

Executive Non-Departmental Public Bodies

Annual Reports and Accounts Guidance

**Central Accountancy Team
HM Treasury
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Executive Non-Departmental Public Bodies Annual Reports and Accounts Guidance

1. This guidance, incorporating all the agreed amendments to the version applicable to the 2002/3 accounts, applies to the 2003/4 accounts for all Executive NDPBs.
2. This new edition is available in hard copy from HM Treasury and can be accessed on the Treasury website at:

http://www.hm-treasury.gov.uk/NDPB_Accounting_Guidance

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NDPB Annual Report and Accounts Guidance

1st Batch Amendment Record Sheet

Reference	Reason for Amendments	Amendment Agreed	Applicable Date
11.4.1 & 11.4.2	Clarification of the Definition of Contract Staff	FRAB(67)	1 April 2004

NDPB Annual Report and Accounts Guidance

2nd Batch Amendment Record Sheet

Reference	Reason for Amendments	Amendment Agreed	Applicable Date
11.8 New Section	Enhanced disclosure requirements of balances between reporting entities and other parts of the public sector	FRAB(68)	1 April 2004

NDPB Annual Report and Accounts Guidance*Cumulative Amendments Record List*

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11.4.1 & 11.4.2	Clarification of the Definition of Contract Staff	FRAB(67)	1 April 2004
11.8	Enhanced disclosure requirements for balances between reporting entities and other parts of the public sector	FRAB(68)	1 April 2004

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List of acronyms

AN	Application Note
ASB	Accounting Standards Board
C&AG	Comptroller and Auditor General
CRC	Current Replacement Cost
DAO(GEN)	Dear Accounting Officer Letter
FRAB	Financial Reporting and Advisory Board
FREDS	Financial Reporting Exposure Drafts
FRS	Financial reporting standards
FRSSE	Financial Reporting Standard for Smaller Entities
GAAP	Generally accepted accounting practice
I&E	Income and Expenditure
MHCA	Modified Historical Cost Accounting
NDPB	Non-departmental Public Bodies
NRV	Net Realised Value
OPS	Office of Public Service
PC	Pension Circular
PCA	Parliamentary Commissioner for Administration
PFI	Private Finance Initiative
PFO	Principal Finance Officer
SAS	Statement of Auditing Standard
SI	Statutory Instrument
SIC	Statement on Internal Control
SOFA	Statement of Financial Activities
SORP	Statement of Recommended Practice
SSAP	Statements of Standard Accounting Practice
STRGL	Statement of Total Recognised Gains and Losses
TPA	Third Party Assets
UITF	Urgent Issues Task Force

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Introduction

- 1.1 Aim of guidance**
- 1.2 Compliance with the Guidance**
- 1.3 NDPBs which are incorporated as companies**
- 1.4 NDPBs which have charitable status**
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1.1 Aim of Guidance

- 1.1.1 This guidance covers the form and content of the Annual Reports and Accounts of Executive Non-Departmental Public Bodies (NDPBs). Some NDPBs are incorporated as companies, some as charities and some as grant giving bodies. Annual Reports and Accounts are the main vehicle by which Executive NDPBs regularly inform Parliament, sponsoring Departments and the public about their activities, achievements and expenditure.
- 1.1.2 The general aim is for the accounts to be on a commercial accounting basis and to comply with generally accepted accounting practice in the United Kingdom (UK GAAP) to the extent that this is meaningful and appropriate in the public sector context. Although the term GAAP has no statutory or regulatory authority or definition, there is a general consensus that it is founded upon:
- a. the accounting and disclosure requirements of the Companies Act 1985 (as amended by the Companies Act 1989 - subsequently referred to as the Companies Act);
 - b. pronouncements by the Accounting Standards Board, principally comprising accounting standards - Statements of Standard Accounting Practice (SSAPs) and Financial Reporting Standards (FRSs) - and UITF abstracts;
 - c. the body of accumulated knowledge built up over time and promulgated in (for example) textbooks, technical journals and research papers

For the purposes of this guide, GAAP is taken to mean primarily those items listed under **a** and **b** above, but these will need to be interpreted in the light of the body of accumulated knowledge under **c**. GAAP applies to NDPBs as modified in this guidance by any additional or alternative treatments where appropriate, to take account of the public sector context.

Annex C shows for each standard and UITF abstract, its applicability. The relevant accounting standards should be consulted for a full understanding of their requirements.

- 1.1.3 Guidance on the form and content of the *Annual Report* is given in chapter 2, and on the Parliamentary procedures relating to the Report and Accounts in chapter 13.
- 1.1.4 This guidance is concerned with best practice, and the requirements described in the paper should be regarded as mandatory and be complied with fully in the absence of any dispensations agreed with the sponsor Department and the Treasury. However, each NDPB should consider how it can best present its activities to Parliament and other users of its annual report and accounts, such as employees and the public; taking account of the time, effort and cost involved in relation to the size of the operation. As the circumstances of NDPBs vary greatly, this guidance does not give a general definition of materiality¹ and it will be necessary for an NDPB to discuss with its auditors what might be considered material in its particular circumstances.
- 1.1.5 The intention is that, as far as is possible, the accounts of Executive NDPBs should be comparable in form and coverage. Since Executive NDPBs take a wide variety of forms, what is appropriate may vary from case to case. There is no intention to impose unnecessarily sophisticated accounting and information systems which cannot be justified in terms of value for money.

1.2 Compliance with the Guidance

- 1.2.1 This guidance is the authoritative statement of how particular types of transactions and other events should be reflected in resource accounting. Compliance with the Guidance will, in all but exceptional circumstances, be necessary for financial statements to give a true and fair view.
- 1.2.2 The requirement to give a true and fair view may in special circumstances require a departure from the Guidance. However, this should only occur exceptionally

because the Guidance is formulated with the aim of ensuring that the information resulting from its application faithfully represents the underlying activity.

- 1.2.3 If in exceptional circumstances compliance with the requirements of this Guidance is inconsistent with the requirements to give a true and fair view, the requirements of the Guidance should be departed from only to the extent necessary to give a true and fair view. In such cases, informed and unbiased judgement should be used to devise an appropriate alternative treatment, which should be consistent with both the economic characteristics of the circumstances concerned and the spirit of the Guidance. Any material departure from the Guidance should be discussed in the first place with sponsor departments and in conjunction with the Treasury. Particulars of any departure, the reasons for it and its effects should be disclosed in the accounts. FRS 18 applies as adapted by replacing references to an accounting standard, a UITF Abstract or companies' legislation with references to this Guidance.
- 1.2.4 Executive NDPBs should prepare their accounts in accordance with UK GAAP (1.1.2), to the extent that this is appropriate. However, the need to give a true and fair view is paramount, and there may be exceptional instances where compliance with a particular requirement of UK GAAP will not result in a true and fair view being given.
- 1.2.5 For the purposes of this guidance, ~~current value~~generally means any value based solely on present and future circumstances.

1.3 NDPBs which are incorporated as companies

- 1.3.1 NDPBs which have been incorporated as companies are required to prepare their accounts in accordance with UK GAAP in order to give a ~~true~~ and fair view¹ Where the accounting and disclosure requirements of this guidance go further than those of the Companies Act, and are not precluded by the Act, NDPBs should provide the additional disclosure. Examples include notional costs and information concerning higher paid employees.

1.4 NDPBs which have charitable status

- 1.4.1 The accounting requirements for registered charities in England and Wales are prescribed in regulations issued by the Home Office pursuant to section 42 of the Charities Act 1993 (The Charities Accounts and Reports) Regulations 1995 - SI 1995 No. 2724). These were issued in October 1995 and came into effect on 1 March 1996. The Regulations are supplemented by a Statement of Recommended Practice, *Accounting by Charities* (also known as the Charities SORP), which contains more detailed recommendations. The SORP can be obtained from the Charity Commission. The arrangements for charities in Scotland are discussed in paragraph 1.4.5. In addition to complying with the Regulations and the SORP (see 1.4.2 - 1.4.4 below), NDPBs with charitable status should also have regard to any additional accounting or disclosure requirements described in this guidance, which are not precluded by the SORP. The main example is the inclusion of notional costs. The Charities SORP does not preclude the use of modified historical cost accounting.
- 1.4.2 NDPBs which are *registered companies* must comply with the Companies Act 1985 and the SORP. If an NDPB's sponsor Department considers that the form and content of the accounts (in particular the Statement of Financial Activities (SOFA)) do not provide the information needed to enable it to monitor and control its NDPB, it may direct the NDPB to supplement the SOFA with a summarised income and expenditure account (see paragraphs 166 to 169 of the current SORP). Those NDPBs that are both registered charities and companies are required to prepare a SOFA and a summarised income and expenditure account as described in paragraph 22(b) of the SORP. N.B. The Exposure Draft of the Charities SORP for accounting and reporting of charities provides detail on the circumstances of when a Summary Income Expenditure Account is required (paras 339-342).
- 1.4.3 The Home Office Regulations do not apply to *exempt charities*, and there is no statutory obligation on them to comply with the recommendations of the Charities

SORP. Most exempt charities are regulated by a different body to the Charities Commission and are often subject to different regulatory requirements for their annual report and accounts. However, the SORP provides details of best accounting practice for charities and there is a strong presumption that compliance with the SORP will be necessary in order to give a true and fair view for those exempt charities which are not regulated. Exempt charities which are not subject to such regulatory requirements should therefore comply with the recommendations of the SORP, unless they or their sponsor Department feel that the resulting accounts will not provide the information needed for monitoring purposes. In such cases, the NDPB should consider producing, say, a summary income and expenditure account in addition to the SOFA.

- 1.4.4 Enquiries regarding the interpretation of the Home Office Regulations and the Charities SORP, should, in particular circumstances, be addressed to the Home Office or the Charity Commission as appropriate.
- 1.4.5 Both the Charities SORP and the Companies Acts are applicable in Scotland.
- 1.4.6 The requirements of FRS 18, “Accounting policies”, relating to SORPS apply. For an NDPB that has charitable status, these requirements include that:
 - a. a statement should be given of whether the NDPB’s accounts have been prepared in accordance with the provisions of the Charities SORP currently in effect; and
 - b. in the event of a departure, including where disclosures are not provided, a brief description should be given of the departure and of the relevant reasons.

1.5 Development of this Guidance

- 1.5.1 This Guidance will be subject to further refinement as accounting best practice develops. It will be updated in the light of:

- a. developments in policy aims of accounting and budgeting;
- b. the evolution of GAAP;
- c. experience and application.

1.5.2 HM Treasury will be responsible for making amendments to this Guidance as required, after taking advice from the Financial Reporting Advisory Board.

1.6 The Effective Date of the Guidance

1.6.1 This is the definitive version of the Manual to use for the 2003/04 financial year. It incorporates the 5 batches of amendments issued by HM Treasury from April to November 2003 to the 2002/03 version of this Guidance.

2

Executive NDPB Reports

2.1 Introduction

2.2 Form and content of the Annual Report

2.1 Introduction

- 2.1.1 For many NDPBs there is a statutory requirement to prepare a report on their activities but, even if there is not, there is a presumption that NDPBs will prepare one in the interests of presenting to Parliament and others as full a picture as possible of the NDPB's activities and future prospects. The *Annual Report* gives the opportunity to expand and comment on the bare financial facts given in the accounts and the use of photographs and illustrations as well as narrative is welcomed.
- 2.1.2 Guidance on the Parliamentary procedures relating to the presentation of the Report (and the accounts) is given in chapter 13.

2.2 Form and content of the Annual Report

- 2.2.1 When preparing their Annual Reports, NDPBs should have regard to the Cabinet Office's publication *Next Steps Agencies, Trading Funds and Non-Departmental Public Bodies: Guidance on Annual Reports*, which incorporates the appropriate elements of an Operating and Financial Review (OFR). The latest version of the Cabinet Office's Guidance (January 2003) is available from <http://www.cabinet-office.gov.uk/agencies-publicbodies/guiddepts/docs/annualreport-guidance.pdf>.

Executive NDPB Financial Statements

- 3.1 Accounts Directions**
- 3.2 Accounting and Financial Reporting Standards**
- 3.3 Inapplicability of disclosure and auditing exemptions**
- 3.4 Modified Historical Cost Accounting (MHCA)**
- 3.5 Notional costs**
- 3.6 Statement of Directors Responsibilities**
- 3.7 Contents of accruals based accounts**
- 3.8 Retirement Benefits**
- 3.9 Application of FRS 5 to PFI projects**

3.10 Example financial statements

3.11 Accounting for third party assets

3.1 Accounts Directions

- 3.1.1 In nearly all cases, the legislation setting up a NDPB will provide for the accounts to be in the form directed by the relevant Secretary of State, with the consent of the Treasury. Thus the Treasury has indirect powers of direction over the form of accounts prepared by NDPBs. As a matter of policy, the Treasury's approval should be sought to changes in accounting requirements, even if such approval is not specifically provided for in the establishing instrument.
- 3.1.2 After consultation with the body and the Treasury, the sponsor Department will issue an *accounts direction* i.e. a formal document setting out the minimum requirements in respect of the form and content of the statements of account. A *model accounts direction* is reproduced at Annex B, but Departments may wish to make modifications to reflect the circumstances of their NDPBs.
- 3.1.3 It is important that the bases on which the accounts have been prepared and audited are clear to the reader. This is particularly so in the public sector where in order to give a true and fair view, the body has modified or supplemented the accounting and disclosure requirements of this guidance or UK GAAP (see paragraphs 1.2.3 and 1.2.4). The accounts direction issued by the parent department will normally indicate any agreed departures from the guidance or UK GAAP. It is important that any such departures are disclosed in the accounting policy note in line with the requirements of paragraph 62 of FRS 18 as there is no longer a requirement to reproduce the accounts direction.

3.2 Accounting and Financial Reporting Standards

- 3.2.1 The general policy on the application of commercial accounting standards is set out in the following extract from the Accounting Standards Board's Foreword to Accounting Standards (issued in June 1993):

The prescription of accounting requirements for the public sector in the United Kingdom is a matter for the Government. Where public sector bodies prepare annual reports and accounts on commercial lines, the Government's requirements may or may not refer specifically either to accounting standards or to the need for the financial statements concerned to give a true and fair view. However it can be expected that the Government's requirements in such cases will normally accord with the principles underlying the Board's pronouncements, except where in the particular circumstances of the public sector bodies concerned the Government considers these principles to be inappropriate or considers others to be more appropriate.⁴

The Foreword, Statements of Standing Accounting Practice and Financial Reporting Standards are obtainable from ASB Publications, PO Box 939, Central Milton Keynes, MK9 2HT (01908 230344). They are also reproduced in specialist accountancy publications.

3.3 Inapplicability of disclosure and auditing exemptions

- 3.3.1 Small and medium sized companies (as defined in the Companies Act) do not have to comply with all of the disclosure requirements of the Act or follow some of the accounting standards. Additionally, smaller companies applying the Financial Reporting Standard for Smaller Entities (FRSSE) are exempt from complying with other accounting standards. Dear Accounting Officer (GEN) 10/97 made clear that central government bodies (including NDPBs) are not permitted to adopt the FRSEE but should continue to have regard to the full range of accounting and disclosure requirements of all relevant accounting standards and UITF abstracts.
- 3.3.2 There are also exemptions from the requirement for a full audit for companies which satisfy a number of criteria, but there is no intention to extend these audit exemptions to NDPBs.

