

Return to an order of the Honourable The House of Commons, dated 11 October 2006

Accounts, of the Contingencies Fund, 2005-2006, showing (1) a balance sheet, (2) a cashflow statement and (3) notes to the account; together with the Report of the Comptroller and Auditor General thereon. (In continuation of House of Commons paper No 755 of 2005-2006.)

Contingencies Fund Account 2005-2006

Treasury Chambers }
11 October 2006 } John Healey

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Foreword

Scope of the Account

The Contingencies Fund is used to finance payments for urgent services in anticipation of Parliamentary provision for those services becoming available, and to provide funds required temporarily by government departments for necessary working balances, or to meet other temporary cash deficiencies.

HM Treasury controls access to the Fund to ensure that issues are appropriate and consistent with the requirements set out in Government Accounting. No final charge is permitted to rest on the Fund. In the case of advances in support of voted expenditure, Parliamentary authority is needed to enable sums advanced to departments to be repaid to the Fund. Wherever possible, Parliament is made aware of the intention to use the Fund and incur associated resources through a written Ministerial Statement made in advance of any issues being made.

Where practical, sums due to the Fund are recovered within the financial year. Generally, repayments of advances for voted services are provided for either in Supplementary Estimates of the same year, or, if this is not possible, in the Estimates of the following year. No interest is payable by departments on advances made from the Fund.

Categories of Advance

Section 11.6 of Government Accounting defines the categories under which advances may be made. The Treasury may use the Fund

- a to meet urgent cash requirements (other than supporting resources for new services) in excess of the net cash requirement granted in the Vote on Account;
- b to meet the cash requirement supporting resources for an urgent service which Parliament has already approved through specific enabling legislation but for which existing provision is not available;
- c to meet the cash requirement supporting resources for a new service which is urgent and, subject to the conditions set out in Government Accounting, cannot await Parliamentary approval of both the specific enabling legislation and the necessary Estimate;
- d to meet a further urgent cash requirement for existing services when provision for the total net cash requirement on the Estimate is exhausted;
- e in the case of an Estimate where expenditure is largely financed from income, advances may be made in anticipation of the receipt of cash associated with such income; and
- f in anticipation of revenue, as distinct from income receipts.

Advances in 2005-2006

In 2005-2006 the Contingencies Fund advanced £4,509 million to government departments (2004-2005: £1,569 million). The significant increase in advances over the previous year was due to an increased requirement for *category (d)* advances due to Parliament's late approval of the Spring Supplementary Estimates. The allocation of advances between the categories set out in Government Accounting was as follows:

Category	£ million
b) For urgent services	2.2
c) For new services	3.2
d) For existing services	4,454.7
e) In advance of receipt of income	23.5
f) In anticipation of tax revenue	24.9
Total	4,508.5

All but £340,000 of the issues from the Fund was recovered within the financial year (2004-2005: £367,533).

The Treasury may authorise issues out of the Fund, subject to the limit set on the capital of the Fund.

The Capital of the Fund

The permanent capital of the Fund was increased to £1,500,000 by section 52 of the Finance Act 1921. Section 3 of the Miscellaneous Financial Provisions Act 1946, as amended by the Contingencies Fund Act 1974, provides that the capital of the Fund, including the permanent capital, may be increased as necessary up to an amount equal to 2 per cent of the authorised supply expenditure for the year ending on the previous 31 March. Authorised supply expenditure is defined as the total of the sums which Acts passed before the end of the year have authorised the Treasury to issue out of the Consolidated Fund for supply services for that year.

The total supply expenditure authorised for 2004-2005 was £339,832,025,000 and accordingly the maximum capital available to the Fund in 2005-2006 was £6,796,640,500.

The claims on the Fund are kept regularly under review to ensure that issues are within the statutory maximum ceiling for the capital of the Fund. No interest is payable on capital issued to the Fund from the Consolidated Fund.

