FINANCIAL REPORTING IN CENTRAL GOVERNMENT & AGENCIES

Professional 2
December 2000

MARKING SCHEME

Question 1

(a)

W1 Opening Balance Sheet as at 1 April 1999

	£000
Fixed Assets (270+72+1,565+835)-(150+46+81)	2,465
Net Current Assets (1,075+175-349)	901
	3,366
Financed By:	
General Fund	2,721
Revaluation Reserve	645
	3,366

All the above information is given in the question, therefore no marks.

W2 Convert cash to accruals

	Appropriation a/c £000	Opening debtor/creditor £000	Closing debtor/creditor £000	Total £000
Turnover	3,750	(175)	166	3,741
A2 Other current costs	815	(349)	481	947

W3 Change in Stock

	Opening stock £000	Closing stock £000	Change £000
Stocks	1,075	1,118	43

W4 Revalue assets and depreciation

Assets	Land £000	Buildings £000	Vehicles £000	Computers £000
1 April 1999	1,565	835	72	270
Disposals	0	(150)	0	0
Revaluation	8	27	0	(5)
Acquisitions	0	242	20	0
31 March 2000	1,573	954	92	265
Depreciation				
1 April 1999	0	150	46	81
Disposals	0	(30)	0	0
Revaluation	0	5	0	(2)
31 March 2000	0	125	46	79

Depreciation charge	Re-valued Cost £000	Life £000	Depreciation for year £000
Land	1,573	–	–
Buildings	954	50	19
Vehicles	92	10	9
Computers	265	5	53
Total			81

Statement of Fixed Assets

	Land £000	Buildings £000	Vehicles £000	Computers £000	Total £000
Balance at 1 April 1999	1,565	835	72	270	2,742
Acquisitions	0	242	20	0	262
Disposals	0	(150)	0	0	(150)
Revaluation	8	27	0	(5)	30
Re-valued cost at 31 March 2000	**1,573**	**954**	**92**	**265**	**2,884**
Re-valued Depreciation					
Balance at 1 April 1999	0	150	46	81	277
Disposals	0	(30)	0	0	(30)
Charge for year	0	19	9	53	81
Revaluation	0	5	0	(2)	3
Re-valued Depreciation at 31 March 2000	**0**	**144**	**55**	**132**	**331**
Re-valued NBV at 31 March 2000	**1,573**	**810**	**37**	**133**	**2,553**

W5 Insurance

	Amount £000	Rate %	Cost £000
Fixed assets (excluding land) at NVB as at 31/3/2000	980	1.0	10
Running costs	10,647	0.25	27
Average stock (1075+1118)/2	1,097	0.5	5
Total Insurance			42

W6 Interest on capital

	NBV £000	Working Capital £000	Total Capital £000
Capital Employed at 31 March 1999	2,465	901	3,366
Capital Employed at 31 March 2000	2,553	803	3,356
Average capital employed			3,361
Rate of interest			6%
Total Interest on capital			202
Audit fee			35
Notional insurance			42
Total notional costs			77

W7 Movement on Revaluation Reserve

	£000
Balance on reserve at 1 April 1999	645
Plus	
revaluation on fixed assets (27+8) (W4)	35
Less	
revaluation of depreciation (5-2)(W4)	(3)
Balance on revaluation reserve at 31 March 2000	677

W8 Grant applied to the deficit on operations

	£000
Net Parliamentary Grant voted	8,607
less	
Excess of Parliamentary Grant over actual expenditure	(55)
less	
Excess of appropriations in aid	(578)
Net Parliamentary Grant received	7,974
less	
Net capital expenditure	(262)
Grant applied to deficit on operations	7,712

(a) Operating Account for year ended 31 March 2000

£000		£000	£000	
Income	(W2)		3,741	*1*
Cost of publications	(W2)	(947)		*1*
Change in stock	(W3)	43		*½*
Staff costs		(9,063)		
Administration		(1,584)		*½*
Depreciation	(81+5*) (W4)	(86)		*2*
Notional costs	(42+35) (W6)	(77)		*2*
Operating Expenditure			(11,714)	
Deficit before interest on capital			(7,973)	
Interest on capital	(W6)		(202)	*2*
Deficit for year after interest			(8,175)	
				(9)

