

## 5 Form and content of the annual report and accounts

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## 5.1 Introduction

5.1.1 This chapter sets out the requirements for the format and content of the annual reports and accounts of the reporting entities covered by the requirements of this Manual, with the exception of pension schemes (see chapter 12). The annual report and accounts includes:

- a) the annual report (section 5.2);
- b) a statement of Accounting Officer's responsibilities (see paragraph 5.3.2);
- c) a Governance Statement (see paragraph 5.3.3);
- d) the primary financial statements and notes (section 5.4); and
- e) the audit opinion and report (section 5.5).

Reporting entities must prepare and publish an annual report and accounts as a single document unless the relevant authorities have specifically agreed otherwise.

5.1.2 This chapter refers to chapters and sections of Part 15 of the Companies Act 2006 where appropriate. If this chapter does not refer to specific chapters or sections of that Part, then those chapters and sections do not apply, unless referred to elsewhere in this Manual.

5.1.3 This chapter does not set out the requirements for the format and content of the annual reports and accounts of reportable activities, which are set out in the relevant accounts directions.

5.1.4 Departments financed through the Westminster or the Northern Ireland Assembly Estimates process should refer to chapter 3 for guidance on the *Statement of Parliamentary Supply*. These departments should also refer to the pro-forma *Department Yellow*. The content of *Department Yellow* is prescriptive for these departments only to the extent necessary in the context of their own. Departments may also need lines and/or notes in their financial statements additional to those in *Department Yellow* in order to show a true and fair view.

5.1.5 The formats of the Statement of Comprehensive Net Expenditure and the Statement of Cash Flows for the departments referred to in paragraph 5.1.4 differ from the formats used by other reporting entities covered by the requirements of this Manual. However, some of the other disclosures referred to in *Department Yellow* are common to all financial statements, and those other reporting entities might use *Department Yellow* as a guide for their own disclosures.

5.1.6 The accounts to be published by spending bodies accountable to the Scottish Parliament will follow the format agreed between Scottish Ministers and the Public Audit Committee of the Scottish Parliament. The format of those accounts will be based on the principles, but not the detail, set out in this chapter.

## Summary financial information

5.1.7 A reporting entity that wishes to publish a document additional to its annual report and accounts that contains summary financial information should comply with the requirements of sections 426 and 428 of the Companies Act 2006. (Sections 427 and 429 shall not apply.) The summary data must not be published in advance of the full annual report and accounts being laid before Parliament<sup>1</sup> as to do so would be a breach of Parliamentary privilege.

## Interim financial information

5.1.8 IAS 34 *Interim Financial Reporting* applies in full to those reporting entities that are required or elect to publish interim financial reports.

### ***Objective of IAS 34***

5.1.9 The objective of IAS 34 is to prescribe the minimum content of an interim financial report and to prescribe the principles for recognition and measurement in complete or condensed financial reports for an interim period.

## 5.2 The annual report

### Introduction

5.2.1 This section of the chapter applies to all reporting entities covered by the requirements of this Manual except charitable NDPBs, which should follow the requirements of the Charities SORP and regulations made under Charities legislation. For the avoidance of doubt, NDPBs that are charities should prepare an annual report that comprises a Trustees' Annual Report (in accordance with the requirements set out in the Charities SORP) and a Remuneration Report.

### Scope of the annual report

5.2.2 All reporting entities covered by this Manual shall prepare an annual report for inclusion as part of the accounts containing the matters to be dealt with:

- in a Directors' Report as set out in Chapter 5 of Part 15 of the Companies Act 2006, as interpreted below for the public sector context; and
- in a Remuneration Report as set out in Chapter 6 of the Companies Act 2006, as interpreted below for the public sector context. (Chapter 9 of the Companies Act 2006 shall not apply.)

5.2.3 In the case of ***executive agencies*** and ***trading funds***, the preparation of an annual report as described above will satisfy the requirement for the preparation of a Foreword and a report as required by Cm 914 *The Financing and Accountability of Next Steps Agencies* (agencies), section 4(6A)(b) of the Government Trading Funds Act 1973 (trading funds) and article 8(7)(b) of the Financial Provisions (Northern Ireland) Order 1993. There is thus no need to produce a separate report in addition

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<sup>1</sup> Parliament is used in this context to mean the Westminster Parliament, the Scottish Parliament, the National Assembly for Wales and the Northern Ireland Assembly.

to the annual report described above. The document presented to Parliament should be described as “Annual Report and Accounts”.

5.2.4 In the case of **NDPBs** that already have a statutory obligation to prepare a separate report, the preparation of an annual report described herein will satisfy the requirement for the production of this separate report. This annual report will be presented to Parliament with the accounts as a combined document described as the “Annual Report and Accounts”. Where there is currently no statutory requirement for the preparation of a separate report, NDPBs will prepare an annual report as described herein for inclusion in the accounts which will be described as the “Annual Report and Accounts” and presented to Parliament.

5.2.5 Auditors will review the Annual Report for consistency with other information in the financial statements. They are required to express an opinion on the consistency of the Directors’ Report elements of the Annual Report as interpreted for the public sector context. These elements will include:

- details of the directors (see paragraph 5.2.6);
- the management commentary (paragraph 5.2.8);
- the preparation of a sustainability report (paragraph 5.2.9); and
- progress against agreed key performance indicators (paragraph 5.2.11).

In order that readers of the Annual Report can identify those paragraphs that are subject to the auditors’ opinion on consistency, the contents outlined above should be clearly identified by way of headings.

Where there are cross references to information in other sections of the Annual Report, the consistency opinion will be extended to cover this other information.

### ***Directors’ report: interpretation of the Companies Act requirements for the public sector context***

#### **Duty to provide information on the matters contained in the Directors’ report**

5.2.6 The term ‘directors’ and the information required is interpreted as:

- a) (departments) the ministerial titles and names of all ministers who had responsibility for the department during the year;
- b) (departments) the name of the person occupying the position of the permanent head of the department;
- c) (reporting entities other than departments) the names of the chairman and chief executive; and
- d) (all reporting entities) the composition of the management board (including advisory and non-executive members) having authority or responsibility for directing or controlling the major activities of the entity during the year. This means those who influence the decisions of the entity as a whole rather than the decisions of individual directorates or sections with the reporting entity.