3.4 Modified Historical Cost Accounting (MHCA)

- 3.4.1 NDPBs should prepare their accounts on a modified historical cost basis in which the income and expenditure account reflects the consumption of resources at their current value and the balance sheet shows the value of fixed assets, current asset investments and (if material) stocks at their value to the business by reference to current costs.
- 3.4.2 Although NDPBs should adopt MHCA, there may be particular years when the effect of revaluing assets makes no material difference to the results for the year or the financial position at the year end. In such cases, there is no need to account for the difference between the carrying values and the current values. However, bodies will need to make regular assessments of the effect of applying the principles of MHCA as, while there may be no material differences between one year and the next, this position may not hold true over longer periods of time.
- 3.4.3 For valuation and measurement of tangible fixed assets and investments (see respectively section 8.2 and 8.11).
- 3.4.4 **Stocks** should be shown at the lower of current replacement cost (CRC) and net realisable value (NRV). However, where stocks do not represent a significant proportion of an NDPB's total assets and are not materially affected by changing prices (e.g. they are used and replaced frequently), there should be little difference between the current replacement cost and the amounts which they are shown in the balance sheet. In such circumstances, stocks may be valued at the lower of historical cost and NRV.
- 3.4.5 Where assets are shown at their value to the business, the Companies Act requires certain information to be given concerning their historical cost. As the policy is for

NDPBs and other public sector bodies such as Next Steps Agencies and Trading Funds to account for their fixed assets, current asset investments, and (if material)

stocks at current values, there may be little justification for giving the information. Departments may therefore wish to include in the accounts direction a dispensation from giving information about the historical cost of assets shown at a valuation (see also 11.3.1).

- 3.4.6 To meet the requirements to reflect the effects of changing prices, fixed assets held by NDPBs should be recorded showing their current value and should be depreciated annually in accordance with UK GAAP. Charges for annual depreciation will be recorded in the NDPB's income and expenditure account.

3.5 Notional costs

- 3.5.1 Even when a NDPB does not charge for its services, or does not charge the full cost, the accounts should nevertheless disclose the full cost of its activities. This will require the inclusion of *notional costs* as well as costs actually incurred. Further information on notional costs is given in sections 7.4 and 7.7.

3.6 Statement of Directors' Responsibilities

- 3.6.1 Under the provisions of the Statement of Auditing Standards (SAS) 600 on Auditors' Reports on Financial Statements, a Statement of Directors' Responsibilities is needed which sets out the role of directors in relation to the production of accounts (4.1.1). The external report will refer to the Statement and will also set out the responsibility of the external auditors. The object of these statements is to make clear to users of the accounts the different responsibilities of the directors and auditors for the preparation and audit of the accounts. Statements of Auditing Standards can be obtained from Accountancy Books, PO Box 620, Central Milton Keynes, MK9 2JX; they are also reproduced in specialist accountancy publications.

3.7 Contents of accruals based accounts

3.7.1 Accruals-based accounts prepared by NDPBs should consist of :

- a. a Foreword (see Chapter 4);
- b. a Statement of the Accounting Officer's Responsibilities (see Chapter 5);
- c. a Statement on the system of internal financial control (see Chapter 6);
- d. an Income and Expenditure account, Profit and Loss account or Statement of Financial Activities as required (alternative descriptions may be used) (see Chapter 7);
- e. a Statement of Total Recognised Gains and Losses - if no statement is prepared because of no gains or losses other than those in the Income and Expenditure Account, this must be noted at the foot of the Income and Expenditure account (see Chapter 10);
- f. A Balance Sheet (see Chapter 8);
- g. a Cash Flow Statement (see Chapter 9);
- h. Notes (see Chapter 11).

3.8 Retirement benefits

Introduction

- 3.8.1. All the requirements of FRS 17 *Retirement Benefits* will apply as adapted to the public sector for 2003-04.
- 3.8.2. Gains and losses arising on the initial recognition of items in the primary statements should be dealt with as a prior period adjustment.

Definition

- 3.8.3. Retirement benefits cover all forms of consideration given by an employer in exchange for services rendered by employees that are payable after the completion of employment.
- 3.8.4. Retirement benefits do not include early departure costs, to the extent not anticipated in actuarial valuations.
- 3.8.5 FRS 17 covers funded and unfunded retirement benefits, including schemes that are operated on a pay as you go basis. The FRS requires a liability to be recognised as the benefits are earned, not when they are due to be paid. The fact that the employer is funded by central government is not a reason for the employer not to recognise its own liabilities arising under the FRS.

Measurement and valuation

- 3.8.6 The objective of FRS 17 is to ensure that:
- a. financial statements reflect at fair value the assets and liabilities arising from an employer's retirement benefit obligations and any related funding;
 - b. the operating costs of providing retirement benefits to employees are recognised in the accounting period(s) in which the benefits are earned by

the employees, and the related finance costs and any other changes in the value of the assets and liabilities are recognised in the accounting periods in which they arise; and

- c. the financial statements contain adequate disclosure of the cost of providing retirement benefits and the related gains, losses, assets and liabilities.

Defined contribution schemes

- 3.8.7 The cost of a defined contribution scheme is equal to the contributions payable to the scheme for the accounting period.

Multi-employer defined benefit schemes (including the Principal Civil Service Pension Scheme)

- 3.8.8 Where more than one employer participates in a defined benefit scheme the employer should account for the scheme as a defined benefit scheme unless:
- a. the employer's contributions are set in relation to the current service period only. If this is the case, the employer should account for contributions to the scheme as if it were a defined contribution scheme.
 - b. the employer's contributions are affected by a surplus or deficit in the scheme but the employer is unable to identify its share of the underlying assets (if any) and liabilities in the scheme on a consistent and reasonable basis. If this is the case, the employer should account for contributions to the scheme as if it were a defined contribution scheme, but in addition to the disclosures in 3.8.24 should disclose:
 - i. the fact that the scheme is a defined benefit scheme in which the employer's share of underlying assets and liabilities is not identified; and

- ii. any available information about the existence of the surplus or deficit in the scheme and the implications of that surplus or deficit for the employer (this should be available from the relevant pension scheme statement).

Schemes with separate Supply Estimates

3.8.9 Where an employer participates in a defined benefit scheme which has a separate Supply Estimate and which prepares resource accounts – other than those covered in 3.8.8 above – the employer should account for contributions to the scheme as if it were a defined contribution scheme, but in addition to the disclosures in 3.8.24 above disclose:

- a. the fact that the scheme is a defined benefit scheme which prepares its own scheme statements;
- b. any available information about the existence of the surplus or deficit and the implications of that surplus or deficit for the employer (this should be available from the relevant pension scheme statement).

Other defined benefit schemes

3.8.10 The deficit / surplus in a defined benefit scheme is the shortfall / surplus of the value of the assets in the scheme below / over the present value of the scheme liabilities. The employer should recognise a liability to the extent that it reflects its legal or constructive obligation. The employer should recognise an asset to the extent that it is able to recover a surplus either through reduced contributions in the future or through refunds from the scheme.

3.8.11 Scheme assets should be measured at their fair value at the balance sheet date.

Notional funding of a pension scheme does not give rise to assets in a scheme. FRS 17 gives further guidance on the valuation of scheme assets.

- 3.8.12 Scheme liabilities should be measured on an actuarial basis using the projected unit method. The assumptions underlying the valuation should be mutually compatible and lead to the best estimate of the future cash flows that will arise under the scheme liabilities.
- 3.8.13 Scheme liabilities, expressed at current year prices, should be discounted using an assumed long-term real rate of return as advised by GAD. The current rate is 3.5 per cent and will apply for 2003-04 and 2004-05. The rate will be re-assessed at each Spending Review. The revised rate for the 2004 Spending Review will apply for 2005-06 and 2006-07.
- 3.8.14 Full actuarial valuations by a professionally qualified actuary should be obtained for a defined benefit scheme at intervals not exceeding four years. The actuary should review the most recent actuarial valuation at the balance sheet date and update it to reflect current conditions.
- 3.8.15 Any unpaid contributions to the scheme should be presented as a creditor due within one year.
- 3.8.16 Within the **income and expenditure account or statement of total recognised gains and losses**, the change in the defined benefit asset or liability (other than that arising from contributions to the scheme) should be analysed into the following components:
- a. the current service cost;
 - b. the interest cost;
 - c. the expected return on assets (funded schemes only);
 - d. actuarial gains and losses;
 - e. past service costs; and
 - f. gains and losses on settlements and curtailments.

FRS 17 gives further guidance on calculating these items.

- 3.8.17. The current service cost should be included in “staff costs” in the income and expenditure account except for staff costs that are capitalised. Any contributions from employees should be set off against the current service cost.
- 3.8.18 The net of the interest cost and the expected return on assets should be included in the income and expenditure account as part of the interest charge.
- 3.8.19 Actuarial gains and losses should be recognised in the statement of total recognised gains and losses.
- 3.8.20 Past service costs should be recognised in the income and expenditure account on a straight line basis over the period in which the benefits vest.
- 3.8.21 Gains and losses on settlements and curtailments should be recognised in the income and expenditure account when the employer becomes demonstrably committed to the transaction.
- 3.8.22 Within the **balance sheet (or notes)**:
- a. the pension liability (or asset) should be presented separately after “accruals and deferred income”;
 - b. the analysis of reserves should distinguish the amount relating to the defined benefit liability or asset (if applicable) net of the related deferred tax.

Disclosures

Defined contribution schemes

- 3.8.23 The following disclosures should be made in respect of defined contribution schemes:

- a. the nature of the scheme (i.e. defined contribution);
- b. the cost for the period; and
- c. any outstanding or prepaid contributions at the balance sheet date.

Defined benefit schemes

3.8.24 The following disclosures should be made in respect of a defined benefit scheme:

- a. the nature of the scheme (i.e. defined benefit);
- b. the date of the most recent full actuarial valuation on which the amounts in the financial statements are based;
- c. the contribution made in respect of the accounting period and any agreed contribution rates for future years;
- d. for closed schemes and those in which the age profile of the active membership is rising significantly, the fact that under the projected unit method the current service cost will increase as the members of the scheme approach retirement.

3.8.25 Additional disclosures for some multi employer defined benefit schemes and schemes with separate Supply Estimates that are accounted for as if they were defined contribution schemes are set out in 3.8.8 and 3.8.9.

3.8.26 Employers accounting for other defined benefit schemes should make the following additional disclosures in the notes to the accounts:

- a. each of the main financial assumptions used at the beginning of the period and at the balance sheet date. They should be disclosed as separate individual figures, not combined or netted. The main financial assumptions include:
 - i. the inflation assumption;
 - ii. the rate of increase in salaries;

- iii. the rate of increase for pensions in payment and deferred pensions; and
 - iv. the rate used to discount scheme liabilities.
- b. for funded schemes, the fair value of the assets held by the pension scheme at the beginning and end of the year should be analysed into the following classes and disclosed together with the expected rate of return for each class for the subsequent period:
- i. equities;
 - ii. bonds; and
 - iii. other (subanalysed if material).

FRS 17 gives details on how to measure fair value of scheme assets.

- c. the following amounts included within the *income and expenditure account*:
- i. the current service cost;
 - ii. any past service costs;
 - iii. for funded schemes, any previously unrecognised surplus deducted from the past service costs;
 - iv. gains and losses on any settlements and curtailments;
 - v. for funded schemes, any previously unrecognised surplus deducted from the settlement or curtailment costs
 - vi. the interest cost; and

vii. for funded schemes, the expected return on assets in the scheme.

FRS 17 gives details on how to measure these items.

- d. the following for items included in the *statement of total recognised gains and losses*:
- i. for funded schemes, the difference between the expected and actual return on assets expressed as (i) an amount and (ii) a percentage of the scheme assets at the balance sheet date;
 - ii. the experience gains and losses arising on the scheme liabilities as (i) an amount and (ii) a percentage of the present value of the scheme liabilities at the balance sheet date;
 - iii. the effects of changes in the demographic and financial assumptions underlying the present value of the scheme liabilities as an amount; and
 - iv. the total actuarial gain or loss expressed as (i) an amount and (ii) a percentage of the present value of the scheme liabilities at the balance sheet date.
- e. the fair value of the scheme assets (if any), the present value of the scheme liabilities based on the accounting assumptions and the resulting surplus or deficit should be disclosed in a note to the financial statements. Where the asset or liability in the balance sheet differs from the surplus or deficit in the scheme, an explanation of the difference should be given. An analysis of the movements during the period in the surplus or deficit in the scheme should be given;
- f. where an employer has more than one defined benefit scheme, disclosures may be made in total, separately for each scheme, or in such groupings as are considered to be the most useful. Where an employer provides disclosures in total for a number of schemes, the assumptions should be given in the form of

weighted averages or of relatively narrow ranges with any outside the range disclosed separately.

3.9 Application of FRS 5 to Private Finance Initiative (PFI) projects

- 3.9.1 The objective of the PFI is to harness the benefits of private sector management by purchasing services rather than assets.
- 3.9.2 PFI transactions should be accounted for in accordance with Technical Note No. 1 (Revised): *How to account for PFI transactions* which has been issued under cover of Dear Accounting Officer (General) letter 12/99. The Technical Note sets out additional practical guidance on how the Accounting Standards Board's Application Note (AN) *An amendment to FRS 5 - Private Finance Initiative and Similar Contracts* is to be followed in the public sector and should be read in conjunction with the AN.
- 3.9.3 The disclosure requirements for PFI projects are set out in paragraphs 5.19-23 of the Technical Note. In the case of capitalisation of residual interests, detailed in paragraphs 5.4-10 of the Technical Note, disclosure should be as a tangible fixed asset, categorised under 'Payments on Account and Assets under Construction.' Consideration should be given to impairment of the asset, where relevant, in accordance with the principles of FRS 11, and the nature of the residual interest should be disclosed, when material.

3.10 Example Financial Statements

- 3.10.1 Due to the diversity of NDPB financial statements, model financial statements are not included in this guidance. However, should users require particular examples of NDPB financial statements they should contact Central Accountancy Team, HM Treasury.

3.11 **Accounting for Third-Party Assets**

3.11.1 Third-party assets are defined as ‘Assets for which an Executive NDPB acts as custodian or trustee but in which neither the Executive NDPB nor government more generally has a direct beneficial interest.

3.11.2 Examples of assets that do not represent third-party assets include:

- a. assets held on loan for presentational or other purposes;
- b. amounts collected for the Consolidated Fund which are outside the scope of the NDPB’s activities but are currently on Balance Sheet;
- c. balances arising when NDPB’s are pre-funded by other NDPB’s to provide goods or services to them on an agency basis;
- d. amounts in respect of EU income.

3.11.3 Whilst Executive NDPBs that hold third-party assets have responsibility for them during the period they are held, they are not ‘public assets’ in the accepted sense but are held on trust on behalf of third-parties. Whilst of an additional disclosure nature, in the interests of general disclosure and transparency in public accounts, third-party assets should be readily identifiable and reported in audited accounts by way of summary note. Third-party assets are not to be recorded in the primary statements of the accounts even if third-party monies are included in public bank accounts (3.12.5).

3.11.4 For disclosure purposes a distinction is made between third-party monies and listed

securities, and third-party physical assets and unlisted securities:

- a. Third-party monies and listed securities: the minimum level of numerical disclosure required is a statement of closing balances as at the financial year-end. For listed securities this will be the total market value. Optionally, when considered significant by the Executive NDPB, and at its discretion, further disclosures may be made, including gross inflows and outflows in year, and the number and types of securities held.

