamentary Funding - drawn down		2,140,482	-	2,140,482	2,140,482	-	2,140,482	2,140,482	-	2,140,482
Supply receivable adjustment		(55,537)	-	(55,537)	(55,537)	-	(55,537)	(55,537)	-	(55,537)
Net Parliamentary Funding deemed		45,905	-	45,905	45,905	-	45,905	45,905	-	45,905
CFERS payable to the Consolidated Fund		(1,575)		(1,575)	(1,575)	-	(1,575)	(1,575)	-	(1,575)
Non-cash charges - auditors remuneration	8	245	-	245	265	-	265	265	-	265
Transfers between reserves		41,444	(41,444)	-	41,444	(41,444)	-	41,444	(41,444)	-
Consolidation and other in-year adjustments		(2,037)	(3)	(2,040)	(2,547)	(3)	(2,550)	948	(3)	945
Balance at 31 March 2013	CSoFP	**978,250**	**1,156,321**	**2,134,571**	**979,509**	**1,156,321**	**2,135,831**	**1,089,646**	**1,156,321**	**2,245,967**

Notes to the accounts

Why are there additional notes?

In addition to the notes to the accounts that provide additional analysis of figures in the primary statements, there are a number of notes that provide other contextual information relating to the activities of the department and its group. Generally, these are required under IFRS, but some of them are specific to government bodies and are requirements of the Financial Reporting Manual (FReM). This section looks at these additional notes.

Accounting policies note

This is usually the first note in a set of financial statements, is a requirement of IAS 8, and provides details of the material accounting policies that have been applied in preparing the accounts. These will usually include the following:

- The statute under which the accounts have been prepared.
- The valuation policy of non-current assets within the Statement of Financial Position.
- The depreciation and amortisation policies for non-current assets – which methods are used and over how long assets are depreciated.
- Details of how income is recognised by the organisation.
- Details of how expenditure is recognised.
- Information about any pensions, leases or VAT in this account
- Policies relating to how provisions/contingent liabilities are recognised. Information on specific provisions or contingent liabilities in the accounts will be disclosed in a separate provisions and/or contingent liability note which tends to be shown towards the end of the notes.
- Information about financial instruments in the accounts – again, specific details on financial instruments will be shown in a separate note.
- Accounting standards in issue but not yet effective.

Challenge

Are the accounting policies understandable?

Have management explained any changes in accounting policies since the prior year?

Exit packages

Since 2010-11, departments have been required by HM Treasury to disclose the number of exit packages that they have paid in year. Employer Pension Notice (EPN) 296 issued by the Cabinet Office provides for this disclosure. This disclosure continues to be a FReM requirement. Information is analysed between compulsory or agreed departure and is split into exit package costs bands of up to £10,000, £10,001 to £25,000, £25,000 to £50,000, and in £50,000 increments thereafter. The total number and total cost of exit packages per each band is disclosed.

Challenge

Has appropriate HM Treasury approval been obtained for exit packages which are outside of standard terms?

Staff numbers

This analysis is a requirement of the FReM. The 'staff numbers and related costs' notes in the accounts break down the staff costs from the Statement of Comprehensive Net Expenditure between salaries, social security costs and other pension costs. In addition, there is a requirement to disclose staff numbers. The FReM outlines the details required for public sector organisations. The average number of full-time equivalents staff employed in the year, under one of the following four headings, should be disclosed:

- Permanently employed staff
- Other staff
- Special advisers
- Ministers

Challenge

Are the changes in numbers of staff employed in line with your understanding of changes in the department during the year?

Fees and charges

This is a disclosure that is required by the FReM, rather than by IFRS. The purpose of the note is to show the level of fees levied, along with the costs for the delivery of the service. There is considerable guidance as to the basis on which the level of fees is set; the general principle is that government bodies should not be making profits from providing the services – however, they should generally be recovering the costs.

The analysis should include the following information for each service where the full cost is over £1 million or more or is otherwise material in the context of the financial statements:

- The financial objective
- Full cost
- Income
- Surplus or deficit
- Performance against the financial objective

Challenge

Are any significant changes from the previous year explained?

Can management explain any significant surpluses and deficits and what action is planned to rectify these in future years?

