

CENTRAL GOVERNMENT
PANEL NEWSLETTER

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INTRODUCTION

Welcome to the eleventh newsletter for finance practitioners and CIPFA members working in central government. This issue contains information about forthcoming seminar and conference events, CIPFA's new professional conduct website and a new CIPFA publication, CIPFA Spectrum. There is a synopsis of a recent talk by a visiting American, David Bean, from the Government Accounting Standards Board in the US where there has also been a move to accruals accounting. There are summaries too of key sessions on financial management from a recent workshop for directors and heads of finance and of a talk by Martin Sinclair, Assistant Auditor General, National Audit Office on Enron's relevance to the public sector. Finally, there is some information about the Central Government Panel and about the Public Management and Policy Association (PMPA).

SEMINAR/CONFERENCE EVENTS ON CENTRAL GOVERNMENT FINANCE

CIPFA is planning two one-day seminar events devoted exclusively to Central Government Finance in 2003. *Current Developments in Central Government Finance* will take place on 17 July in London. The programme will cover early accounts closure, the revised Green Book, e-government services, corporate governance, financial reporting and an update session on other major accounting issues. The second seminar, in December, will be a one-day seminar '*An Introduction to Central Government Finance*.' For further detail, or to book a place, please contact Alex Aarons, email alex.aarons@cipfa.org

CIPFA's annual conference takes place in Harrogate on 10-12 June this year. As usual, the conference will cover a wide range of public sector issues. The theme this year is '*On the front line – adding value, making it work*'. Speakers will include Charles Kennedy MP, leader,

Liberal Democrats; Paul Boateng MP, Chief Secretary, HM Treasury; Neil Kinnock, vice president for administrative reform, European Commission, Ron Aldridge, executive chair, Capita Group, Plc; Nick Montagu, chair, Inland Revenue; Francesca Okosi, director of change, DEFRA; Robert Chote, director, Institute of Fiscal Studies; Mathew Taylor, director, Institute for Public Policy Research; Polly Toynbee, writer and journalist; Robert Black, auditor general for Scotland and many others. Their focus will be on posing and answering questions directed at the heart of government policy: Is investment getting through? Are reforms making a difference? Can excellence be transported? Can improvements to poor services be fast-tracked? Can failing organisations be turned round? Can auditors and inspectors really add value? In addition, there will be a challenging programme of workshops and a fringe lecture with Tony Banks MP. The detailed programme is available on the CIPFA website at www.cipfa.org.uk/conference/programme

Places for the conference are still available at the time of writing and can be booked online at www.cipfaconference.org.uk. There is a discount for organisations sending two or more delegates.

CIPFA SPECTRUM

CIPFA has launched a new publication providing policy and technical perspectives for on public services and technical issues. The publication, named 'CIPFA Spectrum', is available to all through the CIPFA website. The first edition includes a two page article by the Treasury's Head of the Whole of Government Accounts programme, Ian Carruthers, entitled *Accounting for UK plc* on the Whole of Government Accounts. There is also an in-depth round-up by Vernon Soare, CIPFA's Policy and Technical Director, of the latest developments on regulatory issues affecting the UK accountancy profession

articles. The article brings home how corporate collapses in the USA have a growing relevance to the UK accountancy profession through the increasing international convergence of the regulation of the global accountancy profession. Other articles cover government and the charity and voluntary sector, NHS foundation trust hospitals, and financial reporting developments.

ACCOUNTING STANDARD SETTING IN THE UNITED STATES

David Bean, RTA Director at America's Government Accounting Standards Board visited CIPFA recently and delivered a lecture on *Accounting Standard Setting in the USA* to CIPFA's Public Finance and Management Board. David began by spelling out the main US accounting body acronyms and setting out the relationships between them. The US has no less than three standards setters of equal standing. David assured the Board that while this might appear dysfunctional, it does work well in the US. He did, however, advise against trying such a set-up in the UK!

FASB, the Financial Accounting Standards Board, has grabbed the headlines in the US (and sometimes worldwide) press recently over corporate failures such as Enron, World Com, Adelphia and Tyco, congressional intervention, and the need for convergence with the IASB by 2005. GASB itself has not been without controversy. The main issue here though has been the change to accrual accounting. Over 2000 governments, ranging from all 50 state governments to Yankeetown, Florida, have implemented the move and the context has been one of stronger independence standards for auditors.

The basic features of the new model in the US are:

€# Retaining fund accounting statements.

€# Adding new government-wide statements: the Statement of Net Assets and the Statement of Activities.

€# It is considered to be an evolutionary rather than a step change.

