

Return to an Order of the Honourable, the House of Commons, dated 15 July 2009

Accounts of the Contingencies Fund, 2008-2009, showing (1) a Balance Sheet, (2) a Cash Flow Statement 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 879 of 2007-2008.)

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## Contingencies Fund Account 2008-2009

Treasury Chambers }  
July 2009 } Stephen Timms

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ORDERED BY THE HOUSE OF COMMONS TO BE PRINTED 15 JULY 2009

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## Foreword

### Scope of the Accounts

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 Fund to ensure that issues are appropriate and consistent with the requirements set out in 'Managing Public Money' and 'Supply Estimates: A Guidance Manual', which replaced Government Accounting from 1 October 2007. All advances from the 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 Fund. Wherever possible and required, 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 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 Fund.

### Advances in 2008-2009

In 2008-2009 the Contingencies Fund advanced £10,964.1 million to government departments (2007-2008: £2,084.0 million). The allocation of advances is detailed in Note 5 to the account. Advances paid from the Contingencies Fund have increased by £8.9 billion from 2007-2008. £8.4 billion of the increase is due to advances made to the Treasury in respect of its interventions in the banking sector. Payments were made in connection with Bradford & Bingley (£4.6 billion) Kaupthing Singer & Friedlander and Heritable (£0.6 billion), Landsbanki (£3.1 billion) and London Scottish Bank plc (£0.1 billion). Further details of the Treasury's activities in connection with these banks is available on its website and will be published in its Annual Report and Accounts for 2008-2009. During the year, two other significant advances were made pending passage of the Consolidated Fund (Appropriation) Act. These were to the Department for Transport of £1.5 billion and £0.6 billion to the Ministry of Defence. Both of these advances were to assist the cash flow of the departments in connection with their normal activities.

### 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 cash supply expenditure authorised for 2007-2008 was £409,090,270,000 and accordingly the maximum capital available to the Fund at any one time in 2008-2009 was £8,181,805,400.

The claims on the Fund are kept regularly under review to ensure that issues are within the statutory limit 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 the Treasury is required to prepare accounts for each financial year in such form as it may direct. In accordance with the Direction issued on 7 October 2005, the Fund's accounts for 2008-2009 have been prepared on an accruals basis. As the Fund does not receive any income, nor does it incur any expenditure, no Operating Cost Statement is presented as part of the accounts. The Cash Flow Statement reflects the transfers undertaken in the year.

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

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

*Andrew Hudson*  
Accounting Officer  
HM Treasury

28 May 2009

## 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 prescribed by the Department. In accordance with the Direction issued on 7 October 2005, the accounts of the Contingencies Fund are 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.

The Accounting Officer of the Contingencies Fund has overall responsibility for the operation of the Fund, for preparing the annual accounts and for transmitting them to the Comptroller and Auditor General for audit. John Kingman, the Second Permanent Secretary of the Treasury and Managing Director, Public Services and Growth Directorate was Accounting Officer for the Contingencies Fund until 3 November 2008. Nicholas Macpherson, the Permanent Secretary, assumed the role of Accounting Officer from 4 November 2008 until 29 March 2009. The Treasury then appointed Andrew Hudson, Managing Director, Public Services and Growth as Accounting Officer of the Fund on 30 March 2009.

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

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

# 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 to support the achievement of the 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'. I am also obliged to conduct a review of the effectiveness of the system of internal control. This review covers all controls, including financial, operational and compliance controls and risk management. 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 Estimates Clerk, with authority delegated by the Accounting Officer, or staff with authority delegated by the Estimates Clerk in the Treasury's Government Estimates, Accounts and Reporting (GEAR) Team authorise advances from the Fund and the Treasury's Exchequer Funds and Accounts (EFA) Team administer the account.

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 purpose of the system of internal control

The system of internal control is designed to manage risk to a reasonable level rather than eliminate the risk of failure to achieve policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance against material mis-statement or loss. 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 2009 and up to the date of approval of the annual report and accounts, and accords with Treasury guidance.

## Capacity to handle risk

There are sufficient experienced staff in the Treasury with an appropriate range and breadth of knowledge to manage the Contingencies Fund, covering for absences as necessary. Key operational staff with responsibilities relating to the Contingencies Fund are trained and equipped to manage risk in a way appropriate to their authority and duties. Guidance on risk management is available to all staff on the intranet and individuals' objectives reflect the need to manage risks, particularly those related to payments, observing vires and business continuity. Business continuity resilience is regularly tested locally and with business partners, and lessons learned feed into improved business continuity processes.

