



Office of the Comptroller and Auditor General

Report on the audit of the 1994 Accounts of:

Non - Commercial State Sponsored Bodies

Health Sector Bodies

Vocational Education Committees

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Report of the Comptroller and Auditor General

Minister for Finance

I have prepared a special report under Section 11 of the Comptroller and Auditor General (Amendment) Act, 1993 on matters arising in relation to audits carried out by me under Sections 5,6 and 7 of the said Act and other enactments.

I hereby submit the report for presentation to Dáil Éireann pursuant to Section 11 of the said Act.

A handwritten signature in black ink, appearing to read 'John Purcell', with a large, stylized loop at the end.

John Purcell
Comptroller and Auditor General

25 January 1996

Table of Contents

| | Page |
|--|------|
| Foreword | 1 |
| Part I Non-Commercial State Sponsored Bodies | 2 |
| Part II Health Sector Bodies | 14 |
| Part III Vocational Education Committees | 25 |

Foreword

The Comptroller and Auditor General (Amendment) Act, 1993 widened the range of my audit remit and also broadened the scope of my reporting responsibilities.

My Annual Report on the Appropriation Accounts for 1994, published in September 1995, referred to matters arising from my audit of Government Departments and Offices and the National Treasury Management Agency. Up to the coming into effect of the 1993 Act, I had no statutory means of reporting on matters arising from my audit of the accounts of other bodies, such as non-commercial State Sponsored Bodies, where those matters did not prevent me from giving an opinion that the accounts presented a true and fair view of the body's financial transactions for the year. The 1993 Act provided for the preparation of a report, where appropriate, over and above the audit certificate in the case of each Health Board and Vocational Education Committee and under the terms of Section 11(2) of the Act, I may, if I consider it appropriate to do so, prepare a special report on any general matters arising in relation to audits carried out by me.

The Report that follows sets down matters of a general nature arising from my audit of the Health Boards and Vocational Education Committees and matters arising from the audit of other bodies within my statutory remit. Consequently, the same reporting standards are now being applied to the audit of these bodies as are applied to the audit of Government Departments and Offices and the National Treasury Management Agency.

Part I - Non-Commercial State Sponsored Bodies

Bord Iascaigh Mhara

Losses arising on investment in fishing vessel

1.1 Prior to February 1993 one of the functions of An Bord Iascaigh Mhara (BIM) was the provision of grants and loans towards the purchase of new fishing vessels and gear and vessel modernisation. The provision of loans by BIM was terminated by the Minister for the Marine in February 1993 but BIM still continues to provide grants. Loans were advanced for up to 15 year terms at interest rates equivalent to those obtainable from the Exchequer and were secured by mortgages on the vessels. These loans were funded by Exchequer advances which were repayable by BIM by way of 20 year annuities. As the BIM repayments to the Exchequer were made from loan repayments by fishermen, a statutory provision was introduced in 1963 to allow the Minister for Finance to waive repayment by BIM of all or part of any sums advanced in cases where all possibilities for recovery of a loan by BIM were exhausted.

It was noted that in 1990, BIM approved a loan of £178,400 and a grant of £75,600 towards the cost of constructing a 51ft steel vessel for crab fishing at an estimated cost of £504,000. In 1992, BIM approved a further loan of £12,000 on the construction of the vessel and also a loan of £15,210 and a grant of £3,510 towards the cost of purchasing crab pots for the vessel at a cost of £23,400. The combined loans approved by BIM were below an expected EU grant of £211,680 which had been applied for. It was a condition of approval that the EU grant, if obtained, would be used to repay the BIM loans. When the vessel was completed in November 1992 final loan and grant payments amounted to £201,680 and £75,818 respectively.

Although projections provided by the applicant, which indicated that the value of fish landings would be sufficient to enable repayments of the BIM loan and to produce a profit, had been accepted by BIM, in the event no such repayments were made as the vessel was operated unsuccessfully from the time it commenced fishing. BIM was obliged to foreclose on its mortgage and the vessel was surrendered to BIM in February 1994. At the date of foreclosure, principal of £185,948 and arrears (including interest) of £38,814 were outstanding on the BIM loans.

The repossessed vessel was sold by way of tender competition in September 1994 for £120,000 - the buyer receiving a BIM loan of £115,000. Soon afterwards the new owner expressed dissatisfaction with the vessel's fishing capabilities and asked BIM to take the vessel back. BIM refused. In March 1995 he initiated legal proceedings against BIM for compensation in respect of works carried out to the vessel, lost fishing time and refund of his deposit. Following negotiations, the case was settled in December 1995 with BIM making a payment of £25,000 to the owner along with £28,584 towards his legal costs. The vessel was returned to BIM and the loan was cancelled. BIM's legal costs are expected to be of the order of £16,000.

In summary, the financial position was therefore that, while BIM had ownership of an unstable fishing vessel with a probable value of less than £120,000, it had cost BIM £370,164 up to the end of 1995.

A review of the case files revealed that prior to providing funding towards the cost of the vessel, concerns had been expressed about the vessel's loading/stability characteristics. Having regard to this concern and to the substantial loss incurred, I sought the Chief Executive's observations on BIM's handling of this case.

He informed me that the evaluation of the loan and grant application had been carried out with due diligence and that the proper procedures had been adhered to. He stated that notwithstanding this the outcome had not been satisfactory from BIM's point of view. A consideration in the approval was the fact that a commercial bank was providing bridging finance for the full cost of the vessel on condition that the BIM grant and loan would be paid directly to them. It was reported that the bank had lost £250,000 when the vessel was surrendered.

