

## Statement of Accounting Policies and Principles<sup>1</sup>

### Basis of accounts

Appropriation accounts showing the financial transactions of Government departments,<sup>2</sup> are prepared in accordance with the Exchequer and Audit Departments Act 1866 (as amended by the Comptroller and Auditor General (Amendment) Act 1993) and with accounting rules and procedures laid down by the Minister for Public Expenditure and Reform.

The accounts are a cash-based record of the receipts and payments in the year compared with the amounts provided under the Appropriation Act. The accounts also show prior year figures for comparison purposes. Some information of an accruals nature is included in the notes to the accounts.

Departments should obtain prior approval from the Department of Public Expenditure and Reform for any departures, changes or additions to the standard accounting policies. Information regarding divergence from the standard accounting policies should be included in the Accounting Officer's introduction to the appropriation account.

### Reporting period

The reporting period is the year ended 31 December 2020.

### Receipts

As a general rule, all revenues of the State are paid into the Exchequer.

Subject to the express approval of the Department of Public Expenditure and Reform, certain Departmental receipts may be appropriated in aid of expenditure borne on a vote. Without such sanction, receipts must be surrendered directly to the Central Fund as Exchequer 'extra' receipts.

Appropriations-in-aid are receipts that, under section 2 of the Public Accounts and Charges Act 1891, may be used to meet expenditure to the extent authorised by the annual Appropriation Act. In general, these are receipts arising in the normal course of a department's business under the vote and can include such items as:

- charges for services<sup>3</sup>
- pension contributions
- rent and proceeds from certain sales
- with the prior agreement of the Minister for Public Expenditure and Reform, the proceeds from the sale of assets for the funding of high-priority capital programmes or projects
- fines, forfeitures or costs recovered.

In general, receipts of departments to be credited directly to the Exchequer as 'extra' receipts are those that have no direct connection with the vote expenditure or are 'windfall' receipts. Such extra receipts may not be used to meet expenditure from the vote. Where they arise, they are reported in a note to the appropriation account. They include items such as:

- receipts on foot of surplus income or profits of State companies
- interest, dividends or capital repayments
- compensation.

Where Exchequer extra receipts arise, they are reported in a note to the appropriation account (Note 4). Departments are required to provide a breakdown of such receipts and an explanation where the amounts are material in nature. In addition, departments are required to disclose both the amounts lodged to the Exchequer (via the Sundry Moneys Deposit Account) and the amounts payable (amounts not yet transferred over), where the amounts are not the same.

Departments are also required to present the breakdown of the Exchequer extra receipts on an opening balance/closing balance basis.

<sup>1</sup> The Department of Public Expenditure and Reform sets the standard accounting policies and principles applied in the preparation of appropriation accounts. These are stated in the Department's circular 22/2020.

<sup>2</sup> In this statement, the term 'department' includes central Government departments, offices and agencies responsible for Vote management and accounting.

<sup>3</sup> Some offices, such as the Office of Public Works and the Office of the Attorney General, receive expenses in the course of carrying out their functions. These expenses should also be taken in as appropriations-in-aid.

## Payments

Payments consist of those sums which have come in course of payment during the year. Sums are deemed to have come in course of payment where the liability has been incurred, payment is due and the instruction for the payment has been executed.

Where a liability has been incurred and payment is due (i.e. the liability has matured), payment should be completed before the year end to ensure the integrity of the appropriation account. In cases where payment has not been effected and matured liabilities are outstanding at year end, the amount of such liabilities should be given in a note to the account (Note 2).

Where a department is acting as an agent for another Government department (the principal) resulting in financial transactions between the principal and agent, the general rule is that the agent should put the transactions through suspense, the service being a final charge in the principal's appropriation account.

In situations where the agent requires the principal to provide advance funding to enable payment to be made, only amounts certified by the agent as having been disbursed by it in the year of account should be charged to the principal's appropriation account.

As a general principle, Government accounting is on a gross basis, i.e. receipts are not netted off against payments. Government departments, offices and vote holders should obtain prior approval from the Department of Public Expenditure and Reform for any proposed netting off.