***** reduced valuation of computers

(b) Statement of General Fund for year ended 31 March 2000

		£000	
Deficit for the year on operations		(8,175)	*½*
Notional charges written back (202 + 42 + 35) (W6)		279	*1*
		(7,896)	
Less:			
Parliamentary Grant applied to deficit	(W8)	7,712	*2*
		(184)	
Other grant – capital		262	*½*
Movement on general Fund		78	
General Fund at 1 April 1999		2,721	
Less: Write-off of disposed Buildings (NBV)		(120)	*½*
		2,601	
Add: Movement on general Fund		78	
General Fund at 31 March 2000		2,679	*½*
			(5)

(c) **Balance Sheet as at 31 March 2000**

		31 March 2000 £000	
Fixed assets		2,553	*4*
Current assets			
Stock	1,118		½
Debtors	166		½
	1,284		
Less: Current liabilities			
Creditors: amounts falling due within 1 year	(481)		½
Net current assets		803	
Total assets less current liabilities		3,356	
Represented by:			
General fund		2,679	½
Revaluation reserve		677	*1*
		3,356	

(7)

(d) **Main changes that conversion to Trading Fund status would have on the Agency**

Majority of reporting requirements including formats and compliance with UK GAAP will be the same but the main differences will be:

- Capital structure: general fund and present revaluation reserve would be replaced by public dividend capital - PDC (owned by Secretary of State) and interest bearing debt (advances from National Loans Fund)
- The secretary of State may declare a dividend on the PDC or direct that surpluses must be used in a particular way e.g. to reduce debt
- Requirement to be self-financing will mean that the Agency will have to charge for services currently provided to departments out of Parliamentary Grant
- Annual financial statements would be prepared under Government Trading Funds Act 1973 rather than Exchequer and Audit Departments Act 1921
- The trading fund will be responsible for handling its own cash balances
- The Agency will no longer have to prepare a supply estimate or appropriation account

- Any surplus receipts need not be surrendered to the Consolidated Fund but may be used to finance expenditure or retained to build up reserves
- There will be a financial target to break even taking one year with another after meeting the target rate of return; surpluses over and above this must be used as the Secretary of State directs – losses are to be met from reserves or made up in future years
- Capital expenditure requirements to be met from internal resources first, then additional loans or PDC (i.e. not from capital grants)
- Permitted activities will be determined by the statutory instrument setting up the trading fund rather than the ambit of the vote

½ mark per point made to a maximum of 4

(25)

Question 2

(a)

	(a) Annual Budget	(b) Spending to date	(c) Projected spend for months 10/11/12	(d) Projected total spend for year (b+c)	(e) Projected end of year variance (a-d)
	£	£	£	£	£
Staff costs:					
Salaries	105,000	75,000	(W1) 15,000	90,000	15,000
Wages	195,000	144,000	(W2) 53,000	197,000	(2,000)
Casual staff	30,000	33,500	0	33,500	(3,500)
Sub-total	**330,000**	**252,500**	**68,000**	**320,500**	**9,500**
Accommodation costs:					
Electricity	33,000	15,300	(W3) 10,200	25,500	7,500
Rent	28,400	21,300	(W4) 7,100	28,400	0
Repairs	(W5) 22,000	15,000	(W4) 5,000	20,000	2,000
C.i.l.o. rates	13,800	10,350	3,450	13,800	0
Sub-total	**97,200**	**61,950**	**25,750**	**87,700**	**9,500**
Supplies and services:					
Printing materials	42,500	(W6) 30,000	(W6) 10,000	40,000	2,500
Stationery and packing	27,800	21,330	(W4) 7,110	28,440	(640)
Equipment maintenance	33,500	24,300	(W4) 8,100	32,400	1,100
Sub-total	**103,800**	**75,630**	**25,210**	**100,840**	**2,960**
Total excluding central recharges	**531,000**	**390,080**	**118,960**	**509,040**	**21,960**
Central recharges:					
Departmental administration	152,300	152,300	0	152,300	0
Central services	33,000	33,000	0	33,000	0
Capital charges	25,700	25,700	0	25,700	0
Sub-total	**211,000**	**211,000**	**0**	**211,000**	**0**
Total operating expenditure	**742,000**	**601, 080**	**118,960**	**720,040**	**21,960**

