FINANCIAL REPORTING IN CENTRAL GOVERNMENT AND AGENCIES

Professional 2 examination
6 June 2000

From 10.00 am to 1.00 pm
plus ten minutes reading time from 9.50 am to 10.00 am.

Instructions to candidates

Answer ***four*** *questions in total:* ***Both*** *questions from Section* ***A*** *and* ***two*** *questions from Section* ***B****. The marks available for each question are shown in italics in the right-hand margin.*

All workings should be shown. Where calculations are required using formulae, calculators may be used but steps in the workings must be shown. Calculations with no evidence of this (for example, using the scientific functions of calculators) will receive no credit. Programmable calculators are not permitted in the examinations room.

Formula sheets, statistical tables, graph paper and cash analysis paper are available from the invigilator, where applicable.

SECTION A (Answer both questions)

1 The following information has been extracted from the accounts of the Public Services Training Agency for the 1999/00 financial year. The agency is a trading fund of the Department of Corporate Services, and provides specialised managerial and executive training courses to a number of Central Government departments and Non Departmental Public Bodies on a commercial hard charging basis.

The Public Services Training Agency
Trial Balance as at 31 March 2000

Category	**£000**
Fixed Assets (net book value)	68,576
Turnover	439,917
Stock at 31 March 1999	53,681
Interest payable	3,841
Interest receivable	1,327
Retained profits at 31 March 1999	17,649
Depreciation charge for year	3,397
Loans from National Loans Fund	48,020
Cost of sales adjustment	249
Consumables	44,609
Other operating charges	323,371
Staff costs	60,869
Debtors	73,148
Cash	3,359
Creditors	88,223
Revaluation reserve	31,767
Insurance provision	8,197

Additional information

(i) Assets are depreciated on a straight line basis across the following estimated useful lives. A full year's depreciation is charged in the year of acquisition.

Buildings	40 years
Furniture & fittings	10 years
Vehicles	5 years

The following information has been overlooked in the preparation of the Trial Balance:

(ii) The agency has commissioned the construction of a new multi-media training block, with office suites and delegate accommodation facilities. The construction contract involves four stages:

Stage A Purchase of land with outline planning for office/retail accommodation at a cost of £2,290,000 on 8 August 1999;

Stage B The construction of a two-storey combined office accommodation/residential block, with ten seminar/conference rooms, car-parking facilities, and restaurant, at a cost of £920,000;

Stage C The construction of three multi-media lecture theatres with syndicate rooms at a cost of £90,000; and

Stage D The construction of a fitness suite and outdoor playing areas at a cost of £120,000.

The agency's architect officially signed off Stage B as complete on 22 February 2000, and Stage C as complete on 28 May 2000. Stage D is scheduled for completion on 20 April 2001. Work on Stage D commenced on 13 January 2000.

(iii) The agency purchased two minibuses at a cost of £20,000 per vehicle on 12 December 1999. On 23 January 2000, the agency sold a Multi-Purpose Vehicle (MPV) which had been purchased on 18 August 1997 at a cost of £15,000. The vehicle had a written down value of £9,000, and sales proceeds amounted to £7,000. This information was overlooked in the preparation of the Trial Balance.

(iv) On 22 May 1999, the agency signed a two-year contract with a local NHS Trust to provide financial management training to the Trust's newly appointed management trainees. Eight trainees will participate in the two-year programme which commenced on 5 September 1999. Tuition and accommodation costs amount to £2,500 per quarter per trainee, payable quarterly in advance.

(v) Backlog depreciation of £138,000 should be charged.

(vi) Stocks at 31 March 2000 were valued at £48,989,000.

- **Requirement for question 1**

Prepare the following from the above information:

(a) The income and expenditure account for the Public Services Training Agency for the year ended 31 March 2000. *15*

(b) The balance sheet for the Public Services Training Agency for the year ended 31 March 2000. *10*

(25)

2

You are an accountant in the Finance Branch of the Construction Unit, an agency of the Department of Administrative Affairs. As part of the preparation of the Departmental Investment Strategy, the Chief Executive has been asked to provide the Department's Finance Director with details of the five-year capital programme for the Construction Agency. The Chief Executive is unfamiliar with the term capital programme, so has asked you to provide him with some further information.