 - b. Third-party physical assets and unlisted securities: disclosure may be by way of narrative note. For physical assets the note should provide information on the asset categories involved. Such disclosure should be sufficient to give users of the accounts an understanding of the extent to which third party physical assets and unlisted securities are held by the Executive NDPB.
- 3.11.5 Third-party monies should not be held in public bank accounts¹, nor should any other monies which are not public monies². If, however, third party monies are found to have been in a public bank account at the end of the accounting year, then in addition to the disclosure requirement in 3.12.4a, a note should be included in the accounts indicating the amount of third party monies held in the bank account.

¹ See definition of 'public bank accounts' in the Glossary of Government Accounting.

² See definition of 'public monies' in the Glossary of Government Accounting

Foreword to the Accounts

4.1 Introduction

4.2 Contents

4.3 Relationship between Annual Report and Foreword

4.1 Introduction

- 4.1.1 The Foreword is the equivalent of the Directors' Report, that bodies incorporated under the Companies Act (including some NDPBs) are required to produce and shall be dated and signed by the Accounting Officer. The information in the Foreword should be shown under the headings listed in the following paragraph to the extent that they are appropriate. These headings are based on those described in Schedule 7 to the Companies Act in respect of the Directors' Report.
- 4.1.2 Charitable NDPBs are required to produce a Trustees Report in accordance with the Charities SORP and the Charities (Accounts and Reports) regulations. The required contents of a trustees report go beyond those for NDPBs in general which are listed below.

4.2 Contents

- 4.2.1 The Foreword must contain at least the following information :
- a. a statement that the accounts have been prepared in a form directed by the [Minister] [Secretary of State] with the consent of the Treasury in accordance with [details of the relevant statute];
 - b. *brief history* of the body;
 - c. details of the *statutory (or equivalent) background* to the body, i.e. the legislation, Charter or similar instrument setting it up and giving it powers to act;
 - d. details of the *results for the year* and of any dividends paid on Public Dividend Capital or other payments to the Consolidated Fund;

- e. a review of the body's *principal activities*, including information about its financial position at the year end. (This heading may be combined with **b** and **c** above under a heading such as **Background Information**);
- f. details of any significant **changes in fixed assets**, and any significant differences between the market values and book values of land and buildings;
- g. an indication of any activities in the field of *research and development*;
- h. an indication of any approved or planned *future developments* in the activities of the NDPB;
- i. details of any **post balance sheet event** which might affect the reader's understanding of the accounts (see also SSAP 17);
- j. details of all **charitable donations** made by the NDPB which exceed £200 in aggregate (not applicable to the grants payable by charitable NDPBs to other charities in furtherance of the NDPBs' objectives);
- k. the names of the **Board or Council** members who have served at any time during the financial year and any changes in the membership between the end of the financial year and the date on which the accounts are approved. Although not a statutory requirement, NDPBs may wish to give more information about their Board or Council members e.g. by means of a Curriculum Vitae;
- l. a statement of **board member's responsibilities**;
- m. the policy in relation to *disabled employees*;

- n. the action taken to maintain or develop the provision of information to, and consultation with, *employees*;
- o. information on payment policies and statement of whether the principles of the *Better Payment Practice Code* have been observed.
- p. Details of company directorships and other significant interests held by board members which may conflict with their management responsibilities. Where a Register of Interests is maintained by the NDPB which is open to the public, then disclosure may be limited to how access to the information in the Register of Interests may be obtained.
- q. auditor details, including:
 - i. the name of the NDPB's auditor (the principal auditor where the account involves a consolidation) and disclosure of the cost of work performed by the auditor in respect of the reporting period. Disclosure should provide sufficient information about the nature and extent of services provided, and on the review and approval processes followed to allow the users of the financial statements to make an informed judgement as to whether the potential for conflicts of interest has been satisfactorily addressed by the auditor and by those charged with the governance of the NDPB. Where the auditor has been appointed under statute and may report to Parliament on the audit examination, disclosure of this will normally be sufficient in respect of the statutory audit.
 - ii Cost should be disclosed by the following categories:

€# Audit services: ie statutory audit and other audit-related regulatory reporting (These are services that are required to be carried out in

relation to the statutory audit, that might include any reports to regulators or the review of interim financial information or the certification of grant claims.

⌘ Further assurance services: Services unrelated to the statutory audit where the NDPB has discretion whether or not to appoint the auditor. For example, this might include the review of the achievement of performance indicators.

⌘ Tax Services: ie Compliance Services and Advisory Services

⌘ Other services: Any other services provided.

- iii. In relation to the provision of non-audit services, narrative disclosure should be provided to explain the NDPB's policy for ensuring that the auditor's independence has not been compromised.

- iv. The C&AG may also undertake other statutory activities that are not related to the audit of the NDPB's financial statements (such as VFM reports or the examination of revenue systems). Where applicable, disclosure should also set out the basis for any such examination and provide sufficient information about its nature and extent.

4.3 Relationship between Annual Report and Foreword

- 4.3.1 Some of the information given in the Foreword, e.g. details of the activities and performance during the year, may also be given in the Annual Report. Although the Foreword does not fall within the scope of the auditor's report, the auditor is required to review it and report on any inconsistencies with the accounts. As the Annual Report is not audited, the information noted in paragraph 4.2.1 above should be given in the Foreword notwithstanding that it may also be given in the Annual Report. However, to avoid any unnecessary duplication, only brief information need be given

in the Foreword with a cross reference to the greater detail to be found in the Annual Report. The auditor will thus be entitled to review those parts of the Report which contain information also given in the Foreword.

5

Statement of Accounting Officer’s Responsibilities

5.1 Statement of Accounting Officer’s Responsibilities

5.1 Statement of Accounting Officer’s responsibilities

- 5.1.1 The Accounting Officer or Chief Executive should explain his/her responsibility for preparing the accounts in a statement located between the Foreword and the Statement on Internal Financial Control. Statement of Auditing Standard 600 and Practice Note 10 for central government audits, both issued by the Auditing Practices Board, refer.

6

Statement on internal control

6.1 Statement on internal control / Corporate Governance

6.1 Statement on Internal Control/Corporate Governance

- 6.1.1 Executive Non-Departmental Public Bodies are required to prepare a Statement on Internal Control (SIC) which should be signed by the Accounting Officer (usually the Chief Executive). However, if it better reflects the actual governance arrangements, Boards and Accounting Officers are encouraged to consider joint signatures, ie by the Accounting Officer and the Chair of the Board. Some Executive NDPBs, for example those with charitable status, may be required to do this under other provisions by which they are governed – see 6.1.4 to 6.1.6 below for the position in respect of NDPBs with charitable status.
- 6.1.2 A pro-forma statement on internal control is included at Annex D. Detailed information on the arrangements for the preparation of an SIC is contained in *Government Accounting Chapter 21*.
- 6.1.3 Corporate Governance issues applicable to Executive NDPBs are detailed in *Guidance on Codes of Practice for Board Members of Public Bodies* issued by the Cabinet Office in January 1997.
- 6.1.4 The Statement of Recommended Practice *Accounting and Reporting by Charities*, (“the Charities SORP”) does not require the preparation of a Statement of Internal Control, although paragraph 31(g) requires the Trustees’ Report to include a “statement confirming that the major risks to which the charity is exposed, as identified by the Trustees, have been reviewed and systems have been established to mitigate those risks”.
- 6.1.5 These requirements do not go as far as the recommendations for an SIC, and NDPBs with charitable status should produce an SIC in line with the provisions of 6.1.1 above.
- 6.1.6 Paragraph 28 of the Charities SORP provides for the accounts – which in the case of NDPBs with charitable status will include an SIC – to be signed on behalf of the

Trustees by one of their number authorised to do so. In order to comply with both the SORP and the requirements of 6.1.1, the SIC should be signed by both the Accounting Officer and one of the Trustees, although the SIC itself should clarify the extent of the respective responsibilities. This will mean some adaptation of the opening paragraph of the model SIC given in Annex 4 of DAO(GEN) 09/03. The following wording is suggested;

“As Accounting Officer and Trustees [Board] we have joint responsibility for maintaining a sound system of internal control that supports the achievement of the [name of NDPB]’s policies, aims and objectives, while safeguarding the public funds and assets for which the Accounting Officer is personally responsible in accordance with the responsibilities assigned in Government Accounting.”

- 6.1.7 As noted in the pro-forma SIC (Annex D), the opening paragraph should also provide an explanation of the accountability arrangements, and this should include a description of the respective allocation of responsibilities between the Accounting Officer and the Trustees.

7

Income and Expenditure Account

- 7.1 Accounts formats**
- 7.2 Grants-in-aid receivable**
- 7.3 Treatment of interest payable**
- 7.4 Notional costs**
- 7.5 Insurance**
- 7.6 Cost of capital**
- 7.7 Other notional costs**
- 7.8 Extraordinary items**
- 7.9 Grants payable**
- 7.10 Dividends Receivable**

7.1 Accounts formats

- 7.1.1 As far as possible, NDPBs should prepare their I & E accounts in accordance with either format 1 or format 2 of the profit and loss formats prescribed in Schedule 4 to the Companies Act. Format 1 classifies expenses by function and is more suited to those NDPBs for which a gross profit is a useful performance measure; Format 2 classifies expenses by type and is more suited to those bodies with little or no trading income and which are financed primarily by grant-in-aid. NDPBs which are charities, are required in accordance with the Charities SORP, to prepare a Statement of Financial Activities (SOFA) in preference to an income and expenditure account, but may if they so decide, prepare an income and expenditure account in addition to a SOFA.
- 7.1.2 However, the overriding requirement is for the accounts to give a true and fair view and, if following the prescribed formats does not result in such a view being given, NDPBs should modify or supplement the formats to the extent necessary to give a true and fair view. Changes to the prescribed format should be discussed with the sponsor Department and the external auditors.

7.2 Grants-in-aid receivable

- 7.2.1 Grants-in-aid may contribute to revenue expenditure or to capital expenditure and, in most cases, the nature and purpose of the grant is clear from the circumstances. The accounting treatment of grants-in-aid for revenue purposes is given in paragraph 7.2.4 below; that of grants-in-aid for capital purposes is given in Section 8.7. Grants-in-aid to finance both revenue and capital expenditure is covered in Section 8.8.
- 7.2.2 The HM Treasury publication ‘Government Accounting, Chapter 9’ details the basis for the provision of grant-in-aid to NDPBs by a sponsoring department, and includes

information relating to the retention of unexpended grant-in-aid received by an NDPB from its sponsor department. NDPBs should account for the amount of grant-in-aid received in the financial year. In addition, in the event that NDPBs make payments in year which are due to be funded by that year's grant-in-aid, but do not receive the relevant cash from the sponsoring department by year-end, then the related unpaid grant-in-aid should be accrued by the NDPBs if within the overall limit of grant available for the year. NDPBs may not anticipate the following year's grant-in-aid, in whole or in part.

- 7.2.3 If an NDPB receives more than one grant-in-aid, information concerning the Class and Vote in respect of each grant-in-aid should be given on the face of the I & E account or in the notes to the accounts.
- 7.2.4 Grants-in-aid contributing towards *revenue expenditure* should always be shown in the I & E account, excepting charitable NDPBs (7.2.5), but the position of the grant within the account will be determined by its nature;
- a. grants-in-aid providing the majority of a body's gross income should be shown alongside, or in place of, 'Turnover/Gross Income'. The nature of the grant should be identified on the face of the account;
 - b. grants-in-aid providing less than half of a body's total income should be shown under the heading 'Other Operating Income'. The nature of the grant-in-aid should be described on the face of the account. If there are any grants-in-aid or donations from other bodies, these should also be shown separately under this heading;
 - c. a deficit grant received in the year of account should be shown after 'Deficit/Loss for the financial year'.

7.2.5 Charitable NDPBs, under the provisions of the Charities SORP, are required to recognise all incoming resources to the charity in the Statement of Financial Activities (SOFA). Where incoming resources are received specifically to provide a fixed asset or a fixed asset is donated, the charity will normally have entitlement to the incoming resources when they are receivable. At this point, all of the incoming resources should be recognised in the SOFA, but see also 8.7.1b.

7.3 Treatment of interest payable

7.3.1 Where loan capital is included in the Capital and Reserves section of the balance sheet the interest thereon should be separately stated on the face of the I & E account, except for charitable NDPBs (7.3.3). The positioning of such interest will be dependent on the overriding true and fair view and the body's objectives.

7.3.2 It will generally be consistent with the balance sheet treatment to show interest charged on such loan capital after the results from all the activities for the year (i.e. after profit and loss on ordinary activities after taxation). As interest on long-term borrowings is an unavoidable charge payable irrespective of outturn, it should always be included before arriving at the profit or loss for the financial year from which any appropriations such as dividends fall to be deducted.

7.3.3 Charitable NDPBs will account for interest payable in accordance with the requirements of the Charities SORP.

7.4 Notional costs

7.4.1 In order to disclose the full cost of their activities and, if appropriate, to give comfort that the market is not being distorted by under-pricing, NDPBs, where appropriate, should include in their I & E accounts, notional costs as well as those actually incurred. The most commonly found notional cost is that for cost of capital, although it may be appropriate to consider others such as services provided by the

sponsor Department if hard charging is not in force. The justification for the inclusion of a notional cost of capital charge is that it represents the opportunity cost to the Exchequer of assets used by the NDPB.

- 7.4.2 For charitable NDPBs, notional costs may be included in the SOFA after \mathcal{A} total resources expended¹with a suggested following new total of \mathcal{A} total resources expended including notional costs¹ Any notional costs will, however, also need to be reversed out within the SOFA. A suitable place for an additional heading dealing with the reversal is after the total ‘Gains and losses on revaluation and disposals of investment assets’ and before the total ‘Net movement in funds’.

7.5 Insurance

- 7.5.1 Guidance on insurance matters is contained in Chapter 30 of *Government Accounting*, which details the circumstances in which an NDPB should consult its sponsoring department, and it in turn, the Treasury, when wishing to use commercial insurance. Where an NDPB has purchased a commercial insurance policy, its premium payments to the insurance company should be charged to the I & E account. The premiums should also be included in the calculation of costs for the purposes of determining fees and charges.
- 7.5.2 However, where NDPBs do not insure, it is necessary, when setting fees and charges, to allow for notional premiums where it is not possible to forecast actual losses. This should be done for all relevant uninsured risks, such as damage to or loss of assets, employer’s liability, and claims from third parties. Notional premiums should be based on the NDPBs’ assessment of the amount needed, taking one year with another, to cover the costs of meeting any losses. Where NDPBs are unable to assess premiums and it would not be worthwhile seeking professional advice, they may use the standard cost formula provided by the Treasury in Dear Accounting Officer (GEN) letter 5/93. Notional insurance premiums will not be charged in the I & E account or SOFA. Instead expenditure in connection with

uninsured risks (e.g. accident repairs or asset write-downs) will be charged. NDPBs expected to recover full costs, in accordance with the Treasury's fees and charges policy may show in a note to the accounts the effect of charging notional premiums.

7.6 Cost of capital

7.6.1 The cost of capital charge borne by NDPBs will apply to all assets and liabilities in the balance sheet with liabilities attracting a negative charge (ie a credit). The cost of capital charge ensures an appropriate return on the taxpayers' equity. The charge for each item on the balance sheet will be calculated as a percentage of the average net book value of that item over the year. The calculation of average net book value is considered in 7.6.3 below.

