

**WHOLE OF GOVERNMENT ACCOUNTS 2008-09**

**AGREEMENT OF TRANSACTION STREAMS AND BALANCES  
BY CENTRAL GOVERNMENT DEPARTMENTS AND BODIES**

**GUIDANCE ON THE AGREEMENT PROCESS**

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# WHOLE OF GOVERNMENT ACCOUNTS 2008-09

## AGREEMENT OF TRANSACTION STREAMS AND BALANCES BY CENTRAL GOVERNMENT DEPARTMENTS AND BODIES

### GUIDANCE ON THE AGREEMENT PROCESS

#### Application

1. The guidance in this section applies to Central Government departments, NDPB's and the funds that they administer. Central Government bodies in Northern Ireland that are designated by the Northern Ireland Department of Finance and Personnel (NIDF&P) should refer to the guidance issued by the NIDF&P. Appendix 1 shows the Central Government bodies that are included within the Whole of Government Account (WGA) boundary because they have been designated by HM Treasury or the Northern Ireland Department of Finance and Personnel, and Scottish Central Government bodies because the Scottish Government requires them to provide data for WGA purposes. Separate sector specific guidance notes are available for local authorities, NHS trusts and foundation trusts, and public corporations.

#### Summary

2. "Internal" transactions and balances must be eliminated completely and accurately for Whole of Government Accounts to give a true and fair view. To this end the guidance in this note ensures that government departments, NDPBs and the funds that they administer adopt a common approach for reporting and agreeing balances and transaction streams with bodies that are within the Whole of Government Account Boundary.

3. The guidance sets out essential ground rules, which all bodies must follow. Generally, bodies initiating transactions will initiate the agreement process. In addition, it sets out the thresholds for reporting and agreeing balances which are summarised in the table below:

<b>Central government department, NDPB or administered fund which has transactions streams and balances with:</b>	<b>Reporting threshold</b>	<b>Agreement threshold</b>
Central government departments <sup>1</sup> , NDPS, and administered funds	£1 million	£5 million
Local authorities, NHS trusts and foundation trusts and public corporations	£1 million	No agreement is required <sup>2</sup>

<sup>1</sup> includes bodies that are within the departmental resource account boundary such as primary care trusts and executive agencies

<sup>2</sup> no agreement is required but the Treasury WGA team will continue to work with central government bodies and other stakeholders to cover specific issues that have arisen raised as part of the dry run WGAs

4. The guidance also covers the treatment of specific types of transactions and balances. Annex A to this Section contains “Agreement of Balances Forms” which are designed to provide appropriate evidence that balances and transaction streams have been agreed.

### Action Required

#### 5. Consolidation Managers should:

- note the contents of this guidance note;
- ensure that staff responsible for agreeing balances and transactions are aware of the process for agreeing balances with other central government departments and bodies;
- put systems in place to extract data from financial systems and for agreeing balances; and
- note the deadlines for the completion of tasks specified in the guidance note and particularly the requirement to provide contact details and the return confirming that the agreement process was completed.

### Deadlines

6. A detailed timetable for the WGA process is set out in “Section 2 Timetable for the Subconsolidation of Accounts of Central Government Departments and Bodies”. However, the table below sets out only the deadlines for agreeing balances and the required outputs:

Deadline	Task and required output
As soon as changes occur	<p><b>Contact Details</b></p> <p>E-mail Treasury WGA team <a href="mailto:wga.team@hm-treasury.gov.uk">wga.team@hm-treasury.gov.uk</a> details of contact person (name, e-mail address and telephone number) responsible for agreeing balances. The Treasury WGA team will amend the list of contacts and will reissue it to all contacts.</p>
5 June 09	<p><b>Agreement of Balances</b></p> <p>Service providers should initiate the process for agreeing balances as soon as practicable after the year end and complete the task by 5 June 09. Use confirmation form provided (Appendix 2 - Agreement of Balances Forms)</p> <p>If a purchasing entity does not receive a confirmation statement from the service provider by 19 May 09 the purchasing entity should initiate the process for agreeing balances soon after with the aim of completing the process by 5 June 09. Use confirmation form provided (Appendix 2 - Agreement of Balances Forms)</p>
12 June 09	<p><b>Notification of completion of agreement process - stand alone departments, NDPBs, funds and pension schemes</b></p> <p>Stand alone departments, funds and pension schemes certify to</p>