5.2.7 Sub-sections 415(4) and 415(5) of the Companies Act 2006 shall not apply.

Contents of directors' report: business review

- 5.2.8 The annual report shall contain a Management Commentary, which shall disclose the matters required to be disclosed in the business review under section 417 of the Companies Act 2006, taking into consideration the recommendations outlined in the ASB's Reporting Statement *Operating and Financial Review*, as interpreted below.
- a) "Members" (s.417(2)) shall be interpreted to be all users of the accounts.
  - b) (S.417(3) and s.417(4)) The Management Commentary should be self-standing and comprehensive in its scope. However, some information might be given in other documents in the cycle of accountability to Parliament and the public such as the Autumn Performance Statement or Departmental Report. In such cases, the Management Commentary should provide summarised information with adequate cross-references to the other documents.
  - c) (S.417(5)(a)) For departments, the Management Commentary should disclose, where applicable, the financing implications of significant changes in the department's objectives and activities, its investment strategy and its long-term liabilities (including significant provisions and PFI and other leasing contracts) in the light of the department's spending review settlement.
  - d) Sections 417(5)(b)(i) and (iii) require information on environmental matters and social and community issues respectively.
- 5.2.9 Entities falling within the scope of reporting under the Greening Government commitments (i.e. departments, Non-Ministerial departments, agencies and NDPBs) and which are not exempted by de minimis limit or other exemption under Greening Government (or other successor policy), produce a sustainability report to be included within the Management Commentary, reporting performance against sustainability targets for greenhouse gas emissions, waste minimisation and management and the use of finite resources and their related expenditure . (To facilitate reporting, guidance on the reporting methodology, and an illustrative reporting model, can be found in the Sustainability and Environmental section of the FReM website ([www.financial-reporting.gov.uk](http://www.financial-reporting.gov.uk))).
- 5.2.10 Spending bodies accountable to the Northern Ireland Assembly will report on sustainability within the framework established by the Northern Ireland Executive's Programme for Government. Relevant guidance will be issued by the Northern Ireland Executive. Spending bodies accountable to the Scottish Parliament will report on sustainability within the framework established by the Scottish Government and in accordance with guidance issued by the Scottish Government. Spending bodies accountable to the Welsh Assembly Government will prepare a sustainability report within the Management Commentary based upon targets outlined by the Welsh Assembly Government. The Welsh Assembly Government will issue relevant guidance.
- 5.2.11 S417(6)) Departments should disclose performance against their key performance indicators<sup>2</sup>. Other reporting entities should report performance against those key performance indicators agreed with the Minister and normally promulgated by means of a Parliamentary question. In disclosing information relating to the achievement of financial key performance indicators based on a return on capital employed, reporting entities should use the definitions of "return" and "capital employed" as agreed in their Treasury Minute or other document rather than those given in the Reporting Statement (IG example 1).

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<sup>2</sup> As agreed by the appropriate governance authority

5.2.12 In addition to the matters described in section 417 of the Companies Act 2006, reporting entities to which this Manual applies shall disclose the following information:

- a) (departments to which paragraph 5.1.4 refers) a comparison of outturn against Estimate, with detailed explanations of the causes of significant variances where applicable;
- b) (departments preparing accounts under the Government Resources and Accounts Act 2000 or the Government Resources and Accounts Act (Northern Ireland) 2001) a reconciliation of resource expenditure between Estimates, Accounts and Budgets. The format, adapted from the reconciliation included in the Notes to the Main Estimate, is shown following this paragraph;
- c) (departments only) a description of the reporting entities within the departmental accounting boundary;
- d) (departments only) the names of any public sector bodies outside the boundary for which the department had lead policy responsibility in the year, together with a description of their status (for example, trading fund or public corporation);
- e) (departments only) a description of the departmental reporting cycle, including an outline of the matters covered in the spring Departmental report, in the Estimates, and in the Autumn Performance Report, and information about how readers can obtain these documents;
- f) (departments only) commentary on the department's significant remote contingent liabilities (that is, those that are disclosed under Parliamentary reporting requirements and not under IAS 37) to enable the reader to understand their nature and what steps the department is taking to minimise the risk of their crystallising;
- g) (executive agencies that are not whole departments, trading funds and NDPBs only) a note that the accounts have been prepared under a direction issued by [relevant authority] under [reference to appropriate legislation];
- h) (executive agencies that are not whole departments, trading funds and NDPBs only) a brief history of the entity and its statutory (or equivalent) background;
- i) (primarily for NDPBs) an explanation of the adoption of the going concern basis where this might be called into doubt, for example where there are significant net liabilities that will be financed from resources voted by Parliament (grant-in-aid, for example) in the future;
- j) an indication of how pension liabilities are treated in the accounts and a reference to the statements of the relevant pension scheme. A cross-reference to the accounting policy note in the accounts and the remuneration report will normally be sufficient;
- k) details of company directorships and other significant interests held by Board members which may conflict with their management responsibilities. Where a Register of Interests that is open to the public is maintained, disclosure may be limited to how access to the information in that Register may be obtained; and
- l) information regarding the disclosure of the remuneration paid to the auditors for any non-audit work undertaken by the auditors as required by Regulations made under Section 494 of the Companies Act 2006;
- m) publish sickness absence data;
- n) Public Sector Information Holders should also include a statement that [name of entity] has complied with the cost allocation and charging requirements set out in HM Treasury and Office of Public Sector Information guidance. In the case of Westminster departments and other entities, the Treasury Officer of

Accounts team should be consulted where a reporting entity seeks an exemption from the FReM requirements on the grounds of commercial sensitivity; and

- o) reporting of personal data related incidents.

### **Reconciliation of resource expenditure between Estimates, Accounts and Budgets**

	200X-0Y	£000 200W-0X
<b>Net Resource Outturn (Estimates)</b>		
<i>Adjustments to remove non-budget elements:</i>		
Grants to devolved administrations (MoJ and NIO)		
<i>Prior period adjustments Adjustments to include:</i>		
Consolidated Fund Extra Receipts in the resource budget		
Other adjustments		
<b>Total Resource Budget Outturn</b>		
<i>of which:</i>		
Departmental Expenditure Limits (DEL)		
Annually Managed Expenditure (AME)		
<i>Adjustments include:</i>		
Capital grants (net of related EU contributions)		
Grants to devolved administrations (MoJ and NIO)		
Consolidated Fund Extra Receipts in the OCS		

*Adjustments to remove*

### **Net Operating Cost (Accounts)**

Northern Ireland Departments may require additional items to complete this reconciliation and should include these as appropriate.