7.6.2 The cost of capital charge will be at the government's standard rate, as determined by HM Treasury for all assets and liabilities (currently 3.5 per cent) except that for:

- ## donated assets, including assets financed by Lottery funding (section 8.4);
- ## additions to heritage collections where the existing collection has not been capitalised (8.3.6);
- ## balances with the Office of the Paymaster General which do not attract interest; and
- ## balances with the Bank of England as agreed with HM Treasury, the charge will be at a nil rate. Bank of England balances will normally only bear a nil rate if they are formally included in the "Exchequer pyramid" which allows such monies to be used to reduce government borrowing.

7.6.3 The average value of items comprising capital employed over a period should be calculated using daily values, i.e. the arithmetic mean of the average values in each day of the period. However, for items that do not exhibit volatility on a daily basis it

will normally be sufficient to use averages over longer intervals (e.g. weekly, monthly, quarterly or annually) as an approximation. Where an item that is normally stable changes by a significant amount within such an interval, the average value should be weighted to take into account the time over which the change occurred.

- 7.6.4 In order to facilitate in-year control of cost of capital charges the following alternative calculation may be used in respect of tangible fixed assets and, where revalued, intangible fixed assets, where depreciation or amortisation charges are calculated using opening values. The cost of capital charge will be based on opening values, adjusted pro rata for the following changes in-year:
- a Plus additional assets and subsequent capital expenditure on existing assets - at cost.
 - b Less disposals - at value in opening balance sheet (plus any subsequent capital expenditure prior to disposal).
 - c Less impairments – the amount of the reduction being calculated from the value in the opening balance sheet (plus any subsequent capital expenditure), or the acquisition cost of additional assets as appropriate.
 - d Less depreciation or amortisation charge.
- 7.6.5 In accordance with the requirements of SSAP 21, an asset funded by means of a *finance lease* should be capitalised with the corresponding liability being shown as long term or short-term creditors as appropriate.
- 7.6.6 The credit entry corresponding to the notional cost of capital may be either in the form of a reversing entry shown below the heading for the result for the year or a credit to the General Reserve where considered appropriate. For charitable NDPBs, see 7.4.2.
- 7.7 Other notional costs**

- 7.7.1 These should be charged to the appropriate headings in the I & E account in order to determine the full cost of the NDPBs' activities. The corresponding credit may be in the form of a reversing entry below the heading for the result for the year or a credit to the General Reserve where considered appropriate. The position of charitable NDPBs is considered in 7.4.2.

7.8 Extraordinary items

- 7.8.1 In general there will be no extraordinary items for NDPBs. The definition of extraordinary activities in FRS 3 will be deemed to cover all activities of NDPBs. However, NDPBs that are incorporated as companies will prepare their accounts in accordance with the Companies Act.

7.9 Grants payable

- 7.9.1 NDPBs make payments in respect of both mandatory and discretionary grants. Unpaid and unclaimed grants will represent obligations to be recognized as liabilities where the definition in FRS 5 is met. Receipt of a grant claim form will not necessarily be the point at which a liability is recognized. Instead, in determining when the liability arises NDPBs should take into consideration when the grant recipient carries out the specific activity, which forms the basis of entitlement, or otherwise meets the grant entitlement criteria. Recognition as a liability will vary according to the details of individual schemes. Should the liability be of uncertain timing or amount, recognition in accounts should be in accordance with the principles contained in FRS 12.
- 7.9.2 Overpayment of grants should be shown as debtors in the balance sheet, subject to the usual criteria on recoverability.

7.10 Dividends receivable

7.10.1 Dividends may be receivable in respect of

a Joint Ventures & Associates

b Shares and Other Equity

8

Balance sheet

- 8.1 Balance sheet format**
- 8.2 Tangible fixed assets - measurement and valuation**
- 8.3 Impairment of tangible fixed assets**
- 8.4 Donated assets**
- 8.5 Heritage assets**
- 8.6 Infrastructure assets**
- 8.7 Balance sheet treatment of capital grants-in-aid**
- 8.8 Grant-in-aid to finance both revenue and capital expenditure**
- 8.9 Capitalisation of internal costs and bought-in services**
- 8.10 Intangible fixed assets**
- 8.11 Investments**

- 8.12 Reclassification of Fixed Assets**

- 8.13 Frequency of professional valuations of fixed assets**

- 8.14 Foreign currency translation**

- 8.15 Mergers and the transfer of functions**

- 8.16 Transfer of fixed assets between bodies**

- 8.17 Subsidised loans**

- 8.18 Deferred tax**

- 8.19 Disclosures relating to Derivatives and Other Financial Instruments**

- 8.20 Provisions and Contingencies**

- 8.21 Revaluation reserve**

- 8.22 Donated asset reserve**

- 8.23 Government Grant Reserve**

- 8.24 Income and expenditure reserve**

- 8.25 Other reserves**

8.1 Balance sheet format

- 8.1.1 Schedule 4 of the Companies Act prescribes two formats for the balance sheet; a horizontal layout and a vertical layout. The latter shows current liabilities as a deduction from fixed and current assets, and thus facilitates the determination of capital employed. NDPBs should therefore prepare their balance sheets in accordance with format 1 (the vertical layout) to the extent that the headings are appropriate, which shall be dated and signed by the Accounting Officer.
- 8.1.2 The balance sheet should strike a balance at total assets less all liabilities. N.B. - This represents a change to the prior guidance which was for the balance sheet totals to be struck at total assets less current liabilities.
- 8.1.3 In addition, NDPBs which are registered charities are required to conform to the requirements of the structure of the balance sheet as laid down in the Charities SORP (1.4.1).

Disclosure

- 8.1.4 As a minimum NDPBs should distinguish between owned and leased tangible fixed assets according to the following categories (where these are material). Greater detail may be provided or alternative headings used providing it is made clear how the chosen categories may be reconciled to those set out below.
- a. Land and Buildings excluding dwellings- Offices, warehouses, hospitals, barracks, hangars, runways, farms and multi - storey car parks etc. Any underlying and associated land should be included as well as other land holdings;
 - b. Dwellings - buildings used entirely or primarily as residences, including any associated structures such as garages and parking areas. Any underlying and associated land, such as gardens and yards, should be included;

- c. Infrastructure Assets - assets which form part of an integrated network servicing a geographical area e.g. motorways and trunk roads. Underlying and associated land should be included;
- d. Transport Equipment - equipment for moving people and/or objects (e.g. cars, lorries, trains, ambulances and aircraft);
- e. Plant and Machinery – plant and machinery used by NDPBs (e.g., scientific aids and surveillance equipment);
- f. Information Technology - hardware used for processing data and communications. Includes software developed either in-house or by third parties. Does not include software licences, ie the right to use software developed by third parties, which should be treated as an intangible fixed asset.
- g. Furniture and Fittings - office fittings, furniture, showcases, shelving etc;
- h. Antiques and Works of Art - assets acquired for future generations (e.g. paintings, sculptures, recognised works of art) and antiques;
- i. Payments on Account and Assets under Construction - assets currently being built (e.g. bridges or ships) and not yet in use.
- j. Cultivated Assets- livestock for breeding, orchards and other plantations of trees yielding repeat products;
- k. Operational heritage assets, and non-operational heritage assets that are capitalised, should be included under the appropriate asset heading.

8.2 Tangible fixed assets - measurement and valuation

8.2.1 Tangible fixed assets should be valued at the lower of replacement cost and recoverable amount. Recoverable amount is defined as the higher of net realisable value and value in use. The valuation process is expressed diagrammatically in Figure 8.1. The replacement cost for different classes of assets is described in the following paragraphs.

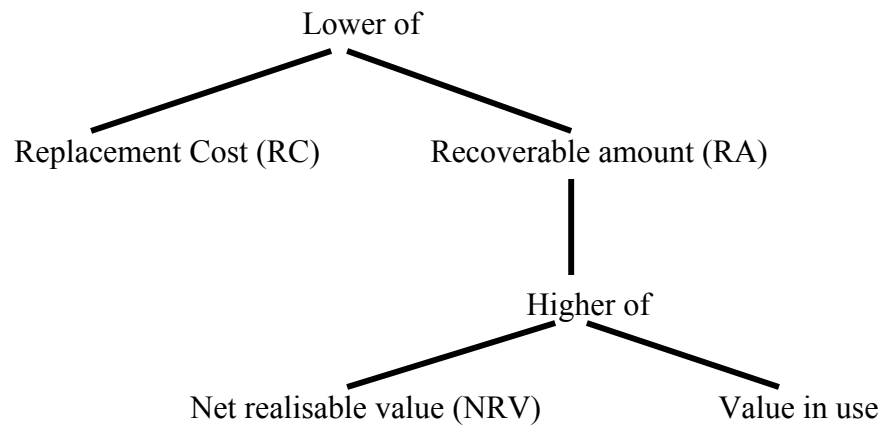


Figure 8.1 Valuation of tangible fixed assets

8.2.2 The replacement cost for operational land and buildings is existing value use with the addition of notional directly attributable acquisition costs where material. In the case of specialised properties or properties not normally traded on the open market, valuation on this basis may be inappropriate and/or impractical and such property should be valued on the basis of depreciated replacement cost.

8.2.3 Properties surplus to requirements should be valued on the basis of open market value, less any directly attributable selling costs where material. This method of valuation over-rides the valuation based on the lower of replacement cost and

recoverable amount (being the higher of net realisable value and value in use), which is based on determining the value to the business of the asset, and so is not directly applicable when the asset is surplus to requirements. Properties surplus to requirements should continue to be disclosed as fixed assets, but, if material, their existence and value should be disclosed separately in a note to the accounts.

- 8.2.4 Where a property or other fixed asset remains in use but is expected to become surplus shortly, the accounting treatment depends upon whether the expected disposal proceeds are anticipated to be less or more than current carrying value. Where the expected disposal proceeds are anticipated to exceed current carrying value then the asset should be carried at its current value, as defined in FRS 15, until the first balance sheet date after it becomes surplus, when it will be revalued to open market value in accordance with 8.2.3 above. The converse situation, where expected disposal proceeds are anticipated to be less than current carrying value is discussed in the impairments section (para 8.3.3).
- 8.2.5 Other (non-property) operational assets should be valued using market value, where possible. Where market value is not obtainable, these assets should be valued on the basis of depreciated replacement cost.

8.3 Impairment of tangible fixed assets

- 8.3.1 Tangible fixed assets should be valued at the lower of replacement cost and recoverable amount. Recoverable amount is defined as the higher of net realisable value and value in use. An impairment occurs where the recoverable amount of an asset is lower than its carrying amount, i.e. the value shown on the balance sheet.
- 8.3.2 The not-for-profit nature of the vast majority of central government activities means that value in use is not measurable in terms of income. In these cases, value in use will be assumed to be at least equal to the cost of replacing the service potential provided by the asset, unless there has been, or will be, a reduction in that service potential. Such a reduction can arise for various reasons, including:

- a. the purpose for which the asset was acquired is no longer carried out and there is no alternative use for the asset.;
- b. the asset remains in use but is to be sold;
- c. the asset cannot be used;
- d. the asset is otherwise surplus and has no alternative use;
- e. the asset is over specified for its current or proposed use (e.g. a hardened aircraft hangar used as a store).

Any write down to recoverable amount in the above circumstances will be charged immediately to the operating account. In the case of **a-d** above, the recoverable amount will be the asset's net realisable value - i.e. the amount at which the asset could be disposed of, less any disposal costs. In the case of the example in **e**, it will be the value of a store, i.e. without the higher specification.

8.3.3 Where an asset continues to provide its existing service potential in advance of sale or other event which will reduce its service potential (see 8.3.2) this is not an impairment, and the accounting treatment should follow the normal practice on the review of economic lives of assets and their residual values. The asset's useful economic life should be revised to reflect the remaining period of service and the residual value adjusted to the expected disposal proceeds less costs. The depreciation charge will be adjusted accordingly. Where, however, there is a reduction in the service potential of an asset (see 8.3.2) which then remains in partial use providing a lower level of service the asset will be written down immediately to its recoverable amount. This will be the replacement cost of the capacity to provide that lower level of service. The written down value of the asset will be depreciated taking into account any change in the asset's life or residual value.

8.3.4 Downward revaluations due solely to fluctuations in market value will not be charged

to the I & E account but instead written off against the government grant reserve (8.7.2), the revaluation reserve (8.21) or the donated asset reserve (8.22), as appropriate, until the carrying value reaches the level of depreciated historical cost. (For this purpose, historical cost means the value at which an asset was taken on to the fixed asset register if no historical cost information is otherwise available). The effect of this is that the write-off should only be made against that proportion of the credit balance on the reserve which relates to the asset concerned. Downward revaluations below this should be recognised in the income and expenditure account, unless it can be demonstrated that the recoverable amount is greater than the revalued amount, in which case falls can be charged to the statement of total recognised gains and losses. For recoverable amounts to be greater than the revalued amount, in the case of not for profit activities, NDPBS must demonstrate that:

- a. they are aware of any factors that have caused a sustained fall in usage or decline in the condition of the asset, i.e. the fall in value has not been caused by a consumption of economic benefits;
- b. for assets valued on an existing use value or other market based valuation, the reduction is due to a short-term reduction in market prices, which informed opinion believes will be reversed in the medium term;
- c. for assets valued on a depreciated replacement cost basis (i.e. where there is no market value), changes in technology in the relevant sector are small - so that any downward movements in prices are likely to be short-term, as there are no noticeable improvements in technology or sustained falls in commodity prices that would cause prices to fall over the medium term.

If, in a subsequent accounting period, it is decided that any part of the downwards movement in price is in fact permanent rather than short-term, then the consequent error in the prior period accounts should be corrected in the current period by debiting the resulting impairment to the income and expenditure account, and crediting the revaluation reserve by a corresponding amount.

8.3.5 Most services for which a fee or charge is levied will follow the treatment described in 8.3.2 - 8.3.4 above. The rationale for this is that where full cost recovery is not achieved, there will either be an intended ongoing subsidy or a temporary subsidy while the service moves to full cost recovery or otherwise fails to recover full costs. The full amount of the subsidy needs to appear in the I & E account. Notwithstanding this general procedure, a small number of commercial profit-making services defined in 8.3.6 will instead be accounted for in accordance with the practice described in that paragraph.

8.3.6 For assets dedicated to commercial profit-making services, defined in 7.5 (ii) and 7.5 (iii) of *The Fees and Charges Guide* (i.e. in competition with the private sector and expected to earn an average real rate of return of currently 8 per cent or more), the accounting treatment should follow that suggested by FRS 11, *Impairment of Fixed Assets and Goodwill*. In summary, this means:

- a. value in use is defined as the present value of future cash flows obtainable as a result of an asset's continued use, including those resulting from its ultimate disposal. This differs from the assessment of value in use for non-commercial activities (8.3.2);
- b. a detailed review of assets for impairment should be carried out only if there is some indication of impairment having occurred. Paragraph 10 of FRS 11 lists possible indications of impairment;
- c. an impairment which reflects a reduction in the quantum of the service potential of the asset (e.g. physical damage or obsolescence) should be recognised in the I & E account. Other impairments should, instead, be written off against the revaluation reserve until the carrying value reaches the level of depreciated historical cost, as described in 8.3.3; impairments below that should be recognised in the I & E account.

- 8.3.7 Permanent diminutions in the value of the assets should normally be treated on an asset-by-asset basis. No account should be taken of potential profit or gains on other fixed assets. The only exception to this is where a decision has been taken to dispose of a number of assets and it is intended that they will be sold as a group of assets within one year.
- 8.3.8 A reversal of an impairment loss should be recognised in the I & E account to the extent that the original impairment loss (adjusted for subsequent depreciation) was recognised in the I & E account. Any remaining balance of the reversal of an impairment should be recognised in the statement of total recognised gains and losses.