Deadline	Task and required output
	the Treasury WGA Consolidation Manager that the agreement of balances has been completed. NDPBs certify to their sponsoring department that they have completed the agreement of balances. In both instances use confirmation form provided (Appendix 2 - Agreement of Balances Forms)
19 June 09	<p><b>Notification of completion of agreement process - subconsolidating departments</b></p> <p>Subconsolidating departments certify to the Treasury WGA Consolidation Manager that all designated bodies within the departmental group have completed the agreement of balances. Use confirmation form provided (Appendix 2 - Agreement of Balances Forms)</p>

### **Threshold for reporting transaction streams and balances**

7. Central government departments, NDPBs and administered funds should report transaction streams and balances which are above £1m with any counterparty within the WGA boundary. The £1m threshold applies to the aggregate for each type of balance or transaction stream with a counterparty. For example, if a body has a number of debtor balances with a counterparty which are each below £1m but when aggregated exceed £1m, then the aggregate balance should be reported.

8. Some departments have a number of executive agencies incorporated within their resource accounts. Although intra group balances and transaction streams may be below the threshold individually, when aggregated they could result in the total balances and transaction streams being in excess of the £1m threshold. In such instances departments will need to set a lower reporting threshold for each of the agencies. The choice of threshold will depend on the number of agencies and their contribution to the consolidated departmental resource account. However, departments will need to show that the thresholds they have set do not result in a material understatement of counter-party transactions.

9. Where an entity has balances and transaction streams with a counterparty that consists of a department and its executive agencies the balances and the transaction streams should be aggregated and treated as if they were with the department. As a general guide if the executive agencies or bodies such as primary care trusts are included within the departmental resource account boundaries then any transactions with such bodies should be treated as if they were with the department.

### **Threshold for agreeing transaction streams and balances**

10. Central government departments, NDPBs and administered funds should formally agree transaction streams and balances that are above £5m with central government counterparties. The £5m threshold applies to the aggregate of each type of balance or transaction stream with a counterparty. For example, if a body has a number of debtor balances with a counterparty which are each below £5m but when aggregated exceed £5m, then the aggregate balance should be agreed.

11. Some departments have a number of executive agencies or similar entities that are consolidated within their resource accounts. Although the balances and transaction streams of these agencies or entities may each be below the £5m agreement threshold, when they are aggregated the total balances and transaction streams are greater than £5m. For example<sup>1</sup>, The Department for Children, Families and Schools (DCFS) have a number of transaction streams and balances with several NHS primary care trusts (PCT) that are included within the Department of Health resource account. Although the transaction streams and balances with each PCT are in the main less than £5m when they are aggregated they can amount to sums in excess of £100m. Setting the agreement threshold at £5m for each PCT is therefore inappropriate since the total of DCFS transaction streams or balances with PCTs will not be agreed. This will increase the risk of mismatches in the amounts reported. In such cases the choice of threshold will depend on circumstances such as the number of entities involved but it should enable both parties to agree about 80% of their transaction streams or balances. Based on past years' WGA data the agreement threshold for PCTs / DCFS should be set at £1m.

12. There is no general requirement for central government bodies to agree balances and transaction streams with local authorities, NHS trusts and foundation trusts, and public corporations. However, the Treasury's WGA Team will continue to work with central government bodies and other stakeholders to address specific issues that were identified as part of previous WGA dry run. In Northern Ireland the Department of Finance and Personnel and in Wales the Welsh Assembly Government have made arrangements for all bodies (central government, health and local government) to agree balances and transaction streams to minimise the level of mismatches.

