

Chapter 10 Department of Transport

10.1 Shortcomings in Financial Control

Accounting Officers are required by law to sign and present for audit the Appropriation Accounts for their Votes to me before 1 April in the year following the financial year to which they relate. It is my responsibility to audit the Accounts and to report on them by 30 September of the same year. The Appropriation Account for Vote 32 for the year ended 31 December 2002 was signed on 31 March 2003 and submitted to me for audit on that date.

Following the commencement of the audit on 3 June 2003 it became apparent that the monthly statements received from the Paymaster General (PMG), who acts as the Department's bank, were not being reconciled to the Department's accounting records, the trial balance did not agree to the Appropriation Account, and the Appropriation Account as presented seemed to contain material errors.

The audit was suspended to enable the Department to complete the PMG reconciliations and to make whatever corrections were necessary to the Account.

A new account was submitted on 21 July which has been audited with satisfactory results and duly certified by me.

The new account significantly amended the original one. The main changes were:

- The gross expenditure increased by €2,281,000 and receipts by €890,000 resulting in a decrease of €1,391,000 in the surplus to be surrendered.
- The PMG balance reduced by €6,641,000.
- The Net liability from the Exchequer increased from €1,736,000 to €3,127,000.
- There was an overall increase in Suspense Account balances of €5,250,000.
- The EU funding details contained in Note 13 decreased by € 62,864,000.

The audit indicated that errors in the original account were mainly due to:

- A failure to carry out periodic reconciliations between the PMG statements and the accounting records maintained by the Department.
- Incorrect postings of certain receipts and payroll transactions to the accounting records.

The completion of bank reconciliations on a regular and prompt basis and the correct recording of transactions in the financial records are essential control functions to ensure that the risk of financial losses because of errors or irregularities is minimised, and that accurate and up to date information is available to management.

As I was concerned about the Department's failure to carry out these functions for a large part of 2002 and 2003 and the apparent lack of awareness of the deficiencies on the part of senior management, I sought information from the Accounting Officer on the matter.

The Accounting Officer informed me that the account had been submitted in good faith by the statutory deadline on the basis that it reflected the correct position.

However, the account had been prepared in difficult circumstances due to the restructuring of the former Department of Public Enterprise and the formation of a new Department of Transport following the

change of Government in June 2002. As part of the restructuring, certain functions and associated resources of the Department of Public Enterprise had been transferred to the Department of Communications Marine and Natural Resources and the Department of Environment and Local Government, and the Roads Divisions of the Department of Environment and Local Government, with a large associated budget, had transferred to the new Department of Transport.

A new accounting system had also been introduced during the year which proved to be a major undertaking and stretched the Finance Unit's resources to the limit. There had also been disruptions due to staff changes as three key experienced members of the Finance Unit out of a staff of four directly involved in the process of reconciling accounts, had transferred out of the Unit for various reasons leaving a skills deficit which had taken time to replace.

In the course of preparing the Appropriation Account it had been discovered that periodic reconciliations between the PMG records and the accounts had not been carried out, and the Finance Unit had moved immediately to remedy this situation, but she herself had only recently become aware that the reconciliations had not in fact been fully completed when the Appropriation Account was submitted. However, as the required PMG monthly adjustments had been made in the accounting records, it had been assumed that the Account was materially in order.

The Accounting Officer also stated that a number of the errors in the initial account could be attributed to inexperience, such as the incorrect posting of certain receipts to the accounting records. A further problem had arisen from a difficulty with the interface between the payroll and accounts computer systems which had given rise to a significant understatement of the expenditure on payroll. The fact that those errors had not been identified and remedied in a timely manner was, in most instances, a direct result of the failure to carry out bank reconciliations on a regular and prompt basis. This had been compounded by the absence of a control mechanism at management level to verify that such reconciliations had been carried out.

While a system of staff meetings had been in place where progress on issues was discussed, the Accounting Officer accepted that a significant shortcoming existed whereby there had been no procedure in place for senior management to ensure that the reconciliations had in fact been completed on the ground, as the procedure which was in place provided for sign off at too junior a level.

She stated that the Department had moved immediately to remedy the weaknesses in its systems and procedures. A project team had been established to revamp processes and procedures and to restructure the Finance Unit to ensure optimum efficiency and a comprehensive control environment. A new procedure had been put in place whereby the monthly PMG reconciliation must be signed off by a senior manager. Training had been organized and undertaken by staff and was ongoing to ensure that all financial systems were fully understood and documented and that all financial transactions were properly recorded. Progress on these would be reported regularly to the Management Board.