- **Requirement for question 2**

In a note to the Chief Executive, explain the following:

(a)	Why does the agency need a capital programme?	*3*
(b)	What are the main sources of funding for capital projects?	*2*
(c)	What impact do each of these funding methods have on revenue? and	*4*
(d)	What is the Departmental Investment Strategy?	*4*

Using the information overleaf (on page 6), prepare the:

(e)	Statement of net assets for the agency for the year ended 31 March 2000; and,	*8*
(f)	Amounts to be charged to the operating account in respect of capital assets.	*4*
		(25)

Fixed assets of Construction Unit as at 1 April 1999

Asset type	Cost (£000)	Cumulative depreciation at 1 April 1999 (£000)	Estimated useful life (years)
Land	875	N/A	Infinite
Buildings	2,500	500	50
Plant & machinery	375	278	10
Vehicles	35	25	5

The following transactions took place during the financial year:

1 On 28 June 1999, the agency purchased a landrover at a cost of £25,000.

2 On 15 August 1999, the agency auctioned three lorries. The lorries were auctioned for £9,000 each. They had been purchased on 29 March 1994 at a cost of £25,000 each. (The agency classifies lorries as plant and machinery in the agency's asset register.)

3 Depreciation is charged on a straight line basis on the revalued historical cost of the asset. A full year's depreciation is charged in the year of purchase, with no depreciation charged in the year of disposal.

4 Land and buildings have been revalued to £905,000,000 and £2,800,000 respectively.

5 Interest is chargeable on the average net fixed assets for the year at 6%.

3

SECTION B (Answer two questions)

You are the Project Manager responsible for the introduction of a new management accounting and information system to the Department of Urban Affairs. The Department has recently reorganised from a highly centralised structure to a decentralised structure with ten regional offices, each having delegated financial management responsibilities. Budgets will follow this decentralised structure, with devolved budgets becoming the responsibility of the ten regional Finance Managers.

In preparation for the changes to the budgetary arrangements, you will deliver a one day training workshop for the ten Finance Managers. The workshop will cover the basic principles of budgetary control.

- **Requirement for question 3**

Prepare speaking notes for the workshop which address the following areas:

(a) Key principles of budgetary control; *4*

(b) The budgetary control process; *4*

(c) The advantages and disadvantages of devolved budgets; and *3*

(d) The benefits to the organisation of an effective budgetary control system. *2*

Using the information given overleaf (on pages 8 and 9):

(e) Prepare the revised budget statement for month 10; *4*

(f) Comment on the financial position of Region 3; and *4*

(g) Suggest possible improvements to the budgetary control process for the Department of Urban Affairs. *4*

(25)

Department of Urban Affairs
Budgetary report for Region 3 – Month 10 of year ended 31 March 2000

Expense type	Annual budget (£000)	Year to date budget (£000)	Cumulative actual outturn (£000)	Year to date variance (£000)	Annual budget available (£000)
Staff costs					
Salaries	6,000	5,000	5,800	800	200
Travel & subsistence	18	15	11	(4)	7
Total staff costs	**6,018**	**5,015**	**5,811**	**796**	**207**
Running costs					
Heat, light and power	270	225	220	(5)	50
Rent & rates	540	450	450	0	90
Postage	120	100	94	(6)	26
Telecoms	300	250	220	(30)	80
Promotional activities	150	125	136	11	14
Hospitality	6	5	2	(3)	4
Consultancy	420	350	480	130	(60)
Corporate overheads	48	40	40	0	8
Total running costs	**1,854**	**1,545**	**1,642**	**97**	**212**
Total spend for Region	**7,872**	**6,560**	**7,453**	**893**	**419**

The budget statement has been prepared for the Finance Manager for Region 3 of the Department. The statement shows the actual outturn position for the Region as at 31 January 2000. The Department's budget statement is prepared on an accruals basis, with the annual budget profiled evenly across the year. The budget statement does not reflect the following:

1 Region 3 recruited ten additional administrative staff on a casual basis for a period of six months from 1 November 1999 to assist with the processing of a backlog of urban regeneration grants. The casual staff will be paid in accordance with the annual salary rate for an administrative officer of £12,000.