The new Statement of Net Assets is a "mixed attribute" model. Investments are shown at fair value. Fixed assets are shown at historical cost or estimated historical cost (in the case of infrastructure). The driving factor behind this statement is the cost of services, what they did cost versus what they cost now.

The Statement of Activities focuses on the cost of services and the net programme cost:

€# What did it cost?

€# What programme generated revenues and restricted resources from third parties relate to that programme?

€# To what extent are programmes supported by general revenues?

Looking forward to likely future accounting developments in the US, David Bean saw an agenda comprising:

€# Financial instruments – derivatives and hedging.

€# Employee benefits – with healthcare being the last major piece of the puzzle.

€# Pollution remediation.

€# Service efforts and accomplishments for instance, financial condition indicators and experimentation with non-financial performance measures.

€# The question of public-private partnerships.

Public-Private partnerships take many forms in the US. Thus for schools there are fee for services arrangements. For sports facilities there are joint ventures where parties have equity interest. Government authorities can issue debt to construct private facilities. And private companies

construct facilities on government property for public or government use.

Current policy issues in public-private partnerships include the use of borrowing power for private purposes and the implications for debt limits and voter approval of debt when a private partner is used. Accounting issues revolve around which entity should report the asset and the debt.

In response to the current of globalisation of standard setting, GASB has a desire to work more closely with the International Federation of Accountants' Public Sector Committee. Interested readers can follow this and other developments in the GASB through the website at www.gasb.org

DIRECTORS OF FINANCE WORKSHOP

Richard Douglas, Director of Finance of the NHS, chaired a recent CIPFA Workshop for public sector Directors of Finance. Some thirty directors and heads of finance attended from a range of organisations including DfES, Inland Revenue, DFID, DEFRA, HM Treasury, the Scottish Funding Councils for Further and Higher Education, Department of Health, ODPM and the Office of Public Services Reform as well as from local authorities and the health sector.

Professor Paul Corrigan, Special Adviser to the Secretary of State for Health, led a thoughtful discussion on *Positioning the Finance Service to Support and Enable Change*. Money, he suggested, can be a tool either for or against change. He distinguished between transactional change and maintenance, where the structure of annual budgeting tends to lead to maintenance rather than change agendas, and transformational change and development. Public service organisations MUST transform if they are to survive.

Professor Corrigan set out five key requirements for a finance director to

attain transformational change and development:

- ⊘ Powerful, visionary non-money arguments for transformation.
- ⊘ A militant attack on the current year.
- ⊘ Solid financial evidence of the ruinous cost of maintenance alone.
- ⊘ Prior permissions to defend against post-factor audit.
- ⊘ Active support from the chief executive (or equivalent) and chair.

Sir Andrew Foster, Controller of the Audit Commission, led a lively debate on *Can Auditors and Inspectors Really Add Value?*

Sue Beauchamp, Director of Finance and Information Systems for the Royal Borough of Kensington and Chelsea and chair of a CIPFA Task and Finish group working to develop a model for good practice in financial management, led the next discussion on *Improving Financial Management*. She posed three questions, relevant throughout all sectors:

- ⊘ Does the financial management style support the business?
- ⊘ Is it the right style for now?
- ⊘ Where are the priorities for development?

Sue presented some preliminary results of work on a financial management model. The model, still a work in progress, is sponsored by the Financial Management Panel and arose originally out of a project undertaken by CIPFA for the Inland Revenue. It is hoped that a completed model, relevant to Central Government bodies, can be made available later in the year. Details will be made available in a later edition of the Central Government Newsletter.

NEW PROFESSIONAL CONDUCT WEBSITE

As a professional accountancy body operating under a Royal Charter, CIPFA

has an obligation to regulate the professional conduct of its members (including students) in the public interest. It is responsible for defining the professional, ie ethical and technical, standards with which Chartered Public Finance Accountants are expected to comply and to take action where an individual member's conduct falls below the standards to be expected of a professional accountant.

The principles governing CIPFA members' professional conduct are set out in a series of documents known as the Standards of Professional Practice or SoPPs.

CIPFA investigates all complaints by employers and members of the public about the professional conduct of CIPFA members and will take disciplinary action where conduct has fallen short of the standards to be expected of a professional accountant. This new website sets out the procedures and includes the full texts of the SoPPs and details of the role of the Accountancy Foundation. See www.cipfa.org.uk/conduct/index

CORPORATE GOVERNANCE ENRON'S RELEVANCE TO THE PUBLIC SECTOR

CIPFA's Central Government Panel Chairman and NAO Assistant Auditor General Martin Sinclair recently gave a talk on Enron's relevance for the public sector. Speaking at a CIPFA London Division seminar, Martin began with a description of Enron's bankruptcy – probably one of the fastest collapses ever. Enron's position dropped from some £100 billion, with a share price of \$83 at the end of 2000 to filing for bankruptcy in December 2001, after restating financial statements to reflect charges mainly relating to off-balance sheet partnerships. Enron's collapse left some \$63 billion in potential liabilities and led to the demise of auditors Andersons. At that time, the Enron bankruptcy was the world's largest.