Workings: NB – for W2, 3, 4 and 6 candidates may chose to use the budget figure to calculate remaining year spend instead of year to date but should be consistent

W1:	60,000 x (3/12) = £15,000	*½*
W2:	5,000 + (144,000 x 3/9) = £53,000	*1*
W3:	15,300 x (40/60) = £10,200	*1*
W4:	Rent - 21,300 x (3/9) = £7,100 Repairs - 15,000 x (3/9) = £5,000 C.i.l.o. rates - 10,350 x (3/9) = £3,450 Stationery - 21,330 x (3/9) = £7,110 Maintenance - 24,300 x (3/9) = £8,100	*2*
W5:	12,000 + 10,000 = £22,000	*½*
W6:	Spend to date = 50,150 – 20,150 = £30,000 Projected spend – 30,000 x (3/9) = £10,000	*1*

Note should include:

- Manager's calculations are not appropriate since they ignore the incidence of the expenditure during the year.
- Central recharges are not under control of manager – he should concentrate on direct operating expenses which he may be able to influence.
- After other adjustments and re-profiling projected spend for year is within budget by approximately £22,000
- Accordingly recommend NOT to cancel the capital programme.
- Budget assumptions should always be revisited towards year end to ensure they are still valid
- Should continue to monitor situation towards year-end to ensure no further, significant changes to assumptions
- Also note that there is usually no virement allowed from capital to revenue budgets; therefore cancelling would not achieve anything
- Note that expenditure does not include any commitments that are unknown to the ledger system - recommend a separate commitment system is maintained.
- Potential for income generation.

Marks for workings as above up to a maximum of 6
1 mark per valid point up to maximum of 6
1 mark for correct advice
Presentation 2
(15)

(b)

Clarity
Clearly this system is confusing as this manager considers that he is overspent or likely to be at year end.
Budgetary control reports should be in a clear, understandable format which presents users with the information they need.
Recommendations could include

- the use of monthly budget profiling
- analysing reasons for variances from profiled budget
- use of exception indicators
- on-line budget access for budget holders.

Accuracy
Input errors should be avoided. There is evidence of miscoding in this budget.
Recommend investigation of miscoding. This may be a one off error or a it could be a symptom of a more widespread problem. Possible need for clearer coding instructions or training.

Timeliness
If appropriate corrective action is to be taken then managers need time in which to do it. Note that the statement was sent to the manager 3 weeks after the end of the month; this should be improved. Budget statements are likely to be out of date even if produced quickly after the month end.

Comparability
Budgetary control statements should compare like with like. This example compares a year to date cumulative expenditure with an annual budget. Recommend changes to the format of the printout to compare

- profile budget to date with actual expenditure to date
- monthly budget with in-month spend (would help with miscodings)

Appropriate level of reporting
If they are to be useful reports must go to an person who has the appropriate authority and experience to act upon them. The Manager of the Centre is receiving the budget printout for the Centre and they would appear to have the appropriate authority. This should be commended. However his expertise in interpreting the statement can be called into question. Suggest a refresher course in budgeting and budget analysis.
The manager cannot be expected to have control over central recharges and there should be a sub-total of the costs they can directly control.

up to 2 marks per point made including any other relevant points
only 1 mark maximum per point if no clear recommendation made
(10)

Question 3

(a) FRSs and SSAPs do not apply directly to agencies but are applied through the Accounts Direction issued by HM Treasury under S5 Exchequer and Audit Departments Act 1921. This will require agencies to apply financial reporting standards in so far as they are applicable to the entity.