Accounts and Audit

Under the Treasury Minute of 13 May 1862 HM Treasury is required to prepare accounts for each financial year, in such form as it may direct. In accordance with the Direction issued on 7 October 2005, the Fund's accounts for 2005-2006 have been prepared on an accruals basis. As the Fund does not receive any income, nor does it incur any expenditure, no operating statement is presented as part of the accounts.

Under the Treasury Minute of 13 May 1862 the accounts are audited by the Comptroller and Auditor General (C&AG).

The Accounting Officer has taken all the steps that he ought to have taken to make himself aware of any relevant audit information and to establish that Contingencies Fund's auditors are aware of that information. So far as he is aware, there is no relevant audit information of which Contingencies Fund's auditors are unaware.

Jonathan Stephens
Accounting Officer

30 June 2006

Statement of Accounting Officer's responsibilities

Under the Treasury Minute of 13 May 1862 HM Treasury is required to prepare accounts for each financial year, in the form prescribed by the Department. In accordance with the Direction issued on 7 October 2005, the account of the Contingencies Fund is to be prepared on an accruals basis and must give a true and fair view of the state of affairs of the Fund and the cash flows for the financial year.

HM Treasury has appointed the Managing Director for the Public Services Directorate as Accounting Officer for the account, with overall responsibility for the operation of the Fund, for preparing the annual account and for transmitting this to the Comptroller and Auditor General.

In preparing the Account, the Accounting Officer is required to observe the relevant accounting and disclosure requirements, and apply suitable accounting policies on a consistent basis.

The responsibilities of an Accounting Officer, including responsibility for the propriety and regularity of the public finances for which he is answerable, and for the keeping of proper records, are set out in the Accounting Officers' Memorandum issued by HM Treasury and published in 'Government Accounting'.

Statement on Internal Control

Scope of responsibility

As Accounting Officer for the Contingencies Fund, I have responsibility for maintaining a sound system of internal control that supports the achievement of the policies, aims and objectives for the Fund, whilst safeguarding the public funds for which I am personally responsible, in accordance with the responsibilities assigned to me in Government Accounting. Once an advance has been made it is the responsibility of the receiving department to ensure that the cash is used only for the purpose(s) for which it was advanced and to make repayment at the earliest opportunity (though the Treasury will follow up outstanding repayments as necessary).

The Fund is managed generally within the framework of the Treasury's system of internal control. This framework includes resource allocation, utilisation and management of risks across the Treasury's business. In addition, there are further controls that are specific to the management of the Contingencies Fund, as detailed below.

The purpose of the system of internal control

The system of internal control is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of departmental policies, aims and objectives, to evaluate the likelihood of those risks being realised, and the impact should they be realised, and to manage them efficiently, effectively and economically. The system of internal control has been in place in the Treasury for the year ended 31 March 2006 and up to the date of approval of the annual accounts, and accords with Treasury guidance.

Within the overall departmental framework, the additional controls in place for the management of the Contingencies Fund are set out below.

Capacity to handle risk

There is a risk management strategy and clear segregation of duties within the Treasury for the management of the Contingencies Fund.

There are sufficient experienced staff in the Treasury with an appropriate range and breadth of knowledge to manage the Contingencies Fund, covering for absences as necessary. Key operational staff with responsibilities relating to the Contingencies Fund are trained to manage risk in a way appropriate to their responsibilities. They have all received training to increase their risk awareness and other relevant training is planned. Policy and procedures manuals as well as job instructions are maintained to ensure these staff carry out their responsibilities in a controlled manner.

Detailed guidance is provided for staff in the section in Government Accounting dealing with the Contingencies Fund and advising on processes. This is regularly reviewed and updated as necessary. The most recent revision was issued in May 2005.

The risk and control framework

The major risks to the proper and efficient operation of the Contingencies Fund are

- breach of the Contingencies Fund capital limit (imposed by statute and set at 2% of the previous year's approved cash Supply);
- incorrect accounting and irregularity of transactions;
- failure of IT systems;

- failure to provide an effective service in adverse circumstances, including disaster situations; and
- failure of principal counter-parties to provide agreed services.

