

# Financial Reporting Advisory Board Paper

## SECRETARIAT PAPER

### REVIEW OF INTRA-GOVERNMENT BALANCES NOTES

<b>Issue:</b>	A review of the current FReM requirement for disclosure within resource and other accounts of notes for intra-government debtor and creditor balances.
<b>Impact on guidance:</b>	N/A
<b>IAS/IFRS adaptation?</b>	N/A
<b>IPSAS compliant?</b>	N/A
<b>Interpretation for the public sector context?</b>	N/A
<b>Impact on budgetary regime?</b>	No
<b>Alignment with National Accounts</b>	N/A
<b>Impact on Estimates?</b>	N/A
<b>Recommendation:</b>	The Board is requested to consider and comment on the results of the Review.
<b>Timing:</b>	N/A

## DETAIL

### Background

1. In 2004 the Board considered and approved FRAB paper (68) 02 that proposed enhanced disclosure within resource and other accounts from financial year 2004-05, of debtor and creditor balances between reporting entities and other parts of the public sector.

2. The rationale for the disclosure was that the NAO management letter on the first dry run Central Government Accounts recommended amending the then existing accounting guidance to improve the disclosure of balances between bodies that would ultimately be within the WGA boundary. It was viewed that such disclosure would be useful in itself to help understand the nature of balances between the reporting entity and the rest of the public sector, and aid the preparation of information for CGA and WGA. It was also anticipated that the process for identifying these balances would be integral with existing processes for identifying balances for CGA and WGA.

3. Whilst the FRAB approved the enhanced disclosure requirements (now incorporated in the FReM at paragraphs 7.4.48 and 7.4.51 and illustrated in Department Yellow at Notes 18b and 20b), at the time the Board were concerned that the disclosure requirement could prove to be an extra burden on departments. That, combined with materiality and timing concerns, prompted the Board to require that the usefulness of the disclosures should be reviewed after a period of two years. The purpose of this paper is to advise the Board of the results of the Review.

### **Review process and results**

4. Departments, NDPBs and Trading Funds were consulted via RABIG letter (2006) 19 dated 17 August 2006, on the usefulness of the current disclosure required by the FReM. Where the continuation of the disclosure is not supported addressees were asked to write and confirm this and provide their reasons.

#### *Against the disclosure*

5. Replies were received from a total of 17 entities not supporting the disclosure. A summary of their responses is at Annex A.

6. The main reasons put forward for discontinuing the disclosure are:

- a. The disclosure does not add value to the accounts and is extra work/burdensome;
- b. It is of no benefit to users of the accounts/stakeholders;
- c. There are timing differences between the disclosure in accounts (under the Faster Closing initiative) and the WGA disclosure, and it is viewed as superseded by the WGA disclosure;
- d. Immaterial balances are involved.

#### *For the disclosure*

7. Scotland, whilst of the view that the disclosure does not provide any particularly useful information, does not think there is a burden to alleviate in removing the disclosure, since the information is required for CGA/WGA purposes. The view is held that since we are already disclosing, and to cease disclosure may leave us open to accusations of less transparency and openness, then on balance, it probably makes sense to continue with the disclosure.

8. The NAO still see a need for the disclosure. It was introduced with the support of the WGA team to help identify whether balances and transactions were within or outside the boundary. NAO are of

the view that disclosure in resource accounts still serves a useful purpose in encouraging entities to get this right, and is analogous to private sector practice.

9. HM Treasury are of the view that the original rationale for the disclosure remains valid. The experience of collecting and processing data for dry run WGA over the last two years has convinced HM Treasury of the need to keep the enhanced disclosure requirement, and possibly to extend this in the future to include transaction streams. The Treasury accepts that the current disclosure requirement may need to be revised to bring it more into line with the WGA data collection requirements, which take account of the materiality of the balances and transaction streams reported by entities. The principal reasons for keeping the enhanced disclosure are:

- a. It encourages the production of sound WGA data by staff that are involved in and understand their entities' resource accounts. Entities preparing their WGA submission after their resource accounts invariably use staff who are not involved in the resource accounts process or have little knowledge of operations resulting in an unacceptable level of errors;
- b. It encourages entities to use their systems more effectively to generate data for WGA ensuring that the production of resource accounts and WGA is a seamless exercise;
- c. It provides a reality check on the extent to which entities report intra-government transactions for WGA purposes;
- d. It is aimed to improve efficiency by eliminating the need for two sets of accounts (resource accounts and WGA data) which should be the same;
- e. Faster Closing will eventually apply to WGA and the current elapsed time will not be acceptable;
- f. It enables the readers of the accounts to gain a better understanding of the nature of an entity's business with 'key related parties' within the public sector; and
- g. It increases pressure on entities to improve the quality of their data in their resource accounts where transactions and balances such as accruals are within the public sector.