The accounts direction will also require agencies to produce accounts which present a 'true and fair view' and to comply with the Companies Acts in so far as it is applicable e.g. Schedule 4 of the 1985 Act on modified historic cost accounting

The Treasury may direct agencies not to apply certain requirements of some standards or to give information or disclosures in excess of those required by the ASB's standards e.g. government bodies may not utilise the exemption to prepare cash flow statements granted to small enterprises by FRS 1.

HM Treasury may also require additional disclosures to be given or specific accounting treatments to be followed. Failure to do so would result in the financial statements failing to provide a true and fair view and a possible qualified audit opinion. e.g. continuing requirements to provide information on breakdown of staff salaries

(Marks awarded for any other relevant comments)

1 mark per point up to a maximum of 5

(b) Specific points should be addressed accordingly:

(iii) SSAP2 (Disclosure of Accounting Policies) accruals concept states that goods received should be accounted for in the year they relate to. SSAP9 (Stocks and Long-Term Contracts) describes how unused stocks should be accounted for.

An accrual of £5,000 should be raised for the goods which have been used, and the stock valuation should be raised by £19,000 for the unused goods remaining in store.

DR	Operating Expenses	£5,000
DR	Stock	£19,000
CR	Creditors	£24,000

1 mark for explanation/justification, 1 mark for accounting entries

(iv) Government Accounting and good accounting practice require that income and expenditure should be reported and published gross, i.e. income and expenditure should not be netted off against each other. In order to show income and expenditure correctly in this case:

DR Operating expenses	£8,000
CR Operating income	£8,000

1 mark for explanation/justification, 1 mark for accounting entries

(v) SSAP2 (Disclosure of Accounting Policies) requires prudence when reporting income. £27,000 of income will not now be received and should therefore be written off to the operating statement as bad debt expense.

DR Operating expenses (bad debts)	£27,000
CR Debtors	£27,000

1 mark for explanation/justification, 1 mark for accounting entries

(vi) SSAP4 (Accounting for Government Grants) does not apply to grants given by parent departments since the Agency is part of the department. Agencies do not maintain a deferred government grant account.

As such the Capital grant should be recognised as part of the financing of the Agency by the department and credited to the General Fund.

DR Fixed Assets	£800,000
CR General Fund	£800,000

1½ marks for explanation/justification, 1 mark for accounting entries

(vii) HM Treasury requires Agencies to revalue assets annually using indices in line with the principles of the modified historic cost accounting basis of preparation. Calculations of revised gross book values and accumulated deprecation as at 31/3/2000:

- GBV @ 31/3/2000 - £260K x (111/108) = £267K
- Acc. Dep. @ 31/3/1999 - £105K x (111/108) = £108K ½
- GBV@ 30/3/2000 vehicles fully depreciated = £50K x (111/108) = £51K

Depreciation charge for the year = £267K - £51k / 5 = £43k ½

DR Fixed Assets (Vehicles)	£7,000
CR Revaluation Reserve	£7,000
DR Revaluation Reserve	£3,000
CR Accumulated Depreciation (Vehicles)	£3,000
DR Operating Expenses (Depreciation)	£43,000

CR Accumulated Depreciation (Vehicles) £43,000

1½ marks for accounting entries

(viii) FRS11 (Impairment of Fixed Assets and Goodwill) is applicable for accounts from 1999/00. This accounting standard requires impairment reviews to be undertaken where there is an indication that the value of assets may be overstated in the balance sheet or where assets are not being depreciated. *1*

- Consumption of asset. Where the diminution is due to general wearing out, the full impairment value should be written off in the first instance against any previously recognised gains in revaluation. If this is insufficient to meet the whole impairment any excess should be written off to the operating statement. In this case, since there is no associated revaluation reserve in respect of this asset the whole amount should be written off. *2*