### Contents of directors' report: statement as to disclosure to auditors

5.2.13 Sub-sections 418(5) and 418(6) of the Companies Act 2006 shall not apply.

### Approval and signing of directors' report

5.2.14 Except for NDPBs that are companies, section 419(1) of the Companies Act 2006 shall not apply, and the sections 419(2) to 419(4) shall not apply to any reporting entity covered by the requirements of this Manual.

5.2.15 The Accounting Officer (or Chief Executive) shall sign and date the directors' report.

### **Remuneration report: interpretation of the Companies Act requirements for the public sector context**

Certain disclosures in the remuneration report are subject to audit and these elements must be clearly annotated within the remuneration report as being subject to audit.

### Duty to prepare directors' remuneration report

5.2.16 Sub-sections 420(2) and 420(3) of the Companies Act 2006 shall not apply.

5.2.17 References in the Act to 'Directors' are interpreted in paragraph 5.2.6.

#### Contents of directors' remuneration report

5.2.18 Section 421 of the Companies Act 2006 requires the preparation of a Remuneration Report containing certain information about the directors' remuneration in accordance with the requirements of Part 4 and Schedule 8 of Statutory Instrument 2008 No. 410. Certain of the information is subject to audit (see Part 3 of Schedule 8 of SI 2008 No. 410) and will be referred to in the audit opinion.

5.2.19 Reporting entities covered by the requirements of this Manual shall include information under the headings in SI 2008 No. 410 to the extent that they are relevant. (For example, the *Performance graph* required in Part 2 of Schedule 8 will not be applicable to reporting entities covered by the requirements of this Manual.) There is a presumption that information about named individuals will be given in all circumstances and all disclosures in the remuneration report will be consistent with identifiable information of those individuals in the financial statements. Non-disclosure is acceptable only where publication would:

- be in breach of any confidentiality agreement;
- prejudice the rights, freedom or legitimate interest of the individual; or
- cause or be likely to cause substantial damage or substantial distress to the individual or another, and that damage or distress would be unwarranted,

which for entities covered by the requirements of this Manual include grounds of national security or where an individual may be at risk if his or her name is disclosed. In other cases, it would be for the staff member to make a case for non-disclosure, which should be considered by the employer on a case-by-case basis. Where non-disclosure is agreed, the fact that certain disclosure has been omitted should be disclosed.

5.2.20 The following interpretations apply:

- a) in most cases it will be sufficient to refer to the work and recommendations of the Senior Salaries Review Body in the statement of policy on the remuneration of directors for the current and future years;
- b) salaries should be disclosed in bands of £5,000 for officials and actual amounts for ministers. Salary and allowances covers both pensionable and non-pensionable amounts and includes, but may not necessarily be confined to: gross salaries; overtime; reserved rights to London Weighting or London allowances, recruitment and retention allowances; private-office allowances or other allowances to the extent that they are subject to UK taxation and any ex-gratia payments. It does not include amounts which are a reimbursement of expenses directly incurred in the performance of an individual's duties. Performance pay or bonuses payable should be separately reported from salaries, in bands of £5,000. For ministers, only the salary payable in respect of their role as minister of the department should be shown;
- c) if a payment for compensation on early retirement or for loss of office (paid or receivable) has been made under the terms of an approved Compensation Scheme, the fact that such a payment has been made should be disclosed, including a description of the compensation payment and details of the total amounts paid;
- d) the estimated value of non-cash benefits (benefits in kind) should be disclosed to the nearest £100;

- e) The median remuneration of the reporting entity's staff and the ratio between this and the mid-point of the banded remuneration of the highest paid director (see paragraph 5.2.6), whether or not this is the Accounting Officer or Chief Executive. The calculation is based on the full-time equivalent staff of the reporting entity at the reporting period end date on an annualised basis. For departments, the calculation should exclude arm's length bodies within the consolidation boundary. Entities shall disclose information explaining the calculation, including the causes of significant variances where applicable. Further guidance is provided on this Manual's dedicated website; and
- f) the information on pensions should be disclosed as follows:
- the real increase during the reporting year in the pension and (if applicable) related lump sum at age 60 (ministers age 65) in bands of £2,500;
  - the value at the end of the reporting year of the accrued pension and (if applicable) related lump sum at age 60 (ministers, age 65) in bands of £5,000;
  - the value of the cash equivalent transfer value at the beginning of the reporting year to the nearest £1,000;
  - the real increase in the cash equivalent transfer value during the reporting year, to the nearest £1,000;
  - the value of the cash equivalent transfer value at the end of the reporting year to the nearest £1,000; and
  - in the case of a partnership pension account, the employer's contribution. (In these circumstances, the disclosures in the first four bullets will not apply.)

#### Approval and signing of directors' remuneration report

- 5.2.21 The Remuneration Report shall be signed and dated by the Accounting Officer or Chief Executive. (For the purposes of publication, the Accounting Officer/Chief Executive's signature on the Annual Report will also satisfy the requirement to sign the Remuneration Report which is an integral part of the Annual Report.)

### **5.3 Statements by the Accounting Officer**

- 5.3.1 This section of the chapter applies to all reporting entities and reportable activities covered by the requirements of this Manual.

#### **Statement of Accounting Officer's responsibilities**

- 5.3.2 The Accounting Officer or Chief Executive of all reporting entities and reportable activities covered by the requirements of this Manual should explain his/her responsibility for preparing the financial statements in a statement that should be positioned after the Annual Report and before the governance statement. A model statement of Accounting Officer's responsibilities is provided in Annex 1.

#### **Governance Statement**

- 5.3.3 All reporting entities covered by the requirements of this Manual shall prepare a governance statement. Guidance on content is provided for specific sectors and

jurisdictions governed by the Relevant Authorities<sup>3</sup>. Where a reporting entity includes in its published annual report and accounts financial statements relating to several reportable activities, the reporting entity need include only a single governance statement.

