

Return to an order of the Honourable The House of Commons, dated 8 December 2005

Accounts, of the Contingencies Fund, 2004-2005, 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 213 of 2004-2005.)

Contingencies Fund 2004-2005

Treasury Chambers }
8 December 2005 } 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 the 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 2004-2005

In 2004-2005 the Contingencies Fund advanced £1.569 billion to government departments. The allocation of advances between the categories set out in Government Accounting was as follows

Category	£ million
c For new services	1.7
d For existing services	50.3
e In advance of receipt of income	977.3
f In anticipation of tax revenue	540.1
Total	1,569.4

All but £367,533 of the issues from the Fund was recovered within the financial year (2003-2004 £554,000).

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 2003-2004 was £321,844,525,000 and accordingly the maximum capital available to the Fund in 2004-2005 was £6,436,890,500.

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 account for 2004-2005 has 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 account.

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

Jonathan Stephens
Accounting Officer
HM Treasury

21 October 2005

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, with effect from financial year 2004-2005, 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 accounts 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 Officer's Memorandum issued by HM Treasury and published in 'Government Accounting'.

Jonathan Stephens
Accounting Officer
HM Treasury

21 October 2005

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 HM Treasury for the year ended 31 March 2005 and up to the date of approval of the annual accounts, and accords with Treasury guidance.

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

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

Capacity to handle risk

There are sufficient experienced staff in HM 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. A 'Dear Accounting Officer' letter, providing further guidance on applications related to new services, was issued in November 2003.

The risk and control framework

Risk priorities for the Contingencies Fund are risks of

- breach of Contingencies Fund 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 HM 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 2004-2005

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;
- use of an automated record and monitoring system: records of applications for advances are held on a central database, enabling detailed analysis of position;
- quarterly monitoring reports to the Accounting Officer: providing regular assessment of use of the Fund and identifying any pressures arising;
- payment authorisation process: the payment destination and services, and any changes thereto, are double-checked prior to the signature of payment authorities;
- authorised signatories: a list of authorised signatories for the Fund is maintained;
- reconciliation process by means of an OPG-produced automated confirmation of individual Contingencies Fund transactions, 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;
- final acceptance testing of a new IT system to manage the financial transactions on the Contingencies Fund was undertaken in late 2004-2005. Its live implementation should improve the robustness of the arrangements for managing payments and receipts from and to the Fund, and the production of accounts;
- a risk workshop was held, involving staff responsible for processing transactions on the Contingencies Fund, to raise awareness of risk areas and their management; and
- a member of the Exchequer Funds and Accounts team underwent OGC-accredited extended training in Risk Management to strengthen the team's general capabilities in this area across all aspects of team business.

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 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 2004-2005 account.

Jonathan Stephens
Accounting Officer
HM Treasury

21 October 2005

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

I certify that I have audited the financial statements on pages 9 to 12 under the Treasury Minute dated 13 May 1862. These financial statements have been prepared under the historical cost convention and the accounting policies set out on page 11, as directed by the Treasury.

Respective responsibilities of the Accounting Officer and the Auditor

As described on page 4 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 Controls. My responsibilities, as independent auditor, are established by statute and I have regard to the standards and guidance issued by the Auditing Practices Board and the ethical guidance applicable to the auditing profession.

I report my opinion as to whether the financial statements give a true and fair view of the transactions and balances of the Contingencies Fund, whether they are properly prepared in the form prescribed by the Treasury, and whether in all material respects the Fund has been applied to the purpose intended by Parliament and conforms to the authorities which govern it. I also report, if in my opinion, the Foreword is not consistent with the financial statements, if the Accounting Officer has not kept proper accounting records, or if I have not received all the information and explanations I require for my audit.

I review whether the statement on pages 5 to 6 reflects compliance with Treasury's guidance on the Statement on Internal Control. I report if it does not meet the requirements specified by the HM Treasury, or if the statement is misleading or inconsistent with other information I am aware of from my audit of the financial statements. I am not required to consider, nor have I considered whether the Accounting Officer's Statement on Internal Control covers all risks and controls. I am also not required to form an opinion on the effectiveness of the Treasury's corporate governance procedures or its risk and control procedures.

