

**Health Professions Council  
Finance and Resources Committee Meeting –22<sup>nd</sup> June 2006**

**MARCH 2006 MANAGEMENT ACCOUNTS - PUBLIC PAPER**

**Executive Summary and Recommendations**

**1. Introduction**

**2. Decision**

The Council/Committee is requested to note the document. No decision is required.

**3. Background information**

Since the Committee last met in April, the onsite component of the Baker Tilly audit has been completed. Several issues have arisen delaying the expected delivery of the draft and signed final Statutory Accounts in their entirety. The most significant of these are firstly, the production of a set of company financial statements for the property subsidiary company 22/26 Stannary St Ltd acquired on 31<sup>st</sup> May 2005 and secondly, the H.M. Treasury requirement for re-formatting and additional disclosures of the HPC Financial Statements under new Non Departmental Public Body (NDPB) guidelines. Production of the Consolidated HPC Financial Statements is dependant on producing the subsidiary company statements to include in the consolidation.

During the recent audit of the subsidiary company, Baker Tilly requested a current existing use valuation (EUV) of the assets purchased to objectively determine the occurrence and magnitude of any asset impairment adjustment to the reserves, being the difference between what was paid on acquisition and what the assets are worth. In response, we commissioned Drivers Jonas, Chartered Surveyors to quickly perform a current property valuation (land and buildings separately) for both 22/26 Stannary St and for the overall premises (184 Kennington Park Rd, 20 Stannary St and 22-26 Stannary St). The results of the valuation included an existing use valuation for 22/26 Stannary St Ltd of £750,000 and £3,000,000 for the overall premises.

Apart from the property valuation and recognition of any asset impairment, there are also outstanding issues to resolve as follows:

- confirm with Baker Tilly what final Management Accounts of Purbrook and Eyres Ltd to use for pre-purchase asset and liability valuation (Purbrooks Ltd inform us no Management Accounts for April and May 2005 were ever produced prior to sale),
- confirm with NAO that disclosures in the “Reporting Statement Operating and Financial Review” meet the H.M Treasury reporting requirements per their letter to Non Departmental Public Bodies, dated 23<sup>rd</sup> March 2006 (see attached).

At the time of writing, the Audit Committee have yet to meet to review the amended figures and formats hence the March Management Accounts are not included in this paper, as the figures are still potentially subject to change. In order to provide timely financial information, as a “work-around”, we will endeavour to table the March 06 Management Accounts as a further paper to the Committee on the 22<sup>nd</sup> June.

Finally, an overview of the Annual Reporting diagram showing the various processes and their relationships is attached.

#### **4. Resource implications**

Nil

#### **5. Financial implications**

Nil

#### **6. Background papers**

- H.M Treasury “Inclusion of a Management Commentary in Accounts for 2005-06” dated 23 March 2006 (sent to HPC by NAO on 10<sup>th</sup> May)
- Annual Reporting Diagram

#### **7. Appendices**

Nil

#### **8. Date of paper**

8<sup>th</sup> June 2006



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23 March 2006

RABIG (2006)03

*Dear Member*

## **INCLUSION OF A MANAGEMENT COMMENTARY IN ACCOUNTS FOR 2005-06**

**This RABIG letter notes that, at its meeting on 20 March 2006, the FRAB agreed that accounts for 2005-06 onwards prepared by departments and other entities falling within the scope of the *Government Financial Reporting Manual* (“FReM”) should prepare a Management Commentary the content of which is based on the recommendations of the ASB’s Reporting Statement *Operating and Financial Review*.**

### ***Background***

1. Paragraph 7.2.2 (b) of the FReM ([www.financial-reporting.gov.uk](http://www.financial-reporting.gov.uk)) currently requires the Annual Report to include a section entitled “Operating and Financial Review”. Following the repeal of the statutory requirement for quoted companies to prepare an OFR (SI 2005 No 3442), departments and other entities have sought guidance on the arrangements which should apply to their accounts for 2005-06.

2. As the ASB’s Reporting Statement *Operating and Financial Review* is a statement of best practice, we put to the FRAB a proposal that departments and other entities falling within the scope of the FReM should continue to prepare a management commentary along the lines of the recommendations of the Reporting Statement. The FRAB agreed to this proposal and, after debate on the appropriate name for the commentary, settled on “Management Commentary”.