- 5.3.4 Where the financial statements in respect of a reportable activity are published separately from the accounts of the reporting entity, accounts preparers should prepare a governance statement in respect of the reportable activity.
- 5.3.5 The Accounting Officer (or Chief Executive) shall sign and date the governance statement.

## **5.4 The Annual Accounts**

### **Introduction**

- 5.4.1 This section of the chapter provides guidance to reporting entities on the format and content of the Statement of Comprehensive Net Expenditure, the statement of financial position, the Statement of Changes in Equity and the statement of cash flows, together with the relevant notes. The following paragraphs make it clear how different types of reporting entity should present financial statements. The detailed requirements for the format and content of the financial statements of reportable activities are set out in the accounts directions for those activities.
- 5.4.2 In addition to the requirements of the Companies Act (see paragraph 5.4.4), this section considers the following accounting standards that include material dealing with formats of, and disclosures in, financial statements:
- IAS 1 Presentation of Financial Statements;*
  - IAS 7 Statement of Cash Flows;*
  - IAS 10 Events after the Reporting Period;*
  - IAS 24 Related Party Disclosures;* and
  - IFRS 8 Operating Segments.*
- 5.4.3 Other accounting standards, which are dealt with in other chapters of this Manual, might include disclosure requirements. Unless indicated otherwise, those disclosure requirements apply in full.

### **Requirements of the Companies Act 2006**

- 5.4.4 Chapter 4 of Part 15 of the Companies Act 2006 deals with the form and content of company accounts, the form and content of group accounts and the disclosure of information about related undertakings respectively. Other than NDPBs that are charities (which apply the Charities SORP), all reporting entities shall prepare individual or group accounts as appropriate using IAS 1. The following interpretations of Chapter 4 of Part 15 of the Companies Act 2006 apply:

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<sup>3</sup> Managing Public Money, Scottish Public Finance Manual, Managing Public Money Northern Ireland, The Annual Governance Statement; Rough Guide for Practitioners (CIPFA Finance Advisory Network), Annual guidance issued by the Department of Health and Monitor.

- a) sections 394, 395, 396, 398 to 405 and 407 shall not apply. The duty to prepare accounts, together with the applicable accounting framework, is laid down in the relevant and other legislation and in individual accounts directions;
- b) sections 397 and 406 shall be interpreted as a requirement to state in the notes to the accounts that the financial statements have been prepared in accordance with this Manual (see chapter 2.2.14 for the detailed wording);
- c) the term “subsidiary undertakings” used in various sections shall be interpreted to mean those entities consolidated into the reporting entity’s financial statements and the term “related undertakings” shall be interpreted to mean those entities outside the reporting boundary;
- d) section 408 is superseded by the interpretations of IAS 1 (see below);
- e) reporting entities shall provide the information about related undertakings required under section 409 (unless reporting entities apply section 410) as set out in Statutory Instrument 2008 No. 410;
- f) the information required by section 411 shall be presented as the average full time equivalent staff under the following headings (and, in the case of departments only, against departmental objectives):
  - staff with a permanent (UK) employment contract with the entity;
  - other staff engaged on the objectives of the entity (for example, short term contract staff, agency/temporary staff, locally engaged staff overseas and inward secondments where the entity is paying the whole or the majority of their costs). Where the number of staff under any one category of ‘other staff’ is significant, that category should be separately disclosed;
  - Ministers; and
  - Special advisers.

(Note that the requirements of section 411 override IAS 1.IN13(b) where the requirement to disclose the number of an entity’s employees is not required.)
- g) where the information required under sections 412 and 413 is readily ascertainable from other information given in the financial statements or in the directors’ remuneration report, that information need not be repeated in the notes to the accounts; and
- h) the signature referred to in sections 414(1) and 414(2) is that of the Accounting Officer or Chief Executive. Sections 414(3) to 414(5) shall not apply.

## **IAS 1 Presentation of Financial Statements (excluding paragraphs 15 to 46)**

- 5.4.5 This section deals with the requirements of IAS 1, excluding paragraphs 15 to 46, which are covered in chapter 2.

### ***Applicability***

- 5.4.6 IAS 1 applies as interpreted to all reporting entities covered by the requirements of this Manual.

**Objective of IAS 1 (excluding paragraphs 15 to 46)**

5.4.7 The objective of IAS 1 is to prescribe the basis for presentation of general purpose financial statements to ensure comparability with the entity's financial statements of previous periods and with the financial statements of other entities.

**Statement of Comprehensive Net Expenditure**

5.4.8 IAS 1 requires entities to prepare a statement of comprehensive income, departments, NDPBs and Trading Funds should continue to follow the guidance in this manual.

**Departments and executive agencies under the Government Resources and Accounts Act 2000 and the Government Resources and Accounts Act (Northern Ireland) 2001**

5.4.9 Departments preparing annual accounts and executive agencies preparing financial statements under the Government Resources and Accounts Act 2000 or under the Government Resources and Accounts Act (Northern Ireland) 2001 shall prepare a Statement of Comprehensive Net Expenditure in accordance with the format shown below. Where a department or agency wishes to follow an alternative format, they should seek the approval of the relevant authority, with agencies seeking approval through the sponsoring department. (Programme expenditure will be shown only where appropriate and any related income (if applicable) for both programme costs and administration costs should be shown separately for each of the two expenditure categories: see also chapter 11.3.3 and 11.3.4.)

**Consolidated Statement of  
Comprehensive Net Expenditure**

for the Year to 31 March  
200Y

£000	200X-Y			200W-X		
	Core Dept	Core Dept. & Departmental Agencies	Departmental Group	Core Dept	Core Dept. & Departmental Agencies	Departmental Group
	Total	Total	Total	Total	Total	Total
Administration costs						
Staff	X	X	X	X	X	X
Other	X	X	X	X	X	X
Programme expenditure						
Staff	X	X	X	X	X	X
Other	X	X	X	X	X	X
Operating Income	(X)	(X)	(X)	(X)	(X)	(X)
Other expenditure						
Staff	X	X	X	X	X	X

Other	X	X	X	X	X	X
<b>Net Operating Costs for the year ended 31 March 200Y</b>	X	X	X	X	X	X
Net gain/(loss) on:						
- revaluation of property, plant & equipment	X	X	X	X	X	X
- revaluation of intangibles	X	X	X	X	X	X
- revaluation of available for sale financial assets	X	X	X	X	X	X
<b>Total comprehensive expenditure for the year ended 31 March 200Y</b>	X	X	X	X	X	X

### Non-departmental public bodies and trading funds

5.4.10 NDPBs shall prepare a Statement of Comprehensive Net Expenditure as appropriate. Trading funds shall prepare a Statement of Comprehensive Income. Charitable NDPBs should follow the requirements of the Charities SORP. In applying IAS 1 where this Manual refers to the Statement of Comprehensive Net Expenditure or Statement of Comprehensive Income, NDPBs and Trading Funds should interpret this terminology as appropriate for their own circumstances.