## Net allied services

Allied services are services provided centrally to, or on behalf of, department votes on the basis that, as specialists, the supplying department (whose primary function is the provision of these central services) is able to perform the services more efficiently than the vote holder. This includes shared services.

The net allied services note (in Note 1) details the expenditure amount in relation to the department which is borne elsewhere. There are various measurement bases for the calculation of the allied services expenditure figures.

## Accruals

Each appropriation account incorporates information of an accruals nature in the notes to the account, including

- an operating cost statement (Note 1), showing the total amount of resources consumed by a vote in the year
- a statement of financial position showing the vote's assets and liabilities at year end (Note 2), and
- explanatory notes providing details regarding capital assets, the net funding due to the Exchequer, and any commitments.

The statement of financial position includes the position at year-end in relation to the following

- **Accrued expenses** — these represent all liabilities at the year end, with the exception of liabilities in regard to remuneration and pensions. In the case of goods and services, an accrued liability is recognised when the payee has met the contractual requirement to provide the goods or services ordered. Amounts due for goods delivered but not yet paid for, even if un-inspected and not taken to stock, are treated as a liability. In the case of grants, a liability is recognised when the grantee has met all the requirements of the grant scheme but has yet to receive payment. Travel and subsistence liabilities are recognised when travel has been completed.
- **Prepayments** — these are payments made during the year of account to meet expenses which will arise in a subsequent financial year.
- **Accrued income** — this is income due to the vote at the end of the year of account which has yet to be received.
- **Deferred income** — this represents income received by the vote during the year of account for goods/services which it has yet to provide.

## Capital assets

The opening and closing values of capital assets on a department's asset register and details of depreciation are shown by way of note to the statement of financial position (Note 2). The following are not included in the statement of capital assets

- assets that are not yet available for use
- assets that cost less than €10,000 and/or <sup>1</sup>
- heritage assets, the value of which cannot be adequately expressed in financial terms. (Heritage assets which can be valued are included in the statement.)

## Valuation of assets

### *Land and buildings*

All lands and buildings owned by the State and controlled or managed by a department are included in the statement of financial position (and capital assets note). Where relevant, the basis of valuation of land and buildings is explained in the Accounting Officer's introduction to the appropriation account.

Where ownership of land and buildings is (a) vested in the Office of Public Works or (b) vested in a Minister but in fact controlled/managed by the Office of Public Works, they are included in the account for the Office of Public Works.

Where lands or buildings are vested in a Minister but are, in fact, controlled/managed by an outside body, they are not included as assets of the department's vote, but the ownership of the asset is noted in the department's account. Otherwise, land and buildings vested in a Minister are included on the account for the relevant vote.

Government departments/offices that for technical reasons cannot provide valuations for State-owned lands and buildings controlled or managed by them should append to the appropriation account a schedule of these assets.

### *Equipment, furniture and fittings*

Equipment, furniture and fittings are valued at cost.

### *Other assets*

Where required, accounting policies in respect of valuation of other assets (e.g. specialised vehicles) are set out in the Accounting Officer's introduction to the appropriation account.

<sup>1</sup> Starting with the 2020 appropriation accounts, the threshold for inclusion of capital assets on the statement of financial position will increase to €10,000 for an individual asset. There will no longer be groupings of assets as was previously the case. Departments who are not in a position to apply this new threshold may on a one-off basis continue to report on the old threshold of €1,000 for the 2020 account. Departments must signal this approach clearly in the Accounting Officer's introduction to the appropriation account. Refer to the Department of Public Expenditure and Reform Circular 21/2020; *Increase in Value Threshold for Inclusion of Assets in Asset Registers*.

### Depreciation policy

Current depreciation policy is that a full year's depreciation is charged in the year of acquisition/commissioning and no depreciation is charged in year of disposal.<sup>1</sup>

Departmental assets fall into different categories for depreciation purposes. Depreciation is on a straight line basis. The principal categories which will apply are set out in the following table.

