

Chapter 6 Office of the Ombudsman

6.1 Accounting Shortcomings

The Appropriation Act provides the legal basis for the maximum expenditure on a Vote. The Appropriation Act 2003 states, that for the salaries and expenses of the Office of the Ombudsman, the Standards in Public Office Commission and the Office of the Information Commissioner, a Supply Grant of a sum not exceeding €5,038,000 is granted. An Excess Vote can arise in a number of circumstances including where the total of the expenditure subheads exceeds the amount granted.

During the course of audit examination of the Appropriation Account for the Office of the Ombudsman for 2003 it was noted that the way in which the deduction and subsequent timing of payover of Professional Services Withholding Tax (PSWT)⁵ was being handled by the Office's accounting system could have an adverse effect on establishing the proper charge to the Vote.

For Government accounting purposes the gross amount of payments for professional services should be charged to the Vote account with the deductions recorded in a suspense account pending payover to the Revenue Commissioners.

However, the system did not charge the amount deducted for PSWT directly to the Vote. The charge to the Vote only took place when the corresponding payover of PSWT was made to the Revenue Commissioners. The fact that the payover of PSWT deductions for the second half of 2003 was made in July 2004 meant that the corresponding charge would, inappropriately, be to the 2004 Vote rather than the 2003 Vote. As a consequence, the amount charged to the Appropriation Account as presented was understated by an amount of €61,814. After adjusting for the understatement and taking account of other audit adjustments, the result was an Excess Vote of €25,103. The excess represents 0.5% of the Office's allocation of €5,038,000. A revised Appropriation Account reflecting the adjustments was presented on 26 July 2004.

I sought the views of the Accounting Officer on the circumstances that gave rise to the Excess Vote.

Accounting Officer's Response

In July 2003 the Office of the Ombudsman, together with the Department of Finance (the Department) and the President's Establishment, rolled out the first phase of a new shared financial management system. The new system is part of the Management Information Framework (MIF) - a civil service-wide initiative to modernise financial management practices across all departments and offices.

Since its establishment in 1984, the Office's accounts had been processed by the Department and, partly for this reason, the Department and the Office, together with the President's Establishment, agreed to adopt a joint cross-organisational approach to the development of MIF. To meet the requirements of the MIF, the new financial management system operates dual accrual and cash accounting. The accruals ledger is the first source of all entries onto the system. The cash element of the system is charged with the expenditure only when a payment has been processed.

⁵ Chapter III of Part I of the Finance Act, 1987 provides for the deduction of income tax from payments for professional services by Government Departments, local authorities, health boards and certain statutory bodies. These provisions are generally known as professional services withholding tax.

The accruals ledger treated the transactions involving PSWT correctly. However, the way the cash ledger system was structured meant that the timing of the full charge to the relevant subhead depended on the date of the payover of PSWT to the Revenue Commissioners.

When the new system was introduced, the Office assumed responsibility for many of the accounting processes and procedures formerly carried out by the Department but responsibility for others, including payovers to the Revenue Commissioners remained with the Department and the Office continued to forward PSWT returns to the Department for processing.

He now understands from the Department that following the introduction of the new system in July 2003, the payovers to the Revenue Commissioners were not processed in a timely fashion and that this resulted in expenditure under certain subheads being understated in the initial 2003 Appropriation Account presented. He also understands that following the queries raised by the Comptroller and Auditor General's audit team, the Department has put in place a monthly procedure to ensure that payovers to the Revenue Commissioners occur at the appropriate times.

The accounts staff of the Office and of the Accounts Branch in the Department were involved in the preparation of the Appropriation Accounts for their respective offices and it was at this time that it came to light that the Department had not, in fact, made the payovers of PSWT to the Revenue Commissioners. The Office brought this fact to the attention of the Department and the PSWT was treated in the manner presented in the 2003 Appropriation Account submitted for audit on the advice of the Department.

The errors and delays in payments were not detected by the Office by normal internal checks and controls, by monthly returns to the Department or during the preparation of the Office's financial position prior to the presentation of a Supplementary Estimate because the Office's accounts staff were, at that time, in the course of familiarising themselves with the capabilities of the new system (and, at the same time, were involved in the development of other modules of the system), and in any event, they had no reason to suspect that PSWT would not be paid over by the Department and were unaware, at that time, of whatever capability the system might have had to confirm this fact.

In order to avoid a recurrence of the problem the Office had agreed in principle a new service level agreement with the Department covering issues such as payovers to the Revenue Commissioners – the Office had presented the Department with a draft service level agreement as early as March 2003. He had also established a working group within the Office, comprising members of the management advisory committee, accounts staff and the internal auditor, to devise and implement procedures to enhance further the monitoring of the accounting function and identify any skills deficits that may exist and, where appropriate, source training for the relevant staff.