

Contingencies Fund Account 2017-18

Contingencies Fund Account 2017-18

Return to an Order of the Honourable, the House of Commons, dated 28 June 2018.

That there be laid before this House an Account of the Contingencies Fund, 2017-18, showing (1) a Statement of Financial Position, (2) a Statement of Cash Flows and (3) Notes to the Accounts; together with the Certificate and Report of the Comptroller and Auditor General thereon. (In continuation of House of Commons paper No. 187 of 2017-18).

Treasury Chambers: Mel Stride
28 June 2018

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Performance report

Overview

The Overview section provides information on the purpose and activities of the Contingencies Fund and a summary of its performance.

Purpose and activities of the Contingencies Fund

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 (the Treasury) controls access to the Contingencies Fund to ensure that issues are appropriate and consistent with the requirements set out in *Managing Public Money* and *Supply Estimates: a guidance manual*. Wherever possible and required, Parliament is made aware of the intention to use the Contingencies Fund and incur associated resources through a written ministerial statement made in advance of any issues being made. During periods of recess, when an advance has to be made that requires a written ministerial statement, Parliament is informed of the advance as soon as possible after the House returns. All advances from the Contingencies Fund must be repaid. 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 Contingencies Fund.

Where practical, sums due to the Contingencies Fund are recovered within the same 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 Contingencies Fund.

The Contingencies Fund is prepared on a going concern basis as it receives its funding from the Consolidated Fund and expects to recover all advances it makes to departments. In addition the limit for the Contingencies Fund in 2018-19 was agreed prior to 31 March 2018 and advance requests were authorised before the 31 March 2018 (see note 7).

Key issues and risks

The cash requirements of the Contingencies Fund are met from the Consolidated Fund and so liquidity risk is borne by the Exchequer. The Contingencies Fund is not subject to foreign currency or interest rate risk. The Contingencies Fund's advances are solely to public sector entities which limits credit risk. Further information on the financial risks related to the Contingencies Fund can be found in note 6. Other key issues and risks facing the Contingencies Fund are considered in the governance statement on pages 7 to 11.

Performance summary

In 2017-18, the Contingencies Fund advanced £2.9 billion to government departments (2016-17: £6.3 billion). The allocation of advances is detailed in Note 5 to the accounts. All but two advances was repaid in the year. Further detail on the outstanding advances can be found in Note 4.

£2.0 billion (2016-17: £1.4 billion) of the total advances made in 2017-18 was to the Department for Environment, Food and Rural Affairs (Defra). The advances to Defra were in respect of Common Agricultural Policy (CAP) scheme payments to the Rural Payments Agency (RPA).

£680.0 million (2016-17: £850.0 million) of the total advances made in 2017-18 was to the NHS Pension Scheme in advance of pension receipts.

The Capital of the Contingencies Fund

Section 3 of the Miscellaneous Financial Provisions Act 1946, as amended by the Contingencies Fund Act 1974, provides that the capital of the Contingencies Fund, including the permanent capital of £1,500,000 (as per section 52 of the Finance Act 1921), 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 cash supply expenditure authorised for 2016-17 was £479,543,120,000 (2015-16: £474,091,620,000) and accordingly the maximum capital, including the permanent capital, available to the Contingencies Fund in 2017-18 was £9,590,862,000 (2016-17: £9,481,832,000).

The claims on the Contingencies Fund are monitored daily and kept regularly under review by the Exchequer Funds and Accounts Team in the Treasury to ensure that issues are within the statutory limit for the capital of the Contingencies Fund. No interest is payable on capital issued to the Contingencies Fund from the Consolidated Fund.

Performance analysis

Advances from the Contingencies Fund may only be authorised under specific categories. The table below shows an analysis of the issues of advances in 2017-18 against each category of advance with comparatives for 2016-17. Further information on the categories of advance can be found in section 5.14 of *Supply Estimates: a guidance manual*.

	2017-18 £m	2016-17 £m
a During the Vote on Account period, to meet urgent cash requirements (other than supporting a new service) in excess of the net cash requirement granted in the Vote on Account	0.0	101.0
b To meet the cash requirement supporting an urgent service which Parliament has already approved through specific enabling legislation but for which existing provision is not available	0.0	47.7
c To meet the cash requirement supporting a new service which is urgent and cannot await Parliamentary approval of both the specific enabling legislation and the necessary Estimate	2.3	2.4
d To meet a further urgent cash requirement for existing services when provision for the total net cash requirement on the Estimate is exhausted	129.5	3,164.5
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	2,747.0	3,015.0
Sub total	2,878.8	6,330.6
f In anticipation of revenue, as distinct from income, receipts	0.0	0.0
Total	2,878.8	6,330.6

Long-term expenditure trends

Since the function of the Contingencies Fund is 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, it has no long-term expenditure trends.

