

Managing Resources

Accountability

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The Government moved to a new resource-based financial management system from April 2001, with the implementation of accruals based accounting and budgeting in central government from 2001-02. One of the key aims in moving to the new system was to improve financial reporting and enhance Government's accountability to Parliament and the public.

If such benefits are to be delivered, it is essential that those in departments who are responsible for the changes, and accountable for the new information, are fully aware of the nature and impact of the changes and in a position to make the best use of them.

Accordingly, this latest booklet in the Treasury's "Managing Resources" series – see page 7 – is intended to be of use to Accounting Officers and their advisers who want to know more about how accruals based accounting and budgeting will impact on their accountability responsibilities.

The booklet concentrates on explaining how the move to the new resource based approach has affected the role of the Accounting Officer and examines ways in which best use can be made of the enhanced information now available in developing financial management and corporate governance structures in departments.

In doing so, it also looks at the impact of other improvements in accountability, notably the introduction of the Statement of Internal Control and the production of Whole of Government Accounts.

The booklet is structured as follows:

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What an Accounting Officer needs to know



The essence of an Accounting Officer's role is a personal responsibility for the propriety and regularity of the public finances for which he or she is answerable; for the keeping of proper accounts; for prudent and economical administration; for the avoidance of waste and extravagance; and for the efficient and effective use of all the resources available to them.

Accounting Officer's role

The Accounting Officer's role is essentially unchanged by the move to resource based financial management. However, there are some implications arising from the new resource based approach that an Accounting Officer will need to bear in mind and these are explained in this booklet. It does not seek to provide a full explanation of these implications but, rather, to raise awareness of them.

Under cash accounting, expenditure was accounted for against appropriate blocks of public spending called Votes. Votes corresponded either to a whole department or to discrete parts of a department. Large departments generally had a large number of Votes. Each Vote was allocated to an Accounting Officer who was responsible for signing the appropriation account showing the cash outturn against that Vote. An individual Accounting Officer might have responsibility for more than one Vote.

The department as a reporting entity

A fundamental principle of the new resource based approach is that of the reporting entity. Resource accounts have a boundary as defined in the Resource Accounting Manual – available at www.resource-accounting.gov.uk. Everything within that boundary forms part of the department and is accounted for in a departmental resource account. This means that a department that had a number of appropriation accounts relating to a corresponding number of cash Votes now has a single resource account encapsulating all of the department's operations.

The resource account shows the outturn against the department's Estimate. Resource based Estimates show the voted elements of expenditure for a department. They are divided into Requests for Resources (RfRs). Each RfR has a Parliamentary resource limit. Although RfRs do not necessarily mirror the old cash Votes, they divide a department into specific areas of expenditure which need to be monitored, controlled and reported on individually.

The result of the recognition of the department as a reporting entity is that an Accounting Officer for a department may now sign a resource account which includes elements which were previously accounted for by another Accounting Officer responsible for a separate appropriation account. Accounting Officers who previously had responsibility for their own Vote and appropriation account may no longer have an account to sign and will have found that their activities are accounted for as part of the overall departmental operation.

Government Resources and Accounts Act

The Government Resources and Accounts Act 2000 (GRAA) came into operation from December 2000. The Act provides for the appointment of Accounting Officers by the Treasury.

Under cash accounting, the Treasury appointed an Accounting Officer for each cash Vote and corresponding appropriation account. Under the terms of the GRAA, the Treasury is required to appoint an Accounting Officer for each department that has an Estimate approved by the House of Commons. The Accounting Officer is required under the GRAA to prepare the resource accounts for the department and to submit them to the Comptroller and Auditor General for audit.

In addition, the Treasury has the power to appoint Accounting Officers with responsibility for defined parts of a department's resource accounts. That person is then personally responsible for that part of the accounts.



What an Accounting Officer needs to know

Types of Accounting Officer

A number of different types of Accounting Officer have emerged from the focus on the department as a defined reporting entity and as a result of the requirements of the GRAA.

Principal Accounting Officers

The Accounting Officer whom the Treasury is required to appoint for each department is known as the Principal Accounting Officer (PAO). The PAO signs the resource account and the Statement of Internal Control (see below) and is accountable for meeting the overall net cash requirement for the department as well as the resource limits set for RfRs that are their personal responsibility. Unless the Treasury appoints any additional Accounting Officers for the department, the PAO is fully and personally accountable for all of the department's operations.

Additional Accounting Officers

The Treasury may appoint one or more Accounting Officers in addition to the PAO within a department. Where an Accounting Officer is appointed by the Treasury in addition to the PAO, the appointee is referred to as an Additional Accounting Officer (AAO). An AAO has overall responsibility for a defined part of the department, almost always forming an RfR within the departmental Estimate. The AAO is accountable for all of the resources used by the part of the department for which he or she is responsible. Although AAOs may not have an account to sign, they should have control over the data which relate to their part of the department and which are accounted for in the departmental resource account.