Losses and special payments

Disclosure of losses and special payments is required by HM Treasury's *Managing Public Money* rather than under an accounting standard. There are specific details of the types of expenditure that should be regarded as a loss or special payment. A losses statement is required if the total losses equals or exceeds £300,000. If an individual loss is over £300,000 then details of that loss should be reported separately. Special payments must also be disclosed if they total £300,000 or more and individual special payments of over £300,000 require separate disclosure. **Departments should take particular care to ensure that any loss or special payments has the appropriate HM Treasury approval in line with authorisation limits.** If special payments have been made without the appropriate approval they are considered irregular and this may impact on the NAO opinion on the accounts.

Challenge

Has HM Treasury approval been obtained for reported losses and special payments?

How have management satisfied themselves as to the value-for-money case for these payments?

Leases and PFI commitments

Leases and Private Finance Initiative (PFI) commitments are subject to disclosure requirements under IFRS (specifically, IAS 17). The purpose of these disclosures is to allow the reader of the accounts to understand the extent to which the body is committed to make payments in the future, even though these commitments are not reflected on the Statement of Financial Position.

For example, where a body has entered into a lease that is classified as an operating lease, the amounts payable for the financial year are included as expenditure in the SoCNE. This note will then set out the amounts payable in future years and provide an indication of the period over which the body is committed to make the lease payments.

Disclosures relating to PFI schemes are also required. These go further than the simple lease disclosures above and include details of the extent to which the body is committed to pay for services over the concession period and details of contractual inflation factors.

Challenge

Are there any significant commitments which are at risk from potential changes in policy or plans? For example, are any leased buildings likely to become unused before the end of the lease period?

Have management clearly explained the rationale behind any additional obligations entered into during the year?

Pensions

Most departments' employees participate in the main public sector pension schemes (some examples are the Principal Civil Service Pension Scheme, the Armed Forces Pension Scheme and the NHS Superannuation Scheme). The FReM requires that the schemes it specifies should be accounted for as a 'defined contribution' plan in the departmental accounts, and, therefore, the numeric disclosures are limited to the contributions paid.

However, some departments or their bodies operate schemes outside of the FReM listing. Where these schemes are 'defined benefit' plans, it is likely that the disclosures will be much more substantial, including assets and liabilities of the plan, actuarial gains and losses, current and past service costs, interest costs and discount rates, and details of the actuarial assumptions used. IAS 19 provides details of the disclosures required.

Contingent liabilities

IAS 37 outlines the accounts requirements relating to provisions and contingent liabilities. There are strict criteria that must be met for an organisation to recognise a provision in the accounts and the general rule of thumb is that the likelihood of settlement should be probable. Where the likelihood is only possible, then IAS 37 defines these as being contingent liabilities. Contingent liabilities are disclosed in the accounts but not reflected on the Statement of Financial Position.

The FReM extends this disclosure requirement to include not only those where settlement is possible, but also those where the likelihood is remote.

Therefore there are two strands to the disclosures of contingent liabilities – those required under the accounting standard and those required under the FReM.

The extent of the disclosure is similar. The circumstances surrounding the potential liability should be provided along with a indication of the financial impact. The narrative should explain the nature and the events on which the outcome is dependent and the extent to which it is within the control of the department.

Challenge

Are the contingent liabilities consistent with the risk register?

How have management assessed the likelihood of a risk occurring (especially for those with a potentially significant financial impact)?

Trust Statement

What is it telling you?

A Trust Statement is a set of financial statements separate from a department's normal accounts. Where the financial statements and notes discussed earlier in this guide deal with a department's own running costs and activities, a Trust Statement reports on the revenue collected by a department on behalf of government, which it is required to pay over to the Consolidated Fund. Reporting this type of income separately in this way reflects that the department is acting on behalf of government as a whole, rather than for its own benefit.

Trust Statements are required for departments which collect taxation, fines and penalties, and therefore not all departments are required to prepare one. HM Treasury are responsible for determining which departments must prepare one. Examples of bodies which prepare Trust Statements are HMRC (for personal, corporation and other taxes), Driver and Vehicle Licensing Agency (DVLA) (for road tax), the BBC (for TV Licence fees) and HM Courts & Tribunals Service (for fines and penalties imposed by courts).