DR	Operating expenses	£25,000	
CR	Fixed assets	£25,000	
			1

- Market factors. Where the diminution is solely due to market factors, the amount is written off to the revaluation reserve. Temporary diminutions in value may be carried as a debit balance on the reserve *1*

DR	Revaluation reserve	£50,000	
CR	Fixed assets	£50,000	
			1

(ix) FRS 12 (Provisions, Contingent Liabilities and Contingent Assets) applies to accounting periods ending on or after 23 March 1999. *1*

A provision is a liability of uncertain timing or amount and should therefore meet the rules of recognition for a liability i.e. present legal or constructive obligation because of a past event and a probable requirement to transfer economic benefits in the future. *1*

DR	Operating expenses	£200,000	
CR	Provisions for liabilities and charges	£200,000	*1*

(20)

(25)

Question 4

(a)

	1999/2000	Points	1998/99	Points	1997/98	Points	Total	
Company A Current ratio	136:123=1.11	1	118:132=0.89	0	118:113=1.04	1	2	*1½*
Acid test	114:123=0.93	1	100:132=0.76	0	90:113=0.80	0	1	*1½*
Post tax profits		1		1		0	2	*½*
Total							**5**	
Company B								
Current ratio	117:89=1.31	1	104:90=1.16	1	102:84=1.21	1	3	*1½*
Acid test	87:89=0.98	1	76:90=0.84	0	76:84=0.90	1	2	*1½*
Post tax profits		1		1		1	3	*½*
Total							**8**	
Company C								
Current ratio	132:91=1.45	1	132:108=1.22	1	115:92=1.25	1	3	*1½*
Acid test	97:91=1.07	1	98:108=0.91	1	85:92=0.92	1	3	*1½*
Post tax profits		1		1		1	3	*½*
Total							**9**	

Companies B & C can be invited to tender on financial criteria. *½*

(11)

(b)

	X & Co	Points	Y & Co	Points	Z & Co	Points	
Staff	6/30=20%	5	10/59=17%	5	21/99=21%	10	*1½*
Contract		0		5		10	*½*
Price*		20.91		17.14		6.95	*4½*
Total		**25.91**		**27.14**		**26.95**	

Company Y should be offered the contract. *½*

(7)

Note: Students may interpret the last paragraph of the question in other ways, leading to a rounding of percentages, which may result in different points scores, the effect of which may be to change the recommendation to Company Z – full credit should also be given for recommending Company Z in these circumstances.

* Price Notes:	£
X & Co	225,375
Y & Co	241,095
Z & Co	283,530
Total	750,000

Average Price = £250,000

£225,375 = 9.85% less than the mean, hence points = 15+(9.85*(2%*30) = 20.91
£241,095 = 3.56% less than the mean, hence points = 15+(3.56*(2%*30)=17.14
£283,530 = 13.41% greater than the mean, hence points = 15-(13.41*(2%*30)=6.95

(c)

Responsibility	**Explanation**	
Drawing up the contact specification	Detailed description of the service/goods/ works, e.g. tasks, times, frequencies, materials, etc including minimum standards Conditions, including client & contractor responsibilities Provides a benchmark against which the tenders can be assessed.	*2*
Estimate of realistic cost	Based on the provision of the service/goods/ works detailed in the contract specification	*1*
Publication of notice	To inform interested parties of the service to be tendered	*½*
Send questionnaire and outline details	To obtain information to allow short-listing of contractors who will be invited to submit tenders	*1*

Review questionnaire	To reject potential tenderers that do not meet minimum standards of financial standing or technical capacity	*½*
Invitation to tender	Sending details to approved potential tenderers	*½*
Tender evaluation	Review all tenders on the basis of cost and quality and conclude with a preferred bidder	*½*
Announcement of award	Notification to successful and unsuccessful tenderer	*1*
		(7)
		(25)

Question 5

(a) **Role and responsibilities of the Accounting Officer**

OLM Reference – Block 1, Study Unit 2

In major government departments many of the tasks set out are delegated to other civil servants e.g. Departmental Establishment Officer, Departmental Finance Officer. In Executive Agencies the CE/AO may have more direct responsibility for many of these tasks. The student should recognise this but also the fact that ultimate responsibility remains with the accounting officer.