	Depreciation rate
<b>Category A – Items depreciated to a nil value over 10 years</b>	
Furniture and fittings	10%
Plant and machinery	10%
Major IT operational software systems	10%
<b>Category B – Items depreciated to a nil value over 5 years</b>	
IT equipment, hardware and software	20%
Office equipment	20%
Other specialist equipment	20%
Motor vehicles	20%
<b>Category C – Other items</b>	
Land	0%
Buildings	0% to 5%
Military assets	3% to 20%

There is some discretion for Accounting Officers to depart from the standard accounting policies set out below.

### Bank and cash

'Bank and cash' should include all commercial bank account balances (payroll and other vote related accounts) held at the year-end which are funded by the Exchequer through voted expenditure or that contain receipts liable to be paid to the Exchequer. The note should separately identify Paymaster General (PMG) bank accounts from other commercial bank accounts.

Details of any other commercial bank accounts not funded by or liable to be paid to the Exchequer are disclosed by way of a note to the account. This includes non-vote balances that are not recorded/accounted for in another set of accounts that are audited.

### Stocks

Consumables are stated at the lower of cost or departmental valuations.

### Net Exchequer funding

The net Exchequer funding note shows the funding position of the vote at the year end, taking account of the surplus and issues from the Exchequer on a cumulative/rolling basis. The breakdown of that figure in terms of bank/cash balances, debtors' receipts due and current liabilities is also shown.

<sup>1</sup> Starting with the 2020 appropriation accounts, to accommodate the transition to the Financial Management Shared Services (FMSS) system, depreciation will be calculated on a monthly basis. Depreciation should be charged from the date the asset is placed into service and run until the month of disposal. As an interim arrangement pending the roll out of FMSS, departments can calculate depreciation on a monthly or annual basis. All appropriation accounts must state the depreciation method used.

## Commitments

A commitment is a contractual obligation to pay on delivery for goods or services (including capital projects) which have yet to be supplied at year-end. In the case of grant schemes, a commitment is recognised when the grant is approved but the grantee has yet to fulfil the requirements of the scheme.

Global contractual commitments (in excess of €10,000) likely to materialise in subsequent years, are disclosed by way of note, under the headings: procurement of goods and services, non-capital grant programmes, capital grant programmes, capital projects and public private partnership projects, to the account.

Details of all major capital projects and public private partnership projects, where the project value exceeds €10,000,000, are separately disclosed.

Where the reported commitment level or projected project cost has varied by more than €500,000 compared with the previous year, the reason for the movement should be explained.

## Contingent liabilities

A contingent liability arises in any situation where past or current actions or events create a risk of a call on Exchequer funds in the future. Contingent liabilities are disclosed by way of a note, unless the possibility of an outflow of resources is remote.

Liabilities may arise from ongoing legal cases which can give rise to a contingent liability. Except in cases involving potential litigation or where disclosure would prejudice the Exchequer position and/or future negotiations with third parties contingent liabilities relating to court cases should be disclosed in the appropriation account.

Other arrangements with the potential to give rise to contingent liabilities should only be entered into where necessary and, then, only after the potential expenditure implications have been evaluated and assessed in the light of the possible scenarios that could arise on foot of the contingent liability. The potential benefits should always be compared with the most likely cost and with the range of possible costs to ensure that the contingent liability is properly assessed.

Under no circumstances should a contingent liability be accepted where the risk being assumed has not been assessed and defined as clearly as possible. Where a Minister agrees to accept a contingent liability, it is essential that the decision-making process is properly documented, setting out: (i) the rationale for accepting the liability and (ii) the potential benefit and (iii) the potential costs. The sanction of the Minister for Public Expenditure and Reform should be sought for the creation of any contingent liabilities that could give rise to significant Exchequer expenditure

Judgement is required in determining whether and at what point in time, legally and/or non-legally binding obligations give rise to a liability. Information is material if its omission or misstatement could influence the discharge of accountability by the Department for that financial reporting period.

Materiality depends on both the nature and amount of the item judged in the particular circumstance relative to the Department and involves consideration of both qualitative and quantitative characteristics.