The fall of Enron caused investors to wonder... who else? They did not have long to wait. Others soon followed and WorldCom took the dubious honour of being the world's largest bankruptcy in July 2002. But while the major examples were all US based, the implications have and will be felt worldwide.

Martin listed the key issues raised as:

- ⌘ Policies on revenue recognition, off-balance sheet items and financial instruments.
- ⌘ Corporate Governance: the role of non-executives and audit committees.
- ⌘ The role of the auditor: independence and regulation.

The regulatory response from the US government was the Sarbanes-Oxley Act. This act introduced a number of wide-ranging reforms including the establishment of the Public Company Accounting Oversight Board; expanded company disclosures; a new requirement for Audit Committees to include a financial expert; lead audit partner rotation every five years; and restrictions on auditors providing non-audit services.

Question such as *could an Enron happen in the UK?* have filled many pages in the media and professional journals alike. Martin suggested that it would be naïve to assume that the UK would be immune to similar disasters, especially given the increasing globalisation of both markets and accounting. The UK response to Enron has been first the establishment in February 2002 of the Co-ordinating Group on Audit and Accountancy to ensure a co-ordinated and comprehensive review of the UK's regularity arrangements for statutory audit and financial reporting. Secondly, three reports have dealt respectively with Audit Committees (the Smith Report), Non-Executive Directors (The Higgs Report) and the Regulation of the Accountancy Profession (the Swift Report).

Turning to the specifically public sector implications, Martin stressed that the structures and processes for decision-making, accountability, controls and behaviour at the top of organisations are equally important for public sector organisations. Undoubtedly a key problem in Enron was the “laser” focus on earnings per share. If a tendency towards “aggressive earnings management” in the private sector is redefined for the public sector as “aggressive performance management” it becomes easier to recognise the same sort of temptations and to comprehend how the pull towards the unacceptable must be resisted and designed out of incentives.

There are implications too for public sector auditors, relevant to the National Audit Office and the Audit Commission regimes. Issues of auditor independence and rotation and of audit quality need addressing. Private organisations can change auditors. The public sector generally cannot. The way forward must surely lie through increased openness, and an acceptance of the need to challenge and to respond positively to challenge.

CIPFA’S CENTRAL GOVERNMENT PANEL

The Central Government Panel generally meets four times a year and is responsible for all financial management and policy issues that affect central government.

The Central Government Panel’s current members are:

Martin Sinclair (Chairman)	National Audit Office
Andy Anderson	Audit Scotland
Barry Atkinson	Independent
Brian Baverstock	Scottish Funding Councils for Further & Higher Education

Phil Butlin	Occupational Pensions Regulatory Authority
John Codling	Department for Work & Pensions
Paul Connew	KPMG
Alistair Cook	Passport & Records Agency
Chris Cooper	Civil Service College
Heather Cousins	Northern Ireland Office
Christina Earls	Ministry of Defence
Steve Heminsley	Inland Revenue
Wil Huntley	The Environment Agency
Curtis Juman	Department of Trade and Industry
Lesley Lodge (Secretary)	CIPFA
Paul Simpson	Defence Estates Agency
Mal Singh	HM Treasury
Mike Suffield	National Audit Office
Martin Veale	National Assembly for Wales
Chris Welford	Electoral Commission
Steve Will	National Air Traffic Services Ltd

PUBLIC MANAGEMENT AND POLICY ASSOCIATION (PMPA)

The PMPA offers managers and policy makers a range of opportunities to keep in touch with and understand the wider cross-cutting developments in public policy making that affect the governance, general and financial management of public services.

Opportunities coming up include:

Debate

PMPA Annual Conference—Delivery: Time to Judge?

A debate, to be chaired by Sir Michael Bichard, on the extent to which the Government's delivery agenda is succeeding

12 June 2003 at the Harrogate International Conference Centre

Are the Government's plans to improve public services working and what can we learn from the evidence? PMPA's 2003 conference will take the form of a debate where two teams of leading practitioners, researchers and commentators from across the public services will present their arguments for or against the claims that the Government's delivery agenda is motivating people, achieving success and driving further improvement.

