

## 4 Accounting for Office of Public Works Agency Services

- 4.1 A department may act as agent for other departments or offices (principals) in the provision of services which it is better equipped to do from the point of view of economy and convenience. Examples of agency services include
- management of construction projects, which are funded through the votes of the relevant departments, but are undertaken by the Office of Public Works (OPW) on their behalf
  - the collection of social insurance contributions by the Revenue Commissioners on an agency basis for the Department of Social Protection, which administers the Social Insurance Fund.
- 4.2 The Department of Public Expenditure and Reform's *Public Financial Procedures* specify that the principal is responsible for policy governing the transactions, while the agent is responsible for efficiency and economy in providing the service. Agency services involve financial transactions between the principal and the agent. Where services are provided on an agency basis, transactions are normally processed through suspense accounts with the service being a final charge in the accounts of the principal.<sup>1</sup>
- 4.3 The agent may require the principal to provide cash advances from which to meet payments as they fall due. In such cases, the final charge in the accounts of the principal is the amount certified by the agent as having been actually disbursed by it in the year of account. Any unspent balances held by the agent at the end of the year represent a liability on the agent's balance sheet and an asset on the principal's balance sheet.
- 4.4 The purpose of this report is to outline the extent of agency services provided by the OPW and to examine whether OPW and principals have adequate procedures in place in respect of accounting for agency services.

### Office of Public Works Suspense Accounts

- 4.5 OPW acts as an agent for departments and offices in cases where it carries out or awards contracts for capital works on their behalf. Up to the end of 2012, OPW also recouped from principals the cost of maintenance work carried out on premises occupied by departments and offices. From 2013, property maintenance costs for most departments and offices are charged to the OPW Vote, while capital works provided by OPW on an agency basis continue to be borne by principals.<sup>2</sup> However, since the estimate for the OPW Vote in 2013 was not passed by the Dáil until April 2013, OPW, on an interim basis, accounted for maintenance-type costs through suspense accounts until after that time. OPW stated that, in 2013, the voted allocation in respect of centralised maintenance expenditure was €17 million and the outturn was €19 million.
- 4.6 OPW has stated that, in most cases, principals provide advance funding to it for committed capital projects. Under this system, the principal should also operate a suspense account from where advance payments will be made.

<sup>1</sup> A suspense account is an account to which items are temporarily charged, generally in cases where the correct amount or appropriate destination of the charge is not known with certainty.

<sup>2</sup> Department of Public Expenditure and Reform circular 1 of 2013 introduced revised procedures for the maintenance of State property assets, except for a number of organisations which will continue to provide funding for maintenance works.

- 4.7** During 2013, OPW received funding of €58 million from principals and made payments to suppliers of €59 million on behalf of those organisations.<sup>1,2</sup> In 2013, it operated suspense accounts in respect of 3,700 projects.<sup>3</sup>
- 4.8** OPW maintains an individual suspense account for each project it undertakes on behalf of principals. Funding received by OPW from principals is credited to the suspense account and expenditure incurred by OPW in discharging agency services is debited to the suspense account. At any time, the balance recorded by OPW in a suspense account represents either
- unspent funds held by OPW on behalf of the principal (credit balance)
  - amounts spent by OPW and due to be recouped from the principal (debit balance).
- 4.9** Figure 4.1 provides an illustration of the accounting treatment that should apply in a situation where OPW is providing agency services.

**Figure 4.1 Operation of notional suspense account system for OPW agency services**

Event/transaction	Accounting treatment		
	OPW suspense	Department A suspense	Department A vote
Principal pays €5 million advance to OPW	+ €5 million	- €5 million	–
OPW pays €3 million to supplier	- €3 million	–	–
OPW notifies principal of payment to supplier	–	+ €3 million	- €3 million
<b>Closing balances</b>	<b>+ €2 million</b>	<b>- €2 million</b>	<b>- €3 million</b>
Accounting classification	creditor in OPW accounts	debtor in Department A's accounts	expense in Department A's accounts

Source: Office of the Comptroller and Auditor General

1 Includes €11 million receipts and €11 million payments to suppliers in respect of projects carried out on behalf of non-voted principal organisations.

2 Expenditure of €65 million reported by OPW in its 2013 appropriation account (Note 6.3) includes €5.5 million loan repayments to the Local Loans Fund collected from local authorities on behalf of that fund.

3 200 of the projects relate to the *Percent for Art* scheme. Under that scheme, up to 1% of the overall budget for capital construction projects can be used for the procurement of public art associated with the project, subject to financial limits.