8.4 Donated assets

- 8.4.1 Assets donated by third parties, either by gift of the asset or by way of funds for the asset, and which meet the criteria in 8.4.4 will be accounted for differently from other fixed assets. They should be capitalised at current value on receipt. Where the value of the services provided by an asset will be less than this because it is over-specified for its intended use, the lower value should be used. The amounts capitalised should be credited to a donated asset reserve (8.22).
- 8.4.2 Donated assets should be revalued, depreciated and subject to impairment in the same way as other fixed assets. Revaluations should be taken to the donated asset reserve (8.22). Each year, an amount equal to the depreciation charge on the asset and any impairment should be released from the donated asset reserve to the Income and Expenditure account. There will be no cost of capital charge.
- 8.4.3 Where a donor contributes part of the cost of a fixed asset, only that proportion will be accounted for in the way described above. Where a donation is part of a group or series of transactions designed to achieve an overall commercial effect, the substance should be reflected in the accounts.
- 8.4.4 To qualify as a donated asset for this treatment :

- a. there should be no consideration given in return; and
- b. capital charges, if imposed, would reasonably be expected to deter prospective donors from offering such assets in future.

National Lottery-funded assets will qualify.

- 8.4.5 Assets that do not pass both criteria in 8.4.4 should be capitalised at their current value (8.2.1 - 8.2.5). The amount capitalized should be credited to the general fund.
- 8.4.6 Where a donor imposes restrictions on the use of a donated asset, or an asset acquired for no consideration but which fails the donated asset test in 8.4.4, details of the restrictions should be disclosed in a note to the accounts.
- 8.4.7 Charities and Companies will follow the Charities SORP and Companies Act respectively, in their accounting treatment of donated assets.

8.5 Heritage assets

- 8.5.1 Heritage assets are those assets which are intended to be preserved in trust for future generations because of their cultural, environmental or historical associations. It is typically the entity holding the asset which is solely competent to decide which are heritage assets. The entity shall therefore be required to attest annually to the ongoing heritage credentials of its heritage assets. Heritage assets include historical buildings, archaeological sites, military and scientific equipment of historical importance, and works of art.
- 8.5.2 There are certain characteristics which, whilst they may be present on other assets as well, are often displayed by heritage assets. For heritage assets, typically:

- a. their value to government and the public in cultural, environmental, educational and historical terms is unlikely to be fully reflected in a financial value derived from a market mechanism or price;
- b. established custom and, in many cases, primary statute and trustee obligations impose prohibitions or severe restrictions on disposal by sale;
- c. they are often irreplaceable and their value may increase over time even if their physical condition deteriorates;
- d. they may require significant maintenance expenditure so that they can continue to be enjoyed by future generations;
- e. their life is measured in hundreds of years.

8.5.3 All heritage assets are held by the entity in pursuit of its overall objectives in relation to the maintenance of the heritage. Non-operational heritage assets are those which are held primarily for this purpose. Operational heritage assets are those which, in addition to being held for their characteristics as part of the nation's heritage, are also used by the entity for other activities or to provide other services for which it is responsible. An example is a historical building used for both ceremonial occasions and office accommodation.

8.5.4 In principle, there are the same benefits and advantages in valuing and capitalising heritage assets (both operational and non-operational) as there are for other assets, namely:

- a. to inform the public about the value of assets held on its behalf;
- b. to encourage good stewardship of the assets by the owner entity;
- c. to inform decisions about whether resources are being tied up appropriately;
- d. to distinguish between capital and current expenditure;

- e. to inform decisions about how much to spend on maintaining the assets by ensuring that both value and deteriorations in value are recognised.

8.5.5 Operational heritage assets should be valued. There may be instances, however, where, because of their special characteristics (set out in 8.5.2) valuation of non-operational heritage assets may not be practicable or appropriate. This would apply where:

- a. the asset could be valued but the cost of obtaining that value is not warranted in terms of the benefits which the valuation would deliver - although the cost of obtaining a valuation is more likely to be justified where the asset requires, or is likely to require, expenditure which would normally be regarded as capital expenditure to sustain it;
- b. it is impossible to establish a sufficiently reliable valuation, for example for a work of art where no similar asset has recently changed hands in an arm's length transaction.

8.5.6 As a consequence of the above, the following categories of non-operational heritage assets need not be capitalised;

- a. museum and gallery collections and other collections existing at 31 March 2001, including the national archives;
- b. archaeological sites, burial mounds, ruins, monuments and statues.

Where additions are made to collections or archives, purchase price information will normally provide a reliable basis for capitalisation. The cost benefit criteria in 8.5.5 may however render subsequent revaluation inappropriate – in such cases the asset should continue to be recorded at historical cost. If the existing collection of heritage assets has not been capitalised, additions to that collection, although capitalised, will bear a cost of capital charge of zero per cent (7.6.2).

- 8.5.7 Subject to 8.5.5, capitalisation may be appropriate for non-operational heritage buildings and land, although if asset managers are already receiving adequate information on asset condition and maintenance backlog to fulfil their stewardship role, and are unable to dispose of the asset, the benefits of information on value will be lessened.
- 8.5.8 Those capitalised heritage assets which have been donated should be revalued, depreciated and subject to impairment in the same way as other fixed assets.
- 8.5.9 For non-operational heritage assets which are not capitalised, sufficient descriptive disclosures should be made in the notes to the accounts so as to enable the reader to appreciate the age and scale of these assets, how they were acquired and what use is made of them. The notes should also provide details of in-year acquisitions, both in terms of donated and purchased assets. Charitable NDPBs, in compliance with the Charities SORP, are required to disclose by way of note all inalienable and historic fixed assets, whether capitalised or not.
- 8.5.10 Antiques and other works of art which are held by NDPBs (and lying outside the main collections) will not necessarily meet the definition of a heritage asset and will only do so if classified as such in accordance with the procedure outlined in 8.5.1.
- 8.5.11 Operational heritage assets should be valued in accordance with the general rules for tangible fixed assets.
- 8.5.12 Non-operational heritage assets which are capitalised should be valued on the following basis:
- a. where there is a market in assets of that type, at the lower of depreciated replacement cost and net realisable value;
 - b. where there is no market in assets of that type, at depreciated replacement cost unless the asset could not or would not be physically reconstructed, in which case at nil.

8.5.13 Those NDPBs which are charities will follow the requirements of the revised charities SORP in respect of inalienable and historic fixed assets.

8.6 Infrastructure assets

8.6.1 NDPBs which have definable major assets or components within an infrastructure system or network with determinable finite lives should be treated separately and depreciated over their useful economic lives. For the remaining tangible fixed assets within the system or network (the infrastructure asset), renewals accounting may be used as a method of estimating depreciation in accordance with the conditions described in FRS 15.

8.7 Balance sheet treatment of capital grants-in-aid

8.7.1 The recommended treatment in the balance sheet of grants-in-aid (including EU Capital Grants) contributing towards capital expenditure of NDPBs is as follows:

- a. NDPBs which are registered companies. The grant should be treated as deferred income in accordance with the accounting treatment described in SSAP 4. Separate disclosure should be given for UK grants and EU grants.
- b. Charitable NDPBs. As described at 7.2.5, for charitable NDPBs, as the SORP requires the capital grant-in-aid to be recognised in the SOFA when receivable, no specific balance sheet treatment is necessary in respect of capital grant-in-aid. However, charities also preparing a summarised Income and Expenditure account may account for capital grant-in-aid by crediting the grant to a capital assets fund on the balance sheet. As the grant will have been taken into the SOFA, there will be an adjustment required to the Income and Expenditure account. A suggested accounting treatment is as follows, which should be applied separately to UK grants and EU grants, although it is recognised that alternative accounting treatments may be valid:

- i. The full grant is taken into the SOFA;
 - ii. Create the capital assets fund and adjust the Income and Expenditure account/Capital Assets fund for capital grant-in-aid receipt and movements to offset asset depreciation over the life of the asset.
- c. Remaining NDPBs. Those NDPBs which do not have charitable status or are not registered companies, should credit the grant to a government grant reserve as detailed below. Notes to the account should distinguish between the part of the reserve relating to UK grants and that relating to EU grants.

Government Grant Reserve

- 8.7.2 Grants received as a contribution towards expenditure on a fixed asset should be credited to a government grant reserve and not treated as a deduction from the acquisition cost.
- 8.7.3 The government grant reserve will be credited with the amount of the grant and with the same proportion of the amount of the revaluation that the amount of the grant bears to the asset's acquisition cost. The remainder of the revaluation (i.e. relating to that proportion of the asset not financed by grant) is credited to the revaluation reserve (8.21). That same proportion of the asset's depreciation charge will be debited to the government grant reserve and credited to the income and expenditure account.
- 8.7.4 On disposal of an asset financed by government grant, the profit or loss is taken to the income and expenditure account. An opposite entry is made to the income and expenditure account by transfer from the government grant reserve of the same proportion of the profit or loss that the amount of the grant bears to the original acquisition cost of the asset. The balance on the government grant reserve in respect of that asset will be transferred to the general reserve, representing that same proportion of the proceeds.

- 8.7.5 Where there is impairment of a fixed asset financed by government grant, the loss in value charged to the income and expenditure account will be offset by a proportion of that amount, calculated as in 8.7.4, transferred from the government grant reserve.
- 8.7.6 The notes to the accounts should disclose the opening and closing balances on the reserve, any amounts transferred to or from reserves during the year, and the source and application, respectively, of the amounts transferred.

8.8 Grant-in-Aid to finance both revenue and capital expenditure

- 8.8.1 Some NDPBs may receive a grant which is intended to finance both revenue and capital expenditure. If possible, and if it is important for monitoring and control purposes that the results of the activities funded by grant-in-aid are disclosed, the total amount should be analysed into its constituent parts. The element which has financed revenue expenditure should be accounted for in one of the ways described in paragraph 7.2.4, and the element which has financed capital expenditure in accordance with the ways described above.
- 8.8.2 An alternative approach, where the grant awarded may not be easily attributable to capital or revenue, is to credit the grant-in-aid to a reserve on the balance sheet to which the deficit on the income and expenditure account should be debited.
- 8.8.3 There should be a note to describe the accounting treatment adopted. Movements on the reserve should be shown on the face of the balance sheet or by way of note.

8.9 Capitalisation of internal costs and bought-in services

- 8.9.1 A fixed asset to be recognised in the balance sheet will normally be recorded initially at its cost. The particular items to be included in the cost of a fixed asset should be determined in accordance with FRS 15, SSAP 13 *Accounting for Research and*

Development and UITF abstract 29 *Website Development Costs*, as appropriate, but always subject to 8.9.1-8.9.6.

- 8.9.2 Guidance on what costs should be capitalised is included in FRS 15. It states that costs, but only those costs, that are directly attributable to bringing the asset into working condition for its intended use should be included in its measurement.⁴
- 8.9.3 Costs incurred in the early stages of a project to acquire or create a tangible fixed asset or an intangible asset other than development costs should only be capitalised if at the time they are incurred:
- a. there is a clearly defined project; and
 - b. costs are separately identifiable; and
 - c. it is reasonably certain that the project will be completed and will result in an asset that will eventually be brought into use.
- 8.9.4 Where an NDPB's own staff are involved in the acquisition, construction or development of a tangible fixed asset (such as a piece of internally generated computer software), the relevant proportion of the internal costs relating to those staff should, if material and if the other criteria for capitalisation referred to in this section are met, be included in the cost of the asset, subject to the condition in 8.9.6.
- 8.9.5 Such internal costs will include own employee (e.g. site workers, in-house architects and surveyors) salaries and expenses arising directly from the construction and acquisition of the specific tangible fixed asset. Administration and other general overhead costs should be excluded from the cost. Employee costs not related to the specific asset (such as site selection activities) are not directly attributable costs.
- 8.9.6 FRS 15 permits NDPBs to capitalise finance costs that are directly attributable to the construction of tangible fixed assets. However to facilitate the preparation and

consistency of Whole of Government Accounts, NDPBs are not permitted to capitalise cost of capital charges.

8.10 Intangible fixed assets

In house produced computer software

8.10.1 This section of the guidance is not intended to apply to in house produced computer software, which, if accounted for as an asset, following the rules set out in 8.9, should be regarded as tangible. Licenses to use software developed by third parties, however, should be treated as intangible.

Development expenditure

8.10.2 SSAP 13 allows, but does not require, entities to capitalize (or defer to future periods) development costs that meet certain criteria. However, to facilitate the preparation and consistency of Whole of Government Accounts, development expenditure should be deferred to future periods (capitalised) in the following circumstances:

- a. development expenditure in connection with a product or service which is to be supplied only on a full cost recovery basis, if at the time it is incurred it meets the criteria in SSAP 13;
- b. development expenditure in connection with other products or services, if at the time it is incurred it meets all the criteria in i to iv below (adapted from the SSAP 13 criteria to take account of the not-for-profit context);
 - i. there is a clearly defined project
 - ii. the related expenditure is separately identifiable
 - iii. the outcome of the project has been assessed with reasonable certainty as to:
 - 7 its technical feasibility

- 7 it resulting in a product or service that will eventually be brought into use;
- iv. adequate resources exist, or are reasonably expected to be available, to enable the project to be completed and to provide any consequential increases in working capital.

Otherwise, development expenditure should be written off in the year in which it is incurred.

8.10.3 Development expenditure which has been deferred should be valued on the basis of current cost. The amortisation charge may be based on opening, closing, or average values provided that a consistent basis is used.

Application of FRS 10 to intangible fixed assets

8.10.4 FRS 10 allows, but does not require, entities to revalue intangible fixed assets where they have a readily ascertainable market value. (This means that the asset must belong to a homogeneous population of assets which are equivalent in all material respects, and that an active market, evidenced by frequent transactions, exists for them.) However, to facilitate the preparation and consistency of Whole of Government Accounts in those cases where an intangible asset (covered by FRS 10) has a readily ascertainable market value, it should be revalued to its market value. In all other respects FRS 10 applies.

8.10.5 Where an intangible asset covered by FRS 10 is revalued the amortisation charge may be based on opening, closing, or average values provided that a consistent basis is used.

Categories of intangible fixed assets

8.10.6 To meet reporting requirements NDPBs should analyse their intangible fixed assets using the following headings (where these are material):

- a. Software Licences - the right to use software developed by third parties;
- b. Development Expenditure;
- c. Licences, Trademarks and Artistic Originals - Original films, sound recordings etc on which performances are recorded or embodied;
- d. Patents - inventions that are afforded patent protection;
- e. Goodwill.

8.11 Investments

8.11.1 Loans should be reported at historical cost. Other investments should be reported at market value unless this cannot be readily ascertained, in which case the investment should be valued either on a basis determined by the NDPB, in agreement with the sponsoring department and the Treasury. The basis of valuation and the reasons for adopting it should be disclosed by way of note. Movements arising on the revaluation of investments should be reflected in the revaluation reserve and reported in a note to the accounts - except for impairments of fixed asset investments and for reductions below the historical cost of current asset investments, which should be reported in the income and expenditure account. Charitable NDPBs should follow the requirements of the charities SORP.

8.12 Reclassification of Fixed Assets

8.12.1 Where the gross book value of an asset is redefined into another category, e.g. An asset in Land and Buildings other than Dwellings becomes a Dwelling after redevelopment, the opening balances for gross book value and accumulated depreciation should be transferred to the new category, and depreciation in year charged to the new category. Alternatively balances at the date of transfer may be used with depreciation for the year split pro-rata between the categories.