2 The costs of a two-day conference to promote financial assistance available to small and medium sized enterprises in the region have been charged in error to Region 6. The conference took place in September 1999, and total costs amounted to £8,000. Conference costs should be charged to Promotional Activities.

3 The Finance Director has been advised of the Region's share of the Department's telecom costs for quarter ended 31 December 1999. Total telecom costs for the Department are apportioned on a pro-rata basis on the basis of telecom points per Region. Regions are advised of the cost quarterly in arrears. Telecom costs for Region 3 for quarter ended 31 December 1999 amounted to £108,000.

4 Region 3 is in the final stages of a Private Finance deal for the construction of a business start-up advice centre. Protracted contract negotiations have resulted in the anticipated date of contract signing, which had been scheduled for 1 April 2000, being delayed until 1 June 2000. A further invoice for legal consultancy costs of £45,000 was received on 23 January 2000. Estimated consultancy costs for the quarter ended 31 March 2000 are £17,000.

5 The budget does not reflect a reduction of £9,000 from the running cost budget for the year, representing the amount surrendered as part of December monitoring. The amount surrendered will be made up of £6,000 from the promotional activities and £3,000 from the hospitality budgets.

4

You are the Finance Director of the Statistical Publications Agency (SPA), an executive agency of the Department of Administration. Your Chief Executive has received the following letter from the Chair of SPA Ministerial Advisory Board.

Penelope Pitstop (Miss)
Chair
SPA Ministerial Advisory Board
Statsfordshire

Peter Perfect
Chief Executive
Statistical Publications Agency
Statsfordshire

30 April 1999

Dear Mr Perfect

New SPA Headquarters – Proposed PFI Contract

At the recent meeting of the SPA Ministerial Advisory Board, your Capital Projects Director, Dick Dastardly, outlined details of the agency's proposed Private Finance solution to the construction of the agency's new headquarters building. While I am generally aware of the use of private finance, or PFI, for such deals, my colleagues and I were somewhat confused by details of the accounting requirements and constraints outlined by Mr Dastardly. I would be grateful if you would provide some clarification on the points outlined below.

What are the perceived benefits of a PFI solution to a construction project such as this, as opposed to the traditional method of funding Central Government capital projects?

Mr Dastardly referred to the impact of FRS5 on the accounting treatment to be applied to the deal. What do these initials represent, and what specifically is FRS5?

I am not an accountant, and so confess to being somewhat perplexed by Mr Dastardly's reference to the "resultant asset being on or off balance sheet". What is a balance sheet, what does he mean by "resultant asset", and what is the significance of the deal being on or off the said balance sheet?

Mr Dastardly's summed up by saying that the ultimate test would be whether sufficient "PE cover existed for the deal to proceed under Resource Budgeting rules". I would be grateful if you would explain the terms PE cover and Resource Budgeting.

Yours sincerely,

Penelope Pitstop

P Pitstop (Miss)
Chair of SPA Ministerial Advisory Board

- **Requirement for question 4**

Draft a response from your Chief Executive, which addresses each of the queries raised in Miss Pitstop's letter. *(25)*

5

Devolution in Scotland, Wales and Northern Ireland has made it more difficult to assess the relative performance of Central Government departments and agencies in terms of "UK Plc".

- **Requirement for question 5**

Comment on the above statement, focusing specifically on:

(a) What formal mechanisms currently exist to measure the performance of Government departments and agencies? *8*

(b) What processes can be used to measure performance across the UK, and why is this necessary? *11*

(c) What are the inherent difficulties of performance measurement in Central Government? *6*

(25)