## Balances on Suspense Accounts

- 4.10** Where an advance funding system is in place, the balances recorded in OPW and principal suspense accounts should be equal i.e. each creditor (or debtor) suspense account recorded by OPW should be matched by an equal debtor (or creditor) suspense account in the books of the principal.
- 4.11** In practice, there can be differences in the balances recorded by OPW and principals at a point in time. OPW stated that it is not always possible to match the balances e.g. where OPW makes payments in the last working days of the year and does not have sufficient time to notify principals, prior to the production of their annual accounts.<sup>1</sup> However, the Accounting Officer in OPW also stated that OPW aims to issue annual statements as close to the year-end as possible and that principal departments were notified of end-2013 suspense account balances between 27 February 2014 and 5 March 2014.
- 4.12** In 2009, OPW received sanction from the Department of Finance for a net charge of €8.5 million on the OPW Vote in respect of maintenance works debts that were deemed to be irrecoverable from principals. At that time, OPW largely operated a system whereby it would pay for maintenance works in the first instance before retrospectively requesting funding from the principal. OPW has stated that all maintenance works carried out were paid for in full and the transaction represented a reconciliation of balances held by principals and did not result in any additional charges to the Exchequer.
- 4.13** In its 2013 appropriation account, OPW reported that, at the end of 2013, it held a net amount of just under €21 million of unspent funds in respect of 35 vote-funded organisations (principal departments).<sup>2</sup> OPW has stated that most of these funds were for committed projects. In their appropriation accounts, the principal departments reported corresponding OPW debtor balances of just over €11 million. The differences represented funds advanced to OPW by principal departments that have yet to be spent by OPW, but which had been charged in the appropriation accounts. In one case, the principal subsequently reversed an expenditure charge of €7 million in its appropriation account and this has reduced the difference between OPW reported creditors and principals' reported debtors to €2.4 million.
- 4.14** OPW has stated that in a number of cases, principal departments confirmed agreement with the suspense account balances recorded by OPW but subsequently reported different balances in their appropriation accounts.
- 4.15** Figure 4.2 sets out the transactions and balances recorded by OPW and the balances initially reported by principal departments for 2013.

<sup>1</sup> Section C6.7 of *Public Financial Procedures* sets out that, where it may be some time after the year end before the agent can determine the precise amounts disbursed, the principal may bring to charge in the financial year amounts in respect of agency services arrived at on an estimated basis. The estimate, which should be agreed between the principal and the agent, should be adjusted in the next financial year, when final figures are available.

<sup>2</sup> At the same time, OPW was owed about €915,000 (net) from non-voted principals.

**Figure 4.2 OPW agency transactions and balances 2013**

Principal department charged	OPW records						Principal records	Variance
	Balance 1 January	Cash received	Payments to suppliers	Adjustments	Percent for Art balance	Principals' funds held 31 December	Funds held by OPW 31 December	31 December
	€000	€000	€000	€000	€000	€000	€000	€000
President's Establishment	–	–	–	–	–	–	–	–
Department of the Taoiseach	(53)	(14)	60	7	–	–	–	–
Office of the Attorney General	(83)	–	56	(11)	–	(38)	–	(38)
Central Statistics Office	(51)	(230)	153	(56)	–	(184)	140	(44)
Office of the Director of Public Prosecutions	(469)	(154)	266	(61)	–	(418)	–	(418)
Chief State Solicitor's Office	(33)	(88)	126	(8)	–	(3)	–	(3)
Finance	(25)	(786)	801	(284)	–	(294)	43	(251)
Office of the Comptroller and Auditor General	16	(12)	15	(19)	–	–	–	–
Office of the Revenue Commissioners	(1,010)	(2,644)	3,716	(159)	74	(23)	564	541
Office of the Appeal Commissioners	(1)	–	–	–	–	(1)	–	(1)
Public Expenditure and Reform	–	(26)	–	20	–	(6)	–	(6)
Valuation Office	(12)	(50)	27	35	–	–	–	–
Public Appointments Service	(2)	(80)	95	(30)	–	(17)	–	(17)
Shared Services	–	–	–	–	–	–	1	1
Office of the Ombudsman <sup>a</sup>	(4)	(1)	19	(16)	–	(2)	–	(2)
Garda Síochána	(2,276)	(2,227)	2,705	(271)	203	(1,866)	2,368	502
Irish Prison Service	(121)	(152)	155	38	37	(43)	–	(43)
Courts Service	(874)	(2,448)	2,518	41	76	(687)	919	232
Property Registration Authority	(97)	–	133	(69)	17	(16)	(32)	(48)
Justice and Equality <sup>b</sup>	(2,052)	(1,339)	2,800	(263)	82	(772)	445	(327)
Environment, Community and Local Government <sup>c</sup>	(588)	(287)	965	(422)	53	(279)	–	(279)