### **When to agree**

13. Formal agreement of balances and transaction streams should occur as soon as possible after the year-end. Confirmation statements should be sent out as soon as possible after this date so that the purchasing entity can investigate and confirm the balance to the providing body by 5 June 2009. As more bodies continue to lay their accounts before Parliament before the summer recess, agreement of balances must be completed by 5 June 2009 at the latest.

14. If an anticipated confirmation statement has not been received from the provider entity by 19 May 2009, then the receiving or purchasing entity should initiate the process and forward a confirmation statement with a view to completing the process by 5 June 2009.

### **With whom to agree**

15. Agreement of all balances at 31 March 2009 and transaction streams in the year ending 31 March 2009 is required between all designated bodies (and funds administered by them) within the central government boundary. Bodies are not required to agree transactions with minor bodies (Section 1 - Small and Minor Bodies). A separate confirmation statement is to be prepared and sent to each entity for which confirmation of balances and transaction streams is required. A list of contacts will be compiled by the Treasury's WGA team and forwarded to the nominated contacts in all bodies.

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<sup>1</sup> The NHS Pensions Scheme have a similar relationship with PCTs in England and Local Health Boards in Wales. The expectation is that PCTs and Local Health Boards will each agree balances that are below £5m with the NHS Pensions Scheme. The lower threshold, which should be set by agreement by both parties, should provide assurance that about 80% of the balances and transaction streams disclosed by the NHS Pension scheme have been agreed

16. Where bodies are allocated an individual Counterparty Identifier (CPID) then agreement should take place between those individual bodies. For example if a DCMS NDPB needs to agree a balance with a BERR NDPB then the agreement process should be undertaken between the NDPBs themselves and not between DCMS and DTI.

17. Some CPIDs, in effect, represent a department's resource account, which may be a consolidation of the core department's account and the accounts of a number of executive agencies, which will not have their own CPIDs. For example, the Department of Health resource account (DOH033) consists of the core department and some 150 primary care trusts (PCTs). Transactions and balances with the PCTs are treated as if they were with the Department of Health but counterparties are required to agree balances and transactions with PCTs directly instead of the Department. There are cases where Departments such as the Department for Work and Pensions that prefer to manage the agreement process centrally (ie by the core Department) on behalf of all entities that are consolidated into the departmental resource accounts. The Treasury's WGA team have not maintained a list of contacts for all executive agencies because of the number of agencies, frequent changes in the status of agencies and staff turnover. Therefore, the first contact will need to be made with (or by) the core department who may then choose to handle the agreement process themselves or to delegate it to the executive agency (or agencies) concerned.

18. If a designated body has been dissolved, the successor body should submit returns in the name of the dissolved body to show the position at that date. Bodies may therefore have to report balances despite the fact that they did not themselves exist on the relevant reporting date. For the purposes of this exercise, the "successor body" is that which has assumed the responsibility of preparing and publishing the statutory annual accounts.

### **What to agree**

19. Central government departments, NDPBs and the funds administered by them are required to identify and agree all balances as at 31 March 2009 and transaction streams in the year ending 31 March 2009 with other designated bodies within central government (see paragraphs 23 to 26 for the thresholds for reporting and agreeing balances and transactions). This will include any imprests or standing deposits. Debtor and creditor balances with the same counter party should be reported gross and not netted off. Agreement is regarded as being achieved when the difference between provider and purchaser is less than £200,000.

20. Accruals and invoiced amounts should be reported. Bodies are reminded that invoices may be dated and/or received after 1 April 2009 but relate to 2008-09. Similarly invoices dated April or May 2008 may relate to the previous year and should therefore be excluded when reporting transactions with other counterparties. Bodies should not confuse cash transactions with income / expenditure. For example, body A may receive cash on behalf of body B and then pay it over to body B without recording the receipt as income and the payment as expenditure in its operating cost statement. In such instances body A should not report the transactions. Similarly body B should treat the "income" as external.

