

16 January 2009

**GOVERNMENT FINANCIAL REPORTING
MANUAL (FReM) EXPOSURE DRAFT No:**

(09) 1

EXPOSURE DRAFT OF PROPOSED

AMENDMENTS TO THE FReM

**Review of Intra-Government Balance Disclosure
in the Resource Accounts**

Comments to be received by 20 March 2009



HM TREASURY

FINANCIAL REPORTING POLICY TEAM HM TREASURY

This exposure draft of proposed amendments to the Government Financial Reporting Manual (FReM) is published by HM Treasury for comment only. The proposals may be modified in the light of comments received in this consultation process before being presented to the Financial Reporting Advisory Board for its approval. Final proposals approved by the Financial Reporting Advisory Board will be published as amendments to the FReM from the proposed effective date.

Comments on this exposure draft should be submitted in writing so as to be received by **20 March 2009**. Respondents are asked to send their comments electronically to FReM.consultation@hm-treasury.gov.uk.

All responses will be published on the FReM website unless the respondent requests confidentiality.



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Introduction

Financial Reporting Policy Team, HM Treasury, has published this exposure draft of proposed amendments to the Government Financial Reporting Manual (FReM) as part of its ongoing work in ensuring that the Manual reflects the latest developments in government financial reporting.

Structure of exposure draft

The exposure draft includes a section for each FReM chapter for which an amendment is proposed. Each section includes:

- (a) An explanation of why the amendment is proposed.
- (b) When necessary, any specific additional question unique to that proposed amendment;
- (c) The paragraphs of the FReM chapter that are affected by the proposed amendment;
- (d) The proposed effective date of each proposed amendment.

Invitation to comment

HM Treasury invites comments on the proposed amendments. It would particularly welcome answers to the questions set out below. Comments are most helpful if they:

- (a) Answer the question as stated;
- (b) Indicate the specific paragraph or paragraphs to which they relate;
- (c) Contain a clear rationale; and
- (d) Describe any alternative HM Treasury should consider.

HM Treasury will consider all comments received in writing by 20 March 2009. In considering the comments, HM Treasury will base its conclusions on the merits of the arguments for and against each alternative, not on the number of responses supporting each alternative.

Review of Intra-Government Balance Disclosure in the Resource Accounts	
Why the amendment is proposed:	As the result of a review to consider the continued disclosure of the debtor/creditor balance analysis in the resource accounts, the proposal is to retain existing FReM text.
Paragraph(s) affected by the amendment	Chapter 7: Annual Reports and Accounts – Disclosure and Presentation Debtors - paragraph 7.4.44 Creditors - paragraph 7.4.47
Proposed date	N/A

Background

In 2004 the Board approved FRAB paper (68) 02 in respect of enhanced disclosure within resource and other accounts of debtor and creditor balances between reporting entities and other parts of the public sector.

At the time, 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. HMT felt that such disclosure would be useful in itself to explain 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.

In 2006 a review took place as part of a consultation (RABIG 2006 19) with departments and other stakeholders as to whether or not they supported continuation of the disclosure. In response, departments felt that the additional work required to produce this information was burdensome and resulted in little added value for users of the accounts. There were also concerns over timing differences between the resource accounting and WGA processes, as well as the amounts reported in individual accounts being immaterial for WGA purposes.

Following this consultation, the FRAB recommended that the case for retaining the disclosures be reviewed in a further two years, by which time, the WGA process will be more established and a better informed assessment could be made on the benefits of continuing, reducing, or even expanding the note.

Current Position

The disclosure of intra government balances has now been in place for in excess of four years and opinion is divided on the benefits, or otherwise, of the additional information provided.

HM Treasury View

HM Treasury believes that the case for keeping the disclosure remains strong and the points made in both 2004 and 2006 remain valid as noted below:

- It is in line with faster closing deadlines for WGA, resulting in fuller alignment of the resource accounts and WGA. The discipline of producing the data for the resource accounts will also aid preparation of WGA. The ultimate aim is for the production of resource accounts and WGA to be a seamless process resulting in the information only being extracted/provided once.
- There is an argument that dropping disclosure now would lead to accusations that the government is being less transparent.
- It provides a check on the accuracy and completeness of the WGA figures. Experience has shown that preparers of the resource accounts and WGA are often not the same and where there are inconsistencies this provides a mechanism to challenge the figures.
- Retaining the disclosure would also encourage departments to move away from the manual processes currently used to produce the data. Departments employ sophisticated IT systems to manage and report financial information and should be using these systems to create an embedded process for capturing reliable and consistent data. Such processes demonstrate good financial control, which in turn, gives auditors and users a greater degree of comfort that the accounts present a true and fair view.
- Current proposals put forward by the Alignment Project could extend the reporting boundary for consolidated group accounts. As a consequence, departments and their NDPBs will be required to agree and eliminate intra-group balances and transactions. Continuing the disclosure will ensure departments are better prepared for this.

Consequences of Discontinuing the Disclosure

If the requirement to disclose intra-government balances were to be removed, it could have a negative impact on the preparation of Whole of Government Accounts at a critical time. The disclosure provides a useful check against the returns submitted for WGA, ensuring figures are accurate, complete and stand up to audit. If the disclosure were not retained the WGA Team may need to consider an alternative reporting mechanism, to help maintain the integrity of WGA.

Summary

Issues around timing and materiality have been raised previously as reasons for discontinuing the disclosure and the Treasury has indicated that it would investigate how the processes could be better aligned. Work has been ongoing to address these

issues with the WGA Team working alongside departments and other stakeholders. A recent proposal from the NAO suggesting that the WGA materiality threshold should be lowered is currently under consideration. If adopted, this would aid consistency between WGA and the resource accounts disclosure.

In respect of the added burden placed on departments to produce the disclosure, this should become less of an issue as the production timetables for resource accounts and WGA become aligned. The aim is for the information to be produced once via an integrated process rather than the current ad hoc methods employed, which are time consuming and inefficient.

Treasury maintains that the disclosure does provide useful information to users allowing them to understand the nature of an entity's business with key related parties in the public sector. The disclosure will assist departments in preparing for faster closing of WGA as they work towards compiling one set of complete data. To discontinue the note would be a retrograde step and Treasury believes that the disclosure should continue in its present format.

Specific question(s)

Do you agree with HM Treasury's proposal to continue with the disclosure of intra-government balances as described in the exposure draft? If not, why not and what alternative (if any) do you propose?

FReM chapters addressed

The following table shows the topics addressed by these proposed amendments.

FReM Chapter	Subject of amendment
7.4.44 Debtors	Intra government balance analysis
7.4.47 Creditors	Intra government balance analysis

Proposed amendment to Government Financial Reporting Manual Chapter 7 *Annual Reports and Accounts – Disclosure and Presentation*

Introduction

No amendment proposed

Why the amendment is proposed

N/A

Proposed amendment

N/A

Effective date of amendment

N/A