8.13 Frequency of professional valuations of fixed assets

8.13.1 FRS 15 states (paragraph 44) that, for cost-benefit reasons, paragraphs 45-52 of the Standard may not be appropriate for public sector bodies. For NDPBs this will be

interpreted as not requiring the regular interim professional valuations in the third of every five year valuation cycle set out in paragraphs 45 (for properties) and 50 (for non-property assets where relevant). Executive NDPBs should still have regard to paragraphs 45 and 50 which require interim valuations where it is likely that there has been a material change in the value of an asset (after taking account of indexation movements).

8.14 Foreign currency translation

8.14.1 SSAP 20, *Foreign Currency Translation* will apply to foreign currency transactions.

8.14.2 The values at which overseas and non-monetary assets and liabilities are recorded in the balance sheet should apply to the sterling equivalent, by taking into consideration the combined effect of both the value expressed in the overseas currency and the sterling exchange rate. This means, for example, the revaluation of a fixed asset, expressed in an overseas currency, should be re-translated into sterling at the date of the revised valuation. Where an annual review of the value of a fixed asset results in no change, expressed in an overseas currency; that is deemed to be a revaluation, so requiring a re-translation into sterling at the date of the review. Where assets and liabilities are not revalued, for example immaterial stocks, they should not be re-translated.

8.15 Mergers and the transfer of functions

8.15.1 FRS 6 Acquisitions and Mergers will apply.

8.15.2 The merger of two or more bodies into one new body, or the transfer of functions from the responsibility of one part of the public sector to another, will be accounted for using merger accounting as described in FRS 6. The main requirements of this FRS are summarised in paragraph 8.15.3 below.

- 8.15.3 A merger or transfer of functions (denoted simply as a merger below) should be accounted for as follows:
- a. the carrying value of assets and liabilities should not be adjusted to fair values on consolidation, although appropriate adjustments should be made in the accounts of the entity receiving the transfer to achieve uniformity of accounting policies. The net effect of any adjustments should be shown as a movement on reserves and no goodwill should be recognised in the acquiring party's accounts;
 - b. the results and cash flows of all combining entities should be brought into account from the start of the financial year in which the combination occurs. Restatement of prior year comparative figures is also required;
 - c. the entity receiving the transfer should disclose that a merger has taken place, the date of transfer, and which bodies were responsible for the activity prior to transfer, and if material disclose in a note the effect on its main financial statements;
 - d. the entity transferring the assets and liabilities will account in a similar way, i.e. disclosing that a transfer has taken place, writing out assets and liabilities from
 - e. the start of the financial year in which the combination occurs, making corresponding adjustments to reserves, rather than the operating account, restating prior year comparators, and if material disclosing the effect of the transfer on its main financial statements;
 - f. any adjustments in the accounts of the entity receiving the transfer to achieve uniformity of accounting policies should be treated as prior period adjustments.

8.16 Transfer of fixed assets between bodies

- 8.16.1 Where tangible fixed assets are transferred between Government bodies, other than in connection with either a transfer of functions from one body to another or a

merger of bodies, the transfer price should be calculated in accordance with an assessment of the fair values of the assets, as set out in FRS 7.

8.17 Subsidised Loans

- 8.17.1 If any subsidised loans would meet the criteria in FRS 12 for the recognition of a provision in respect of that subsidy, the provision should not be recognised where the full amount of the subsidy is not recorded in the income and expenditure account (or equivalent). This could be due, for example, to the net effect of the cost of capital charge in respect of the loan, and interest receivable. Bearing in mind that the appropriate rate of the cost of capital charge is expressed as a real terms rate (ie excluding general inflation) this does not reflect in full the cost of capital in respect of loans. NDPBs should consult their accountancy advisors in their sponsor departments on such situations.

8.18 Deferred Tax

- 8.18.1 FRS 19 – Deferred Tax was issued by the Accounting Standards Board on 7 December 2000 and supersedes SSAP 15 ‘Accounting for Deferred Tax’. The FRS introduces a form of ‘full’ provision for accounting for deferred tax (the incremental liability approach) that replaces the ‘partial’ provision method in SSAP 15.
- 8.18.2 The FRS is relevant to all Executive NDPBs that are not exempted from corporation tax.

8.19 Disclosures relating to Derivatives and Other Financial Instruments

- 8.19.1 FRS 13 *Derivatives and Other Financial Instruments* will be deemed to apply to the financial instruments of Executive NDPBs. It is expected that entities will take advantage of the exclusion from disclosure of all of its short-term debtors and creditors.

8.19.2 In accordance with Appendix IV of FRS 13, the fair value of a loan or group of loans should be based on the discounted value of the future cash flows expected to be paid over for the loan. In respect of the loans received from sponsor departments, or loans made on terms equivalent to NLF rates of interest, the discount rate to be used should be the current NLF loan rate applicable to the terms of repayment

8.20 Provisions and Contingencies

8.20.1 FRS 12, *Provisions, contingent liabilities and contingent assets*, applies, although any discounting of provisions should be at the real rate set by the Treasury. In addition, the disclosure of information about provisions or contingencies may be limited if it has protective marking.

8.20.2 Where the time value of money is material, the real rate set by the Treasury (currently 3.5%) should be applied to discount the estimated future cash flows as expressed in current year prices (ie at the price level prevailing in the year covered by the accounts) and reflecting risk, in order to calculate the provision. The use of this rate, being real rather than nominal and, for all practical purposes, risk-free, excludes FRS 12's alternative methods, being to apply a nominal rate or a risk-adjusted rate to future cash flows that are expressed in expected future prices or as risk-free.

8.20.3 Separate disclosure of information relating to a particular provision or contingency need not be made if that information has protective marking. If the potential effect of the contingency is required to be disclosed under FRS 12, the relevant amount should still be included in the aggregate figure for such contingencies. Details about protective markings and their use can be found in section 2 of the Manual of Protective Security Framework and Guide, issued by the Cabinet Office.

8.21 Revaluation reserve

- 8.21.1 The revaluation reserve, shown under 5Capital and Reserves4 should reflect the unrealised element of the cumulative balance of indexation and revaluation adjustments to assets, except donated assets (8.4) and assets financed from government grants (8.7).
- 8.21.2 A surplus arising on the revaluation of a fixed asset will be credited to the reserve. Any downward revaluation due to fluctuations in market value will be debited to the reserve down to the level of depreciated historical cost, except in prescribed circumstances, when it will be debited to the operating account (8.5.2). A surplus arising on the revaluation of an asset will be credited to the reserve, unless it reverses a previous revaluation loss which was debited to the operating cost statement in a previous financial period, when (after adjusting for subsequent depreciation) it should be credited to the operating account. For this purpose, 5historical cost4means the value at which an asset was taken on to the fixed asset register if no historical cost information is otherwise available.
- 8.21.3 Each year the realised element of the reserve (i.e. an amount equal to the excess of the actual depreciation over depreciation based on historical cost) should be transferred from the reserve to the general reserve.
- 8.21.4 On disposal of a revalued asset, the balance on the revaluation reserve in respect of that asset will become fully realised and should be transferred to the general reserve.
- 8.21.5 On impairment of a revalued asset, the balance on the reserve in respect of that asset up to the amount of the impairment will become fully realised and should be transferred to the general reserve.
- 8.21.6 When stocks are charged to the operating account any balance on the revaluation reserve in respect of those stocks becomes realised and should be transferred to the general reserve.

- 8.21.7 A detailed analysis of movements in the reserve should be disclosed by way of note and should include opening balance for year, movements arising on revaluations during the year, amounts transferred to the general reserve in respect of any realised elements, and closing balances for the year.
- 8.21.8 For charities, any gains or losses whether realised or unrealised will belong to the fund in which the associated assets are held. Charities should follow the Charities SORP in this respect.

8.22 Donated asset reserve

- 8.22.1 The donated asset reserve reflects the net book value of assets which have been donated to NDPBs.
- 8.22.2 Donated assets are capitalised at current value on receipt and are revalued and depreciated in the same way as purchased assets. The value of donated assets is reflected in the donated asset reserve, which is credited with the value of the original donation and subsequent revaluations. Each year, an amount equal to the depreciation charge is transferred from the reserve to the Income and Expenditure account.
- 8.22.3 On disposal of a donated asset, the profit or loss is taken to the Income and Expenditure account. This is matched by the transfer of an equal amount from the donated asset reserve, so that the net effect on the Income and Expenditure account is nil. The balance on the donated asset reserve in respect of that asset, representing the cash proceeds, will be transferred to the General reserve.
- 8.22.4 Where impairment of a donated asset occurs, the loss in value charged to the Income and Expenditure account will be matched by an equivalent amount transferred from the donated asset reserve.

8.22.5 The notes to the accounts should disclose the opening and closing balances on the reserve, any amounts transferred to or from reserves during the year, and the source and application, respectively, of the amount transferred.

8.22.6 Charities and Companies will follow the Charities SORP and Companies Act respectively, in their accounting treatment of donated assets.

8.23 Government Grant Reserve

8.23.1 The treatment of the Government Grant Reserve is covered in paras 8.7.2 – 9 above.

8.24 Income and expenditure reserve

8.24.1 Accumulated surpluses should be shown in the Capital and Reserves section. Suitable descriptions include Income and Expenditure account, Accumulated Surpluses or General Reserve.

8.24.2 The income and expenditure reserve is not applicable to charitable NDPBs, with the exception of charitable companies, and hence charitable NDPBs should follow the Charities SORP.

8.25 Other reserves

8.25.1 There may be other reserves which should be shown in the Capital and Reserves section. The degree of permanence should be considered when determining the positioning of such reserves.

9

Cash Flow Statement

9.1 Cash flow statement

9.1 Cash flow statement

- 9.1.1 The purpose of this statement is to give a clear picture of the cash flows of the NDPB (as would be the case for a private sector company). The relevant accounting standard for cash flow statements is Financial Reporting Standard (FRS) 1 (Revised 1996). FRS 1 (Revised 1996) prefers that the indirect method be adopted unless the direct method benefits outweigh the costs of providing it.

10

Statement of Total Recognised Gains and Losses

10.1 Statement of Total Recognised Gains and Losses (STRGL)

10.1 Statement of Total Recognised Gains and Losses (STRGL)

- 10.1.1 In order to assess an NDPB's financial performance it is necessary to consider all gains and losses recognised in the year and not simply those appearing in the I & E account. FRS 3 requires, as a primary financial statement, a statement showing the total of such gains and losses. NDPBs, less charities (10.1.2), will therefore produce a STRGL, except that if there have been no gains or losses other than those recognised in the I & E account, a statement to that effect should be given. The Treasury issued a letter to Accounting Officers dealing with the application of FRS 3 in February 1993. Dear Accounting Officer (General) letter 1/93 refers.
- 10.1.2 Charitable NDPBs effectively produce a STRGL within the Statement of Financial Activities (SOFA) and are not required to produce a separate STRGL.

11

Notes to the Accounts

- 11.1 Accounting policies**
- 11.2 Performance against key financial targets**
- 11.3 Statement of historical cost profits and losses**
- 11.4 Disclosure of emoluments and pension entitlement**
- 11.5 Segmental information required for fees and charges purposes**
- 11.6 Statement of losses and special payments**
- 11.7 Other disclosures - related party transactions**

11.1 Accounting policies

11.1.1 The accounts should be drawn up on the basis, following FRS 18, of accounting policies, and estimation techniques where relevant, that are judged to be the most appropriate for the purpose of giving a true and fair view. Accounting policies and estimation techniques should be reviewed regularly to ensure that they remain the most appropriate. Disclosures should be given, as required by FRS 18, of material accounting policies and significant estimation techniques and in relation to changes in either of these.

11.2 Performance against key financial targets

11.2.1 Performance against those key targets which relate to the financial performance of the NDPB as a whole is subject to external audit and covered by the audit opinion. It must therefore be reported in a note to the accounts. The Treasury guidance *The Fees and Charges Guide*⁴ is applicable. Further consideration of the validation of performance targets is given in and Annex A.

11.3 Statement of historical cost profits and losses

11.3.1 FRS 3 requires organisations which have revalued their fixed assets to produce a note showing the historical cost profits and losses, i.e. a restatement of the I & E account adjusting the reported profit to show it as if the revaluations had not been made. This requirement need not be followed by NDPBs as it inconsistent with the general approach adopted by public sector bodies of including assets at their value to the business by reference to current costs.

11.4 Disclosure of emoluments and pension entitlement

11.4.1 The costs of employing staff – whether shown in the statement of financial performance or capitalised – should include all the costs that have been incurred in respect of:

- a. staff directly employed by the NDPB – including those seconded out to other organisations; and
- b. others engaged on the objectives of the NDPB – this will include those on secondment or loan from other organisations agency/temporary staff, and contract staff (see 11.4.2).

Recoveries of costs relating to staff seconded out to other organisations should normally be shown as income but, if the amounts are not material, they may be netted-off staff costs (but see paragraph 11.4.3.ai).

11.4.2 "Contract staff" means staff directly engaged by the NDPB on a contract to undertake a particular assignment project or task. Their costs should be included within the analysis of employing staff (*see 11.4.3 below*) as the NDPB has control over the number and type of staff it engages. A distinction should be drawn between such arrangements and those in which the NDPB is buying a service and has no direct interest in the numbers or type of personnel engaged in providing that service. Such services may include the provision of cleaning or security, the development of IT systems or management consultancy in which the numbers of individuals engaged on the service may fluctuate depending on the complexity of the issue, and are outside the direct control of the NDPB. Amounts paid in respect of such services should not be included in the analysis of employing staff.

11.4.3 NDPB's should provide:

- a. i. An analysis of the costs of employing staff – whether recorded in the statement of financial performance or capitalised – under the following headings:
 - €# wages and salaries of persons directly employed by the NDPB;
 - €# social security costs;
 - €# other pension costs; and
 - €# amounts payable in respect of staff on secondment or loan, agency/temporary staff, and contract staff (see 11.4.1b).

Where the recoveries of the costs of staff seconded out of the NDPB, have been shown in the statement of financial performance as income, the amount of such recoveries should be deducted from the total of items shown above as a separate heading.

- ii. Where the costs of staff have been capitalised, the analysis should indicate the total amount included in the above analysis which has been capitalised.
- b. A note of the average number of persons employed by the NDPB analysed by category of employment to reflect the manner in which the NDPB's activities are organised, separately identifying
- i. senior management; staff;
 - ii. staff on inward secondment/loan;
 - iii. agency/temporary and contract staff (see 11.4.1.b above); and
 - iv. if relevant, staff engaged on capital projects whose costs have been capitalised and not expensed.

Persons seconded out of the NDPB should be excluded.

- c. full details of the basis on which the pension cost is determined;

NB: There are proposals to amend the disclosure requirements relating to pension entitlements described below. This will require the disclosure of Cash Equivalent Transfer Values for the individuals concerned rather than sufficient information about the pension scheme and the individual concerned to enable the CETV to be determined. The Cabinet Office will issue further guidance early in 2004.

- d. subject to the NDPB obtaining the prior consent of the individual concerned, a

note giving details, by named individuals, of the aggregate of the emoluments (see 11.4.4 below) and the pension entitlements of :

- i. the Chief Executive and the other most senior managers (see 11.4.6 below); and
- ii any Advisory Board members or non-executive Board members if they are remunerated. If they are not remunerated, see 11.4.7 below.

Should an individual withhold consent to the disclosure of the information, this fact should be noted.

- e. as appropriate, details of any service contracts with a notice period in excess of 12 months and details of any business interests in accordance with the requirements of the Companies Act and Listing Rules.