Principal department charged	OPW records						Principal records	Variance
	Balance 1 January	Cash received	Payments to suppliers	Adjustments	Percent for Art balance	Principals' funds held 31 December	Funds held by OPW 31 December	31 December
	€000	€000	€000	€000	€000	€000	€000	€000
Education and Skills <sup>d</sup>	(804)	(6,727)	6,688	(59)	18	(884)	804	(80)
International Cooperation	(1)	–	6	(6)	–	(1)	–	(1)
Foreign Affairs and Trade	(474)	(389)	586	(139)	3	(413)	376	(37)
Communications, Energy and Natural Resources	(300)	(153)	176	(88)	65	(300)	–	(300)
Agriculture, Food and the Marine	(1,112)	(1,363)	1,624	(139)	78	(912)	1,168	256
Transport, Tourism and Sport <sup>e</sup>	(1,704)	(3,027)	2,492	124	37	(2,078)	–	(2,078)
Jobs, Enterprise and Innovation <sup>f</sup>	(224)	(29)	179	(166)	24	(216)	209	(7)
Arts, Heritage and the Gaeltacht <sup>g</sup>	(1,574)	(928)	2,039	164	57	(242)	19	(223)
National Gallery	(116)	–	66	–	50	–	–	–
Defence	(212)	(155)	339	(166)	–	(194)	3	(191)
Social Protection <sup>h</sup>	(2,578)	(12,947)	13,599	(1,976)	80	(3,822)	4,315	493
Health	(49)	(107)	165	(59)	–	(50)	–	(50)
Health Service Executive	(20)	(254)	222	8	19	(25)	–	(25)
Children and Youth Affairs <sup>i</sup>	(1,506)	(10,223)	4,703	–	53	(6,973)	22	(6,951)
<b>Total</b>	<b>(18,409)</b>	<b>(46,840)</b>	<b>47,494</b>	<b>(4,030)</b>	<b>1,026</b>	<b>(20,759)</b>	<b>11,364</b>	<b>(9,395)</b>

Source: Appropriation Accounts, 2013 and Office of Public Works

- Notes:
- a Includes the Office of the Commissioner for Public Service Appointments.
  - b Includes the Equality Tribunal, the Probation and Welfare Service, the Reception and Integration Agency and the Insolvency Service of Ireland.
  - c Includes Met Éireann.
  - d Includes FÁS, Commission on Child Abuse and the National Education Psychological Service.
  - e Includes the Irish Coast Guard.
  - f Includes the Companies Registration Office and the Patents Office.
  - g Includes the National Archives.
  - h Includes the Community Welfare Service.
  - i Includes Irish Youth Justice.

### **Principal Departments with no Suspense Accounts or Zero Balances**

- 4.16** The Comptroller and Auditor General's Report on the Accounts of the Public Services 2010 outlined the practice in two principal departments – Transport, Tourism and Sport, and Foreign Affairs and Trade – of charging the appropriation account each year the full amount of any advances made to OPW. The report pointed out that, in accordance with *Public Financial Procedures*, the advances should be charged to a suspense account in the principal's books and the appropriation accounts should not be charged until a matured liability has arisen. The accounting officers in both departments undertook to ensure that the appropriate accounting arrangements would be put in place.
- 4.17** There were fourteen cases at the end of 2013 – for which the total funds held by OPW was €3.3 million – where principal departments either did not operate a suspense account during 2013 or reported a zero balance and therefore did not record OPW as a debtor.<sup>1</sup> Figure 4.3 sets out the five largest of those OPW suspense account balances.

**Figure 4.3 Top five balances recorded by OPW for principals that did not operate a suspense account or reported a zero balance, at end-2013**

Principal department/office	Balance per OPW records €m
Transport, Tourism and Sport <sup>a</sup>	2.078
Office of the Director of Public Prosecutions	0.418
Communications, Energy and Natural Resources	0.300
Environment, Community and Local Government <sup>b</sup>	0.279
Health	0.050
<b>Total</b>	<b>3.125</b>

Source: Appropriation Accounts 2013

Notes: a Includes €1.7 million held by OPW in respect of the Irish Coast Guard.

b Includes €178,000 held by OPW in respect of Met Éireann.