Basis of audit opinion

I conducted my audit in accordance with United Kingdom Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts, disclosures and regularity of the transactions with investors included 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, 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 error, or by fraud or other irregularity and that, in all material respects, the transactions conform to 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 of the state of affairs of the Contingencies Fund as at 31 March 2005 and cash flows for the year then ended, and have been properly prepared in accordance with the Treasury Minute dated 13 May 1862 and directions made thereunder by the Treasury; and
- in all material respects the Contingencies Fund has been applied to the purposes intended by Parliament and the transactions conform to the authorities which govern them.

I have no observations to make on these financial statements.

John Bourn
Comptroller and Auditor General

24 November 2005

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Balance Sheet as at 31 March 2005

	Notes	31 March 2005 £m	31 March 2004 £m
Assets			
Cash at bank		1.5	1.5
Advances outstanding	4	0.4	0.6
Total assets		1.9	2.1
Liabilities			
Sums repayable to the Consolidated Fund		1.9	2.1
Total liabilities		1.9	2.1

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 11 to 12 form part of this account.

Jonathan Stephens
Accounting Officer
HM Treasury

21 October 2005

Cash Flow Statement

	Notes	2004-2005 £m	2003-2004 £m
Receipts			
Issues from the Consolidated Fund		1,500.0	3,500.0
<i>Advances recovered from</i>			
Sundry Estimates voted by Parliament	5a	1,029.5	3,227.6
Revenue Departments	5b	540.1	43.5
		1,569.6	
		3,069.6	6,771.1
Payments			
Repayments to the Consolidated Fund		1,500.2	3,499.4
<i>Advances recoverable from</i>			
Sundry Estimates voted by Parliament	5a, 6	1,029.3	3,228.2
Revenue departments	5b, 6	540.1	43.5
		1,569.4	
		3,069.6	6,771.1
(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, with effect from financial year 2004-2005, 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 2004-2005. 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 £367,533 (2003-2004: £554,000). 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 2004-2005 were as follows

	Code (see note 6)	2004-2005 Advances £	2004- 2005 Repayments £
a Advances to Departmental Supply Estimates			
Office of the Deputy Prime Minister		0	554,000
Office of the Rail Regulator	e	8,000,000	8,000,000
Department of Trade and Industry	c	500,000	500,000
The Office of Gas and Electricity Markets	e	15,000,000	15,000,000
Postal Services Commission	e	1,800,000	1,800,000
Department for Environment, Food and Rural Affairs	e	950,000,000	950,000,000
Office of Water Services	e	2,000,000	2,000,000
Department for Culture, Media and Sport	c	367,533	0
Department for Work and Pensions	c	797,000	797,000
HM Customs and Excise	c	5,000	5,000
Inland Revenue	c	11,750	11,750
Government Actuary's Department	e	500,000	500,000
House of Lords	d	50,294,225	50,294,225
		1,029,275,508	1,029,461,975
b Advances in anticipation of revenue (tax revenue) as distinct from income receipts			
Inland Revenue	f	519,178,696	519,178,696
HM Customs and Excise	f	20,895,815	20,895,815
		540,074,511	540,074,511
Total		1,569,350,019	1,569,536,486

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 2004-2005 attributable to each category were

	2004-2005	2003-2004
	£	£
a to meet urgent cash requirements in excess of the net cash requirement granted in the Vote on Account	0	251,200,000
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	0	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	1,681,283	11,980,000
d to meet a further cash requirement for existing services when provision for the total net cash requirement on the Estimate is exhausted	50,294,225	2,581,000,000
e advances made to Estimates whose expenditure is largely financed from income, in anticipation of the receipt of cash associated with such income	977,300,000	384,000,000
f advances in anticipation of revenue (tax revenue), as distinct from income receipts	540,074,511	43,542,071
Total	<u>1,569,350,019</u>	<u>3,271,722,071</u>

7 Commitments

At 31 March 2005 commitments had been made to make advances to departments totalling £21.5 million in the subsequent financial year (at 31 March 2004: £19.25 million). These were in respect of advances, required at the start of the new financial year, to regulatory bodies that largely finance their operations from income. These advances were made under category (e), as described in Note 6.

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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