### General interpretation

5.4.11 In applying IAS 1, entities should be aware of the following general interpretation for the public sector context:

- a) profit on disposal of an asset can be accounted for as negative expenditure to the extent that the profit represents a final adjustment of depreciation. Where this is not the case, profits should be accounted for as income;

### **Statement of Financial Position**

5.4.12 IAS 1 requires entities to prepare a statement of financial position and provides guidance on the minimum presentation required on the face of the statement of financial position.

### Interpretation of the statement of financial position requirements in IAS 1 for the public sector context

5.4.13 For the public sector, the flexibility provided in IAS 1 to select the order of presentation of line items on the statement of financial position and to present on a liquidity basis is withdrawn. To ensure consistency and comparability, reporting entities should prepare their statements of financial position in accordance with the format shown below, with additional line disclosure as necessary so as properly to reflect the entity's financial position, capital and reserves. Additionally, the statement of financial position for a departmental group shall include columns for the core department, the core department and agencies, and the consolidated group (usually

core department, agencies and NDPBs). Where a reporting entity wishes to use an alternative format or to present on a liquidity basis, it should first obtain approval from the relevant authority (through the parent or sponsoring department as appropriate).

	Notes	Current Year £000	Prior Year £000
Non-current assets			
Current assets			
Total assets			
Current Liabilities			
Non-current assets plus/less Net Current Assets/Liabilities			
Non-current Liabilities			
Assets Less Liabilities			
Taxpayers' Equity			

### ***Statement of Changes in Equity***

5.4.14 IAS 1 requires entities to prepare a Statement of Changes in Equity.

#### **Interpretation of the Statement of Changes in Equity requirements in IAS 1 for the public sector**

5.4.15 All reporting entities will present a Statement of Changes in Taxpayer's Equity following the format in IAS 1. Entities funded from Vote or grant-in-aid will need to adapt the format to accommodate this funding. Department Yellow, NDPB Green and Agency Pink proforma financial statements provide illustrative examples.

### ***Comparative information***

5.4.16 IAS 1 provides guidance on the comparative information to be disclosed in the financial statements.

#### **Interpretation of the comparative information requirements in IAS 1 for the public sector context**

5.4.17 The IAS 1 comparative information requirements should be applied in full except that reporting entities should note that a decision on whether to include corresponding amounts in disclosures specific to government departments and agencies (for example, in relation to information on the *Statement of Parliamentary Supply*) will be taken on a case-by-case basis and will be shown in *Department Yellow*. Additionally, the statement of changes in equity for a departmental group shall include columns for the core department, the core department and agencies, and the consolidated group (usually core department, agencies and NDPBs).

## Capital

### Interpretation of the capital disclosures requirements in IAS 1 for the public sector context

5.4.18 The financing of public sector entities is ultimately tax-based and an IAS 1-based notion of capital does not apply to many of them. Capital disclosures should be given only with the agreement of the relevant authority (through the parent or sponsoring department where appropriate).

## IAS 7 Statement of Cash Flows

### Applicability

5.4.19 IAS 7 applies in full to all reporting entities covered by the requirements of this Manual.

### Objective of IAS 7

5.4.20 The objective of IAS 7 is to require the provision of information about the historical change in cash and cash equivalents of an entity by means of a statement of cash flows that classifies cash flows during the period from operating, investing and financing activities.

### Other requirements

5.4.21 The following requirements should be observed by the departments referred to in paragraph 5.1.4 (and, where appropriate, their executive agencies):

- a) departments should follow the format of the statement of cash flows in IAS 7 but should include at the foot of the statement those cash flows with the Consolidated Fund in the format shown below:

	Current year £000	Prior year £000
<b>Note</b>		
<b>Cash and cash equivalents at 31 March before adjustments for receipts due to/payments from the Consolidated Fund</b>		
Receipts due to the Consolidated Fund which are outside the scope of the Department's activities		<i>Cash received during the year in relation to CFER income that does not pass through the Statement of Comprehensive Net Expenditure.</i>
Payments of amounts due to the Consolidated Fund		<i>Cash paid over to the Consolidated Fund under any category.</i>
<b>Cash and cash equivalents at 31 March</b>		

- b) in reconciling the operating cost to operating cash flows, departments should exclude movements in debtors and creditors relating to items that do not pass through the Statement of Comprehensive Net Expenditure (balances with the

Consolidated Fund; and debtors and creditors linked to loans from the National Loans Fund, capital expenditure, finance leases and PFI contracts);

- c) the notes to the statement of cash flows should be placed within the notes to the accounts, and not on the face of the Statement of Cash Flows;
- d) in analysing capital expenditure and financial investment, departments should adjust for debtors and creditors relating to capital expenditure and those relating to loans issued to or repaid by other bodies; and
- e) in analysing financing, departments should adjust for debtors and creditors relating to the capital expenditure in respect of finance leases and on-balance sheet PFI contracts.

## IAS 10 Events after the Reporting Period

### *Applicability*

5.4.22 IAS 10 applies, as interpreted, to all reporting entities covered by the requirements of this Manual.

### *Objectives of IAS 10*

5.4.23 The objectives of IAS 10 are to prescribe when an entity should adjust its financial statements for events after the reporting period and what disclosures should be given about events after the reporting period, and to require disclosure of the date when the financial statements are authorised.

### *Interpretations of IAS 10 for the public sector context*

5.4.24 The following interpretations of IAS 10 for the public sector context apply:

- a) Public Dividend Capital is not a financial instrument within the meaning of IAS 32 *Financial Instruments: Presentation*. Unpaid dividends in respect of Public Dividend Capital shall continue to be recognised as liabilities at the reporting period; and
- b) the date of the Accounting Officer's authorisation for issue of the financial statements of the reporting entities covered by this Manual is normally the same as the date of the Certificate and Report of the Comptroller and Auditor General. The date of authorisation for issue must be included in the Annual Report and Accounts, but not on the title page. The statement should read

"The Accounting Officer authorised these financial statements for issue on [insert date of issue]."