<sup>1</sup> In ten cases, no suspense account was operated during 2013 and OPW reported that it held funds of €2.9 million in respect of these cases. In the remaining four cases, suspense accounts were operated during 2013 and OPW reported holding total funds of €400,000 in respect of these votes.

**4.18** Each principal listed in Figure 4.3 was requested to provide an explanation for not recording a suspense account balance in respect of amounts held on its behalf by OPW at the end of 2013.

- The Accounting Officer in the Department of Transport, Tourism and Sport stated that it had been his understanding that funding provided to OPW during 2013 towards capital projects being undertaken on behalf of the Irish Coast Guard would be expended by the end of the year, or shortly thereafter. He is of the view that charging the payments to the Department's Vote was the optimal business solution because there was no guarantee that the necessary capital funding would have been available in 2014. He further stated that operating a suspense account placed an administrative burden on the Department and that there is no loss to the Exchequer in funding being held temporarily by OPW in this way. However, he also noted that the Department now operates suspense accounts in respect of OPW projects, and that they will be reviewed quarterly to ensure agreement with OPW records.
- The Accounting Officer in the Office of the Director of Public Prosecutions stated that where his office makes payments to OPW in respect of capital works, the expenditure is charged to the vote in the year in which the work is carried out. His office is liaising with the government accounting section in the Department of Public Expenditure and Reform in relation to the appropriate accounting treatment for an amount of €100,000 paid to OPW in 2006 for a refurbishment project that did not subsequently proceed. He also stated that the OPW balance should be reduced by €246,000, as the OPW has clarified to him that this amount relates to a project that is fully complete and that the money is no longer available to his office.
- The Accounting Officer in the Department of Communications, Energy and Natural Resources noted that, historically, it has experienced challenges in reconciling suspense account balances with OPW, particularly in relation to functions that have been transferred to other departments. He stated that following discussions with OPW in relation to suspense account balances, his Department received a refund from OPW during 2013, which reduced its suspense account balance to zero. He added that his Department continues to liaise with OPW with the aim of eliminating such issues. The Accounting Officer in OPW has agreed that €138,000 of the balance reported as held on behalf of the Department is incorrect and is proper to another principal.
- The Accounting Officer in the Department of the Environment, Community and Local Government stated that an advance payment of €200,000 made to OPW during 2013, in respect of works at Met Éireann, should have been charged to a suspense account, but was mistakenly charged to the Department's Vote. €178,000 of that advance payment remained unspent and was held by OPW at the end of 2013. The Accounting Officer stated that the remaining €101,000 held by OPW at end 2013 was an unspent balance dating back to 2008, of which €44,000 has been utilised by the OPW to date in 2014 on elective works carried out on behalf of the Department.
- The Accounting Officers in OPW and the Department of Health have agreed that the €50,000 reported by OPW as being held on behalf of the Department is incorrect and is proper to another vote.

**Disparities in Suspense Account Balances**

- 4.19** In 15 cases where suspense account balances were reported by principal departments, the departments' records of amounts due to them did not agree with the OPW records. The principal departments with the greatest differences are set out in Figure 4.4.

**Figure 4.4 Five largest differences initially reported between OPW and principal departments**

Principal department	Amount held		Over/(under), by department €m
	Per OPW €m	Per department €m	
Children and Youth Affairs <sup>a</sup>	6.973	0.022	(6.951)
Office of the Revenue Commissioners	0.023	0.564	0.541
An Garda Síochána	1.866	2.368	0.502
Social Protection <sup>b</sup>	3.822	4.315	0.493
Justice and Equality <sup>c</sup>	0.772	0.445	(0.327)
<b>Total</b>	<b>13.456</b>	<b>7.714</b>	<b>(5.742)</b>

Source: Appropriation Accounts 2013

- Notes:
- a OPW includes €7 million relating to the Irish Youth Justice Service that was not initially reported as a debtor in the Children and Youth Affairs appropriation account. The Children and Youth Affairs appropriation account has been amended to report the OPW debtor of €7 million.
  - b OPW includes €171,000 in respect of the Community Welfare Service due to OPW that is not reported as a debtor in the Social Protection appropriation account.
  - c Includes balances recorded by OPW and Justice and Equality in respect of the Probation and Welfare Service. OPW also includes balances held totalling €253,000 in respect of the Equality Tribunal, the Reception and Integration Agency and the Insolvency Service of Ireland that are not reported as an OPW debtor in the Justice and Equality appropriation account.