If more than one individual occupied a single post at different times during the year information should be given for each individual, together with details of the date on which he or she left or started in the post.

11.4.4 The note referred to in 11.4.3(e) above, shall show:

- a. the emoluments (see 11.4.5 below), either as an actual figure, or in bands of £5,000;
- b. the real increase in the pension earned in the year, either as an actual figure or in bands of £2,500;
- c. the value of the accrued personal pension at the end of the reporting year, either as an actual figure or in bands of £5,000;

- d. the age of the individual concerned¹
- e. the monetary value of benefits in kind;
- f. a note of the nature of the benefits in kind;

11.4.5 For the purposes of the analysis required by 11.4.3(e) above, “emoluments” includes (but is not confined to):

- a. Gross salary payable;
- b. Overtime payable;
- c. Annual bonuses payable;
- d. Any allowances payable (except to the extent that they are a reimbursement of expenses directly incurred in the performance of the individual’s duties);
- e. Any sums payable by way of an expenses allowance (insofar as these sums are chargeable to UK income tax);
- f. any amount receivable for accepting the post (so called “golden hellos”);
- g. the value of any compensation or redundancy terms paid for premature loss of office.

11.4.6 It is for each NDPB to determine the individuals for whom disclosure will be made. As a general rule, it may be helpful to bear in mind the definition of “key management” used in FRS 8 *Related Party Transactions* ie “those persons in senior positions having authority or responsibility for directing or controlling the major

¹ the need to provide information about age is to satisfy the general requirement that sufficient information should be provided to enable a reasonable assessment to be made of the value of the increase in accrued pension. It is not intended to indicate the age structure of the board.

activities of the reporting entity”. Such a definition would include, for example, members of the Management Board – although the status of the individual is the most significant criterion. There is no suggestion that information should be provided for all employees above a certain grade, or earning above a certain salary.

11.4.7 If an NDPB has Advisory Board members or non-executive Board Members who are not remunerated, only their names need be given together with a note that they receive no remuneration.

11.4.8 The Cabinet Office has issued the following guidance *in the form of a number of Pension Circulars (PCs) and Employer Pension Notices (EPNs)* which is relevant to the disclosure of information on salaries and pensions:

- a. PC/107 (1 October 1999): sets out the disclosure requirements for salary and pension entitlements;
- b. PC/129 (28 July 2000): clarifies the implications of the Data Protection Act 1998 and stresses the need to obtain the prior consent of the individuals concerned;
- c. PC/162 (23 July 2001): extends the disclosure requirements to include benefits in kind;
- d. EPN 9 (1 July 2002): describes the disclosure requirements for ministerial pensions. EPN 34(8 November 2002); gives the ASLC contribution rates for 2003-04.
- e. EPN 50 (4 March 2003); provides wording for the note on the disclosure requirements for the PCSPS under FRS 17.
- f. EPN 60 (11 April 2003); provides further wording for the note on the disclosure of salary and pension disclosures to reflect the changes to the PCSPS.

- g. EPN 77 (19 September 2003); gives the ASLC contribution rates for 2004-05.
- h. The inflation adjustments to be used for each financial year are notified in PCs issued by the Cabinet Office in the March / April of that financial year.

To avoid over-complexity, this section of the Manual does not reproduce the detailed information and calculations provided in these documents, to which reference should be made in cases of doubt. Copies are available from the Cabinet Office (01256 846564 or GTN 1439 6564).

11.5 Segmental information required for fees and charges purposes

- 11.5.1 NDPB accounts should include the segmental information described in paragraphs 3.8 and 3.9 of *The Fees and Charges Guide*. There are no de minimis limits. The information should be given irrespective of the amount of income and full cost of the services provided.
- 11.5.2 The information required by *The Fees and Charges Guide* is different to that required by Statement of Standard Accounting Practice (SSAP) 25. If an NDPB has to provide segmental information for fees and charges purposes but not for the purposes of SSAP 25, this should be made clear in the relevant analysis.

11.6 Statement of losses and special payments

- 11.6.1 NDPBs should include a note of losses and special payments as defined in chapter 18 of *Government Accounting*. The form of the note should follow the guidance given in annex 12.1 of *Government Accounting*. Any payments made by NDPBs under *The Late Payments of Commercial Debts (Interest) Act 1998* should

be separately disclosed in a note to the accounts Dear Accounting Officer (General) letter 5/98 refers.

11.7 Other disclosures - related party transactions

11.7.1 Wherever the Companies Act or accounting standards require the disclosure of information relating to directors, ~~5~~directors~~4~~ shall be interpreted as referring to Board or Council members and senior staff. In particular, Schedule 6 of the Companies Act deals with the disclosure of transactions with directors, and FRS 8 with transactions with related parties (which may include the Board, Council members and senior staff) and related party transactions between the Executive NDPB and departments. Dear Accounting Officer (General) letter 2/97 refers.

11.7.2 Charitable NDPBs may apply the general principle of exemption from related party disclosure in respect of trustees acting as agents of the charity, in accordance with the parameters contained in the Charities SORP.

11.8 Disclosure of intra-government balances

11.8.1 Intra-government balances are defined as balances between the NDPB and other bodies within the boundary set for whole of government accounts. Details of this boundary can be found on the WGA website at www.wga.gov.uk.

11.8.2 To provide more complete information on the relationship between the NDPB and other government bodies, the accounts should (where material) disclose the level of year end debtor and creditor balances with other government bodies. This disclosure should be analysed between:

- a** Balances with other central government bodies (including pension and other central government funds)
- b** Balances with local authorities
- c** Balances with NHS Trusts
- d** Balances with public corporations and trading funds

12

External audit

12.1 External audit arrangements

12.2 Qualifications of the Auditor

12.3 C&AG's rights of access

12.4 Audit Committees

12.1 External audit arrangements

- 12.1.1 The external audit arrangements for an executive NDPB are usually set out in its governing statute and will be acted upon by the sponsoring Department. Details of the arrangements should also be included in the NDPB’s Financial Memorandum or Management Statement.

12.2 Qualifications of the Auditor

- 12.2.1 The Comptroller and Auditor General (C&AG) is responsible by statute or agreement for the external audit of about half of the existing Executive NDPBs. (However, it is general policy that the C&AG should be appointed auditor for any new Executive NDPBs). The sponsoring Minister appoints the external auditor of most other Executive NDPBs, with the founding legislation in many cases requiring the external auditor to be qualified under the Companies Act. Appointments are made under the Companies Act in the case of NDPBs which are incorporated as companies, and some others appoint their own external auditors. If the qualifications required are those for auditors of companies incorporated under the Companies Act, the C&AG is not eligible for appointment. If the legislation does not specify the qualifications required, the C&AG may tender in competition with private sector firms. Guidance on the appointment of accountants to audit assignments in the public sector is given in Dear Accounting Officer (General) letter 13/99.

12.3 C&AG’s rights of access

- 12.3.1 Where the C&AG is not the auditor he should be granted rights of access to inspect

the books and records. The arrangements concerning the rights of access are described in a letter to Principal Finance Officers dated November 1992 (PFO/92/5), which gives details of the outcome of a review conducted jointly by HM Treasury and the National Audit Office. Cm 3179 (chapter 5.7) notes that the Government will ensure that the C&AG has inspection rights over all Executive NDPBs which he does not audit.

12.4 Audit Committees

- 12.4.1 The Cabinet Office publication *Guidance on the Codes of Practice for Board members of Public Bodies*, issued January 1997, recommends that, unless otherwise agreed with their sponsor department, NDPBs should establish an audit committee as a committee of the Board. Details on the role of the Audit Committee and specimen terms of reference are at Appendix 2 to that guidance.
- 12.4.2 As noted in the Code, the Audit Committee should discuss with the external auditors (whether the C&AG or a private sector firm) the nature and scope of the forthcoming audit and ensure that the external auditors have the full co-operation of staff. NDPBs should encourage representatives from their sponsor Department to meet the external auditors.

13

Parliamentary procedures

13.1 Parliamentary procedures

13.1 Parliamentary Procedures

- 13.1.1 The procedure for publishing and laying the **accounts** varies according to the provisions of the incorporating statute. Where the Comptroller and Auditor General (C&AG) is the statutorily appointed auditor, the legislation will normally provide for him to lay the accounts, together with his report, before Parliament as a House of Commons Paper. Once they have been approved by Parliament, the accounts must be published. In other cases, eg where the accounts are audited by private sector auditors, the legislation normally provides for the audited accounts to be submitted to the Secretary of State who will arrange to place them in the library of the House of Commons (and perhaps also the library of the House of Lords).
- 13.1.2 In all cases, the aim should be to publish the audited accounts (and reports) as soon as possible after the financial year to which they relate, although the legislation establishing the NDPB may specify a timetable for the submission of the draft accounts to the C&AG for audit. Documents cannot be laid during Parliamentary Recesses.
- 13.1.3 Arrangements for preparing and publishing an Annual Report are often described in incorporating statutes, although the requirement for the preparation of an *Annual Report* is by no means universal. However, where there is no statutory provision for the preparation or publication of an *Annual Report* there is an expectation that such NDPBs should prepare one in the interests of transparency and public accountability.
- 13.1.4 Where there is a requirement to prepare an *Annual Report* and for that report to be presented to Parliament (usually by the Secretary of State) the Annual Report is to contain the full audited accounts and be published as a single document.

- 13.1.5. Where there is no statutory requirement for the presentation to Parliament of the annual report, there are problems of Parliamentary protocol if a combined document were to be presented. NDPBs in this position – and only NDPBs in this position - may continue to publish their annual reports separately from their annual accounts so long as the former contains summarised financial information and indicates how the full accounts may be obtained.
- 13.1.6 The NAO is currently working with the House Authorities and The Stationery Office to identify ways in which the procedures for laying and publishing a combined document can be simplified and for overcoming the problems of Parliamentary protocol where there is currently no provision for the presentation of an annual report to Parliament. The option of publishing separate documents will be phased out once this work is complete – it is hoped sometime during 2004-05. The intention is that, for 2004-05 onwards, all NDPBs will publish a combined annual report and accounts. NDPBs should liaise with the National Audit Office (Tel: 020 7798 7143 or e mail: nick.halliday@nao.gsi.gov.uk) to discuss the procedures for laying and publishing a combined document.
- 13.1.7 An extract from a letter to Principal Finance Officers dated 4 November 1998 which considers some of the practicalities of laying a combined document is attached at annex F.
- 13.1.8 In addition to the publication of the Annual Report and Accounts, NDPBs may wish to produce separate “marketing” documents, for instance for the public, clients or business contacts, highlighting their achievements in the past year.

14

Publication

14.1 General

14.2 Publishing unaudited financial information

14.1 General

- 14.1.1 Where an NDPB is set up under statutory powers the legislation should normally provide for the body's audited accounts to be published by a specified date. A timetable for the stages involved in the preparation and audit of the accounts should be set out in the financial memorandum referred to in paragraph 12.1.1. Where departments are seeking to amend legislation which provides only for the preparation of annual accounts, they should consider including a requirement for an Annual Report.

14.2 Publishing unaudited financial information

- 14.2.1 Where a NDPB published financial data in the nature of accounts that have not been formally audited, this must be made clear by including 'unaudited' in the heading of each statement and by a clear statement in the Foreword describing the status of the information. Unaudited financial statements and data should always be described as such, and should not be referred to as 'accounts'.

Annexes

- Annex A :** **Validation of performance against Key targets**
- Annex B :** **Model Accounts Direction**
- Annex C :** **List of extant accounting standards and UITF
abstracts**
- Annex D :** **Proforma Statement on Internal Control**
- Annex E:** **Discount and Interest Rates**
- Annex F:** **Non-Departmental Public Bodies – publication of
combined Annual Report and Accounts**

Annex A

Executive NDPBs : Validation of performance against key targets

1. All NDPBs should agree key performance targets with the responsible Minister and have them published. Information about the NDPB's performance against these targets will be recorded either in the NDPB's published annual report (in the case of non-financial targets such as quality of service and efficiency) or in its accounts, in the case of corporate financial targets such as return on capital employed, or recovery of full cost.

Validation of performance : General

2. It is important that published information about all performance targets is correctly calculated, reliable and fairly presented. Not only is this desirable and right in itself, but there are cases (e.g. bonus schemes) where expenditure is dependent upon performance.
3. The Chief Executive usually has prime responsibility for the achievement of those targets agreed with Ministers. Suitable systems will therefore need to be put in place to provide reliable information on performance against those targets.

Role of internal audit

4. Internal audit will normally be responsible for assessing the adequacy and effectiveness of internal controls within these systems and, where appropriate, may validate the actual performance targets.

External validation of non-financial targets

5. External auditors may sometimes be required to provide validation of the soundness of the relevant systems or of the achievement of performance targets. Examples might include cases where validation is sought by the responsible Minister, where the achievement of target affects the pay of NDPB staff or where, in the light of the Citizen § Charter, non-financial targets are of particular importance. The nature and timing of this validation work will be a matter for consultation between all the parties concerned.
6. The validation of non-financial targets will not automatically fall within the scope of the external financial audit, although there may be reasons for the external auditors to verify non-financial targets as part of their audit. These include the cases where items material to the accounts (such as performance bonuses) are conditional on the achievement of non-financial targets, or if the accounts direction requires non-financial data to be included in the notes to the accounts.
7. Comprehensive validation of non-financial targets may be undertaken by the external auditors if specific arrangements are made. The work required should be described in the engagement letter. An alternative approach would be for the validation to be undertaken by another external source of expertise.

Validation of key corporate financial targets by external auditors

8. A note to the NDPB § annual accounts will report performance against key corporate financial targets. Validation of this information, which is contained in or derivable from the audited accounts, will fall within the scope of the external audit and be reported on in the auditor § opinion.

9. It is however the duty of the external auditor to consider the reporting of all financial information to satisfy himself that there is no inconsistency with the financial statements and to ensure that the credibility of the financial statements is not undermined.

Powers of the Comptroller and Auditor General (C&AG)

10. The C&AG has formal powers to carry out examinations into the economy, efficiency and effectiveness with which all NDPBs have used their resources in discharging their functions. Cm 3179 (chapter 5.7) notes that the Government will ensure that the C&AG has inspection rights over all Executive NDPBs which he does not audit. How these powers are used is a matter for the C&AG to decide after consultation with the department, and his enquiries may include an examination of targets set and of the reporting of performance. However, the C&AG will take full account of any work carried out by NDPBs or departments themselves, or by their consultants, when examining value for money issues with a view to avoiding any unnecessary duplication.

Annex B

MODEL ACCOUNTS DIRECTION

[NAME OF NDPB]

ACCOUNTS DIRECTION GIVEN BY THE MINISTER OF [XXX] [SECRETARY OF STATE] , WITH THE APPROVAL OF THE TREASURY, IN ACCORDANCE WITH [DETAILS OF RELEVANT STATUTE]

The annual accounts shall give a true and fair view of the income and expenditure and cash flows for the financial year, and the state of affairs as at the year end. Subject to this requirement the [Name of NDPB] shall prepare accounts for the financial year ended [relevant date] and subsequent financial years in accordance with :

- a. Executive Non-Departmental Public Bodies Annual Reports and Accounts Guidance;
- b. other guidance which the Treasury may issue from time to time in respect of accounts which are required to give a true and fair view;
- c. any other specific disclosures required by the Secretary of State;

except where agreed otherwise with the Treasury, in which case the exception shall be described in the notes to the accounts.

Signed by authority of the Minister [Secretary of State] of [XXX]

.....