21. The recorded balances will be made up of two elements:

- Creditors: invoices issued up to 31 March 2009, which must be agreed with the counter party; and
- Accrued amounts: this can comprise invoices issued after the year-end, but relating to goods or services supplied in the previous year or accruals based

on agreed documentation between two bodies. Departments may wish to specify a date by which such invoices must be issued within their own consolidation groups.

22. Departments may set a threshold lower than £5,000,000 for the agreement of balances and transaction streams within their departmental groups, if they believe this approach would materially improve their data quality. Bodies are also encouraged to undertake more frequent agreement processes throughout the year.

### **Where no agreement is required**

23. Designated bodies are not required to agree any tax balances or transaction streams such as VAT, income tax and national insurance contributions with Her Majesty's Revenue and Customs though these must be reported. However, transaction streams and balances with the departments themselves must be agreed if over £5,000,000.

24. Bodies need not agree balances and transaction streams that are below £5,000,000 with any counter-parties. However, bodies should report balances and transaction streams in excess of £1,000,000. Where balances less than £1,000,000 have been identified, they do not need to be included on the agreement form or reported.

25. Central government bodies are not required to agree balances and transaction streams with local authorities, NHS Trusts, public corporations and Foundation Trusts. However, central government bodies should report balances and transaction streams that are greater than £1,000,000 when they submit their WGA data.

26. Minor bodies are exempt from the requirement to provide information for Whole of Government Accounts purposes. They are therefore not required to take part in the agreement process for 2008-09 on either the provider or purchaser side. Similarly, bodies that have transaction streams or balances with minor bodies are not required to disclose them. Such transactions will therefore be treated as if they were with external bodies.

### **How to agree balances and transaction streams**

27. "Appendix 2 - Agreement of Balances Forms" contains templates that can be used for the agreement of year-end balances and transaction streams, together with worked examples. The completed templates will provide bodies with evidence of agreement.

28. In general, the designated body that originates the transaction (i.e. the provider) will take the lead in confirming both the balance outstanding at the year-end together with the total value of transactions between the bodies during the year. It will then fall to the receiving body (the purchaser) to agree the figures issued. If a purchaser does not receive a confirmation statement from the service provider by 19 May 09 the purchaser should initiate the process for agreeing balances soon after with the aim of completing the process by 5 June 09.

29. The confirmation statement is a list of all balances relating to amounts owing from or income for goods and services provided to another designated body. It should be prepared and signed by the provider body before being forwarded to the relevant purchasing body. Provider bodies should ensure when they complete the confirmation statement that they include the SCOA code to which they are allocating the balance or the transaction. This is essential to help the receiving bodies ensure

they use the appropriate SCOA codes that are in the same matching relationship as the ones used by the provider bodies. Details of SCOA codes and their matching relationships are set out in Appendix 5.

30. To assist the agreement process, a listing of invoices and accruals that comprise the balance outstanding should be attached to the confirmation statement. The listing should clearly set out those invoices, which were issued and entered into the accounting system before the year-end, and those invoices/other accruals entered after year-end relating to the previous year. The other designated body will check and agree or disagree the balances on the confirmation list. If the entries are agreed, the confirmation statement should be signed and returned to the originating body. If the balances cannot be agreed after reference to the attached listing of invoices and accruals, the issue must be resolved as set out in paragraphs 32 to 34.

31. Once a balance has been agreed between two bodies it can only be amended with their joint agreement.

### **Resolution of significant differences**

32. A significant difference is defined as one that is greater than £200,000. If significant differences are detected between balances and/or transaction streams advised by the provider body and those recorded by the counterparty purchaser, then contact should be made by the counterparty advising that a significant difference is apparent. Both parties should work together to ascertain how and why the difference has occurred. If an error has occurred, then the entity holding the error should adjust their records. If the difference is due to timing, then the confirmation statement should carry a brief note to this effect.

33. Where differences are identified individual bodies may be asked to revise their submissions. In some cases this could also have an impact on the statutory financial statements of the body concerned.