## IFRS 8 Operating Segments

### *Applicability*

5.4.25 IFRS 8 applies in full to all reporting entities covered by the requirements of this manual.

5.4.26 The Scottish Government will follow IFRS 8 except that, as noted in 5.1.6, its accounts will follow the format as agreed between Scottish Ministers and the Public Audit Committee of the Scottish Parliament.

### ***Objectives of IFRS 8***

5.4.27 The objective of IFRS 8 is to require an entity to disclose information to enable users of its financial statements to evaluate the nature and financial effects of the business activities in which it engages and the economic environment in which it operates.

### ***Fees and charges information to be provided by departments, executive agencies, non-departmental public bodies and trading funds for fees and charges raised under legislation enacted by the UK Parliament or as determined by the relevant authorities***

5.4.28 Departments, executive agencies that are not whole departments, NDPBs and trading funds should provide in their financial statements an analysis of the services for which a fee is charged, with a statement that the information is provided for fees and charges purposes, not for IFRS 8 purposes. Where they do not produce separate accounts (for example, advisory or tribunal NDPBs), entities should arrange for the analysis to be published in the accounts of the responsible department, with a note stating the name of the entity to which the analysis applies. The analysis should include the following information for each service where the full cost is over £1 million or more or is otherwise material in the context of the financial statements:

- a) the financial objective;
- b) full cost;
- c) income;
- d) surplus or deficit; and
- e) performance against the financial objective.

5.4.29 Public Sector Information Holders should also include a statement that [name of entity] has complied with the cost allocation and charging requirements set out in HM Treasury and Office of Public Sector Information guidance.

5.4.30 In the case of Westminster departments and other entities, the Treasury Officer of Accounts team should be consulted where a reporting entity seeks an exemption from the FReM requirements on the grounds of commercial sensitivity.

### ***Fees and charges information to be provided by departments, executive agencies, non-departmental public bodies and trading funds for fees and charges raised under legislation enacted by the Welsh Assembly Government, the Northern Ireland Assembly or the Scottish Parliament***

5.4.31 The Welsh Assembly Government and the Northern Ireland Executive follow the fees and charges requirements of Managing Public Money and should disclose the same information as required in paragraphs 5.4.28 and 5.4.29).

- 5.4.32 Reporting entities in Scotland should provide suitable disclosure following guidance on fees and charges issued by Scottish Government Finance.

## Notes to the accounts

- 5.4.33 IAS 1 requires that entities present a summary of accounting policies which will disclose the measurement basis used in preparing financial statements and all other accounting policies that are significant to the understanding of the financial statements. Entities should disclose key sources of estimation uncertainty and judgements made in applying accounting policies.
- 5.4.34 Further notes shall be provided as required by other IFRSs or as necessary to provide additional information that is not presented on the face of the statement of financial position, Statement of Comprehensive Net Expenditure or statement of cash flows but is relevant to provide an understanding of such statements.
- 5.4.35 The following paragraphs provide guidance on note disclosure requirements for the public sector context (but see also paragraph 5.4.3).

### ***Other administration costs and programme costs***

- 5.4.36 Entities shall analyse the total of other administration costs and programme costs, as recorded in the Statement of Comprehensive Net Expenditure, in separate notes to the financial statements. Entities shall also disclose expenditure in respect of the service charges under PFI contracts, the individual components of non-cash items, and an analysis of other significant expenditure items.

### ***Income***

- 5.4.37 In addition to the information required under paragraph 5.4.28, all reporting entities should provide an analysis of operating income, together with commentary where appropriate, that enables users of the financial statements to understand the nature of the entity's operating income.

### ***Property, Plant and Equipment***

- 5.4.38 As a minimum, entities should analyse their property, plant and equipment under the following headings, distinguishing between owned and leased assets.

***information technology*** – hardware used for processing data and communications;

***land*** – any land holdings and land underlying buildings (see below – land underlying or associated with dwellings to be separately disclosed);

***buildings excluding dwellings*** – offices, warehouses, hospitals, barracks, hangars, runways, farms and multi-storey car parks, etc. Any underlying and associated land to be disclosed separately as noted above;

***dwellings*** – buildings used entirely or primarily as residences, including any associated structures such as garages and parking areas. Any underlying and associated land, such as gardens and yards, to be separately disclosed;

**networked assets** – see 6.2.10. Underlying and associated land should be included;

**transport equipment** – equipment for moving people and/or objects, for example cars, lorries, trains, ambulances and aircraft;

**single-use military equipment (for MoD use only)** – military equipment for which there is no equivalent civilian role (for example tanks and fighter aircraft);

**plant and machinery** – plant and machinery not covered by other categories, including scientific aids and surveillance equipment;

**furniture and fittings** – office fittings, furniture, showcases, shelving etc.;

**antiques and works of art** – assets acquired for future generations, for example paintings, sculptures, recognised works of art, and antiques;

**payments on account and assets under construction** – assets currently being built and not yet in use; and

**cultivated assets** – livestock for breeding, orchards and other plantations of trees yielding repeat products.

5.4.39 Operational heritage assets, and non-operational heritage assets that are capitalised, should be included under the appropriate heading.

### **Intangible assets**

5.4.40 Entities should analyse their intangible assets under the following headings:

**information technology** – software developed in-house or by third parties (but not software licences);

**software licences** – the right to use software developed by third parties;

**websites**;

**development expenditure**;

**licences, trademarks and artistic originals** – original films, sound recordings, etc. on which performances are recorded or embodied;

**patents** – inventions that are afforded patent protection; and

**goodwill**.

### **Other current assets**

5.4.41 Entities shall analyse other current assets by type (as appropriate) as set out below:

- a) deposits and advances;
- b) other debtors;
- c) prepayments and accrued income;
- d) current part of PFI prepayment;
- e) current part of NLF loan; and
- f) amounts due from the Consolidated Fund in respect of Supply.

5.4.42 Entities shall also give an analysis of receivables and other current assets balances between:

- a) other central government bodies;
- b) local authorities;
- c) NHS bodies;
- d) public corporations and trading funds; and
- e) bodies external to government.

