

## ELIMINATION OF TRANSACTION STREAMS AND BALANCES

1. Elimination of transaction streams and balances is required in consolidated accounts to ensure income and expenditure and assets and liabilities are not overstated. It is normal for consolidating groups to have a process of agreeing significant transactions streams and balances across the group to ensure balances and transaction streams are correctly stated by both parties prior to elimination.
2. In undertaking the elimination exercise we are committed to ensuring the administrative burden on all concerned is kept to the absolute minimum. It is especially important to minimise the burden on front-line bodies such as local authorities and NHS Trusts. This needs to be balanced against the legal requirement to prepare WGA in accordance with Generally Accepted Accounting Practice (GAAP).
3. The issue of elimination is particularly important for local government – both within the local government sub-consolidation prepared by ODPM and when HM Treasury are consolidating with central government and the NHS. This is because local authorities receive funding (including precepting) from a very wide range of bodies for a wide range of services and also have many partnerships, and may have debtors and creditors across the public sector.
4. We anticipate the main streams and balances involving local government being:
  - a. central government grants to local government
  - b. precepting and NNDR
  - e. PWLB debt and interest
  - d. inter-authority education recoupments
  - e. pooled budgets with the NHS
 but would be interested in any other elements you consider are likely to be of equivalent importance.

### Data Required for Elimination

5. In order to eliminate a transaction stream or balance within the public sector we require three pieces of data for each transaction stream or balance. These are:
  - a. The total of the transaction stream for the year, or the amount of the balance at the balance sheet date, as applicable
  - b. What this relates to in terms of the categories of accounting data (for example PWLB debt relates to long-term and possibly short-term creditors). This would naturally reflect the general ledger code to which the transaction had been posted.
  - c. Who the transaction stream or balance was with – normally in the form of a standard Counter-Party Identifier (CPID) code (e.g. ODPM is DPM085)
6. A draft list of bodies to be included in WGA, with CPIDs, is available for authorities wishing to begin preparations. This can be downloaded from [www.wga.gov.uk](http://www.wga.gov.uk). A final list will be issued in early 2005; significant changes are not anticipated. Local authorities have as their CPID the 'E number' used for standard statistical purposes.

7. Volunteer authorities taking part in the pilot undertook an exercise to identify counter-party transaction streams and balances. From the results of this exercise it is clear that a full listing with all the details required could be time-consuming for many authorities. However transaction streams and balances that are significant for WGA are likely to be highly material for individual authorities and it is thus likely that authorities and their auditors will be familiar with these items.
8. We are considering how we can approach the elimination process in ways which minimise the burden. Amongst the approaches we are considering are:
  - a. Reliance on existing processes. Where authorities already undertake a process of agreeing transaction streams or balances these will generally be acceptable in place of a specific WGA process. We are pursuing this option with central government departments.
  - b. The use of reporting thresholds. We will not require every small intra-group transaction to be reported as the smallest transactions are unlikely to result in material misstatement at WGA level, even in aggregate.
  - c. The use of thresholds for the agreement of transaction streams and balances. It is likely that authorities will only be asked to agree the very largest items with their counter-party.
9. It is essential that the details of the agreement and elimination requirements are agreed with the National Audit Office and the Audit Commission. We are working together to establish the requirements; we all recognise the need to balance material accuracy with minimal burdens.
10. We regret that it is not possible to provide detailed guidance on the requirements at this stage. However we would advise authorities to begin preparing to identify the required data. We have identified that many authorities already have robust processes for identifying public-sector related parties required for Note V to the Balance Sheet and it may be possible for authorities to begin by building on this process.
11. We are very interested in practitioners views on this issue and welcome your comments. We would also be interested in hearing examples of best practice from authorities. We will write to you with further guidance on this issue early in the new year.
12. If you wish to discuss this issue further or provide views on the proposed approaches please contact Kieran Rix at HM Treasury (0207 270 5887, [Kieran.Rix@HM-Treasury.x.gsi.gov.uk](mailto:Kieran.Rix@HM-Treasury.x.gsi.gov.uk)).