Speakers taking part in the debate include Mark Britnell (University Hospital Birmingham NHS Trust); Clive Grace (Audit Commission in Wales); Ita O'Donovan (Stoke-on-Trent City Council); Colin Talbot (University of Glamorgan); and Anne Weinstock (Connexions Service National Unit).

The conference runs alongside CIPFA's annual conference and delegates have the option of attending the first two sessions of the CIPFA conference in order to hear **Charles Kennedy** (Leader, Liberal Democrats) and **Neil Kinnock** (European Commission) address key delivery issues or of coming straight to the PMPA debate at 11.15 a.m.

Taking Part

PMPA members may attend the PMPA conference **without further charge**. New members, whose subscription is paid in full before the conference, are also entitled to a free place.

Non-PMPA members may attend at the following rates: bookings received by 23 May—first two places: £125 plus VAT each; third and subsequent places: £75 plus VAT each. Bookings received after 23

May—first two places: £225 plus VAT each; third and subsequent places: £125 plus VAT each.

A booking form can be downloaded via the association's website (www.pmpa.uk) or requested from sandra.harper@cipfa.org

Early Evening Lectures

7 May 2003	Max Caller Managing Director, London Borough of Hackney	Intervention - does it work?
20 May 2003	Naomi Eisenstadt Director, Sure Start Unit, DfES/DWP Katie Smith Audit Commission	Policy into practice - making good ideas work: mainstreaming
24 June 2003	Tim Brighouse London Schools Commissioner Formerly Chief Education Officer - Birmingham	Minimising the danger of failure while encouraging risk

Details of all PMPA events and how to secure a place, are published on the Association's website – www.pmpa.co.uk

Publications

PMPA members automatically receive a copy of all PMPA publications as part of their membership benefits.

PMPA's popular report '*The State of Britain: a guide to the UK Public Sector*' by Professor Andrew Massey continues to sell well and has been used extensively by some organizations as part of their commitment to training and updating staff. More details, including a contents list and extract are available on the Association's website. Attractive rates are available to corporate purchasers wishing to obtain multiple copies. For details, contact helen.carter@cipfa.org.

New reports

In April, PMPA published a report, by Stuart Etherington, Chief Executive of NVCO, on *Delivery: the role of the voluntary sector*. The Report calls for local and national policy to recognize that the not-for-profit sector is not a separate activity, but has an important part to play in wider social policies for developing communities and social inclusion. It argues that the voluntary sector needs to

be very clear as to what it wants to achieve.

In May, the association will publish *Tackling inequalities in health: the local dimension* by Rabbi Julia Neuberger, Chief Executive of The King's Fund. Reactions to the report, by Derek McAuley (Mersey Care NHS Trust and IHM, but writing in a personal capacity), George Jones (LSE) and Richard Laughlin (King's College, London) will appear in the May issue of *PMPA Review* (available free to members).

Copies of either report may be purchased via PMPA's website.

Public Money & Management

PMPA members enjoy a free personal subscription to this respected journal. Forthcoming themes include Public-Private Partnerships (July) and Public Sector Pay and Human Resources (October).

To find out more about joining PMPA visit www.pmpa.co.uk or e-mail helen.carter@cipfa.org

CONTACTS AND USEFUL LINKS

All the Government's key performance data on public service delivery is now available on a single website. The site, launched by the Treasury in April, sets out performance against the high level Public Service Agreement (PSA) targets and allows the public to assess how the Government is delivering across all areas of government. These PSA targets, announced as part of last year's Spending Review, set out the key public service improvements that the Government is aiming to deliver. The site will be regularly updated to reflect new data published by departments.

The Public Sector Benchmarking Service covers an impressive range of services, including many areas of interest to most public sector organizations: staff

recruiting, CCTV, debt management, diversity, sick leave, staff surveys, career management, staff welfare, HR software, website content, knowledge management, call centres and estate management. PSBS has also taken on more specialist areas, such as asylum, adoption, child protection, hoax 999 calls and drugs. To find out more about the Public Sector Benchmarking Service, visit the PSBS website at: www.benchmarking.gov.uk.

If you have any comments or suggestions regarding this Newsletter or the work of the Central Government Panel, please contact Lesley Lodge, Finance and Policy Manager, 3 Robert Street, London WC2N 6RL or email on lesley.lodge@cipfa.org

For further information on CIPFA's activities, click onto the CIPFA's website at www.cipfa.org.uk There is a separate section for the work of the Central Government Panel and for each of CIPFA's other Panels and you can purchase CIPFA publications online.