James Bowler

19 June 2018

Accounting Officer

HM Treasury

Accountability report

The accountability report contains a Corporate governance report and a Parliamentary accountability and audit report. The purpose of the corporate governance report is to explain the composition and organisation of the Contingencies Fund's governance structures and how they support the achievement of the Contingencies Fund's objectives. It includes the Statement of Accounting Officer's responsibilities and the Governance statement. The Parliamentary accountability and audit report includes key Parliamentary accountability information on regularity of expenditure and remote contingent liabilities as well as the Certificate and Report of the Comptroller and Auditor General to the House of Commons.

Corporate governance report

Operationally, the Contingencies Fund is part of HM Treasury and its staff are employees of HM Treasury. The Contingencies Fund itself therefore has no employees of its own.

Conflicts of interest

In 2017-2018, no material conflicts of interest have been noted by the senior management overseeing the Contingencies Fund.

Personal data related incidents

The Contingencies Fund does not hold any protected personal data.

Statement of Accounting Officer's responsibilities

Under the Treasury Minute of 13 May 1862, the Treasury is required to prepare accounts for each financial year in the form and on the basis set out in the Accounts Direction on page 24. In accordance with the Direction issued on 6 January 2012, the accounts of the Contingencies Fund are to be prepared in accordance with the requirements of the relevant version of the Government Financial Reporting Manual (FReM), except for the Statement of Cash Flows, which shall show only receipts and payments, and must give a true and fair view of the state of affairs of the Contingencies Fund and of its cash flows for the financial year.

In preparing the accounts the Accounting Officer is required to:

- observe the Accounts Direction issued by HM Treasury, including the relevant accounting and disclosure requirements of the FReM, and apply suitable accounting policies on a consistent basis; and
- prepare the accounts on a going concern basis.

The Treasury has appointed James Bowler, Director General Public Spending, as Accounting Officer of the Contingencies Fund.

The responsibilities of the Accounting Officer, including responsibility for the propriety and regularity of the public finances for which the Accounting Officer is answerable, and for keeping proper records, are set out in *Managing Public Money* published by the Treasury.

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

The Accounting Officer confirms that the annual report and accounts as a whole is fair, balanced and understandable and that he takes personal responsibility for the annual report and accounts and the judgments required for determining that it is fair, balanced and understandable.

Audit arrangements

The accounts are audited by the Comptroller and Auditor General (C&AG) in accordance with the Treasury Minute of 13 May 1862. The National Audit Office (NAO) bears the cost of all external audit work performed on the Contingencies Fund. During the financial year, no non-audit work was undertaken by the NAO in relation to the Contingencies Fund.

Governance statement

Governance Framework

The Contingencies Fund is managed within the Treasury's overall risk and governance framework as set out in the Treasury's Annual Report and Accounts 2017-18. This includes the Treasury Board's assessment of its compliance with the *Corporate Governance Code for Central Government Departments*. The Chancellor of the Exchequer, as Minister in charge of the Treasury, is responsible and answerable to Parliament on all the policies, decisions and actions of the Treasury, and ultimately of the Contingencies Fund.

The previous Accounting Officer, Julian Kelly, was Accounting Officer for the Contingencies Fund up to 7 May 2017. I have been Accounting Officer for the Contingencies Fund since 8 May 2017. Although I was not Accounting Officer for the Contingencies Fund for the whole period that this report covers, Julian Kelly provided me with written assurance before he left the department that there were adequate governance arrangements in place up to 7 May 2017 and that the system of internal control was effective throughout. As Accounting Officer for the Contingencies Fund, I am personally responsible and accountable to Parliament for the organisation and quality of management of the Contingencies Fund, including its use of public money and the stewardship of its assets, in line with those responsibilities assigned to me in *Managing Public Money*.

Audit and Risk Committee

The Treasury Group Audit and Risk Committee is a subcommittee of the Treasury Board, and is tasked with supporting the Permanent Secretary, as Principal Accounting Officer, and the Treasury's Additional Accounting Officers in their responsibilities for managing risk, internal control and governance related to the Treasury Group's Annual Report and Accounts, the Central Funds (Consolidated Fund, National Loans Fund, Contingencies Fund and Exchange Equalisation Account) and the Whole of Government Accounts.

Details on the overall risk and governance structure of HM Treasury can be found in the Governance Statement in the Treasury's Annual Report and Accounts.