The process through which risks are monitored and managed between the various teams in the Treasury that deal with the Fund has been reviewed to ensure that responsibility for their management is clearly identified and that the processes used are complementary.

Controls in 2005-2006

Existing internal controls to mitigate risks to the Contingencies Fund include

- separation of duties: different Teams within the Treasury carry out the authorisation, approval and payment of Contingencies Fund advances;
- an established process for consideration of requests for use of the Fund: departments seeking advances from the Fund are required to comply with procedures set out in Government Accounting. A template is used for submissions to the Accounting Officer, to help ensure that information is complete and accurate;
- use of an automated record and monitoring system: records of applications for advances are held on a central database, enabling detailed analysis of the position;
- quarterly monitoring reports to the Accounting Officer: providing regular assessment of the use of the Fund and identifying any pressures arising;
- payment authorisation process: a standard template is used for authorising advances to help ensure that all information is clearly provided; the payment destination and services, and any changes thereto, are double-checked prior to the authorisation of payments;
- authorised signatories: a list of authorised signatories for the Fund is maintained;
- reconciliation process by means of an automated confirmation of individual Contingencies Fund transactions produced by the Office of HM Paymaster General, followed by a monthly statement;
- a list of staff able to agree advances in the absence of the Accounting Officer or Estimates Clerk has been agreed and incorporated within the records;
- an internal audit of the management of the Contingencies Fund was undertaken during 2004-2005 and made a number of recommendations for improvements, which were accepted. Their implementation has further improved the control framework;
- live implementation of a new IT system to manage the financial transactions and account for receipts and payments on the Contingencies Fund; and
- a further risk workshop was held, involving staff responsible for processing transactions on the Contingencies Fund, to raise awareness of risk areas and their management.

Plans for 2006-2007

In addition to the controls mentioned above, I have plans for a further risk workshop and risk management training in the coming year. A member of EFA staff has already attended the second annual Business Continuity in the Public Sector event in April 2006 (to build on the certificate awarded to him in 2005 by APM Group (OGC) for demonstrating knowledge of the Management of Risk at Practitioner level). EFA staff are also participating in a review of business continuity arrangements for the public finances, covering inter-connections between principal business counter-parties.

Review of effectiveness

As Accounting Officer, I have responsibility for reviewing the effectiveness of the system of internal control. My review of the effectiveness of the system of internal control is informed by the work of the internal auditors and the work of staff within the department who have responsibility for the maintenance and development of the internal monitoring and control framework, and any comments made by the external auditors in their management letter and other reports. A plan to address weaknesses and ensure continuous improvement of the system is in place. In June 2004 the Treasury Audit Committee agreed to include the Contingencies Fund within its remit and has considered key aspects of my review for the 2005-2006 account.

Jonathan Stephens
Accounting Officer

30 June 2006

Certificate and Report of the Comptroller and Auditor General to the Houses of Parliament

I certify that I have audited the financial statements of the Contingencies Fund for the year ended 31 March 2006 under the Treasury Minute dated 13 May 1862. These comprise the Balance Sheet, the Cash Flow Statement and the related notes. These financial statements have been prepared under the accounting policies set out within them.

Respective responsibilities of the Accounting Officer and Auditor

The Accounting Officer is responsible for the preparation of financial statements in such form as the Treasury may prescribe. The Accounting Officer is also responsible for ensuring the regularity of financial transactions and the preparation of the Foreword and the Statement on Internal Control. These responsibilities are set out in the Statement of Accounting Officer's responsibilities.

My responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements, and with International Standards on Auditing (UK and Ireland).

I report to you my opinion as to whether the financial statements give a true and fair view and whether the financial statements have been properly prepared in the form prescribed by HM Treasury. I also report whether in all material respects the financial transactions of the Contingencies Fund conform to the authorities which govern them.

I also report to you, if in my opinion, the Foreword is not consistent with the financial statements, if proper accounting records have not been kept or if I have not received all the information and explanations I require for my audit, or if information specified by relevant authorities is not disclosed.