3. The attached annex shows the consequential changes to the FReM which will be made to the website version as soon as possible. The opportunity has also been taken to amend the FReM to refer to the Companies (Audit, Investigations and Community Enterprise) Act 2004, which introduced changes to section 234ZA of the Companies Act (relating to the content of the



Directors' Report). To paraphrase, these changes require directors (Board members in a public sector context) to confirm that there is no relevant audit information (as defined) of which the auditors are unaware, and to confirm that they have taken steps to ensure that they are aware of relevant audit information and to establish that the company's auditors are aware of the information.

Yours sincerely

*Nicholas Bailey*

**N Bailey**  
**HM Treasury, Central Accountancy Team**

**Cc Steve Lippitt, FSA**

## **PROPOSED AMENDMENTS TO CHAPTER 7 OF THE GOVERNMENT FINANCIAL REPORTING MANUAL (FReM)**

### *The annual report*

#### **Introduction**

7.2.1 This section of the chapter applies to all entities covered by the requirements of this Manual except charitable NDPBs which should follow the requirements of the Charities SORP and regulations made under Charities legislation. It provides guidance on the content of the annual report, including the Management Commentary and the remuneration report.

#### **Scope of the annual report**

7.2.2 Departments, executive agencies and trading funds shall prepare an **annual report** for inclusion as part of the accounts containing the following information:

- a) the matters to be dealt with in a Directors' Report as set out in section 234 and Schedule 7 to the Companies Act 1985 (as amended by the Companies Act 1989; SI 1996 No. 189; the Companies (Audit, Investigations and Community Enterprise Act) 2004; SI 2005 No. 1011; and SI 2005 No. 3442), as interpreted for the public sector context in paragraphs 7.2.6 - 7.2.8<sup>1</sup>. Entities should note that Part IV of Schedule 7 was repealed by SI 1996 No 189;
- b) a Management Commentary (although other descriptions are acceptable) (paragraphs 7.2.9 to 7.2.19); and
- c) a Remuneration report (paragraphs 7.2.20 to 7.2.28).

In the case of **executive agencies** and **trading funds**, the preparation of an annual report as described above will satisfy the requirement for the preparation of a Foreword (as required hitherto) and a report as required by Cm 914 *The Financing and Accountability of Next Steps Agencies* (agencies) and section 4(6A) of the Government Trading Funds Act 1973 (trading funds). There is thus no need to produce a separate report in addition to the annual report described above. The document presented to Parliament will be described as "Annual Report and Accounts".

7.2.3 **Non-departmental public bodies** (other than those that are limited companies (see 7.2.5 below) or charities (see 7.2.1 above) shall prepare an annual report as described in 7.2.2 above which will supersede the requirement to prepare a Foreword. In the case of NDPBs which already have a statutory obligation to prepare a separate report, the document described in 7.2.2 above will satisfy the requirement for the production of this separate report. The annual report as described above will be presented to Parliament with the accounts as a combined document described as "Annual Report and Accounts".

7.2.4 Where there is currently no statutory requirement for the preparation of a separate report, NDPBs will prepare an annual report as described in 7.2.2 above for inclusion in the accounts which will be described as "Annual Report and Accounts" and presented to Parliament.

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<sup>1</sup> The relevant sections of the Companies Act are:

234A – approving and signing the Directors' report; 234B – duty to prepare a remuneration report; 234C – signing the remuneration report; Schedule 7 – general requirements for a Directors' report; Schedule 7A – requirements for the remuneration report.

- 7.2.5 Companies legislation requires NDPBs which are limited companies to prepare a Directors' Report; in addition such NDPBs shall prepare an Management Commentary as described in 7.2.9 to 7.2.19.

**Interpretation of the Companies Act requirements for the public sector context**

- 7.2.6 In disclosing the matters to be dealt with in a Directors' Report, entities should note that the information about Directors' interests required by Part I and the information required by Part II of Schedule 7 is not applicable to the entities covered by the requirements of this Manual.

- 7.2.7 The requirement in section 234ZZA for the disclosure of the names of the directors during the financial year is to be interpreted to mean the disclosure of;

- a) (departments only) the ministerial titles and names of all ministers who had responsibility for the department during the year;
- b) (departments) the name of the person occupying the position of the permanent head of the department;
- c) (other entities) the names of the chairman and chief executive; and
- d) (all entities) the composition of the management board during the year.