The Permanent Secretary appoints members of the Audit and Risk Committee for periods up to three years, extendable by one additional three-year period. The Chair of the Audit and Risk Committee (Richard Meddings) reports directly to the Permanent Secretary and is also a non-executive member of the Treasury Board. The membership of the Audit and Risk Committee at the close of 2017-18 was:

- Richard Meddings (reappointed 1 July 2017 for a second term) – Non-executive Director TSB (September 2017 - present) and Chairman from 1 February 2018; Non-executive Director, Deutsche Bank AG (October 2015 - present); Non-executive Director JLT plc (September 2017 - present); Non-executive Director Teach First (February 2016 - present); Financial Reporting Review Panel in FRC (2008-2018); Board member of International Chambers of Commerce UK (2007-present); Non-executive Director, Legal & General plc (December 2014 to May 2017); Non-executive Director and Senior Independent Director of 3i Group plc (2008-2014) and chair of Audit and Risk Committee; Main Board Director (2002-2014) and Group Finance Director (2006–2014) Standard Chartered plc.
- Tim Score - Member of the Board of Trustees of Royal National Theatre; Chair of the Audit Committee of the Football Association; Non-executive director and Chair of Audit Committee at Pearson plc; Non-executive director and Chair of Audit Committee at The British Land Company plc; Chief Financial Officer of ARM Holdings plc (2002 to 2015); Senior independent director, Chair of Audit and Interim Chairman at National Express Group (2005 to 2014); CFO of Rebus Group and William Baird plc; Group Financial Controller at BTR plc and LucasVaryity plc.

- Peter Estlin – Alderman, City of London; Senior Advisor, Barclays plc, (previously Group Financial Controller and acting Group CFO); Governor, Bridewell Royal Hospital; Board Member, Trust for London; Trustee, Morden College.
- Zarin Patel – formerly Chief Operating Officer of The Grass Roots plc; previously Chief Financial Officer at the BBC and a member of its Executive Board; Non-Executive Director of John Lewis Partnership and member of its Audit and Risk Committee.
- Jacinda Humphry - Director of Government Finance Transformation – central finance function; previously Finance Director, Department for Communities and Local Government (now Ministry of Housing, Communities and Local Government).

The Audit and Risk Committee met five times during 2017-18, taking the opportunity for pre-committee discussions with the NAO on each occasion. Attendance is outlined in the table below:

	Eligible to attend	Attended
Richard Meddings (Chair)	5	5
Tim Score	5	4
Peter Estlin	5	5
Zarin Patel	5	5
Jacinda Humphry	5	2

The Audit and Risk Committee has a robust Conflicts of Interest Policy, which requires members to excuse themselves from discussions where potential conflicts may occur. Members are required to inform the Permanent Secretary about any potential conflicts and highlight these at the start of each meeting as appropriate.

In addition to the independent members, the appropriate Accounting Officers, HM Treasury's Group Director of Finance and the Treasury Accountant (or, in her absence, the Head of Exchequer Accounts or Exchequer Accounts Manager) also attend Committee meetings. Members have the opportunity for a pre-committee discussion with the NAO, Group Head of Internal Audit for HM Treasury and Head of Exchequer Funds Internal Audit.

Over the course of the year, as well as scrutinising the Treasury's financial management and balance sheet risks, the Audit and Risk Committee considered a wide range of issues relating to the department's framework of governance, risk management and control.

The Audit and Risk Committee challenged and approved the Internal Audit work programme throughout the year and followed up on management action to address audit recommendations.

Outside of the planned committee meetings individual members have shared their commercial and professional expertise with key officials across the Treasury.

The external auditor is the Comptroller and Auditor General and the NAO attend all Audit and Risk Committee meetings on his behalf.

The Audit and Risk Committee receives all NAO reports and a summary of Exchequer Funds Internal Audit (EFIA) reports relating to the Contingencies Fund.

Exchequer Funds Internal Audit

Internal Audit for the Contingencies Fund is provided by EFIA. EFIA reports directly to the Accounting Officer and the Audit and Risk Committee on audit reporting matters.

Management of the Contingencies Fund

The Estimates Clerk, with authority delegated by me, or staff with authority delegated by the Estimates Clerk in the Treasury's Public Spending Group authorise most advances from the Contingencies Fund. I approve advances considered to be novel or contentious. The Treasury's Exchequer Funds and Accounts (EFA) Team administers the account.

Detailed guidance on the purpose of and procedures relating to the Contingencies Fund, including advice on processes when dealing with the Contingencies Fund, is set out in *Managing Public Money* and *Supply Estimates: a guidance manual*.

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).

Treasury Risk management and reporting to the Treasury's Boards

The department has a sound system in place to consider the risks faced by the Treasury, challenge the assumptions made about these risks and, where appropriate, offer advice on how best to mitigate risk.