Detailed guidance on the purpose and procedures relating to the Fund, including advice on processes when dealing with the Fund, is set out in 'Managing Public Money' and 'Supply Estimates: A Guidance Manual'. This guidance is regularly reviewed and updated as necessary.

## The risk and control framework

Risk management is key to all Contingencies Fund processes, including business continuity resilience planning for public funds. The risk management strategy includes periodic horizon scanning to identify any changes in risk exposure, to evaluate the change and identify appropriate mitigating actions.

The key risks and controls associated with the Contingencies Fund have not changed as a result of turbulence in financial markets.

The key risks for the Contingencies Fund are

- breach of the Contingencies Fund capital limit (imposed by statute and set at 2 per cent of the previous year's approved cash supply);
- irregularity of transactions, including fraudulent or erroneous payments;
- incorrect accounting;
- failure to provide an effective service in adverse circumstances, including disaster situations; and
- failure of principal counterparties to provide agreed services.

The controls in place for the management of the Contingencies Fund include

- policy and procedures manuals as well as 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;
- clear 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 'Managing Public Money' and 'Supply Estimates: A Guidance Manual';
- payment authorisation process: the payment destination and service, and any changes thereto, are double-checked prior to the authorisation of payments;
- business continuity arrangements that are successfully tested periodically;
- the regular review of information and data protection risk; and
- a monthly review of the activity on the Fund by the Treasury Accountant.

Responsibility for supporting me as Accounting Officer in matters relating to governance, internal control and risk management processes rests with the Exchequer Funds Audit Committee. The Exchequer Funds Audit Committee performs this role for the Accounting Officers of each of the Exchequer Funds, which are the Debt Management Account, the Public Works Loan Board, Exchange Equalisation Account, Consolidated Fund, National Loans Fund, Contingencies Fund and the transactions of the Commissioners for the Reduction of the National Debt. The Chair of the Committee reports to me on matters relating to the Contingencies Fund. Members of the Committee are appointed for periods of up to three years, extendable by no more than one additional three-year period.

The current membership of the Committee is

- Colin Price, Chair, non-executive Director of the Debt Management Office's Managing Board and formerly Global Pension Fund Adviser/Finance Director at Shell Pensions Management Services Limited;
- Brian Larkman, non-executive Director of the Debt Management Office's Managing Board and formerly Global Head of Money Markets at the Royal Bank of Scotland PLC; and
- Mark Clarke, formerly Director General (Finance and Strategy) at the Department for Business, Enterprise and Regulatory Reform.

The Exchequer Funds Audit Committee meets quarterly.

## 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 Exchequer Funds Internal Audit, who provided positive assurance as to the management and control of the Contingencies Fund in 2008-2009, 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. My review of the effectiveness of the system of internal control has also been informed by discussions with my predecessor as Accounting Officer. I have been supported by the Exchequer Funds Audit Committee and risk owners in addressing weaknesses and ensuring continuous improvement of the system is in place. The Exchequer Funds Audit Committee considered the 2008-2009 accounts in draft and provided me with its views before I formally signed the accounts. In my opinion the system of internal control was effective with no significant control issues identified in 2008-2009.

*Andrew Hudson*  
Accounting Officer  
HM Treasury

28 May 2009

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

I certify that I have audited the financial statements of the Contingencies Fund for the year ended 31 March 2009 under the Treasury Minute dated 13 May 1862. These comprise the Balance Sheet, the Cash Flow Statement and the related notes. These financial statements have been prepared under the accounting policies set out within them.

## Respective responsibilities of the Accounting Officer and Auditor

The Accounting Officer is responsible for preparing the Foreword, the Statement on Internal Control and the financial statements in accordance with the Treasury Minute dated 13 May 1862 and directions made by the Treasury, and for ensuring the regularity of financial transactions. These responsibilities are set out in the Statement of Accounting Officer's Responsibilities.

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

I report to you my opinion as to whether the financial statements give a true and fair view and whether the financial statements have been properly prepared in accordance with the Treasury Minute dated 13 May 1862 and directions made by the Treasury. I report to you whether, in my opinion, the information included in the Foreword is consistent with the financial statements. I also report whether in all material respects the financial transactions of the Contingencies Fund conform to the authorities which govern them.

In addition, I report to you if proper accounting records have not been kept or if I have not received all the information and explanations I require for my audit, or if other information specified by the Treasury is not disclosed.

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

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

## Basis of audit opinion

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

I planned and performed my audit so as to obtain all the information and explanations which I considered necessary in order to provide me with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error, and that in all material respects the financial transactions have been applied to the purposes intended by Parliament and 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.