34. As part of the agreement process, adjustments may be required to adjust the balances initially recorded. Agreement is the responsibility of the transacting bodies. Where a dispute cannot be resolved the usual practice is that the entity owing money to another entity should always accrue for the amount notified to them (i.e. the purchaser's ledger is adjusted). However, there may be a small number of instances where differences between balances or transaction streams recorded by bodies cannot be resolved because of differences in the way the bodies account for them. Such differences should be reported to the Treasury's WGA Consolidation Manager ([wga.team@hm-treasury.gsi.gov.uk](mailto:wga.team@hm-treasury.gsi.gov.uk)) as soon as the differences are known.

### **Post Recess Resource Accounts**

35. It is likely that some departments or bodies will not be able to agree balances and transaction streams in accordance with the "Timetable for the Sub-consolidation of Accounts of Central Government Departments and bodies" because they are unable to complete their resource or statutory accounts before the summer recess – i.e. they are "post recess departments or bodies". In such cases the departments or bodies seeking agreement of balances or transaction streams should:

- ensure they submit their WGA data in accordance with the timetable without getting agreement from the "post recess departments or bodies";
- document clearly how they have estimated the balances or transaction streams to provide clear audit trails which supports both their resource / statutory accounts and WGA submissions; and

- let the Treasury's WGA Consolidation Manager ([wga.team@hm-treasury.gsi.gov.uk](mailto:wga.team@hm-treasury.gsi.gov.uk)) know the balances or transaction streams they were unable to agree so that the Treasury's WGA Team has early warning of potential mismatches.

36. Mismatches which arise following the submission of WGA data by "post recess departments or bodies" should be investigated by both parties and appropriate action taken which could include the revision of future estimation techniques by one or both parties, or the restatement of 2008-09 transaction streams or balances by one or both parties.

### **Input to COINS (HM Treasury's Single Data System)**

37. The COINS system (Combined Online Information System) will recognise and eliminate balances and transactions between entities based on a Counter Party Identifier code (CPID). Every body and fund has its own unique alphanumeric CPID. These codes must be used when balances and transactions with other bodies within the WGA boundary are recorded in COINS.

38. An updated Standard Chart of Accounts (SCOA) is in place for 2008-09. A summary is attached at Appendix 4 which includes details of all valid SCOA's for 2008-09 and changes since 2007-08. A full list of CPIDs for whole of government bodies and funds who will submit 2008/09 data is attached at Appendix 3.

39. HM Revenue and Customs (HMRC) are responsible for the collection of taxes. HMRC produces two accounts – the Trust Statement which records the taxes collected and the Resource Account which records the administrative costs of the department. Taxes and duties balances should be reported using IRT813.cpid, the code for the Trust Statement. Balances and transactions with the Department should be reported using ILR041.cpid.

### **Specific Transaction Streams and Balances**

#### **VAT**

40. The treatment of VAT depends on whether the transaction is in respect of a contracted out service for which the VAT is recoverable by the purchasing body, or the VAT is not recoverable. In the case of contracted out services both the income and expenditure amounts agreed by bodies should be net of VAT, as only the net amounts need to be eliminated from operating costs / income during the consolidation process. Both parties record the VAT element of transactions in control accounts, as are VAT recoveries by purchasing bodies or VAT payments made by service providers. The VAT transactions should not be recorded on the CPID input sheet in the New Consolidation Pack. However, the VAT balance at 31 March 2009 should be identified and allocated to the IRT813.cpid since it needs to be eliminated on consolidation.

41. Where the VAT is not recoverable both the income and expenditure amounts agreed by bodies should be net of VAT. However, the purchasing body should also report the VAT paid and allocate it against the HMRC Trust Statement CPID (IRT813). Transactions and balances with HMRC do not require agreement - as noted above. VAT payments to HMRC or VAT refunds by HMRC that are made during the year should not be reported in WGA submissions or for that matter agreed with HMRC.

42. Paragraphs 40 and 41 relate to transactions between bodies that are within the WGA boundary. Where transactions are with bodies outside the WGA boundary

expenditure which is recorded inclusive of the VAT element in the body's accounts should be treated as an external transaction. However, if the expenditure is in respect of a VAT recoverable contracted out service the expenditure net of VAT is recorded in the accounts. The net amount should be treated as an external transaction.