A newly formed Operating Committee (OpCo) was established this year as a sub-committee of the Executive Management Board (EMB) to oversee the financial, planning, operational and risk management issues of the Treasury including responsibility for identifying, assessing and reporting against operational risks. OpCo meets monthly and is chaired by the Second Permanent Secretary.

To strengthen the Treasury's governance and oversight across the Treasury, the department introduced a new risk management framework which covers, amongst other areas, the Contingencies Fund. The process seeks to improve the effective identification, assessment and management of operational risks, ensuring that they can be escalated as appropriate. The framework was formally introduced in November 2017 following consideration by OpCo and the Audit and Risk Committee. On a quarterly basis, a risk summary for the Contingencies Fund together with information on its governance arrangements is submitted to a central Treasury team. The risk summary looks at the likelihood, probable impact and potential mitigation of risks to delivery of objectives. The central Treasury team collate the various returns received and present their analysis to OpCo. This analysis is also fed into a Quarterly Performance and Risks report which includes a range of risks, not just operational. This report is discussed by EMB and the Treasury Board Sub-committee on a quarterly basis.

EFA also feeds a summary of key risks into a separate Quarterly Performance and Risks report return which is then discussed by EMB and the Treasury Board Sub-committee on a quarterly basis. This covers broader areas such as Cyber Risk across the entirety of EFA's operations. This enables EMB, Treasury Board Sub-committee and senior managers to take action where appropriate.

The Chair of the Audit and Risk Committee is invited to report concerns or issues to the Treasury Board (Sub-committee), and is a Non-executive member of the Treasury Board.

Contingencies Fund Risk management

Risk management is key to all Contingencies Fund processes, including business continuity resilience planning for public funds. Business continuity resilience is regularly tested locally and with business partners, and lessons learned feed into improved business continuity processes. The risk management strategy

includes periodic horizon scanning to identify any changes in risk exposure, to evaluate the change and to identify appropriate mitigating actions. Significant risk issues are recorded in a risk register and are assessed by likelihood and impact. A risk owner, who is responsible for managing the risk, is assigned to each risk. The risk register is reviewed quarterly by EFA management.

There are sufficient experienced staff in both the EFA team and the Public Spending Group with an appropriate range and breadth of knowledge to manage the Contingencies Fund, covering absences as necessary and maintaining resilience. Key operational staff with responsibilities relating to the Contingencies Fund are trained and equipped to manage risk in a way appropriate to their authority and duties. Training on risk awareness and management is provided as required, either by management or by attending appropriate courses. Training is also provided to staff to build the team's capability and to increase its resilience. EFA team members are encouraged to obtain professional qualifications in areas that are relevant to their roles.

The system of internal control

As Accounting Officer, I am responsible for maintaining a sound system of internal control that supports the achievement of the Contingencies Fund's policies, aims and objectives, whilst safeguarding the public funds and assets, for which I am personally responsible, in accordance with the responsibilities assigned to me in *Managing Public Money*.

The system of internal control is designed to manage risk to an acceptable level, balancing the impact of potential risks with the resources required to manage them, rather than eliminate all risk. 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 the Contingencies Fund's 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 throughout the year ended 31 March 2018 and up to the date of approval of the financial statements, and accords with Treasury guidance. During the year, there were no significant changes to the control environment.

Risk profile

The Contingencies Fund is managed generally within the framework of the Treasury's system of internal control. This framework includes resourcing the administration of the Contingencies Fund, security and the management of risks across the Treasury's business.

The key risks in managing the Contingencies Fund and their associated controls are:

- **Breach of the Contingencies Fund capital limit** (imposed by statute and set at two per cent of the previous year's approved cash supply): Before a payment is made from the Contingencies Fund, EFA review the outstanding advances and ensure that the capital limit will not be breached.
- **Irregularity of transactions, including fraudulent or erroneous payments:** Clear separation of duties is enforced by different teams within the Treasury carrying out the authorisation, approval and payment of Contingencies Fund advances. A robust payment authorisation process is in place, with appropriate user permissions within the banking system. Prior to the authorisation of payments, the destination and purpose of the advance, and any changes thereto, are double-checked. Up-to-date policy and procedures manuals, including job instructions, are maintained to ensure that key operational staff with responsibilities relating to the Contingencies Fund carry out their responsibilities in a controlled manner and to aid resilience. In addition, there is an established process for consideration of requests for use of the Contingencies Fund, whereby departments seeking advances from the Contingencies Fund are required to comply with procedures set out in *Managing Public Money* and *Supply Estimates: a guidance manual*.