The figures in the Trust Statement also differ from those in the annual accounts in that they are not voted by Parliament, therefore there is a less formal accountability process covering them. However, Trust Statements are important in demonstrating how effective departments are in collecting taxes and other revenues due to government.

Format

Trust Statements comprise a set of financial statements similar to the annual accounts, prepared under FReM rules, and are published with the Annual Report and Accounts. The Trust Statement comprises:

- **Statement of Revenue and Expenditure.** Similar in basis to the SoCNE, this statement records all receipts and any expenditure relating to collection of revenue.
- **Statement of Financial Position.** Prepared on the same basis as the SoFP in the annual accounts, this records the cash balance and any other assets and liabilities relating to the revenue streams (which usually consist only of payables to HM Treasury and other suppliers, and receivables due from taxpayers).
- **Statement of Cash Flows.** Prepared on the same basis as the SoCF in the annual accounts, although here there are fewer lines. It typically contains cash receipts, cash paid to third parties, and cash paid over to HM Treasury.
- **Notes to the Accounts.** As in the annual accounts, notes are required to provide further detail of amounts in the three primary statements.

What revenue and expenditure is included?

Trust Statements include revenue classified as taxation by the Office of National Statistics along with fines and penalties levied.

The costs of collection and administration are included only where there is express statutory provision for those costs to be deducted from the revenue collected. Otherwise, costs are included in the department/body's main accounts.

Audit Certificate and Report

A separate Audit Certificate covers the Trust Statement.

The C&AG will also provide a report on the Trust Statement, which assesses the effectiveness of controls and processes in place to ensure the department is collecting revenues correctly.

Challenge

Can management explain any significant differences between this year and last year? Changes could be due to improved (or declined) efficiency in collecting receipts, or changes in legislation covering the amounts collectable.

Do management's explanations conform with your understanding of the business, and with the C&AG's Report on the Trust Statement?

Example of a Statement of Financial Position: DECC 2012-13

Statement of Financial Position

as at 31 March 2013

	Note	31 March 2013 £'000	31 March 2012 £'000
Current assets			
Receivables and accrued fees	4	5,919	11,049
Cash and cash equivalents	5	50,996	14,162
Total current assets		56,915	25,211
Current liabilities			
Payables	6	(1,603)	(1,600)
Deferred revenue	7	(502)	(3,907)
Total current liabilities		(2,105)	(5,507)
Net current assets		54,810	19,704
Total net assets		**54,810**	**19,704**
Represented by:			
Balance on Consolidated Fund Account	8	**54,810**	**19,704**

Example of a Statement of Revenue and Expenditure: DVLA 2012-13

Statement of revenue and expenditure for the year ended 31 March 2013

	Note	2012-13 £m	2011-12 £m
Revenue			
Licence Fees and Taxes - VED	2	**6,013**	5,932
Fines and Penalties - Enforcement	3	**42**	38
Total Revenue		**6,055**	5,970
Expenditure			
Payment to HM Revenue and Customs	4	**(5)**	(6)
Credit losses – amounts written off	5	**(18)**	(13)
Total Expenditure		**(23)**	(19)
Net Revenue for the Consolidated Fund		**6,032**	5,951

Example of a Statement of Cash Flows: HMRC 2012-13

Statement of Cash Flows

For the year ended 31 March	Notes	2013 £bn	2012 £bn
Net Cash Flow from Revenue Activities	A	340.4	339.7
Cash paid to Consolidated Fund		(340.5)	(340.5)
Decrease in Cash in this period	B	(0.1)	(0.8)

Notes to the Statement of Cash Flows

A: Reconciliation of Net Cash Flow to movement in Net Funds

For the year ended 31 March	2013 £bn	2012 £bn
Net Revenue for the Consolidated Fund	330.6	337.9
Decrease in Non-cash Assets	3.5	1.3
Increase in Liabilities	0.4	2.8
Increase/(Decrease) in Provision for Liabilities	5.9	(2.3)
Net Cash Flow from Revenue Activities	340.4	339.7