Assessments of materiality will be made in the context of the legislative, institutional and operating environment within which the Department operates and, in respect of prospective financial and non-financial information, the preparer's knowledge and expectations about the future.

## Superannuation

Superannuation payments to retired civil servants are provided for in Vote 12 Superannuation and Retired Allowances. An estimate of the amount attributable to each vote is provided by the Department of Public Expenditure and Reform and shown under the net allied services note for the relevant votes.

Superannuation payments for gardaí, teachers, army personnel and Health Service Executive personnel are met on a pay-as-you-go basis from the relevant votes.

## Foreign currency transactions

Transactions arising in foreign currencies are converted to euro values at the rates of exchange at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are converted at the year-end rates of exchange.

## Other notes to the accounts

### *General principles*

In general, the other notes to the appropriation accounts aim to draw the attention of Dáil Éireann and of the Committee of Public Accounts to matters bearing on parliamentary control, or to provide fuller information about material transactions of an unusual nature recorded in the account e.g. losses, special or *ex gratia* payments (a payment not legally due under a contract or otherwise – e.g. compensation paid on grounds of hardship) and extra remuneration.

Except in the cases outlined below, notes are provided where an individual transaction, or a category of transactions taken together, involves a sum of €50,000 or more.

Where amounts lower than the threshold values are involved, notes are also provided where a serious issue of principle arises or where the Comptroller and Auditor General or the Department of Public Expenditure and Reform considers that a note should be given.

### *Variations from estimate provision*

Note 3 provides explanations of variations on outturn versus original estimate provision.

A note is provided where the variation ( $\pm$ ) relative to the original estimate provision (including any deferred capital funding) is:

- €100,000 or more, and
- represents 5% or more of the subhead (25% in the case of administration subheads), or
- represents a significant variation from the original estimate provision that does not meet the above criteria but which warrants explanation.

Notes in relation to variations in appropriations-in-aid are included on a similar basis.

### *Allowance and overtime payments*

In the case of allowance and overtime payments, the details given in Note 5 include the total number of recipients of allowance and overtime payments in more than one category, the number of individuals that received €10,000 or more, and the highest payment to an individual, if over €10,000.

The aggregate amount paid to an individual under the various headings is set out in 'highest individual payment'.

### *Severance and redundancy payments*

Severance and redundancy payments (in excess of €10,000) are required to be disclosed by way of a note.

*Compensation and legal costs*

The components of the legal costs in respect of cases in which the department is or was involved should be disclosed (this does not include the cost of legal advice provided outside of legal proceedings e.g. in context of development of policy or legislation). If the Department is represented in legal proceedings (other than by the Chief State Solicitor's Office), the costs incurred in relation to these cases are included in the table. In cases where cumulative legal costs incurred in the year of account exceed €50,000 (i.e. in situations where legal costs of cases have exceeded €50,000 in total, or where a single case exceeds €50,000), a note is to be provided with a breakdown of the costs into:

- legal costs paid by the department
- legal costs awarded (against the department), and
- compensation awarded.

*Late payments*

In the case of interest and compensation payments under the Late Payment in Commercial Transactions Regulations 2012, information is supplied in Note 6 where

- the total of interest and compensation payments due was €10,000 or more, or
- an individual payment was €10,000 or more.

*Fraud or suspected fraud*

In the case of losses due to fraud, suspected fraud or suspected irregularities, information is supplied in Note 6 where

- the total of losses during the accounting period were €10,000 or more, or
- an individual loss was €10,000 or more, or
- for losses under €10,000, a serious issue of principle arises, or
- where the Comptroller and Auditor General or the Department of Public Expenditure and Reform considers that a disclosure should be made.

*Commissions and special inquiries*

Where relevant, Note 6 should include a statement of expenditure on each commission or special inquiry financed from the vote. A distinction is made between permanent commissions, and those established on a temporary basis for a fixed purpose. In the former case, expenditure in the year of account and prior year is shown. In the latter case, the date of establishment and cumulative expenditure from the date of establishment is shown.

*Grant funds and miscellaneous accounts*

Where relevant, accounts of grant funds financed from the vote and of other miscellaneous accounts are presented in Note 6.