- **Incorrect accounting:** All entries into the accounting system are entered and then approved by a separate team member. Daily bank reconciliations are carried out to ensure that all advances and repayments have been recorded in the accounting system. Also, a monthly report on the activity of the Contingencies Fund is produced. This is reviewed by the Treasury Accountant or the Head of Exchequer Accounts, and is provided to me.
- **Failure of IT systems:** The Nippon Telegraph and Telephone Corporation (NTT) data centre offers high levels of resilience with the data centre platform availability set to 99.9 per cent and the network connectivity availability set to 99.99 per cent. NTT has dual centres which provides a high level of resilience. As part of disaster recovery measures, there is an Active/Active configuration across the two data centres, which ensures a superior level of availability across both sites with near instant failover. EFA also has its own contingency plans in place.
- **Failure to provide an effective service in adverse circumstances, including disasters:** To ensure operational resilience in key areas in the event of a business continuity problem, staff within EFA and the Public Spending Group are trained to provide cover for times when other staff members are absent. Business continuity arrangements are regularly reviewed and tested within the framework of the Treasury's corporate Business Continuity Plan.
- **Failure of principal counterparties to provide agreed services:** Well-developed Service Level Agreements for the provision of services from principal counterparties are in place. They cover details of the monitoring and control arrangements that both parties are expected to observe. A monthly meeting is held with Government Banking management where service levels are discussed.
- **Information risk:** Data and information risk are managed in accordance with Treasury policies, which involve a range of controls to prevent unauthorised disclosures. These include encryption, and physical and IT security. The Treasury adheres to Cabinet Office guidelines available at <https://www.gov.uk/government/publications/security-policy-framework>. Further guidance on information security and assurance is available to all Treasury staff on the intranet. EFA's own Data Handling Policy identifies risks specific to EFA. This policy is reviewed as required.

Review of effectiveness

In line with HM Government guidance, set out within the Corporate Governance Code of Good Practice for central government departments, I have reviewed the effectiveness of the system of internal control. My review is informed by the work of EFIA who provided positive assurance as to the management and control of the Contingencies Fund in 2017-18, and the executive managers within EFA who have responsibility for the development and maintenance of the internal control framework, as well as comments made by external auditors in their management letter and other reports. I have been supported by the Treasury Group Audit and Risk Committee, and risk owners in addressing weaknesses and ensuring continuous improvement of the system is in place. Information about the effectiveness of the Treasury's overall system of governance including board effectiveness, attendance, compliance with the Corporate Governance Code and quality of management information reviewed, is reported in the Treasury's Annual Report and Accounts. The Audit and Risk Committee considered the 2017-18 accounts in draft and provided me with its views before I formally signed the accounts.

No significant internal control issues, including data related incidents, have been identified in 2017-18, and no significant new risks have been identified in the year. No ministerial directions have been given in 2017-18.

In my opinion, the system of internal control was effective throughout the financial year and remains so on the date I sign this report.

Parliamentary accountability and audit report

Regularity of expenditure

The advances of the Contingencies Fund were applied to the purposes intended by Parliament.

The above statement has been audited.

Remote contingent liabilities

The Contingencies Fund had no remote contingent liabilities as at 31 March 2018.

The above statement has been audited.

James Bowler

19 June 2018

Accounting Officer

HM Treasury

The Certificate and Report of the Comptroller and Auditor General to the House of Commons

I certify that I have audited the financial statements of the Contingencies Fund for the year ended 31 March 2018 under the Treasury Minute dated 13 May 1862. The financial statements comprise: the Statement of Financial Position, the Statement of Cash Flows and the related notes. These financial statements have been prepared under the accounting policies set out within them. I have also audited the information in the Accountability Report that is described in that report as having been audited.

In my opinion:

- the financial statements give a true and fair view of the state of the Fund's affairs as at 31 March 2018 and of the cash flows for the year then ended; and
- the financial statements have been properly prepared in accordance with the Treasury Minute dated 13 May 1862 and Treasury directions issued thereunder.

Opinion on regularity

In my opinion, in all material respects the receipts and payments recorded in the financial statements have been applied to the purposes intended by Parliament and the financial transactions recorded in the financial statements conform to the authorities which govern them.

Basis of opinions

I conducted my audit in accordance with International Standards on Auditing (ISAs) (UK) and Practice Note 10 'Audit of Financial Statements of Public Sector Entities in the United Kingdom'. My responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of my certificate. Those standards require me and my staff to comply with the Financial Reporting Council's Revised Ethical Standard 2016. I am independent of the Contingencies Fund in accordance with the ethical requirements that are relevant to my audit and the financial statements in the UK. My staff and I have fulfilled our other ethical responsibilities in accordance with these requirements. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Responsibilities of the Accounting Officer

As explained more fully in the Statement of Accounting Officer's Responsibilities, the Accounting Officer is responsible for the preparation of the financial statements in accordance with the Accounts Direction issued by the Treasury.