B: Analysis Of Changes in Net Funds

For the year ended 31 March	2013 £bn	2012 £bn
Decrease in Cash in this period	(0.1)	(0.8)
Net Funds as at 1 April (Opening Cash at Bank)	(1.9)	(1.1)
Net Funds as at 31 March (Closing Cash at Bank)	(2.0)	(1.9)

Glossary and abbreviations

Administration costs		A department's support costs, excluding direct costs of direct frontline service delivery. The main components are staff costs, accommodation costs (rent, rates, utilities and maintenance) and office services (IT, stationery, telecommunications and postage).
Alignment project		The alternative name for the Clear Line of Sight project. See CLoS.
AME	Annually Managed Expenditure	Annually voted expenditure which covers less predictable departmental expenditure. AME is split between resource and capital expenditure.
ARAC	Audit and Risk Assurance Committee	Previously known as the Audit Committee. A sub-committee of the departmental board, chaired by and consisting of solely non-executives (including some NEBMs). The ARAC is responsible for examining and gaining assurance over the department's governance, risk management and internal control processes, as well as having regard to the financial statements.
C&AG	Comptroller and Auditor General	A crown appointee who reports to Parliament. The C&AG has the statutory responsibility to audit the financial statements of government departments, and to investigate the economy, efficiency and effectiveness of any aspect of a department's operations. The C&AG is the head of the NAO.
Capital expenditure		Spending on additions to the SoFP (e.g. assets, investments etc.).
CETV	Cash Equivalent Transfer Value	The overall value, as calculated by an actuary, of an individual's pension entitlement. It is not the annual pension they would receive and neither is it a lump sum that they would be able to access. It relates to the anticipated cost of providing the pension throughout retirement. See 'Annual Report – Remuneration Report' section.
CLoS	Clear Line of Sight	An HM Treasury project to align departmental budgets, Estimates and Accounts so that they are prepared on the same basis and encompass the same entities. Departments first reported in line with this project in 2011-12.
Consolidated Budgeting Guidance		The HM Treasury guide to departmental budgeting.
Consolidated Fund		The government's current account.
Control Total		One of the five controlled expenditure areas authorised by Parliament through the vote each year. See the SoPS section for more detail.
Core Tables		Prescribed section of the Annual Report. See 'Annual Report' section.
DEL	Departmental Expenditure Limit	Annually voted expenditure which covers the day-to-day, planned and controllable departmental expenditure. DEL is split between resource and capital expenditure.

Departmental group	The consolidated 'family' of bodies beneath a department, comprising the core department, its executive agencies and its NDPBs.
Estimate (or Supply Estimate)	The annual amount of funding requested by a department of Parliament. In practice, the term is analoguous to the 'vote'.
Excess / Excess Vote	An instance where a department's spending within one or more of its control totals exceeds the amount authorised by Parliament.
Executive agency	A public body which, while being a separate entity to its parent/sponsoring government department, is subject to significant control from the department and its ministers. Executive agencies usually have a narrow remit covering one particular policy area of the parent department.
Exit packages	Payments made to employees on termination of employment (whether under voluntary or compulsory redundancy, or other termination).
Fees and charges	A department's income generated from services where it is permitted to charge recipients for the service. See the Notes section.
Finance lease	A lease of an asset where substantially all the risks and rewards of ownership are transferred to the lessee, and therefore the asset is accounted for by the lessee on their SoFP. The lessee recognises a liability on its SoFP for the future lease payments it is contracted to make, and recognises its lease payments as reducing this liability and paying interest thereon.

FReM	Financial Reporting Manual	The HM Treasury technical guide to accounts preparation for government bodies. The FReM interprets and adapts IFRS for the UK public sector context.
GBS	Government Banking Service	The central network of government departments' current bank accounts. The successor to the Office of the Paymaster General (OPG).
GIA	Grant-in-aid	Grant provided to a body by government for a specific purpose. Most NDPBs are grant-in-aid funded. GIA can be made for resource or capital spending.
Governance Statement		Prescribed section of the Annual Report. See 'Annual Report' section.
IAS	International Accounting Standard	See 'IFRS'.
IFRS	International Financial Reporting Standards	The set of financial reporting standards adopted by the government, as adapted by the FReM. IFRS comprises International Accounting Standards (IAS) and IFRSs.
Lead non-executive		A NEBM with responsibility for leading the other NEBMs. The lead non-executive prepares a report for inclusion in the department's Annual Report.