## Opinions

### **Audit opinion**

In my opinion

- the financial statements give a true and fair view, in accordance with the Treasury Minute dated 13 May 1862 and directions made by the Treasury, of the state of affairs of the Contingencies Fund as at 31 March 2009 and of the cash flows for the year ended 31 March 2009;
- the financial statements have been properly prepared in accordance with the Treasury Minute dated 13 May 1862 and directions made by the Treasury; and
- information contained in the Foreword is consistent with the financial statements.

### **Audit opinion on regularity**

In my opinion, in all material respects the financial transactions of the Contingencies Fund conform to the authorities which govern them.

### **Report**

I have no observations to make on these financial statements.

*T J Burr*  
Comptroller and Auditor General

29 May 2009

National Audit Office  
151 Buckingham Palace Road  
Victoria  
London SW1W 9SS

## Balance Sheet as at 31 March 2009

	Note	<b>31 March 2009 £m</b>	31 March 2008 £m
<b>Assets</b>			
Advances outstanding	4	<b>0</b>	9.7
Cash at bank	3	<b>1.5</b>	1.5
<b>Total assets</b>		<b>1.5</b>	11.2
<b>Liabilities</b>			
Sums repayable to the Consolidated Fund	4	<b>1.5</b>	11.2
<b>Total liabilities</b>		<b>1.5</b>	11.2

The Fund does not receive any income, nor does it incur any expenditure. Accordingly, no Operating Cost Statement is presented. There were no other gains or losses in the year (2007-2008: none).

*The notes on pages 12-15 form part of these accounts.*

Andrew Hudson  
Accounting Officer  
HM Treasury

28 May 2009

## Cash Flow Statement

	Note	£m	2008-2009 £m	2007-2008 £m
<b>Receipts</b>				
Issues from the Consolidated Fund			<b>12,000.0</b>	3,000.0
<i>Advances recovered from</i>				
Sundry Estimates voted by Parliament	5(a)	<b>10,970.8</b>		1,945.4
Revenue Departments	5(b)	<b>3.0</b>		132.7
			<b>10,973.8</b>	2,078.1
<b>Total receipts</b>			<b>22,973.8</b>	5,078.1
<b>Payments</b>				
Repayments to the Consolidated Fund			<b>12,009.7</b>	2,994.1
<i>Advances recoverable from</i>				
Sundry Estimates voted by Parliament	5(a)	<b>10,961.1</b>		1,951.3
Revenue Departments	5(b)	<b>3.0</b>		132.7
			<b>10,964.1</b>	2,084.0
<b>Total payments</b>			<b>22,973.8</b>	5,078.1
Surplus of receipts over payments for the financial year			<b>0</b>	0

*The notes on pages 12-15 form part of these accounts.*

## Notes to the Accounts

### **1 Accounting policies**

On 7 October 2005 the Treasury issued a Direction that the accounts 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 UK Generally Accepted Accounting Practice (UK GAAP) 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 receivable on its advances nor payable on its liabilities, the Fund does not receive any income, nor does it incur any expenditure. Consequently, no Operating Cost Statement is presented.

### **3 Cash at bank**

A balance of £1,500,000 was held by the Government Banking Service at both the start and end of the financial year 2008-2009. This is equal to 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**

There were no advances from the Fund outstanding at the end of the financial year 2008-2009 (2007-2008: £9,742,000 comprising £3,500,000 to the Department for Transport, £1,312,000 to the Department for Work and Pensions, £930,000 to the Department for Communities and Local Government and £4,000,000 to the Department for Innovation, Universities and Skills).

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

## 5 Advances and repayments

Fund advances and repayments that contributed to cash flow in 2008-2009 were as follows