- 7.2.8 In addition to the matters described in section 234 and Schedule 7 of the Companies Act, entities to which this Manual applies shall disclose the following information:

- a) (departments only) a description of the entities within the departmental accounting boundary;
- b) (departments only) the names of any public sector bodies outside the boundary for which the department had lead policy responsibility in the year, together with a description of their status (for example, trading fund or public corporation); and
- c) (departments only) a description of the departmental reporting cycle, including an outline of the matters covered in the spring Departmental report, in the Estimates, and in the Autumn Performance Report, and information about how readers can obtain these documents.
- d) (executive agencies which are not whole departments, trading funds and NDPBs only) a note that the accounts have been prepared under a direction issued by [relevant authority] under [reference to appropriate legislation];
- e) (executive agencies which are not whole departments, trading funds and NDPBs only) a brief history of the entity and its statutory (or equivalent) background;
- f) an indication of how pension liabilities are treated in the accounts and a reference to the statements of the relevant pension scheme. A cross-reference to the accounting policy note in the accounts and the remuneration report will normally be sufficient;
- g) details of company directorships and other significant interests held by Board members which may conflict with their management responsibilities. Where a Register of Interests that is open to the public is maintained, disclosure may be limited to how access to the information in that Register may be obtained; and

- h) information regarding the disclosure of the remuneration paid to the auditors for any non-audit work undertaken by the auditors as required by SI 1991 No 2128 *The Companies Act 1985 (Disclosure of Remuneration for Non-Audit Work) Regulations 1991* as amended by SI 1995 No 1520 *The Companies Act 1985 (Disclosure of Remuneration for Non-Audit Work)(Amendment) Regulations 1995*.

## **Management Commentary**

### **Applicability**

- 7.2.9 When preparing the Management Commentary, entities covered by this Manual shall take into consideration the recommendations outlined in the Reporting Statement *Operating and Financial Review* (“the RS”).

### **Objectives of the RS**

- 7.2.10 The objective of the RS is to specify the requirements for a management commentary, which shall be a balanced and comprehensive analysis of:
  - a) the development and performance of the business of the entity during the financial year;
  - b) the position of the entity at the end of the year;
  - c) the main trends and factors underlying the development, performance and position of the business of the entity during the financial year; and
  - d) the main trends and factors that are likely to affect the entity's future development, performance and position.

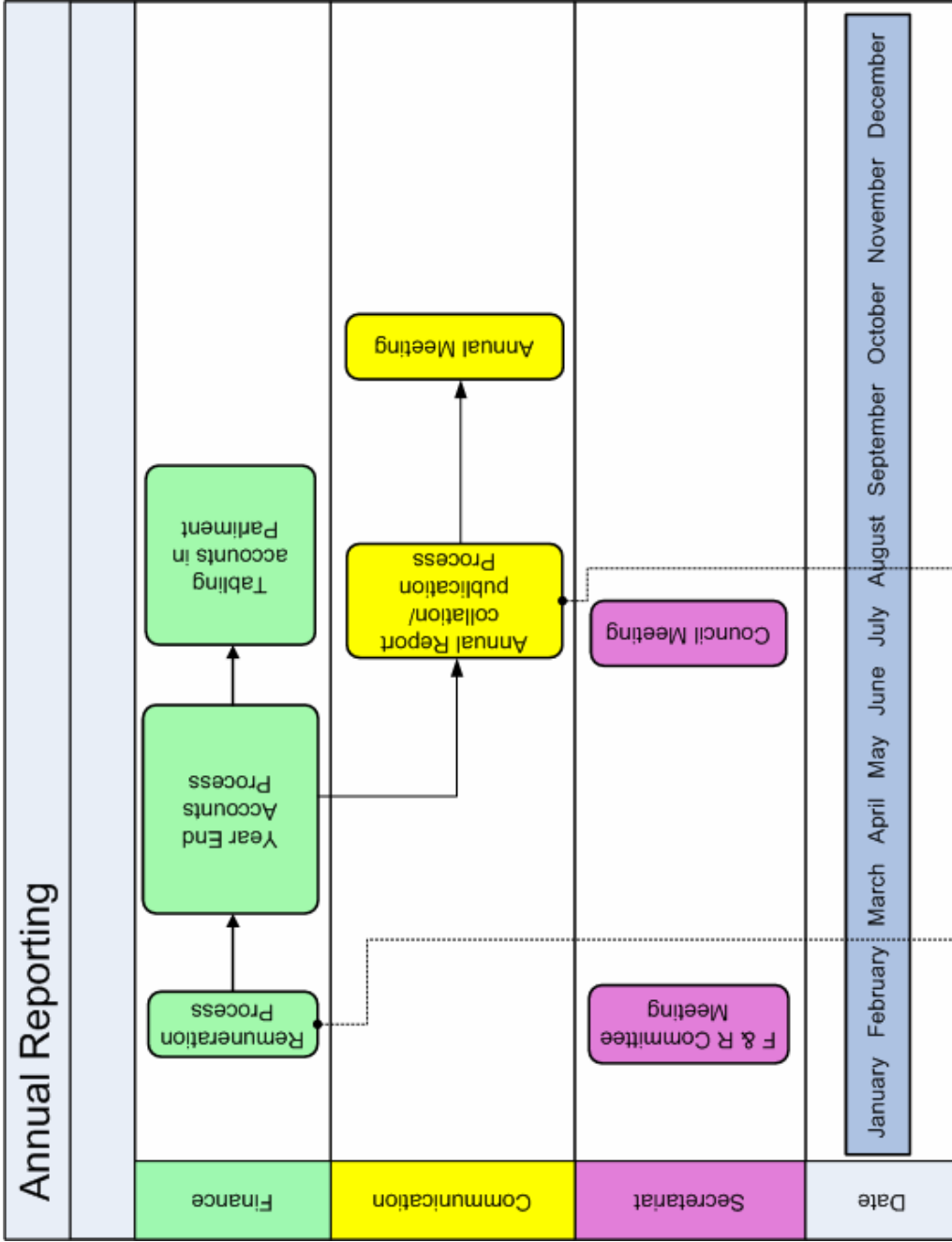
### **Interpretations of the RS for the public sector context**