Auditor's responsibilities for the audit of the financial statements

My responsibility is to audit, certify and report on the financial statements in accordance with the Treasury Minute dated 13 May 1862.

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. Reasonable assurance is a high level of assurance, but is not a guarantee that an

audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs (UK), I exercise professional judgment and maintain professional scepticism throughout the audit. I also:

- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Contingencies Fund's internal control.
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Contingencies Fund's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the entity to cease to continue as a going concern.
- evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

I communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

I am required to obtain evidence sufficient to give reasonable assurance that the receipts and payments recorded in the financial statements have been applied to the purposes intended by Parliament and the financial transactions recorded in the financial statements conform to the authorities which govern them.

Other Information

The Accounting Officer is responsible for the other information. The other information comprises information included in the annual report, other than the parts of the Accountability Report disclosures

described in that report as having been audited, the financial statements and my auditor's report thereon. My opinion on the financial statements does not cover the other information and I do not express any form of assurance conclusion thereon. In connection with my audit of the financial statements, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or my knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work I have performed, I conclude that there is a material misstatement of this other information, I am required to report that fact. I have nothing to report in this regard.

Opinion on other matters

In my opinion:

- the parts of the Accountability Report to be audited have been properly prepared in accordance with the Treasury Minute dated 13 May 1862 and HM Treasury directions issued thereunder;
- in the light of the knowledge and understanding of the Contingencies Fund and its environment obtained in the course of the audit, I have not identified any material misstatements in the Performance Report or the Accountability Report; and
- the information given in Performance Report and Accountability Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which I report by exception

I have nothing to report in respect of the following matters which I report to you if, in my opinion:

- adequate accounting records have not been kept or returns adequate for my audit have not been received from branches not visited by my staff; or
- the financial statements and the parts of the Accountability Report to be audited are not in agreement with the accounting records and returns; or
- I have not received all of the information and explanations I require for my audit; or
- the Governance Statement does not reflect compliance with HM Treasury's guidance.

Report

I have no observations to make on these financial statements.

Sir Amyas C E Morse
Comptroller and Auditor General

21 June 2018

National Audit Office
157-197 Buckingham Palace Road
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London
SW1W 9SP

Statement of Financial Position as at 31 March 2018

	Note	31 March 2018 £m	31 March 2017 £m
Assets			
Current Assets			
Advances outstanding	4	2.3	0.0
Cash and cash equivalents	3	1.5	1.5
Total assets		3.8	1.5
Liabilities			
Sums repayable to the Consolidated Fund			
Current liabilities	4	2.3	0.0
Non-current liabilities	4	1.5	1.5
Total liabilities		3.8	1.5

The Contingencies Fund does not receive any income, nor does it incur any expenditure. Accordingly, no Statement of Comprehensive Net Expenditure is presented. There were no other gains or losses in the year (2016-17: none).

The notes on pages 18-23 form part of these accounts.

James Bowler

19 June 2018

Accounting Officer

HM Treasury

Statement of Cash Flows

	Note	£m	2017-18 £m	2016-17 £m
Receipts				
Issues from the Consolidated Fund			4,000.0	7,000.0
<i>Advances recovered from</i>				
Sundry Estimates voted by Parliament	5.1	2,876.5		6,330.6
Revenue Departments	5.2	0.0		0.0
			2,876.5	6,330.6
Total Receipts			6,876.5	13,330.6
Payments				
Repayments to the Consolidated Fund			(3,997.7)	(7000.0)
<i>Advances recoverable from</i>				
Sundry Estimates voted by Parliament	5.1	(2,878.8)		(6,330.6)
Revenue Departments	5.2	(0.0)		(0.0)
			(2,878.8)	(6,330.6)
Total Payments			(6,876.5)	(13,330.6)
Surplus of receipts over payments for the financial year			(0.0)	(0.0)

The notes on pages 18-23 form part of these accounts.

Notes to the accounts

1 Accounting policies

1.1 Basis of preparation

The financial statements of the Contingencies Fund have been prepared in accordance with a Direction given by HM Treasury, and the requirements of the 2017-18 Government Financial Reporting Manual (FReM). The Statement of Cash Flows, which shows receipts and payments only, is in accordance with the Accounts Direction. The current version of the FReM is based on International Financial Reporting Standards (IFRS).

The accounts have been prepared under the historical cost convention.

The Contingencies Fund receives its funding from the Consolidated Fund and expects to recover all advances it makes to departments. It is therefore appropriate to prepare the Account on a going concern basis.