	Code (see note 6)	2008-2009 Advances £m	2008-2009 Repayments £m	2007-2008 Advances £m	2007-2008 Repayments £m
<b>(a) Advances to departmental supply estimates</b>					
Department for Transport	(b)	0	0	1,700.0	1,700.0
HM Treasury	(b)	5,200.0	5,200.0	0	0
Department for Children, Schools and Families	(c)	1.5	1.5	0	0
Department for Communities and Local Government	(c)	0	0.9	0.9	0
Department for Innovation, Universities and Skills	(c)	0	4.0	4.0	0
Department for Work and Pensions	(c)	2.4	3.7	1.3	0
Department for Transport (1)	(c)	0	3.5	0	0
HM Treasury	(c)	3,209.7	3,209.7	0	0.3
Armed Forces Pension Scheme	(d)	0	0	85.0	85.0
Department for Transport	(d)	1,500.0	1,500.0	0	0
Foreign and Commonwealth Office	(d)	0	0	125.0	125.0
Ministry Of Defence	(d)	626.6	626.6	0	0
Northern Ireland Courts Service	(d)	20.0	20.0	0	0
Northern Ireland Office	(d)	340.3	340.3	0	0
Office for Standards in Education, Children's Services and Skills	(d)	20.0	20.0	0	0
Serious Fraud Office	(d)	10.0	10.0	0	0
United Kingdom Trade and Investment	(d)	0	0	6.0	6.0
Water Services Regulation Authority	(d)	0	0	0.9	0.9
Government Actuary's Department	(e)	0.4	0.4	0	0
National School of Government	(e)	3.5	3.5	2.7	2.7
Office of Gas and Electricity Markets	(e)	10.0	10.0	10.0	10.0
Office of Rail Regulation	(e)	10.0	10.0	10.0	10.0
Postal Services Commission	(e)	3.2	3.2	3.5	3.5
Water Services Regulation Authority	(e)	3.5	3.5	2.0	2.0
		<b>10,961.1</b>	<b>10,970.8</b>	1,951.3	1,945.4
<b>(b) Advances in anticipation of revenue, as distinct from income, receipts</b>					
HM Revenue & Customs	(f)	3.0	3.0	132.7	132.7
		<b>3.0</b>	<b>3.0</b>	132.7	132.7
<b>Total</b>		<b>10,964.1</b>	<b>10,973.8</b>	2,084.0	2,078.1

1 This amount relates to an advance outstanding from 2006-07.

## 6 Analysis of reasons for issues of advances

The code letters shown against the advances indicate the purposes for which they were required and follow the definitions in section 5.13 of Supply Estimates: a guidance manual, which replaced Government Accounting from 1 October 2007.

Total advances in 2008-2009 attributable to each category were

	<b>2008-2009</b> <b>£m</b>	2007-2008 £m
a during the Vote on Account period, 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>0</b>	0
b to meet the cash requirement supporting resources for an urgent service which Parliament has already approved through specific enabling legislation but for which existing provision is not available	<b>5,200.0</b>	1,700.0
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	<b>3,213.6</b>	6.2
d to meet a further urgent cash requirement for existing services when provision for the total net cash requirement on the Estimate is exhausted	<b>2,516.9</b>	216.9
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	<b>30.6</b>	28.2
f in anticipation of revenue, as distinct from income, receipts	<b>3.0</b>	132.7
Total	<b><u>10,964.1</u></b>	<u>2,084.0</u>

## 7 Commitments

At 31 March 2009 commitments had been made to make advances to departments totalling £35.0 million in the subsequent financial year (31 March 2008: £19.1 million). This includes £34.8 million in respect of category (e) advances, required at the start of the new financial year by regulatory bodies that largely finance their operations from income.

In addition, two further commitments had been made to make advances to departments totalling £0.2 million in the subsequent financial year. These were in respect of category (c) advances required to cover cash flow needs during the passage of the Apprenticeships, Skills, Children and Learning Bill.

## 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 the Treasury was advanced two category (b) advances totalling £5.2 billion and two category (c) advances totalling £3.2 billion. All advances were repaid and there was no balance outstanding at year-end.

## 9 Date of authorisation for issue of accounts

The accounts were authorised for issue by the Accounting Officer on 29 May 2009.

# Appendix

## Contingencies Fund Account

### **Accounts direction given by the Treasury**

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

- 1 The Treasury shall prepare accounts for the Contingencies Fund for the financial year ended 31 March 2005 and subsequent financial years comprising
  - a a Foreword;
  - b a Statement of Accounting Officer's responsibilities;
  - c a Statement of Internal Control;
  - d a Balance Sheet; and
  - e a Cash Flow Statement.

including such notes as may be necessary for the purposes referred to in the following paragraphs.

- 2 The accounts shall give a true and fair view of the state of affairs as at the end of the financial year, and the cash flows for the financial year.
- 3 Subject to this requirement, the accounts shall be prepared in accordance with
  - a Generally Accepted Accounting Practice in the United Kingdom (UK GAAP) to the extent that it is relevant. Any departure from UK GAAP is only permissible in the context of providing a true and fair view for this account; and
  - 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*  
Head of Central Accountancy Team  
Her Majesty's Treasury

7 October 2005

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National Audit Office  
Press Office  
157-197 Buckingham Palace Road  
Victoria  
London  
SW1W 9SP  
Tel: 020 7798 7400  
Email: [enquiries@nao.gsi.gov.uk](mailto:enquiries@nao.gsi.gov.uk)

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