Principal and Additional Accounting Officers are advised, on appointment, to reach agreement between them on their individual responsibility with regard to matters such as in-year financial monitoring, cash, capital and governance arrangements. Such agreements might be set out in writing in a Memorandum of Understanding signed by both Accounting Officers.

Agency Accounting Officers

Departmental Accounting Officers (PAOs and AAOs) are able, where appropriate as part of their governance arrangements, to designate senior staff as Accounting Officers for Executive Agencies forming part of the department. These Agency Accounting Officers will sign the Agency accounts and associated Statement of Internal Control. However, some Agency Accounting Officers will have been appointed by the Treasury as Additional Accounting Officers and will not need to be designated by the Principal Accounting Officer.

Arrangements whereby the Treasury appoints Accounting Officers for trading funds, or where departmental Accounting Officers designate NDPB Accounting Officers, are unaffected by the move to the new financial management system.

Accounting Officer responsibilities are set out in Chapter 4 of *Government Accounting* and the *Accounting Officer Memoranda*.

Statement of Internal Control

The definition of the reporting entity, involving the accounting for a department's operations in a single account, has highlighted the need for corporate governance arrangements to cover the whole organisation. In addition, alongside the move to the new resource based approach, events in the private sector have led to the requirement for Directors to make a Statement on their arrangements for reviewing the effectiveness of internal control.

In the public sector, the control arrangements of an organisation are clearly the responsibility of the Accounting Officer. In line with current private sector practice, the Accounting Officer is now required to produce a Statement of Internal Control (SIC) alongside the accounts. For this, the Accounting Officer needs to have risk management processes well embedded in the business processes of the organisation and a system for reviewing their effectiveness.

What an Accounting Officer needs to know



The SIC is signed by the Accounting Officer who signs the accounts. That means that where there is more than one Accounting Officer in a department, the PAO signs the SIC. Additional Accounting Officers should, however, be involved by providing assurances to support the SIC. Where AAOs produce a separate set of accounts, they will produce and sign their own SIC.

Increased transparency and accountability

Under cash accounting, while Accounting Officers had responsibility for matters such as the management of their fixed assets and working capital, appropriation accounts did not bring to account matters such as the use of fixed assets and stock levels in departments. As a result, Parliament only became aware of these matters if a problem with them was identified as a result, for example, of a National Audit Office value for money study.

Under the new resource based approach, Accounting Officers have significantly increased responsibility for both the management of assets and the identification and reporting of liabilities. Thus, by including non-cash items in the Supply and reporting structures, not only is Parliament - along with other stakeholders - being given a fuller and more transparent picture of the department's activities. There is also a very real increase in Accounting Officers' personal responsibility for completely and accurately identifying and reporting the assets and liabilities within the departmental boundary.

In addition, the audit of these items as part of the 'true and fair' picture of the department's activities provides Parliament with assurance about the way in which these items are being accounted for.



Why an Accounting Officer needs to know

An Accounting Officer needs to understand his or her relationship with other Accounting Officers both within and outside the department. Accounting Officers should ensure that there is certainty and clarity about these relationships as well as about individual roles and responsibilities.

Memorandum of Understanding

As noted earlier, it is good practice to define Accounting Officer responsibilities in writing, perhaps in the form of a Memorandum of Understanding. Accounting Officers may also wish to seek advice from their internal audit functions about assurances that might be needed from other Accounting Officers if their own responsibilities for propriety, regularity and value for money are to be met.

Financial awareness

More commercial style accounting, with a transparent recognition of the importance of non-cash resources in the delivery of departmental activities, is likely to lead an Accounting Officer to consider whether he or she is receiving sufficiently high quality advice on these matters. Accounting Officers will wish to ensure that they are informed by staff with appropriate skills and will wish to use the move to resource based financial management as a driver to raise financial awareness amongst staff.

The move to a resource based approach has also underlined the need for better financial management systems in order to improve the quality of financial management information available in departments. Many departments are already starting to use financial management reports to inform regular departmental management board meetings. Accounting Officers will wish to consider how the new resource data might best be used by the management team as part of the department's internal planning processes and to warn the management board of financial risks emerging.

Accounting Officers will also wish to consider the skills which their Audit Committee can bring to bear in relation to the presentation of the accounts and in advising on risk management.