- 7.2.11 Although the RS refers to an Operating and Financial Review, its recommendations should be read as applying to the Management Commentary required by paragraph 7.2.2(b) above. Following the spirit of paragraph 6 of the RS, the Management Commentary shall focus on matters that are relevant to the interests of members. In the context of the public sector, “members” shall be interpreted to be all users of the accounts.
- 7.2.12 The Management Commentary should be self-standing and be as comprehensive as possible. However, there may be cases where information is also given in other documents in the cycle of accountability to Parliament and the public such as the Autumn Performance Statement or Departmental Report. In such cases, the Management Commentary should provide summarised information with adequate cross-references to the other documents.
- 7.2.13 For departments, the Consolidated Statement of Operating Costs by Departmental Aim and Objectives and supporting notes will replace the requirement in the RS to disclose performance against key performance indicators.
- 7.2.14 Other central government entities are required to report progress against those targets agreed with the Minister and normally promulgated by means of a Parliamentary question.
- 7.2.15 Paragraphs 28(a) and (c) of the RS require the inclusion of information on, respectively, environmental matters and social and community issues. The preparation of Sustainability Reports to complement the Annual Report and Accounts is encouraged and where such a Report is already produced, the Management Commentary should cross-refer to it. Further information on the kinds of information to be provided in the Management Commentary in

respect of environmental and social and community issues can be found in the Practical Examples and Proformas section of the FreM website ([www.financial-reporting.gov.uk](http://www.financial-reporting.gov.uk)).

- 7.2.16 (Primarily for NDPBs) The Management Commentary should explain the adoption of the going concern basis of accounting where this might be called into doubt, for example where there are net significant net liabilities that will be financed from resources voted by Parliament (eg grant in aid) in the future.
- 7.2.17 As noted in the Introduction to the Implementation Guidance in the RS, the examples are illustrative and should not be taken to be a template.
- 7.2.18 In disclosing information relating to the achievement of financial targets based on a return on capital employed, relevant bodies should use the definitions of “return” and “capital employed” as agreed in their Treasury Minute or other document rather than those given in IG example 1 in the RS.
- 7.2.19 In addition to the requirements of the RS, the departments to which paragraph 7.1.2 refers should include the following information:
- a) a comparison of outturn against Estimate, with detailed explanations of the causes of significant variances where applicable;
  - b) progress in relation to Public Service Agreement targets;
  - c) where applicable, the financing implications of significant changes in the department’s objectives and activities, its investment strategy and its long-term liabilities (including significant provisions and PFI and other leasing contracts) in the light to the department’s spending review settlement; and
  - d) commentary on the department’s significant remote contingent liabilities (that is, those that are disclosed under Parliamentary reporting requirements and not under FRS12) to enable the reader to understand their nature and what steps the department is taking to minimise the risk of their crystallising.





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