Materiality		The threshold above which amounts in the financial statements affect the decisions of users of the accounts. The threshold is subject to judgement and may depend on value, nature (e.g. senior staff salaries are low in value, but of significant interest to readers of the accounts), or context (e.g. an amount may be small in value but may cause an excess vote).
MOG changes	Machinery of government changes	A transfer of a function or section of a department to another department (e.g. as a result of a reshuffle). Can also refer to the how such changes are accounted for in the financial statements of the affected departments. The FReM provides more detail.
MPM	Managing Public Money	The HM Treasury guide for civil and other public servants containing the principles for dealing with public resources.
NAO	National Audit Office	The body which supports the C&AG in his functions. It remains independent of government by reporting directly to Parliament.
National Insurance Fund		The government's bank account containing taxpayers' national insurance contributions. The National Insurance Fund is separate from the Consolidated Fund as it is unavailable for use to fund general government expenditure; it is reserved for paying National Insurance pension payments to contributors.
NDPB	Non-departmental public body	A body which is not an integral part of a department, and which carries out its work at arm's length from ministers (in contrast to an executive agency). Sometimes referred to as a quango.
NEBM	Non-executive board member	A person who sits on the departmental board but who has no executive responsibility and is therefore independent from the department.
Net cash requirement		The second section of the SoPS. See the 'SoPS' section.
Non-budget expenditure		Departmental expenditure which sits outside of the normal budget process because of its nature. Prior period errors and grants to devolved administrations are non-budget expenditure as they are not part of the department's current year expenditure.
Operating lease		A lease of an asset where substantially all the risks and rewards of ownership remain with the lessor, and therefore the asset is accounted for by the lessor on their SoFP. The lessee recognises lease payments as a revenue expense as they occur.
Operating segment		A section of the business which generates income and expenditure separately from other sections – see IFRS 8.
Other Comprehensive Income/ Expenditure		A section of the Statement of Comprehensive Net Expenditure which contains gains and losses which are not yet recognised in profit and loss (e.g. revaluations of non-current assets). See the 'SoCNE' section.
Parliamentary and Health Service Ombudsman		A crown appointee who reports to Parliament. The Ombudsman is responsible for considering complaints of improper, unfair or poor service made against government departments, public authorities and the NHS by members of the public.

Pay multiple		Also known as the Hutton fair pay disclosure. A disclosure in the Remuneration Report which shows the multiple between the highest-paid director's total remuneration and the median total remuneration of all other staff.
PFI	Private Finance Initiative	A means of funding public infrastructure or services by collaboration between the public and private sectors. Typically, a private sector contractor will build and operate an asset, which the public sector entity will use to deliver services for which it pays the contractor an annual charge. In accounting terms, a PFI is similar to a lease: the accounting entries are similar to operating or finance leases (depending on whether the PFI is on- or off-SoFP), with the addition of a service charge element.
Portfolio minister		A minister of a department subordinate to the secretary of state, with responsibility for a particular aspect of the department's service.
PPE	Property, plant and equipment	IFRS terminology for tangible non-current assets.
Programme costs		A department's direct frontline delivery costs, including support costs which are directly associated with fontline service delivery.
Remuneration Report		Prescribed section of the Annual Report. See 'Annual Report' section.
Reporting date		The date which the accounts are made up to. Previously known as the balance sheet date.
Reporting period		The time period covered by the financial statements. A department's reporting period is usually the year leading up to the reporting date.
Resource expenditure		Spending on items which do not give rise to an asset.
Service concession arrangement		A generic term for PFI-type arrangements. Used in IFRS.
Summary of resource and capital outturn		The first section of the SoPS. See 'SoPS' section.
Supply and Appropriation Act		See 'Vote'.
Supply Estimate		See 'Estimate'.
Supply Estimates Guidance Manual		The HM Treasury guide to the supply process.
Sustainability Report		Prescribed section of the Annual Report. See 'Annual Report' section.
Vire / Virement		A transfer of budget from one control total to another.
Vote		The annual amount of funding allocated to a department by Parliament following a vote on it. It is formally set in the relevant year's Supply and Appropriation Act.

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