



Financial Reporting Advisory Board Paper

Proposals for a new note in the Resource Accounts reconciling the Resource Accounts and Budgets

Issue:	Scrutiny of departmental financial management and performance could be enhanced by the inclusion of a reconciliation of the accounts to budgets as a note to the Resource Accounts.
Impact on guidance:	Requires new guidance in the FReM
UK GAAP adaptation?	N/A – information requested is additional to UK GAAP
IAS/IFRS compliant?	N/A – information requested is additional to current reporting standards
IPSAS compliant?	N/A – information requested is additional to current reporting standards
Impact on budgetary regime?	Yes – increased reporting requirements
Recommendation:	A reconciliation between the accounts and the budgets is included within the Operating and Financial Review from 2006/07, with a view to moving it to the notes to the Resource Accounts once more detailed guidance is developed.
Timing:	From 2006-07

Introduction

1. In 2004 HM Treasury consulted on and produced a new set of Department Yellow proforma accounts for Departments to follow when preparing their own Resource Accounts. The Scrutiny Unit, representing parliamentary users and in particular Select Committees, commented at the time that the Resource Accounts would be further enhanced if information about DEL, AME and budgets were included.
2. The Scrutiny Unit undertook to consult interested parties on the possible options for reporting a reconciliation of the Resource Accounts to the budgets. The four options were:
 - Option 1 - Reconciliations included in the notes to the accounts from 2006-07 onwards
 - Option 2 - Reconciliations included in the Operating and Financial Review (OFR) from 2006-07 with a further option of moving them to the notes to the accounts in the future

- Option 3 - Publish the reconciliation in the Autumn Performance Report
 - Option 4 - Do nothing
3. The Scrutiny Unit sought the views of the Treasury Select Committee and the National Audit Office. This paper sets out to report the results of our consultation, consider the arguments and present our conclusions to FRAB for consideration.

Background

4. Departments are currently required to use different accounting bases to plan, control and report their income and expenditure.
- The Government's financial planning framework uses resource and capital budgets broken down into DEL (departmental expenditure limits) and AME (annually managed expenditure) and these budgets are referred to throughout the Spending Review, Budget Red Book, Pre-budget Report and individual Departmental Annual Reports.
 - Control is exercised through the Parliamentary approval of Supply in the Main and Supplementary Estimates, voted on in two Appropriation Acts per year. Some elements of DEL and AME are outside of the Supply process. Equally some expenditure is voted, but outside the scope of the budgets.
 - Audited outturn figures are reported within Department's Resource Accounts, prepared under the conventions of UK GAAP, adapted for the public sector, with adjustments necessary to reconcile to either the planning or control totals.
5. The inclusion of budgetary performance information will generally enhance Resource Accounts for users by enabling them to:

- **Determine whether the department has stayed within all control limits on a timely basis**

This is particularly important given the increasing parliamentary interest in the way Departments manage their finances. Resource Accounts are increasingly being published pre-recess, so including the reconciliation would enable users to compare outturn figures to the budget as early as possible.

- **Access global information on all expenditure managed by the department from a single source**

The Resource Accounts do not contain full information on the expenditure of Non-Departmental Public Bodies (NDPBs) and supply-financed agencies controlled by the department. By contrast the budgetary boundary covers all expenditure for which departments are responsible; consequently NDPBs are consolidated within these allocations. It would also provide users of the accounts with an overall picture of departmental finances by consolidating information from the Estimates, Resource Accounts and relevant budget papers, which are currently all laid before Parliament separately at different times of the year.

• **Assess a department's performance on efficiency savings**

Efficiency savings to be delivered under Spending Review 2004 are built into departmental budgets. Parliamentary users of the accounts are particularly interested in confirming the efficiencies delivered to a reputable source.

6. A reconciliation between the Estimates and the net operating costs is already included within the notes to the resource accounts. The Comptroller and Auditor General also has to confirm that the administration budget (a further subset of DEL) has not been breached. There is, however, no single, timely, audited source which compares the operating costs to the DEL and AME budgets to demonstrate how the Government is performing against its financial plans. The Public Expenditure Statistical Analyses and Departmental Annual Reports already contain relevant information but they are not audited and the outturn figures are not finalised until more than 12 months after the year end. This is an unacceptable delay in the scrutiny process.
7. HM Treasury has suggested that reproduction of the "accounts to budget" elements of the *'Reconciliation of resource expenditure between Estimates, Accounts and Budgets'* and the *'Reconciliation of capital expenditure between Estimates and Budgets'*, found in the Main and Supplementary Estimates, with final outturn figures, could provide a solution.

Results of the consultation

8. Our consultations on the four options brought the following responses.

Option 1 - Reconciliations included in the notes to the accounts from 2006-07 onwards

9. Parliamentary users identified the following benefits of including the reconciliation within the Resource Accounts:

• **The fact that it is audited will give it more credibility**

The relevant information is available now, albeit on an untimely basis, in an unaudited form. Users of the accounts could place more reliance on figures that have been audited.

• **It is simply the next step in existing reconciliations**

The inclusion of budgetary information within the notes to the Resource Accounts is simply the next step for the existing reconciliations. We anticipate that most of the reconciling items (see Annex 1) would be neither burdensome to calculate or to audit in the case of most departments.

• **Improved financial management may result**

The outcome of any requirement to include budgetary information in the resource accounts, where it is subject to audit, may well be improved financial management across government departments.

10. The National Audit Office was fully supportive of moves to make the information on budgets more widely available on a timely basis but had some reservations on the full adoption of a reconciliation in the notes to the Resource Accounts. Financial information contained within the Resource Accounts is covered by the Comptroller and Auditor General's audit certificate and must therefore be subject to audit. They noted that:

- **Additional effort will be required from departments and auditors**

Departments would need to ensure that relevant financial systems for preparing, monitoring and reporting budgetary information are sufficiently robust to withstand the necessary scrutiny from auditors. There is also likely to be an additional cost to departments in preparing the figures and subjecting them to audit.