### ***Cash and cash equivalents***

5.4.43 Entities shall disclose the opening position, the net change in balances and the closing position separately for cash and cash equivalents. Where applicable, the closing position should be further analysed between balances held with the Government Banking Service (GBS)<sup>4</sup> and balances held in commercial banks, again distinguishing between cash and cash equivalents.

### ***Other creditors***

5.4.44 Reporting entities shall analyse other creditors by type (as appropriate) as set out below. For amounts falling due within one year:

- a) overdraft;
  - b) VAT;
  - c) other taxation and social security;
  - d) accruals and deferred income;
  - e) current part of finance leases;
  - f) current part of imputed finance lease element of on-balance sheet PFI contracts;
  - g) current part of NLF and voted loans;
  - h) amounts issued from the Consolidated Fund for Supply, but not spent at the year end;
  - i) Consolidated Fund extra receipts due to be paid to the Consolidated Fund – received;
  - j) Consolidated Fund extra receipts due to be paid to the Consolidated Fund – receivable;
  - k) other headings as appropriate; and,
- for amounts disclosed as non-current liabilities:
- l) finance leases;
  - m) imputed finance lease element of on-balance sheet PFI contracts;
  - n) NLF loans; and
  - o) other headings as appropriate.

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<sup>4</sup> Where GBS is using Citi and Royal Bank of Scotland Group to provide the banking services, funds held in these accounts should not be classed as commercial bank balances.

5.4.45 Entities shall also give an analysis of current liabilities between:

- a) other central government bodies;
- b) local authorities;
- c) NHS bodies;
- d) public corporations and trading funds;
- e) bodies external to government.

### ***Provisions for liabilities and charges***

5.4.46 In providing particulars of each provision, entities shall state:

- a) the nature of the provision;
- b) how the provision is calculated;
- c) the period over which expenditure is likely to be incurred; and
- d) the discount rate where the time value of money is significant. (Note that voluntary early retirement provisions under scheme terms are discounted at the pensions rate (see chapter 12) rather than the general provisions rate.)

### ***General Fund***

5.4.47 This paragraph applies to departments and executive agencies. The General Fund represents the total assets less liabilities of the department or agency, to the extent that the total is not represented by other reserves and financing items. Supply financing is credited to the General Fund, as is financing from the National Insurance Fund (relating to benefits expenditure) and from the Contingencies Fund. An amount equal to any expenditure on standing services (see paragraph 3.3.1) is credited to the General Fund.

### ***Transactions financed directly by the Consolidated Fund***

5.4.48 Where expenditure is funded directly by the Consolidated Fund, departments should account appropriately for the transaction where it satisfies both of the following criteria:

- a) the entity has the ability to deploy the economic resources involved; and
- b) the entity has the ability to benefit (or to suffer) from the deployment of those resources.

5.4.49 In applying the two criteria in 5.4.48, departments should have regard to the following terminology used

- a) 'deploy': the entity has the ability to determine the level of resources consumed or the nature of the associated economic benefits within the constraint that all expenditure is subject to the overriding requirements, permissions and constraints of statute or other parliamentary approval;
- b) 'economic resources': these are the resources which include expenditure and the costs of holding assets; and

- c) 'benefit or suffer': the consumption of the economic resources is intended to support the achievement of the entity's services or functions; the entity also bears the risks of inefficiencies or performance shortfalls. Two examples can be given. First, in relation to the Statement of Comprehensive Net Expenditure, judges' salaries are paid out of the Consolidated Fund as standing services. The Ministry of Justice is responsible for allocating judges to courts, and for otherwise regulating their behaviour. The work of the judges facilitates the achievement of the department's services and functions. Second, in relation to the statement of financial position, where the payments from the Consolidated Fund result in the recognition of assets, the entity should have regard to the guidance on accounting for investments – for example, in relation to public dividend capital issued from the Consolidated Fund to a trading fund within a wider departmental group.

## Reserves

- 5.4.50 This section applies to all reporting entities covered by this Manual, except where indicated.

### Income and expenditure reserve

- 5.4.51 NDPBs (with the exception of those that are charities) and trading funds should account for accumulated surpluses in an appropriately named reserve. Suitable descriptions include Income and Expenditure account, Accumulated Surpluses or General Reserve. NDPBs that are charities should follow the requirements of the Charities SORP. The note should give a detailed analysis of movements in the reserve.

### Revaluation reserve

- 5.4.52 The revaluation reserve should reflect the unrealised balance of the cumulative indexation and revaluation adjustments to assets.

### Other reserves

- 5.4.53 Entities should provide a detailed analysis of the movements in any other reserves.

## Commitments under PFI contracts

- 5.4.54 For 'off balance sheet' service concessions entities should disclose the total payments to which they are committed for each of the following periods;

Not later than one year;

Later than one year and not later than five years;

Later than five years

For 'on balance sheet' service concession arrangements entities should disclose the total commitments with their present value. Entities should also disclose the total commitment, with present values, by payment period analysed as follows;

Not later than one year;

Later than one year and not later than five years;

Later than five years

## **IAS 24 Related party disclosures**

### ***Applicability***

5.4.55 IAS 24 applies, as interpreted, to all reporting entities covered by this Manual.

### ***Objective of IAS 24***

5.4.56 The objective of IAS 24 is to ensure that an entity's financial statements contain the disclosures necessary to draw attention to the possibility that its financial position and profit or loss may have been affected by the existence of related parties and by transactions and outstanding balances with such parties.

### ***Interpretation of IAS 24 for the public sector context***

5.4.57 In applying IAS 24, entities (other than entities that are companies) should be aware of the following interpretations for the public sector context:

- a) for the purposes of IAS 24.9(a), the related party will be one of those defined in paragraph 5.2.6;
- b) charitable NDPBs may apply the general principle of exemption from related party disclosure in respect of trustees acting as agents of the charity, in accordance with the parameters contained within the Charities SORP;
- c) central government entities should give the name of the parent department (if any), a note on the main entities within government with which the entity has had dealings (no information needs to be given about these transactions), and details of material transactions between the entity and individuals who are regarded as related parties. A suggested wording is in Annex 3;
- d) the requirement to disclose the compensation paid to management, expense allowances and similar items paid in the ordinary course of an entity's operations will be satisfied by the disclosures made in the notes to the accounts and in the Remuneration Report; and
- e) in considering materiality, regard should be had to the definition in IAS 1, which requires materiality to be judged "in the surrounding circumstances". Materiality should thus be judged from the viewpoint of both the entity and the related party.