There are no areas of the financial statements that are reliant on management's judgement in the process of applying the Contingencies Fund's accounting policies. There are no sources of estimation uncertainty at the balance sheet date.

The financial statements of the accounts are rounded to the nearest £0.1 million.

1.2 IFRS in issue but not yet effective

There are no IFRS in issue but not yet effective which are expected to have an impact on the financial statements of the Contingencies Fund.

1.3 Functional and presentation currency

The financial statements of the Contingencies Fund are presented in sterling, which is the Contingencies Fund's functional currency.

1.4 Financial Assets and Liabilities

All assets and liabilities are accounted for as financial assets and liabilities.

2 Income and expenditure

As interest is not receivable on its advances nor payable on its liabilities, the Contingencies Fund does not receive any income, nor does it incur any expenditure. Consequently, no Statement of Comprehensive Net Expenditure is presented.

3 Cash and cash equivalents

Cash and cash equivalents comprise a cash balance held by Government Banking. A balance of £1,500,000 was held at both the start and end of the financial year 2017-18. This is equal to the permanent capital of the Contingencies Fund, as specified by section 52 of the Finance Act 1921.

4 Advances outstanding (current assets) and sums repayable to the Consolidated Fund (current liabilities)

	Code (see Overview)	31 March 2018 £m	31 March 2017 £m
Dep for Business, Energy & Industrial Strategy	(c)	2.3	0.0
Department for Work and Pensions ¹	(c)	0.0	0.0
		<u>2.3</u>	<u>0.0</u>

¹The Department for Work and Pensions have an advance of £30,000 outstanding.

Non-current liabilities

The Contingencies Fund's permanent capital of £1,500,000 has been treated as a non-current liability to the Consolidated Fund.

5 Advances and repayments

Contingencies Fund advances and repayments that contributed to cash flow in 2017-18 were as follows:

	Code (see Overview)	2017-18 Advances £m	2017-18 Repayments £m	2016-17 Advances £m	2016-17 Repayments £m
5.1 Advances to Departmental Supply Estimates					
Cabinet Office: Civil Superannuation	(a)	0.0	0.0	100.0	100.0
Electoral Commission	(a)	0.0	0.0	1.0	1.0
Cabinet Office	(b)	0.0	0.0	42.7	42.7
HM Treasury	(b)	0.0	0.0	5.0	5.0
HM Treasury	(c)	0.0	0.0	2.4	2.4
Department for Business, Energy and Industrial Strategy	(c)	2.3	0.0	0.0	0.0
Department for Work and Pensions ¹	(c)	0.0	0.0	0.0	0.0
Armed Forces Pension and Compensation Scheme	(d)	120.0	120.0	438.2	438.2
Cabinet Office: Civil Superannuation	(d)	0.0	0.0	150.0	150.0
Department for International Development	(d)	0.0	0.0	345.8	345.8
HM Treasury	(d)	0.0	0.0	2,225.0	2,225.0
Serious Fraud Office	(d)	9.5	9.5	5.5	5.5
Department for Environment, Food and Rural Affairs	(e)	2,000.0	2,000.0	1,350.0	1,350.0
HM Procurator General	(e)	17.0	17.0	15.0	15.0
HM Treasury	(e)	0.0	0.0	750.0	750.0
NHS Pension Scheme	(e)	680.0	680.0	850.0	850.0
Office of Gas and Electricity Markets	(e)	20.0	20.0	20.0	20.0
Office of Rail and Road	(e)	25.0	25.0	25.0	25.0

Water Services Regulation Authority	(e)	5.0	5.0	5.0	5.0
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Sub total		<u>2,878.8</u>	<u>2,876.5</u>	<u>6,330.6</u>	<u>6,330.6</u>
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¹The Department for Work and Pensions received an advance of £30,000 during the year which is outstanding as at 31 March 2018 (see Note 4).

5.2 Advances in anticipation of revenue, as distinct from income, receipts

HM Revenue and Customs	(f)	0.0	0.0	0.0	0.0
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Sub total		<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>
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Grand total		<u>2,878.8</u>	<u>2,876.5</u>	<u>6,330.6</u>	<u>6,330.6</u>
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6 Financial Risks related to the Contingencies Fund

The cash requirements of the Contingencies Fund are met from the Consolidated Fund and so liquidity risk is borne by the Exchequer.

All of the transactions of the Contingencies Fund occur in sterling, and no interest is paid on issues to the Contingencies Fund from the Consolidated Fund, nor received on advances made by the Contingencies Fund. As a result, the Contingencies Fund is not subject to foreign currency or interest rate risk.