- 4.20** The Accounting Officer in the Department of Children and Youth Affairs has adjusted the appropriation account so that only those amounts disbursed by OPW are charged to the Vote in 2013 and that the appropriate debtor is recorded in respect of funds held by OPW. The appropriation account now reports that OPW held €6.985 million on its behalf at the end of 2013 and the Department is liaising with OPW regarding the residual difference.
- 4.21** The Accounting Officer for Vote 9 Revenue Commissioners stated that Revenue maintains a suspense account to record advances paid to OPW and that matured liabilities are charged to its appropriation account based on OPW notifications of expenditure. She stated that €361,000 of the difference related to OPW expenditure incurred in 2013 that was not notified to Revenue until after its appropriation account was prepared (in March 2014). She stated that the remaining difference (€180,000) relates to payments to OPW that Revenue did not consider to be part of the suspense account, at the time of preparing its appropriation account. She noted that Revenue is engaging with OPW with the aim of improving the timeliness of statements received and facilitating earlier reconciliation of suspense account balances.

- 4.22** An Garda Síochána stated that it carries out reconciliations between its own suspense account and the monthly statements of invoices received from OPW. It is satisfied that €2.368 million was the correct amount held by OPW on its behalf at the end of 2013. An Garda Síochána has acknowledged that about €220,000 of the difference can be attributed to the cost of the Garda station closure programme and an invoice for this sum from OPW is outstanding. Discussions between OPW and An Garda Síochána are ongoing regarding the remaining difference.
- 4.23** The Accounting Officer in the Department of Social Protection stated that, since the start of June 2013, the Department has been receiving monthly reports from OPW containing summary information on suspense account balances and that it investigates any disparities with its own records. She stated that the Department can fully reconcile the amounts recorded in its appropriation account to those monthly reports but that it does not have full access to the backup documentation held by OPW. She stated that further investigation is required to resolve the differences between the Department's records and those of OPW and noted that the matter is being addressed with OPW by officials from her Department.
- 4.24** The Department of Justice and Equality stated that the difference between its records and those of OPW may be the result of timing issues and differences in the accounting policies employed by the two organisations. In particular, it noted that
- a payment of €133,000 to OPW was treated by the Department as a payment for services, and therefore shown as expenditure in the appropriation account, but was accounted for by OPW as an advance payment
  - the OPW balance at the end of 2013 includes €100,000 being held in respect of the set-up and fit-out of Phoenix House, whereas the Department's records indicate that this account was balanced and cleared in November 2013
  - a balance of €4,500 recorded by OPW as due to the Department relates to funding for works carried out on premises vacated by the Department about nine years ago. OPW has confirmed that this suspense account is dormant and arrangements are being made to eliminate it in OPW's books.
- 4.25** Across the other ten cases, the principal departments reported suspense account balances that were, on an aggregate basis, €380,000 less than those reported by OPW.
- 4.26** In one further case where OPW reported that no suspense account was in place, the principal recorded a small balance held by OPW. Balances between OPW and principal departments agreed in five cases, all of which recorded zero balances.

#### ***OPW Management of Suspense Account Balances***

- 4.27** OPW has indicated that all projects are reviewed on an ongoing basis and that the principal receives regular progress and expenditure reports at key stages of the project. It stated that any queries received are dealt with on a more regular basis. In addition, OPW sends annual statements in respect of each project to principals which set out the opening balance, the receipts, payments and adjustments recorded during the period, and the balance at the end of the year. OPW stated that further information is made available at the request of the principal.