Whole of Government Accounts

The successful implementation of the new arrangements should also be seen by Accounting Officers as a way of preparing for other developments, such as the introduction of Whole of Government Accounts, where many Accounting Officers are being appointed as Consolidation Officers with responsibility for consolidating a number of government bodies' accounts into a single return to the Treasury.

Relationship with the NAO

Accounting Officers will wish to fulfil their responsibility to produce accurate and timely resource accounts, and to submit them to the National Audit Office (NAO) for audit, by putting in place systems that allow the necessary data to be produced accurately and in time to meet audit timetables and statutory deadlines.

It is good practice to work closely with the NAO and to involve them at an early stage when, for example, new departmental organisations are established and new accounting systems are procured. Audit issues which need to be discussed at a high level would normally be resolved at Principal Finance Officer/ Assistant Auditor General level, with any outstanding issues being settled between the Accounting Officer and the Comptroller and Auditor General (C&AG).

Following a review carried out by Lord Sharman, the NAO is establishing new arrangements for resolving any concerns clients may have and for consulting them on proposals to contract out audits. In addition, a high level Audit Liaison Group is being set up jointly by the Treasury and the NAO which will provide a forum for Accounting Officers and the C&AG to discuss issues of mutual interest.

Why an Accounting Officer needs to know



Appearing before the PAC

Under cash accounting, an Accounting Officer might expect to appear before the PAC if he or she incurred an Excess Vote or as a result of the findings in a value for money study carried out by the NAO. This is unchanged by the move to resource based financial management.

Excess Votes

However, the circumstances in which an Excess Vote may occur have changed under the new system. Accounting Officers now need to manage within both resource based limits and an overall departmental voted cash limit. Thus there are limits set against each RfR and against the overall Net Cash Requirement for the department.

An Excess Vote might arise if there is an overspend against these limits or a failure to accrue sufficient operating or non-operating income (Appropriations in Aid). Excess Votes may therefore occur on a resource only or cash only basis, or both. An Excess Vote may lead to an appearance before the PAC where the Accounting Officer would need to account for the Excess.

'True and fair' view

The auditor has to express an opinion on whether the accounts provide a 'true and fair' view. In the event that the auditor is unable to give a 'true and fair' opinion on the accounts, the C&AG might advise the PAC on the position and an Accounting Officer might be called to account for the problems which had resulted in the auditor's adverse opinion.

NAO vfm studies

Accounting Officers also need to bear in mind that they might be asked about aspects of their departments' accounts and financial management at a hearing on an NAO value for money (vfm) study. As the PAC becomes more familiar with resource accounts and their content, it is likely that Members will raise questions about matters such as provisions, debtor levels, build up of stocks and under-performing assets where these are relevant to the subject of the hearing.

It would therefore be good practice for an Accounting Officer to be well briefed on the content of their accounts and to consider accounting matters relevant to a hearing as part of their preparation for an appearance before the PAC.



Further guidance

“Managing Resources” booklets

Further information on resource management issues is on the Treasury’s website www.hm-treasury.gov.uk and is included in many published documents. Booklets in the “Managing Resources” series (copies available from Anne Perryman e-mail: anne.perryman@hm-treasury.gov.uk) include:



Full Implementation of Resource Accounting and Budgeting (the “Blue Guide”) – April 2001



Analysing resource accounts: an introduction (the “Short Red Guide”) – June 2001



Case studies (the “Orange Guide”) – January 2002



Analysing resource accounts: user’s guide (the “Big Red Guide”) – June 2001



Reporting to the Board (the “Burgundy Guide”) – July 2002



Better decision taking in departments (the “Green Guide”) 2nd edition – July 2002



A strategic approach to finance training (the “Pink Guide”) – September 2001



Maximising the benefits for departments (the “Purple Guide”) – June 2001



Summary (the “Blue Leaflet”) – January 2002



Accountability (the “Chocolate Guide”) – July 2002

Other guidance

Guidance on Accounting Officer responsibilities is provided in Chapter 4 of *Government Accounting*. Appendix 4.1 sets out the specific responsibilities of an Accounting Officer. Both are available at www.government-accounting.gov.uk. A separate booklet “*The Responsibilities of an NDPB Accounting Officer*” is available on request - e-mail lorraine.constable@hm-treasury.gov.uk.

“*Holding to Account*” which sets out Lord Sharman’s recommendations following a review of audit and accountability in central government, and the Government’s response to the report, are available on the Treasury public website (www.hm-treasury.gov.uk). To link directly to the Government response use: http://www.hm-treasury.gov.uk/Documents/Public_Spending_and_Services/Audit_and_Accounting/pss_aud_sharman.cfm. The Government response is also available in hard copy from the Stationery Office.

The Resource Accounting Manual is available at www.resource-accounting.gov.uk.