Depending on the outcome of this consultation the NAO will further consider the feasibility of auditing budgetary information and the possible cost implications for the audit.

- **The budgetary information is not based on UK GAAP**

A framework for interpreting Treasury's consolidated budgeting guidance when preparing and auditing the reconciliation would need to be agreed to ensure that budgetary information is consistently and knowledgeably prepared before full adoption of the reconciliation within the Resource Accounts. There are, however, already elements of the Resource Accounts which are not based on UK GAAP, for example the Statement of Parliamentary Supply.

Option 2 - Reconciliations included in the Operating and Financial Review (OFR) from 2006-07 with a further option of moving them to the notes to the accounts in the future

11. Parliamentary users considered this option to be:

- **Preferable to the status quo where the long delay in the publication of the final outturn against the budget inhibits the scrutiny process.**

If it is not deemed acceptable to include the budgetary information within the Resource Accounts at this time then it could be introduced as supplementary information within the Foreword to the Financial Statements or the Operating and Financial Review, published as a single document with the Resource Accounts and subject to review, but not audit, by the Comptroller and Auditor General.

- **In line with other requirements for reporting variances in the Operating and Financial Review.**

Detailed explanations for variances between outturn and Estimates are required by the Financial Reporting Manual. A template for the intended reconciliation would need to be prepared.

12. The National Audit Office identified this as their preferred option but whilst they supported in principle the movement of the reconciliation to the notes to the accounts they requested further consultation on the matter before it is brought within the scope of the audit. In addition this option could result in:

- **The level of accountability by departments for budgets not being as high as that for accounts**

The budgetary information will also not be subject to the same high level of financial scrutiny that comes with an audit which will be of concern to some users of the data who would value its integrity being confirmed.

- **There will still be an element of cost associated with the production and review of the reconciliation.**

However, the requirements on the robustness of any budgeting systems will be reduced and the costs will be lessened as a result.

Option 3 - Publish the reconciliation in the Autumn Performance Report

13. The National Audit Office did not comment specifically on this option but Parliamentary users considered it less preferable to the Option 2 due to the timing of the Autumn Performance Report and the desire to consolidate the financial information into a single source and not simply disperse it further.

Option 4 - Do nothing

14. All parties recognised the parliamentary desire for budgetary information in order to improve the level of scrutiny that users can apply to evaluate a Department's financial management and the achievement of targets. The do nothing option is therefore not favoured by those involved in the consultation.

Related issues

15. There needs to be some consideration of the implications if, when figures are reported and audited, a department is found to have breached its budgets, or if the budgetary systems are deemed deficient in some way. An Excess Vote or a breach of the ring-fenced administration budget leads to a qualified audit opinion, but there appears to be more flexibility in budgets where End Year Flexibility and other previously unallocated reserves can be utilised.
16. The NAO raised the possibility that the move to adopting International Standards of Auditing may provide a better framework for an audit review of other financial information, such as budgets, as part of a separate engagement to the audit of the accounts.

Summary and Conclusion

17. The arguments for producing a reconciliation between the net operating cost, net resource outturn and the budgets, to integrate the budgetary and reporting cycles on a timely basis is fairly strong. What is less clear is how and where the reconciliation should be published.
18. Our consultation revealed that the National Audit Office supports the option of including budgetary reconciliations in the Operating and Financial Review, at least whilst the relevant frameworks for reporting on and auditing budgetary systems are developed further and more detailed estimates of costs could be prepared. Parliamentary users of the accounts would be satisfied with this outcome in the short term but support the movement of the reconciliation to the notes to the accounts in future.
19. For this reason we recommend that the reconciliation between the Estimate, Accounts and Budgets is included within the Operating and Financial Review from 2006/07, with a view to more detailed guidance on its future inclusion within the resource accounts being developed by the appropriate bodies.

Scrutiny Unit

January 2006

Annex 1**Reconciliation taken from the Department of Education and Skills' Main Estimate**

The reconciliation in the resource accounts could follow the same format as the example shown below.

Main Estimate 2005-06

Department for Education and Skills

Notes to the Main Estimate**Reconciliation of resource expenditure between Estimates, Accounts and Budgets**

	2005-06	2004-05	£'000 2003-04
	Provision	Provision	Outturn
Net Resource Outturn (Estimates)	29,361,288	27,680,204	24,499,985
<i>Adjustments to remove:</i>			
provision voted for earlier years	-	-	-
<i>Adjustments to additionally include:</i>			
non-voted expenditure in the OCS	-	-	-
Consolidated Fund Extra Receipts in the OCS	-	-1,050	-62,673
Other adjustments	-	-	-
Net Operating Cost (Accounts)	29,361,288	27,679,154	24,437,312
<i>Adjustments to remove:</i>			
capital grants to local authorities	-3,123,739	-2,581,742	-2,180,026
capital grants financed from the Capital Modernisation Fund	-	-10,874	-26,796
European Union income and related adjustments	-	-	-
voted expenditure outside the budget	619,366	-	856,497
<i>Adjustments to additionally include:</i>			
other Consolidated Fund Extra Receipts	-	1,050	62,332
resource consumption of non departmental public bodies	-227,446	-327,185	46,635
unallocated resource provision	5,000	203,600	-
Other adjustments	-	-	-1,246
Resource Budget Outturn (Budget)	26,634,469	24,964,003	23,194,708
<i>of which:</i>			
Departmental Expenditure Limits (DEL)	26,101,294	24,558,828	22,927,386
Annually Managed Expenditure (AME)	533,175	405,175	267,322