10. HM Treasury does accept that the disclosure requirement in resource accounts is not entirely compatible with the disclosure requirement for WGA purposes, since the latter has materiality thresholds. It agrees that it would be useful to review further how or whether the two should be brought into line. For the present, HM Treasury supports the continuation of the existing disclosure requirement within resource accounts.

## **Summary**

11. A number of entities do not support the continuation of the disclosure notes, principally due to the reasons outlined at paragraph 6. Scotland, the NAO and HM Treasury consider that the disclosure requirement should continue, for the reasons given in paragraphs 7-10 above.

12. The Board is requested to consider and comment on the results of the Review.

**Larry Pinkney**  
**September 2006**

**ANNEX A**

**REVIEW OF INTRA-GOVERNMENT BALANCE NOTES – SUMMARY OF THE RESPONSES NOT SUPPORTING CONTINUATION OF THE DISCLOSURE**

ENTITY	REASONS
MOD	Disclosures do not place a significant extra burden on the MOD. However, concern over requirement tending to result in reporting differences between the Department's Resource Account and CGA/WGA.
HMRC	Thought that detailed analysis adds little to the basic disclosure on debtor and creditor balances. The driver to agree balances is WGA, however the timetable is not consistent with Faster Closing, such that the Resource Accounts have historically needed to reflect an un-agreed position. Labour intensive work required as finance systems do not easily recognise the distinctions between the required categories of reporting.
Welsh Assembly	Disclosures have added extra burden but additional work is small. Main concern is the lack of usefulness of the disclosures to readers of the accounts.
TSOL	Disclosures create an additional burden. Figures in accounts not formally agreed with other government departments. Departments need to be capable of meeting the pre-parliamentary recess deadline and Auditors need to have given clearance before publishing accounts.
East Midlands Development Agency	Disclosures are mix of immaterial balances and in no way aids understanding to the users of the accounts. Time taken to produce this disclosure is not insubstantial. Because of the materiality threshold applied to WGA, the work gives little or no assistance in establishing and agreeing WGA balances for this agency – therefore this is an additional piece of work having no application for this agency.
DfID	Disclosure is not of value. Over the past few years we have found that the conflicting timelines between the resource accounts completion and WGA completion has meant that the relevant bodies have not been able to supply us with the intra government balances in time to meet the Faster Closing timetable. As a result what we disclose in WGA differs to the disclosure in our accounts.
DH	We do not feel this note adds value to the accounts and is an additional burden in terms of time and cost, particularly in preparing our summarised accounts. This note is not useful in our work on WGA. We feel the user of the accounts has sufficient information in the standard debtor/creditor disclosures and this additional note may cause confusion, as the reason for including this note is not clear. Disclosures should be kept to a minimum in preparation for the move to International Standards.
National College for School Leadership	The amount of analysis required to analyse our balances is out of scale with the usefulness of the information. We do not record balances categorised in this way which means arriving at the disclosure via approximation.
National School of Government	Creates extra work and balances immaterial in context of WGA.

Government	
DWP	Disclosures are not useful to the reader of the resource or agency accounts
PCO	Creates extra work for the department and the balances are immaterial so no individual balances have to be disclosed under WGA..
UKAEA	Adds work in preparing and auditing the accounts. It does not add any useful information for the reader and we have never had any feedback. The information on intra-government balances is in any case available from the WGA returns.
DEFRA	Extra burden for the department and our agencies that we could do without, especially with the tighter timeframe for Faster Closing. The disclosure does not lead to a better understanding of the Accounts by the reader.
Northern Ireland	There is no added value to the information in the accounts. The exercise is very time consuming and will become increasingly challenging with faster closing deadlines. WGA requirements are now well embedded for departments and this note has been superseded by these processes. The figures in the accounts do not tie up with WGA balances due to the de minimus reporting thresholds for WGA and the timing of the two processes.
National Lottery Commission	Does not add any value to the users of the accounts – other than perhaps the WGA team itself.
Forestry Commission	Disclosures are an unwanted burden at a very busy year-end for what is perceived as no benefit to stakeholders and users of the accounts. We have 3 sets of auditors (for 6 sets of accounts) and auditors show no interest in this disclosure.
Ordnance Survey	The current approach is misaligned and leads to an unnecessary and repetitive workload during the financial year-end period. Disclosure in the accounts was in excess of the level of detail required for WGA. The usefulness of the information to the majority of the readership of annual accounts is limited – and indeed the inclusion of the intra-government balances disclosure may mislead and distract the reader.