### Pension schemes

43. The Principal Civil Service Pension Scheme (PCSPS) will provide reports to Consolidation Managers containing details of pension contributions receivable during 2008-09 and those unpaid at 31 March 2009 to initiate the agreement process. As these figures are one of the key areas of elimination within WGA it is important that bodies reach agreement on these numbers. That is bodies will have to confirm that they agree where the balances or transactions are over £5m and that differences do not exceed £200,000

44. Those bodies that have transactions with the other WGA pension schemes (i.e. Armed Forces Pension Scheme, Judicial Pension Scheme, NHS Pension Scheme, Research Councils Pension Scheme, Teachers Pension Scheme and UKAEA Pension Scheme) should initiate the process themselves. Bodies are not required to report or agree transactions and balances with local government pension schemes since these are outside the WGA boundary.

45. The following table summarises the procedure related to the agreement process and the provision of counter-party information - from the point of view of both WGA bodies and Pension Schemes. No agreement is necessary for balances, as the scheme's figures will reflect those of the WGA body. However, departments will need to report such balances.

### Central Government Body

	Payroll provided externally / outsourced		Payroll provided in-house	
	Agreement?	Reported?	Agreement?	Reported?
<b>Transaction Streams</b> employer pension contributions	Yes	Pension fund.CPID	Yes	Pension fund.CPID
<b>Balances Payable</b> employer & employee contributions	No	No	No*	Pension fund.CPID

\* except for the PCSPS where balances are agreed (see paragraph 43), and the NHS pension scheme in respect of primary care trusts which are included in the DoH resource account, the core DoH and any other central government bodies which will include the devolved administrations, central government departments and NDPBs.

## Pension Scheme

	Payroll provided externally / outsourced		Payroll provided in-house	
	Agreement?	Reported?	Agreement?	Reported?
<b>Transaction Streams</b> employer pension contributions	Yes	Central Govt body.CPID	Yes	Central Govt body.CPID
<b>Balances Receivable</b> employer & employee contributions	No	No	No	Central Govt body.CPID

## Recharged Costs

46. A number of departments and NDPBs use services provided by other departments. Providers generally recover the cost of these services from users but the agreement of the recoveries made and how they are reported has been problematic since the providers do not always account for the recovered costs (i.e. provider's income) on the same basis as the users account for the costs recharged (i.e. purchaser's expenditure). For example, a department sublets office space to another department. The landlord department accounts for the rent it pays to the property owner on a net basis (i.e. gross rent paid by the department less the rent recovered from the tenant department). The tenant department records the rent paid to the landlord department as an expense. In such cases the rent paid by the tenant department must not be eliminated and the tenant department is not required to report the transaction stream with the landlord department. To this end the landlord department must record clearly on the agreement form (Appendix 2 - Agreement of Balances Forms) that recovered costs are netted off. The completed form will provide essential supporting evidence when the WGA data submitted by both departments is subjected to management review and audit.

47. An alternative approach is for the service provider to account for the cost of the service on a gross basis and to record the recovered costs as income. The user department records the payment to the service provider as an expense. Both service provider and service user agree the transaction streams that are then eliminated. Although the approach will invariably mean that the WGA data is not in line with the departmental resource accounts it minimises the risk of mismatches or the misstatement of expenditure and income which may arise from the failure to correctly eliminate interdepartmental transactions if the approach in paragraph 46 is used.

## Executive Agencies

48. Where Executive Agencies prepare separate information to feed into a department's resource accounts they will also need to identify any balances and transaction streams with other central government bodies. This will then be reported as part of the information from the relevant department. Some departments may have several agencies incorporated within their Resource accounts. The intra group balances from these bodies while under the threshold individually, may result in the total balance being above the threshold. Departments may decide therefore to implement a lower cpid reporting threshold for these bodies.

28 April 2009