- 4.28** Details of OPW's arrangements for communicating with principals are set out in Annex A.
- 4.29** OPW stated that the balances held in principals' suspense accounts are monitored on an ongoing basis and are reconciled to cash balances held in its account with the Central Bank.
- 4.30** OPW processed in excess of 27,000 transactions on principals' suspense accounts during 2013, with about 21,000 of these accounted for by receipts from principals or payments to suppliers and the remaining 6,000 consisting of adjustments made by OPW. The 6,000 adjustments had a net effect of increasing OPW credit balances (unspent funds belonging to principals) at the end of 2013 by €3 million.<sup>1</sup> The adjustments included
- 2,600 credits to OPW suspense accounts (amounting to €7.5 million) where OPW charged its own appropriation account. OPW stated that these adjustments were made in order to charge its 2013 appropriation account with maintenance costs incurred in 2013 that had been temporarily accounted for through suspense accounts pending the approval of the estimates for the OPW Vote in April 2013
  - debit adjustments (amounting to €4.3 million) on principals' suspense accounts made in respect of prior years. OPW stated that, following a reconciliation of non-maintenance suspense accounts, these funds were identified as no longer being required and will be surrendered to the Exchequer.
- 4.31** A sample of 23 suspense accounts, with net funds of €10 million held by OPW at the end of 2013, was reviewed as part of this examination. Details of the sample are at Annex B. The review showed that
- around €23 million in advance funding was received by OPW in respect of the suspense accounts in the sample, but only just over €13 million has been paid to suppliers. The aggregate unspent balance at the end of 2013 represents 44% of the advance funding received by OPW in respect of the suspense accounts in the sample. OPW stated that so far in 2014, expenditure of €26 million had been incurred in respect of twelve of the sample – €9 million of the balance at the end of 2013 related to those twelve
  - the reallocation of advance funding held by OPW from one suspense account to another appears to be commonplace, with 13 of the 23 suspense accounts in the sample having had funds transferred either to or from other suspense accounts
  - OPW had not made any repayments of unspent advances to departments in respect of the suspense accounts included in the sample.
- 4.32** In relation to the transfers noted in 13 of the sample suspense accounts, OPW stated that transfers between suspense accounts are carried out with the consent of the principal department. OPW outlined that in three cases the transfers were of funds to the percent for art fund and in two cases were from non-project-specific suspense accounts used as pre-funding for unforeseen works. In three of the remaining eight cases, the transfers were to close off dormant accounts and in five cases the transfers were to move funds from one project to another.

<sup>1</sup> Comprises adjustments that increased principal departments' balances by €4 million and adjustments that reduced non-voted principals organisations' balances by €1 million.

### Views of the Accounting Officer in OPW

- 4.33** The Accounting Officer in OPW stated that *Public Financial Procedures* may need to be reviewed to ensure that agency services can continue to be provided efficiently, as the timely provision of funding to OPW is critical to the efficient and effective delivery of services. Her view is that when a contract is placed by OPW and a demand for funds issues to the principal, this should be deemed a matured liability, with the relevant payment being charged to the principal's vote.
- 4.34** She further stated that the annual estimates process and the system of cash-based accounting pose severe difficulties for departments receiving agency services. She noted that where funds voted to a department in one financial year are not fully spent, there is no guarantee that those funds will be made available in the following year, thereby putting pressure on principals to charge available funds to their votes, as budgets allow. She stated that a robust guaranteed system of multi-annual capital funding is required to address this at least in part. She also stated that the issues raised in this report highlight the need for a move to accrual accounting as envisaged by the Public Service Reform Plan and that the need for a multi-annual budget and expenditure system to remove the restrictions caused by annual funding.

### Conclusions and Recommendations

- 4.35** The agency concept is useful as it can optimise certain specialist skills and expertise that have been built up within a particular department by making them available to other departments and offices.
- 4.36** My Office has reported previously that there have been discrepancies between the accounts of OPW and principals in relation to agency services provided by OPW. The primary risk is that incorrect amounts may be charged to appropriation accounts.
- 4.37** Prior to 2013, OPW carried out both maintenance and capital works for departments, on an agency basis, with departments being required to provide advance funding to OPW, accounted for through suspense accounts. Since the transfer of maintenance budgets to OPW (Vote 13) in 2013, the risk of discrepancies in suspense account balances between the records of principals and OPW is reduced.
- 4.38** Ten vote-funded departments did not operate suspense accounts at the end of 2013 in respect of agency services provided by OPW. The total funds recorded by OPW as being held at end-2013 in respect of those departments was over €2.9 million. The balance held by OPW in respect of the Department of Transport, Tourism and Sport represented €2.1 million of this, with smaller amounts recorded in respect of the other departments.

**Recommendation 4.1**

The Department of Public Expenditure and Reform should issue instructions to departments or offices (principals) receiving agency services from OPW, highlighting the requirement to operate a suspense account where advance payments are being made and the fact that only amounts certified by OPW as having been disbursed by it in the year of account should be charged to the principal's appropriation account.

**Secretary General's response**

Agreed. *Public Financial Procedures* require transparency and accountability in the management of public money. As outlined in this report, transactions for agency services are normally through suspense, with the final charge on the appropriation account reflecting the amounts actually disbursed by the agent – in this situation, OPW.

In this context, the Department of Public Expenditure and Reform, in its forthcoming circular for the appropriation accounts 2014, will include instructions relating to the appropriate accounting procedures for agency services, in particular, the arrangements with OPW. This issue will also be included in the guidance manual for vote holders, which is prepared in the context of the annual appropriation accounts.