I review whether the statement on pages 5 to 7 reflects the Contingencies Fund's compliance with HM Treasury's guidance on the Statement on Internal Control, and I report if it does not. I am not required to consider whether the Accounting Officer's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of HM Treasury's corporate governance procedures or its risk and control procedures.

I read the other information contained in the Foreword and consider whether it is consistent with the audited financial statements. I consider the implications for my report if I become aware of any apparent misstatements or material inconsistencies with the financial statements. My responsibilities do not extend to any other information.

Basis of audit opinion

I conducted my audit in accordance with International Standards of Auditing (UK and Ireland) issued by the Auditing Practices Board. My audit includes examination, on a test basis, of evidence relevant to the amounts, disclosures and regularity of financial transactions in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Accounting Officer in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Contingencies Fund's circumstances, consistently applied and adequately disclosed.

I planned and performed my audit so as to obtain all the information and explanations which I considered necessary in order to provide me with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error and that, in all material respects, the financial transactions conform with the authorities which govern them. In forming my opinion I also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In my opinion

- the financial statements give a true and fair view, in accordance with Treasury Minute dated 13 May 1862 and directions made thereunder by HM Treasury, of the financial position of the Contingencies Fund as at 31 March 2006 and of the cash flows for the year ended 31 March 2006;
- the financial statements have been properly prepared in accordance with Treasury Minute dated 13 May 1862 and directions made thereunder by HM Treasury; and
- in all material respects, the financial transactions of the Contingencies Fund conform to the authorities which govern them.

I have no observations to make on these financial statements.

John Bourn
Comptroller and Auditor General

4 July 2006

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Balance Sheet as at 31 March 2006

	Note	31 March 2006 £m	31 March 2005 £m
Assets			
Cash at bank	3	1.5	1.5
Advances outstanding	4, 7	0.3	0.4
Total assets		1.8	1.9
Liabilities			
Sums repayable to the Consolidated Fund	4, 7	1.8	1.9
Total liabilities		1.8	1.9

The Fund does not receive any income, nor does it incur any expenditure. Accordingly, no statement of operating costs is presented.

The notes on pages 12 to 13 form part of these accounts

Jonathan Stephens
Accounting Officer
HM Treasury

30 June 2006

Cash Flow Statement

	Note	2005-2006 £m	2004-2005 £m
Receipts			
Issues from the Consolidated Fund		5,000.0	1,500.0
<i>Advances recovered from</i>			
Sundry Estimates voted by Parliament	5(a)	4,483.7	1,029.5
Revenue Departments	5(b)	24.9	540.1
		4,508.6	
		9,508.6	3,069.6
Payments			
Repayments to the Consolidated Fund		5,000.0	1,500.2
<i>Advances recoverable from</i>			
Sundry Estimates voted by Parliament	5(a), 6	4,483.7	1,029.3
Revenue Departments	5(b), 6	24.9	540.1
		4,508.6	
		9,508.6	3,069.6
(Deficit)/surplus of receipts over payments for the financial year		0	0

Notes to the Account

1 Accounting policies

On 7 October 2005 the Treasury issued a Direction that the account of the Contingencies Fund be prepared on an accruals basis. The Contingencies Fund financial statements have been prepared in accordance with applicable accounting standards and generally accepted accounting practice in so far as they are relevant to the Contingencies Fund. Accounting policies have been applied consistently throughout the year.

2 Income and expenditure

As interest is not payable on its advances, the Fund does not receive any income, nor does it incur any expenditure. Consequently, no income and expenditure statement is presented.

3 Cash at bank

A balance of £1,500,000 was held by the Paymaster General at both the start and end of financial year 2005-2006. This sum constitutes the permanent capital of the Fund, as specified by section 52 of the Finance Act 1921.

4 Advances outstanding and sums repayable to the Consolidated Fund

Advances from the Fund outstanding at the end of the financial year totalled £340,000 (2004-2005: £367,533). The Fund's permanent capital of £1,500,000 has been treated as a liability to the Consolidated Fund although in practice it is retained as a cash balance with the Paymaster General.