The answer should outline the key points under each appropriate heading as set out below. The student should not just write a list similar to a job description or person specification, but needs to expand each point to illustrate understanding.

Corporate management

- Appointed by Treasury under statute – responsibilities dictated by memorandum issued by Treasury. Each department will have an AO; CEO of Executive Agencies and NDPBs will normally be appointed AO for that body.

- Member and head of board/executive team (direction and policy, contribution to strategic decisions).

- Work with operational managers (enabling relationship with managers, ability to communicate, ability to appreciate the wider implications of responsibilities and actions of department/agency).

- Strategic and business planning (shaping financial objectives, outside knowledge of public finance and policy formulation, innovative, able to adapt to changes in the operational environment).

- Responsible for securing value for money (economic, efficient and effective use of resources)

- Business case assessment (consistency with organisational direction)

- Private sector finance (innovation, use of private finance, adherence to government regulations and policy).

- Non-financial management responsibilities (planning, contracting, information).

Public accountability and stewardship

- Same as any director of finance in public service — duty to manage in the best interest of the public (safeguard assets, ensure public funds are protected).

- Internal financial control systems (ensuring that financial controls are in place and that procedure notes and reporting on Corporate Governance issues).
- Sign annual appropriation account of department/agency.
- Financial reporting and advice to ministers (objectivity in advice, requirement to advise on poor VFM or illegality).
- Reporting to HM Treasury on e.g. excess votes, contingent liabilities, losses.
- Appear before the Committee of Public Accounts in response to reports by Comptroller and Auditor General

Financial management

- Financial strategy (formulation and monitoring, risk assessment).
- Overall responsibility for:
    - Preparation of budget and contribution to PES process / supply estimates
    - Budgetary control and reporting (reporting and action).
    - Financial accounting (ensuring statutory accounts are timely and accurate).

Management of the Department / Agency

- High standards of management (leadership skills, quality).
- Thinking ahead (resource requirements, workload planning).
- Effective delegation and clear assignment of responsibilities (skills awareness, empowering managers, communication).
- Monitoring of quality (setting objectives, ensuring adherence to targets set by Ministers, reporting mechanisms).
- Motivation of staff (also management of staff, discipline of staff).
- Communication (ensuring goal congruence).
- Staff development and training (appraisals, training needs).
- Management of outsourced or contracted out services.

½ mark per point and 1 for explanation up to a maximum of 15

(b) **Devolved financial management**

The exact definition will vary but should refer to:

- The shifting of the decision making process away from the centre to front-line services
- Front line service managers being responsible for budgets and budget monitoring

2

(c) **Advantages and Disadvantages of Devolved Financial Management**

Advantages

- Alignment of financial and managerial responsibility
- Enables front line staff to respond more quickly to needs of clients
- Fosters ownership of budgets
- Clearer accountability
- Any other appropriate points

½ mark per point up to a maximum of 2

Disadvantages

- Costly to set up due to training requirements
- Devolving financial responsibility to non-finance experts
- More difficult for the centre to control and influence
- Any other appropriate points

½ mark per point up to a maximum of 2
(4)

(d) **Impact of Devolved Financial Management on role of AO**

- Less direct responsibility for expenditure – greater delegation to and, hence, reliance on subordinates
- Need to take more strategic/managerial position
- Emphasis on aspects of good corporate governance and sound internal financial controls
- "Next Steps" initiative - creation of executive agencies. Means more formal control delegated to agency Chief Executives
- Continuing requirement to sign annual financial statements and appear before PAC means final responsibility still rests with AO.

1 mark per point up to a maximum of 4

(25)