- 4.39** The system of accounting for advance funding for agency services provided by OPW does not appear to be operating efficiently or effectively. During the course of this examination, both OPW and departments receiving agency services from OPW referred to several issues with the current system including
- the large administrative overhead
  - the volume of transactions to be reconciled
  - balances recorded by OPW not being adjusted to reflect the transfer of responsibility for agencies or other departmental bodies between departments
  - an incentive for principals to charge advance payments to votes due to the risk that funding available in one year may not be available the following year.
- 4.40** Over the past number of years, there have been significant transfers of functional responsibility between departments. Such reorganisation can effectively represent a 'merger or acquisition' scenario for departments and there can be significant accounting implications in relation to fixed assets, current assets and liabilities.

**Recommendation 4.2**

The Department of Public Expenditure and Reform should develop a protocol for the accounting arrangements that are to apply in cases where functional responsibilities are transferred between departments.

**Secretary General's response**

Agreed. The Department issues instructions periodically to departments regarding the accounting arrangements which apply in transfer of functions situations. These arrangements will be reviewed and a circular to this effect will be prepared and published in 2015.

- 4.41** For a sample of 23 suspense accounts reviewed, the frequency with which funds had been transferred to or from other suspense accounts and the level of unspent balances at the end of 2013 suggests that OPW could adopt a more efficient and effective system for calculating the amount of advance funding to request from principals.

#### **Recommendation 4.3**

While the revised funding arrangements in respect of maintenance expenditure introduced during 2013 has significantly reduced the volume of suspense account transactions, the Department of Public Expenditure and Reform should consult with OPW and principal organisations to ensure that an efficient and effective funding system is put in place for agency services.

#### **Secretary General's response**

Agreed. The Department is satisfied that OPW, as agent, provides a centralised service to a high standard of expertise which avoids potential problems in respect of procurement, contracting and inter-departmental competition that might arise if departments were to engage in construction projects on their own account. The Department is anxious that the system should operate to the maximum feasible efficiency level and will engage in consultation to that end.

- 4.42** In 2009, OPW received sanction from the Department of Finance for a net charge of €8.5 million to the OPW Vote to enable it to bring its suspense account balances into agreement with principals' records. Further adjustments to suspense account balances were made during 2013 in respect of the revised funding arrangements for maintenance work and the identification of certain funds held that were no longer required.
- 4.43** However, the amounts that OPW has recorded as due to or from principal organisations are still not in agreement with the balances recorded by those organisations. In fact, in all 29 cases where OPW was holding funds in suspense accounts on behalf of principal departments, the balance reported by OPW at the end of 2013 did not agree with the balance recorded by the principal. At the end of 2013, the amount of voted departments' funds initially recorded as held by OPW was about €9.4 million greater than that recorded by those departments. Following an adjustment of €7 million in the case of one appropriation account, the final difference between OPW and departments' balances reported is €2.4 million.
- 4.44** During the course of this examination, departments receiving agency services from OPW highlighted challenges in reconciling suspense account balances with OPW records due to insufficient information being received from OPW and concerns about the timeliness of information received in respect of payments made towards the end of the year.

#### **Recommendation 4.4**

OPW should provide principal organisations with regular and timely statements for all suspense accounts in respect of agency services. Information should be provided at a project level, showing the opening balance, transactions (i.e. advances received, payments to suppliers and any adjustments) during the period and the balance of funds held on behalf of principals at the end of the period.

#### **Accounting Officer's response**

Agreed. The OPW proposes to make more regular statements available to principals. The statements will be provided at summary level for all principals with the facility to drill down to projects and transactions.

## **Annex A OPW Formal Communications with Principal Organisations**

OPW has provided an outline of the procedures in place for formal communications with principal organisations regarding agency services carried out by it and the related suspense account charges and balances.

### ***Capital Works Projects***

Departments and offices wishing to have elective work carried out are advised that they are required to provide advance funding. In some cases, the funding is for a programme of related work or an individual contract. Case officers liaise with the principal post-tender stage to confirm the cost price of the works and to arrange prefunding. Any changes to the scope of works that require additional funds (principal request and unforeseen events) must be cleared with the principal before commitment is given to proceed.

Suspense accounts are set up to account for this funding.

The principal is given regular updates on the progress of the work and in many instances attends site meetings and other project meetings. OPW provides reports showing the expenditure on a project to principals on request.