5 Advances and repayments

Fund advances and repayments that contributed to cash flow in 2005-2006 were as follows

	Code (see note 6)	2005-2006 Advances £	2005-2006 Repayments £
a Advances to Departmental Supply Estimates			
Office of Water Services	(e)	1,500,000	1,500,000
The Office of Gas and Electricity Markets	(e)	10,000,000	10,000,000
Postal Services Commission	(e)	4,000,000	4,000,000
Office of Rail Regulation	(e)	8,000,000	8,000,000
Department of the Environment, Food and Rural Affairs	(c)	340,000	0
Department for Culture, Media and Sport	(c)	2,902,285	3,269,818
Department for Culture, Media and Sport	(b)	2,189,756	2,189,756
Ministry of Defence	(d)	1,839,814,000	1,839,814,000
Foreign and Commonwealth Office	(d)	139,000,000	139,000,000
Office for National Statistics	(d)	13,913,000	13,913,000
Department for Work and Pensions	(d)	750,000,000	750,000,000
Department of Health	(d)	1,700,000,000	1,700,000,000
Crown Prosecution Service	(d)	12,000,000	12,000,000
		4,483,659,041	4,483,686,574
b Advances in anticipation of revenue (tax revenue) as distinct from income receipts			
HM Revenue and Customs	(f)	24,912,147	24,912,147
		24,912,147	24,912,147
Total		4,508,571,188	4,508,598,721

6 Analysis of reasons for issue of advances

The code letters shown against the advances indicate the purposes for which they were required and follow the definitions in section 11.6 of Government Accounting.

Total advances in 2005-2006 attributable to each category were

	2005-2006	2004-2005
	£	£
a to meet urgent cash requirements in excess of the net cash requirement granted in the Vote on Account	0	0
b to meet the cash requirement supporting resources for an urgent service which Parliament has already approved through specific enabling legislation but for which existing provision is not available	2,189,756	0
c to meet the cash requirement supporting resources for a new service which is urgent and cannot await Parliamentary approval of both the specific enabling legislation and the necessary Estimate	3,242,285	1,681,283
d to meet a further cash requirement for existing services when provision for the total net cash requirement on the Estimate is exhausted	4,454,727,000	50,294,225
e advances made to Estimates whose expenditure is largely financed from income, in anticipation of the receipt of cash associated with such income	23,500,000	977,300,000
f advances in anticipation of revenue (tax revenue), as distinct from income receipts	24,912,147	540,074,511
Total	<u>4,508,571,188</u>	<u>1,569,350,019</u>

7 Commitments

At 31 March 2006, commitments had been made to make advances to departments totalling £25 million in the subsequent financial year (31 March 2005: £21.5 million). These were in respect of advances, required at the start of the new financial year, to regulatory bodies which largely finance their operations from income. These advances were made under *category (e)*, as described in Note 6.

Appendix

Contingencies Fund Account

Accounts Direction given by the Treasury

This direction supersedes the requirements for a receipts and payments account set out in the Treasury Minute of 13 May 1862.

- 1 The Treasury shall prepare accounts for the Contingencies Fund for the financial year ended 31 March 2005 and subsequent financial years comprising
 - a a Foreword;
 - b a Statement of Accounting Officer's responsibilities;
 - c a Statement of Internal Control;
 - d a Balance Sheet; and
 - e a Cash Flow Statement.including such notes as may be necessary for the purposes referred to in the following paragraphs.
- 2 The accounts shall give a true and fair view of the state of affairs as at the end of the financial year, and the cash flows for the financial year.
- 3 Subject to this requirement, the accounts shall be prepared in accordance with
 - a Generally Accepted Accounting Practice in the United Kingdom (UK GAAP) to the extent that it is relevant. Any departure from UK GAAP is only permissible in the context of providing a true and fair view for this account,
 - b any other relevant guidance which the Treasury may issue from time to time in respect of accounts which are required to give a true and fair view.
- 4 This direction shall be reproduced as an appendix to the accounts.

David A Cruden FCA
Head of Central Accountancy Team, Her Majesty's Treasury

7 October 2005

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