### **Third party assets**

5.4.58 Third party assets are assets for which an entity acts as custodian or trustee but in which neither the entity nor government more generally has a direct beneficial interest. Third party assets are not public assets, and should not be recorded in the

primary financial statements. Nor should third-party monies be held in public bank accounts.

- 5.4.59 In the interests of general disclosure and transparency, any third party assets should be reported by way of note. Where significant the note should differentiate between:
- a) third party monies and listed securities: the minimum level of numerical disclosure required is a statement of closing balances at financial year-end. For listed securities, this will be the total market value. Optionally, when considered significant by the entity and at its discretion, further disclosures may be made, including gross inflows and outflows in the year and the number and types of securities held;
  - b) third party physical assets and unlisted securities: disclosure may be by way of narrative note. For physical assets, the note should provide information on the asset categories involved. Such disclosure should be sufficient to give users of the financial statements an understanding of the extent to which third-party physical assets and unlisted securities are held by the entity; and
  - c) in the event that third party monies are found to have been in a public bank account at the end of an accounting year, commentary should be included in the note on cash at bank and in hand and in the disclosures above on the amount of third party monies held in the bank account.

## **Entities within the departmental boundary**

- 5.4.60 Departments to which paragraph 5.1.4 applies should disclose in a note to the accounts a list of entities within the accounting boundary, analysed between Supply financed executive agencies, NDPBs (executive and non-executive being listed under separate headings) and other entities.

### Disclosure of exit packages

- 5.4.61 Entities shall provide summary data on their use of exit packages agreed in year, and in the format proposed by the Cabinet Office.

## **5.5 Audit and publication**

- 5.5.1 This section of the chapter deals with audit and publication of entities' annual accounts.

### **Audit**

#### ***The auditor***

- 5.5.2 All entities are required to have their financial statements audited by the auditor named in the relevant legislation or other legislation or governing statute. The general presumption is that the auditor will be the Comptroller and Auditor General, the Auditor General for Wales, the Auditor General for Scotland or the Comptroller and Auditor General for Northern Ireland.
- 5.5.3 Entities should refer to the guidance on the handling of public funds and to the individual websites of the audit offices for information about the role of the auditor.

### ***The audit opinion***

- 5.5.4 The audit opinion will be in the form required by International Standard on Auditing (UK and Ireland) 700 and Practice Note 10 *Audit of central government financial statements in the United Kingdom*. The precise form of the audit opinion will depend on the results of the audit and is the responsibility of the auditor.

### ***The audit report***

- 5.5.5 Where the relevant legislation requires the auditor to report on the examination of the financial statements, the auditor will provide such a report. The form and content of the report is the responsibility of the auditor. Where the auditor has no substantive comment to make, the report will generally be in the form of a single sentence appended to the audit opinion in the form: 'I have no observations to make on these financial statements'. Where there is a substantive report, it will be referred to in the audit opinion, but will be quite separate from it.

## **Presentation to Parliament and publication**

### ***Departments and agencies under the Government Resources and Accounts Act 2000***

- 5.5.6 HM Treasury will lay before the House of Commons the resource accounts of departments (including agencies that are whole departments) under section 6(4) of the Government Resources and Accounts Act 2000. They will then be published.
- 5.5.7 Agencies that are not whole departments will lay their annual reports and accounts before the House of Commons under section 7(3)(c) of the Government Resources and Accounts Act 2000. They will then be published.

### ***Departments and agencies in Wales***

- 5.5.8 The Auditor General for Wales will lay before the National Assembly for Wales the resource accounts of the Welsh Ministers (Welsh Assembly Government) under section 131(6) of the Government of Wales Act 2006. The Auditor General for Wales will lay the resource accounts of Estyn (Her Majesty's Chief Inspector of Schools in Wales) under Schedule 6 section 6(2)(b) of the Government of Wales Act 1998. They will then be published.

### ***Departments and agencies under the Government Resources and Accounts Act (Northern Ireland) 2001***

- 5.5.9 The Department of Finance and Personnel will lay before the Northern Ireland Assembly the resource accounts of departments (including agencies which are whole departments) under section 10(4) of the Government Resources and Accounts Act (Northern Ireland) 2001.
- 5.5.10 In the case of agencies which are not whole departments, the parent department will lay before the Northern Ireland Assembly the annual report and accounts of those agencies under section 11(3)(c) of the Government Resources and Accounts Act (Northern Ireland) 2001.

5.5.11 They will then be published in each case.

### ***Accounts prepared under the Public Finance and Accountability (Scotland) Act 2000***

5.5.12 Scottish Ministers will lay before Parliament accounts prepared under the Public Finance and Accountability (Scotland) Act 2000 under section 22(5) of that Act. They will then be published.

### ***Non-departmental public bodies (Assembly Government Sponsored Bodies in Wales)***

5.5.13 The procedure for publishing and laying the accounts varies according to the provisions of the governing statute. Where the legislation requires the accounts to be laid before Parliament or where accounts are placed in the library of the House of Commons (and perhaps also the House of Lords), the accounts should be published thereafter.

### ***Non-departmental public bodies in Northern Ireland***

5.5.14 The procedure for publishing and laying the accounts varies according to the provisions of the incorporating statute. If responsibility does not lie with the Comptroller and Auditor General, the NDPB is normally required to submit the audited accounts to its sponsor department, who will arrange to lay them before the Northern Ireland Assembly. A copy should be placed in the library of the Northern Ireland Assembly.

### ***Trading funds***

5.5.15 The Comptroller and Auditor General will lay before Parliament the annual reports and accounts of trading funds under section 4(6)(b) of the Government Trading Funds Act 1973. Trading funds may then publish them.

### ***Trading Funds in Northern Ireland***

5.5.16 The Comptroller and Auditor General will lay before the Northern Ireland Assembly the annual reports and accounts of trading funds under article 8(6)(b) of the Financial Provisions (Northern Ireland) Order 1993. The annual reports and accounts will then be published.