Dated200X

Annex C

List of extant accounting standards and UITF abstracts

Accounting standards

FRSEE - *Financial Reporting Standard for Smaller Entities*

Does not apply.

FRS 1 (Revised 1996) - *Cash Flow Statements*

Applies.

FRS 2 - *Accounting for Subsidiary Undertakings*

Applies.

FRS 3 - *Reporting Financial Performance*

Partially applies (7.9/11.3).

FRS 4 - *Capital Instruments*

Applies if given situations arise.

FRS 5 - *Reporting the Substance of Transactions*

Applies.

FRS 6 - *Acquisitions and Mergers*

Applies.

FRS 7 - *Fair Values in Acquisition Accounting*

Applies.

FRS 8 - *Related Party Disclosures*

Applies as adapted (11.7).

FRS 9 - *Associates and Joint Ventures*

Applies.

FRS 10 - *Goodwill and Intangible Assets*

The guidance on goodwill is not likely to be relevant; the guidance on intangible assets will apply.

FRS 11 - *Impairment of Fixed Assets and Goodwill*

Applies as adapted (8.3).

FRS 12 - *Provisions, Contingent Liabilities and Contingent Assets*

Applies.

FRS 13 - *Derivatives and Other Financial Instruments*

Applies as adapted (8.19).

FRS 14 - *Earnings per Share*

Does not apply.

FRS 15 - *Tangible Fixed Assets*

Applies as adapted (8.6).

FRS 16 - *Current Tax*

Applies if relevant.

FRS 17 – *Retirement Benefits.*

Applies as adapted (3.8).

FRS 18 – *Accounting Policies*

Applies as adapted – see 1.2, 1.4 and 11.1

FRS19 – *Deferred Tax*

Relevant

SSAP 4 - *Accounting for Government Grants*

Applies as adapted (8.7).

SSAP 5 - *Accounting for Valued Added Tax*

Applies.

SSAP 9 - *Stocks and Long-term Contracts*

Applies.

SSAP 13 - *Accounting for Research and Development*

Applies.

SSAP 17 - *Accounting for Post-Balance-Sheet Events*

Applies.

SSAP 19 - *Accounting for Investment Properties*

Applies if given situations arise.

SSAP 20 - *Foreign Currency Translation*

Applies.

SSAP 21 - *Accounting for Leases and Hire Purchase Contracts*

Applies.

SSAP 24 - *Accounting for Pension Costs*

Applies (but subject to any developments in relation to FRED 20).

SSAP 25 - *Segmental Reporting*

Applies.

UITF abstracts

UITF abstract 4 - *Presentation of Long-term Debtors in Current Assets*

Applies.

UITF abstract 5 - *Transfers from Current Assets to Fixed Assets*

Applies.

UITF abstract 9 - *Accounting for Operations in Hyper-inflationary Economies*

Applies

UITF abstract 10 - *Disclosure of Directors' Share Options*

Not relevant.

UITF abstract 11 - *Capital Instruments : Issuer Call Options*

Not relevant.

UITF abstract 13 - *Accounting for ESOP Trusts*

Not relevant.

UITF abstract 15 - *Disclosure of Substantial Acquisitions* [As revised 1999]

Applies if relevant.

UITF abstract 17 - *Employee Share Schemes* [As revised 2000]

Not relevant.

UITF abstract 19 - *Tax on Gains and Losses on Foreign Currency Borrowings that Hedge an Investment in a Foreign Enterprise*

Not relevant.

UITF abstract 21 and Appendix - *Proposed Introduction of the Euro*

Applies.

UITF abstract 22 - *The Acquisition of a Lloyd & Business*

Not relevant.

UITF abstract 23 – *Application of the Transitional Rules in FRS 15*

Applies

UITF abstract 24 – *Accounting for Start-up costs.*

Applies

UITF abstract 25 – *National Insurance contributions on share option gains.*

Not relevant

UITF abstract 26 – *Barter Transactions for Advertising.*

Applies

UITF abstract 27 – *Revisions to Estimates of the Useful Economic Life of Goodwill and Intangible assets*

Applies

UITF abstract 28 – *Operating Lease Incentives*

Applies

UITF abstract 29 – *Website development costs*

Applies

UITF abstract 30 – *Date of award to employees of shares or rights to shares*

Not relevant

UITF abstract 31 – *Exchange of businesses or other non-monetary assets for an interest in a subsidiary, joint venture or associate*

Applies except as required by 8.15

UITF abstract 32 – *Employee benefit trusts and other intermediate payment arrangements*

Applies

UITF abstract 33 – *Obligations in capital instruments*

Not relevant

UITF abstract 34 – *Pre-contract Costs*

Applies

UITF abstract 35 – *Death in Service and Incapacity Benefits*

Applies

UITF abstract 36 – *Contracts for sales of capacity*
Applies

Annex D

Pro forma Statement on Internal Control

The wording which is not in *italic* script in this pro forma Statement of Internal Control (SIC) should be replicated in every SIC, the words in *italic* script being amended as appropriate to the body in question. **Bold** script indicates a rubric which should be fulfilled in a way appropriate to the actual processes in place in the body to which the SIC relates.

Scope of responsibility

1. As Accounting Officer, I have responsibility for maintaining a sound system of internal control that supports the achievement of [Department Yellow's] policies, aims and objectives, whilst safeguarding the public funds and departmental assets for which I am personally responsible, in accordance with the responsibilities assigned to me in *Government Accounting*.³

(Accounting Officers should add to this paragraph to provide an explanation of the accountability arrangements surrounding their role. In particular, they should comment on:

- a** *processes in place by which they work with/involve ministers on managing risk;*
- b** *inter-relationship of department/executive agency/NDPB).*

The purpose of the system of internal control

2. The system of internal control is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of departmental policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically. The system of internal control has been in place in [Department Yellow] for the year ended 31 March [200x] and up to the date of approval of the annual report and accounts, and accords with Treasury guidance.

Capacity to handle risk

3. **[Describe the key ways in which:
a leadership is given to the risk management process;
b staff are trained or equipped to manage risk in a way appropriate to their authority and duties. Include comment on guidance provided to them and ways in which you seek to learn from good practice.]**

The risk and control framework

³ In NDPBs where responsibility for risk management is shared by the board and the Accounting Officer, the SIC may be made jointly by the Accounting Officer and the Chair of the board. Some NDPBs may be **required** to do this under other provisions by which they are governed. For example, the Charities Statement of Recommended Practice (SORP) 2000 requires the trustees of charitable bodies to be jointly responsible for the preparation of accounts and annual reports. Consequently, for charitable NDPBs one or more of the trustees should sign the foreword to the accounts, the balance sheet and the SIC along with the Accounting Officer.

4. [Describe the key elements of the risk management strategy, including the way in which risk (or change in risk) is identified, evaluated, and controlled. Include mention of how risk appetites are determined.⁴]

[Describe key ways in which risk management is embedded in the activity of the organisation.]

(This section should only be inserted by those bodies to which it is relevant:

[Describe the key elements of the way in which public stakeholders are involved in managing risks which impact on them.])

Review of effectiveness

5. As Accounting Officer, I have responsibility for reviewing the effectiveness of the system of internal control. My review of the effectiveness of the system of internal control is informed by the work of the internal auditors and the executive managers within the department who have responsibility for the development and maintenance of the internal control framework, and comments made by the external auditors in their management letter and other reports. I have been advised on the implications of the result of my review of the effectiveness of the system of internal control by the board, the Audit Committee [and risk committee, if appropriate] and a plan to address weaknesses and ensure continuous improvement of the system is in place.

[Describe the process that has been applied in maintaining and reviewing the effectiveness of the system of internal control, including some comment on the role of:

- a the Board**
- b the Audit Committee**
- c if relevant, the risk committee/risk managers/risk improvement manager**
- d internal audit**
- e other explicit review/assurance mechanisms.**

Include an outline of the actions taken, or proposed to deal with any significant internal control issues, if applicable.]

[Signature of Accounting Officer and date of signature]

⁴It will be helpful if indication can be given here of the generic risk priorities of the body during the period covered by the SIC. For example, a body might indicate that its risk priorities are in the areas of personnel and project management, whilst another might indicate that its priorities are IT infrastructure and external economic circumstances.

Annex E

Discount and Interest Rates

Year	Cost of Capital Charge	Pension Liabilities	Provisions
References in this Guidance	7.6.1 – 2	3.8.25 3.8.13	8.24 (new section)
2002/3	Usually the Real Rate set by the Treasury 6% or may, if competing with private sector by 8% or more	Real Rate set by GAD 3.5%	FRS 12 Requirements
2003/4 and 2004/5	Real Rate set by the Treasury 3.5%	Real Rate set by GAD 3.5%	Real Rate set by the Treasury 3.5%
2005/6 and 2006/7	Real Rate set by the Treasury % to be confirmed ahead of the next Spending Review	Real Rate set by the Treasury based on AA Corporate Bond Rate % to be Confirmed	Real Rate set by the Treasury based on the return on index-linked gilts % to be confirmed

Other Rates that are set in the NDPB Annual Report and Accounting Guidance

Disclosures related to derivatives and other financial instruments (Paragraphs 8.19.2)

The Guidance states that the discount rate to be used in calculating the fair value of a loan or group of loans should be the current NLF loan rate applicable to the terms of the repayment.

Annex F

NON-DEPARTMENTAL PUBLIC BODIES – PUBLICATION OF COMBINED ANNUAL REPORT AND ACCOUNTS

*Extract from Treasury letter dated 4 November 1998 sent to Principal Finance
Officers*

1. The following paragraphs describe the various possibilities that exist for the preparation and laying of the accounts and for the preparation and publication of the annual report by executive NDPBs. They provide guidance on the responsibilities of the Minister and/or the Comptroller and Auditor General (C&AG) for laying a document incorporating both the annual report and the audited accounts.
2. The expressions *Act paper*, *House of Commons paper*, *Command paper* and *White Paper Account* are defined in Appendix A. In broad terms, documents laid by the C&AG, as an Officer of the House of Commons, are House of Commons papers as they are ordered to be printed by the House of Commons. They thus receive *Parliamentary privilege* (see Appendix A - in particular, the references to Parliament treating as contempt any abuse of Parliamentary privilege.)

*Approach where legislation provides for the C&AG to audit and lay the accounts
before Parliament, and there is statutory provision for the Minister to lay an annual
(sometimes a triennial) report.*

3. At present, many of the NDPBs in this position satisfy the statutory requirements by producing a White Paper account separately from the annual report with each document being laid in accordance with the provisions in the relevant Act. Producing one document incorporating both the annual report and the audited accounts raises the question of responsibility for laying that document.

4. Neither the Minister nor the C&AG can transfer their statutory responsibility to lay, respectively, the annual report and the accounts, but there seems to be nothing to prevent one acting as an agent for the other when laying a combined document. However, the annual report must be clearly distinguishable from the accounts, and the covering memorandum which is required as part of the procedures for laying documents must make it clear which part of the combined document is being laid by which person under which statutory authority. But so long as the accompanying memorandum is in an appropriate format, both parties will have fulfilled their respective statutory duties if the document is laid by either the Minister or by the C&AG.

5. NDPBs will need to arrange with their sponsoring department and the NAO whether the Minister or the C&AG should lay the combined annual report and accounts. Where the Minister lays the combined document, there will no longer be a need for the C&AG to prepare and lay a separate White Paper account so long as the requirements set out in this paragraph are followed and the combined document is ordered to be printed and receives a House of Commons number from the Journal Office.

6. The combined document will be regarded as a House of Commons paper in the numbered series (printing numbers may be obtained from the Journal Office in the normal way). All such papers must conform with certain requirements of the House which are set out in the most recent (May 1998) edition of the Journal Office guidance note *Publication of Reports and Accounts of Executive Agencies and Trading Funds and their Presentation to Parliament*. This guidance includes a requirement to use The Stationery Office Limited as printer and publisher.

7. Those bodies which currently produce a triennial report should continue to do so and should incorporate the audited accounts for the year in which the report is prepared if this is not already the case.

Approach where legislation provides for the C&AG to audit and lay the accounts before Parliament, but there is no statutory provision for the preparation of an annual report.

8. Although there is no statutory requirement for an annual report, bodies are urged to produce one incorporating the audited accounts, which can be laid by the Minister as a Command paper. In order to satisfy the statutory requirements, the C&AG will, in addition, need to lay annual accounts in the form of White Paper accounts.

Approach where the C&AG acts as the auditor by agreement (ie there is no statutory provision for him to be appointed as auditor)

9. If there is a statutory requirement for an annual report, the Minister should lay the combined annual report and audited accounts as an Act paper. However, it will not receive a House of Commons printing number as the C&AG is not the statutorily appointed auditor.

10. If there is no statutory requirement for an annual report, a combined document may be laid as a Command paper by the Minister.

11. As there is no statutory requirement for the C&AG to lay accounts, in neither case is a separate White Paper account required.

Approach where the accounts are audited by auditors other than the C&AG

12. There is usually a statutory provision for the body to submit its audited accounts to the relevant Minister who lays them before Parliament. In many cases, there is also a requirement for the audited accounts to be incorporated into an annual report which is laid before Parliament by the Minister. There is no intention of changing these arrangements. However, in those cases where there is no provision for the preparation and publication of an annual report, bodies are encouraged to prepare one and to publish it together with the annual accounts. Departments should liaise with those bodies which fall into this category to establish appropriate procedures. Documents containing financial statements which have been audited by auditors other than the C&AG are Act papers (as they are produced pursuant to an Act) but do not receive a House of Commons printing number and hence are not covered by Parliamentary privilege.

DEFINITIONS

1. An *Act paper* is one produced as a result of a statutory requirement. An Act paper may also be a House of Commons paper.
2. A *House of Commons paper* is one which is ordered to be printed by the House of Commons. By long tradition, papers directly related to the financial responsibilities of the House, which include accounts audited under statute by the C&AG who is an Officer of the House of Commons, are regarded as House of Commons papers.
3. Before such a paper is laid, it will need to be given a paper number from the Journal Office of the House of Commons. The House gives an “order to print” a paper on the day that it is laid, but in practice it will be laid in printed form. The fact that an order to print has been given and the date on which the order was given will appear on the front cover of the paper. The “order to print” brings the paper within the ambit of the Parliamentary Papers Act 1840 and thereby gives it Parliamentary privilege within the meaning of that Act (see below).
4. A *Command paper* is a paper laid by a Secretary of State or other Minister acting on the authority of Government “by command of her Majesty” and not laid as a result of a statutory requirement. As Command papers are not ordered to be printed by the House, they do not receive printing numbers and hence are not covered by Parliamentary privilege.
5. Although *Government Accounting* no longer gives a definition of *White Paper accounts*, earlier editions explained that the term has no statutory significance but is a convenient expression to apply to the annual accounts prepared by public sector bodies, which are separate from the departmental appropriation accounts, but which are similarly presented to Parliament. Such accounts are normally prepared in a standardised format and are printed on plain paper (hence the name).

6. *Parliamentary privilege* confers legal immunity against actions for defamation resulting from critical references, or comments which are in breach of an injunction or other order of any court. The application of the guidance described in this paper will give Parliamentary privilege to some Annual Reports. It is almost certain that the House would react most unfavourably if an NDPB were to take advantage of this legal immunity, and it is expected that NDPBs will do their best not to publish defamatory material. The House Authorities would need to be consulted if an NDPB were contemplating breaching an injunction or an order of the court under cover of parliamentary protection. Parliament might treat as contempt any abuse of the legal immunity conferred by the order to print.