The principal receives a notification when a project is complete and another when the final retentions stage has been reached.

Some principals have meetings with OPW staff in relation to all their accommodation issues at which time individual projects will be discussed. OPW Accounts Branch circulates end-year suspense account balances to all principals.

### ***Maintenance Works – where funds are provided by Principal Organisations***

Department of Public Expenditure and Reform Circular 1 of 2013 sets out the organisations for which maintenance costs will be borne by OPW. A small number of organisations excluded from that circular must continue to provide funds to OPW in respect of maintenance works carried out on its behalf.

Works are carried out by the OPW Property Maintenance section on an agency basis following a request from the principal. A formal requisition for the works is required to mitigate any future disagreement and to ensure the principal has a record of the request.

At the start of each month, bills are issued to principal organisations in respect of the previous month. When the principal has reviewed and is satisfied with these bills, through interaction with the OPW administration staff, it gives its agreement to offset the liability against any funds held by OPW (usually replenished to fund an average of three months maintenance) or by a payment to OPW. Funds are not transferred from advance funding accounts without formal instruction from the principal.

All principals are encouraged to subscribe to the advance funding initiative rather than organising payments on a monthly basis.

### ***Maintenance Works – funded by OPW***

With the introduction of Circular 1 of 2013, OPW issue an annual statement to principal organisations where maintenance cost is borne by OPW detailing OPW expenditure on buildings occupied by those organisations.

**Annex B Sample of OPW suspense accounts – transactions from commencement to 31 December 2013**

Principal organisation	Project	Receipts from principal	Funds transferred from other projects	Funds transferred to other projects	Total funds available for project	Payments to suppliers	Refunds to principal	Funds due to OPW / (unspent) at 31 December 2013
		€000	€000	€000	€000	€000	€000	€000
Children and Youth Affairs	National Detention School – new build	(14,183)	–	64	(14,119)	7,542	–	(6,577)
Children and Youth Affairs	National Detention School – maintenance	(283)	(117)	20	(380)	–	–	(380)
Office of the Revenue Commissioners	Thurles office – glazing	(571)	–	27	(544)	543	–	(1)
Office of the Revenue Commissioners	Fairgreen office, Galway – fit-out	(1,001)	–	1,001	–	–	–	–
Office of the Revenue Commissioners	Mount Street office, Dublin – fit-out	–	–	–	–	96	–	96
Garda Síochána	ICT equipment upgrade	(100)	(8)	–	(108)	45	–	(63)
Garda Síochána	Garda Repository, Dublin – works	(238)	–	238	–	–	–	–
Garda Síochána	Miscellaneous properties – elective works	–	(1,737)	–	(1,737)	–	–	(1,737)
Garda Síochána	Garda Memorial	(438)	–	–	(438)	448	–	10
Social Protection	Davitt House, Castlebar – fit-out	–	(1,000)	–	(1,000)	782	–	(218)
Social Protection	Hynes Building, Galway – fit-out	(109)	–	–	(109)	385	–	276
Social Protection	Loughrea office – fit-out	(1,576)	–	1,013	(563)	559	–	(4)
Social Protection	Killarney office, Kerry – fit-out	(726)	(3)	–	(729)	764	–	35
Social Protection	INTREO, Killarney Park office, Kerry	(70)	–	–	(70)	–	–	(70)
Social Protection	Monaghan office – fit-out	(480)	–	–	(480)	411	–	(69)
Social Protection	INTREO, Ballina offices, Mayo	(537)	–	4	(533)	232	–	(301)
Social Protection	Drogheda offices, Louth – fit-out	(511)	–	–	(511)	340	–	(171)
Social Protection	Dun Laoghaire office, Dublin – fit-out	(311)	–	–	(311)	327	–	16
Social Protection	Balbriggan Bus Campus, Dublin	(900)	–	–	(900)	–	–	(900)
Justice and Equality	Tipperary office – percent for art account	–	(41)	–	(41)	–	–	(41)
Justice and Equality	Ardilaun House, Dublin – Refurbishment	(114)	–	97	(17)	17	–	–
Justice and Equality	Phoenix House, Dublin – furniture	(252)	–	–	(252)	279	–	27
Justice and Equality	Phoenix House, Dublin – fit-out	(684)	–	–	(684)	619	–	(65)
<b>Total</b>		<b>(23,084)</b>	<b>(2,906)</b>	<b>2,464</b>	<b>(23,526)</b>	<b>13,389</b>	<b>–</b>	<b>(10,137)</b>