The Contingencies Fund's advances are solely to public sector entities which limits credit risk. The largest advances in 2017-18 were for advances made in anticipation of receipt of cash in cases where the expenditure is largely financed from income (category (e)).

The Vote on Account provides authority for spending on continuing services by departments in the early part of the following financial year (until the legislation authorising the Main Estimates obtains Royal Assent). Credit risk for category (a) advances is, therefore, limited since the department will seek cover in the relevant Main Estimates and once the Main Estimates has been granted Royal Assent, the Contingencies Fund is repaid.

Credit risk for category (b) advances is limited because an advance may only be made once it has been confirmed that Parliamentary approval for provision in the Estimates will be sought for new enabling legislation. Repayment to the Contingencies Fund then occurs once Royal Assent is granted to the relevant Supply and Appropriation Bill.

Credit risk for category (c) advances is also limited because an advance may only be made once the enabling legislation has received its second reading in the House of Commons. This provides assurance that the entity will obtain resource and capital cover in the Estimates to ensure repayment once Royal Assent has been granted to the enabling legislation.

Where Contingencies Fund advances are made to meet urgent cash requirements for existing services when provision on the Estimate is exhausted, category (d) advances, credit risk faced by the Contingencies Fund is limited, since once the relevant Supply and Appropriation Bill has been granted Royal Assent, the Contingencies Fund is repaid.

The Category (e) advances made to Defra in 2017-18 were repayable following receipts from the European Union (EU). However, there was a risk that the EU receipts would not be forthcoming if the EU budget for 2017-18 had not been agreed on time. In fact, as in 2016-17, the EU did make timely and adequate payments to Defra, and the advances were repaid in full.

Other category (e) advances are generally made to regulatory bodies that are expected to raise income by charging the industry that they regulate, or charge for work carried out. If, for any reason, the income was not forthcoming, an entity would also either seek a Supplementary Estimate or find savings within its existing provision to repay the Contingencies Fund.

Credit risk for category (f) advances is limited as repayments are funded through tax revenue and normally repayable on the next working day, but no later than a week at the most.

7 Commitments

	Code (see Overview)	31 March 2018 £m	31 March 2017 £m
NHS Pension Scheme	(e)	658.0	680.0
Office of Rail and Road	(e)	25.0	25.0
HM Procurator General and Treasury Solicitor	(e)	17.0	17.0
Water Services Regulation Authority	(e)	6.0	5.0
Department for Business, Energy and Industrial Strategy	(c)	4.6	0.0
Office of Gas and Electricity Markets	(e)	0.0	20.0
		710.6	747.0

2018-19 advances are reported as Commitments where they have been authorised by the 31 March 2018.

Those category (e) advances made to regulatory bodies provide short term liquidity until sufficient income is received from the industries regulated.

8 Related parties

The Treasury has a custodian role in relation to the Contingencies Fund. Therefore, as far as advances from and repayments to the Contingencies Fund are concerned, the Treasury is regarded as a related party.

During the year, there were no transactions between the Treasury and the Contingencies Fund and there was no balance outstanding at 31 March 2018 (31 March 2017: £nil).

The Contingencies Fund has transacted with a number of government departments during the year. These transactions are all disclosed in Note 5.

9 Events after the reporting period

There are no events after the reporting period to report.

10 Date of Authorisation for Issue of Accounts

The Accounting Officer authorised these financial statements for issue on 21 June 2018.

Appendix

Contingencies Fund Account

Accounts Direction given by the Treasury

1. The Treasury shall prepare accounts for the Contingencies Fund for the year ending 31 March 2012 and each subsequent financial year, that give a true and fair view of the state of affairs of the Contingencies Fund at the reporting date and of its cash flows for the year then ended.
2. The accounts shall be prepared in accordance with the requirements of the relevant version of the Government Financial Reporting Manual (FReM).
3. The statement of cash flows shall show only receipts and payments.
4. Compliance with the requirements of the FReM will, in all but exceptional circumstances, be necessary for the accounts to give a true and fair view. If, in these exceptional circumstances, compliance with the requirements of the FReM is inconsistent with the requirement to give a true and fair view, the requirements of the FReM should be departed from only to the extent necessary to give a true and fair view. In such cases, informed and unbiased judgement should be used to devise an appropriate alternative treatment which should be consistent with both the economic characteristics of the circumstances concerned and the spirit of the FReM. Any material departure from the FReM should be discussed in the first instance with the Treasury.
5. This accounts direction shall be reproduced as an appendix to the accounts.
6. This accounts direction supersedes that issued on 17 March 2010.



Chris Wobschall
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6 January 2012

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This document can be downloaded from
www.gov.uk

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