Approval was granted in the knowledge that similar type vessels were operating successfully off the Donegal coast and that the EU had approved a grant in respect of a 60ft crab vessel for which BIM had already approved grant and loan facilities. BIM was also aware that three further 60ft crab vessels were due to be approved for EU grants in October 1990. Crab was not subject to quota restrictions and the live market on the continent was good. Live crab fishing was new to Ireland at the time and BIM regarded it as a fishery which warranted development. All four Donegal crab vessels obtained EU grants and BIM grants and three of them were provided with 10 year BIM loans. All four have been operating successfully.

He stated that the boatyard in which it was proposed to build the vessel had a reputation for building good vessels. It had already built six vessels for the Irish fishing fleet, one for Northern Ireland and one for Scotland. All of these boats were excellent sea vessels and continued to operate successfully.

In 1991, the EU refused to grant aid the vessel, together with other new vessel applications, due to the non-compliance by Ireland with tonnage reductions set out for the fishing fleet. Notwithstanding a specific condition regarding a skipper's certificate of competency contained in the BIM minute of approval and in the subsequent letter of approval of August 1990, the Chief Executive pointed out that a certificate of competency is not required for fishing vessels of less than 54ft. He also stated that the applicant had nominated a certificated skipper to fish the vessel, a practice which is prevalent in many Irish fishing vessels.

Addressing the question of the loading/stability characteristics of the vessel, the Chief Executive stated that reservations on this matter had been expressed by one of the BIM naval architects prior to the completion of the vessel in November 1992. However, these reservations were not shared by the boatyard's consultant naval architect nor indeed by the applicant's marine surveyor. BIM asked the Marine Survey Office of the Department of the Marine to carry out an independent evaluation as that Office had specialist computer facilities which were not available in BIM. The result of that investigation led to minor modifications to the vessel, which when carried out, led to the issue of an

operating fishing licence by the Department of the Marine. A detailed list of stability conditions setting out how the vessel was to be loaded and operated in different working situations were outlined in a letter from the Department of the Marine to the owner in October 1992.

Central Fisheries Board and Regional Boards

Consultants' Report

1.2 The Central Fisheries Board (CFB) and the 7 Regional Fisheries Boards were established under the Fisheries Act 1980 which set out their functions. The principal functions of the CFB are to co-ordinate, and where it considers it necessary to do so, direct the performance by Regional Boards of the functions assigned to them under the 1980 Act. The Board of the CFB is composed of 13 members, 7 of whom are the Chairmen of the Regional Boards and 6 of whom (including the Chairman) are appointed by the Minister for the Marine.

During 1994 the CFB commissioned a firm of consultants to review its structures and operations and to issue a report on their findings. The report was completed in two parts at a cost of £59,668, but the recommendations and conclusions on the structures and operations of the CFB were rejected by the Regional Boards.

In response to my inquiries the Chief Officer indicated that the consultants' report did meet all specifications and terms of reference set by the CFB. Regarding the adoption and implementation of the report's recommendations and its current status, he informed me that the structures as recommended by the consultants for the management of the EU Tourism Angling Measure were adopted and implemented. The recommendations and conclusions on the structures and operations of the CFB (with adjustments where considered necessary) were incorporated into a comprehensive document prepared by the Board and submitted for approval to the Department of the Marine in May 1995. Subsequently, the management of the CFB had discussions with the Department of the Marine regarding changes in management structures and related staffing requirements. Under the Fisheries Act 1980, the appointment of staff and the implementation of new staff structures is subject to the approval of the Minister.

Regarding the basis for the Regional Boards' rejection of part of the consultants' report the Chief Officer stated that, in the view of the Regional Boards, the report did not take into account adequately the statutory role and functions of the Regional Boards and that it would diminish their role and functions. The Regional Board members also considered that they had not been consulted adequately by the firm preparing the report.

Forbairt

Project Failure

1.3 In 1988, Eolas entered into a contract with an Irish based company to develop, on behalf of the company, a range of miniature circuit breakers from product design through to manufacturing set up. The contract was to be completed in 22 months for a fee of £175,000.

The project, which was of an essentially experimental nature, encountered unforeseen research and development difficulties. These were compounded by changes in standards which both delayed and radically altered the given objective of the contract over time.

In November 1993 Eolas, following discussions with the company, proposed a variation agreement which, *inter alia*, would have amended the schedule for the completion of the project, the arrangements for project management and control and the contract price. The agreement was never signed and, on 1 January 1994, the issue was inherited by Forbairt on its establishment.

Forbairt undertook an in-depth technical and management review of the project with the objective of identifying possible completion options. As part of the overall review process, the technical review was carried out by a firm of consultants which found that the product had serious design difficulties and would be very difficult to bring to production stage. They concluded that the option with the greatest possibility of completing the contract, and the least risk, was for Forbairt to sub-contract out the necessary re-design and further development of the product range. The consultants subsequently experienced considerable problems identifying sub-contractors capable and willing to carry out such a project.

Forbairt, simultaneously with the technical review, took legal advice which concluded that the organisation was bound by the original Eolas contract and that it had potentially very significant financial liabilities by reason of the continuing delay in completing the contract.

Given the costs already incurred by Eolas to that time and bringing together the technical and legal advice which it had received, together with the difficulties in identifying a suitable sub contractor, Forbairt formed the view that the least costly option for the State would be to seek to negotiate the best possible settlement with the company. Following lengthy negotiations, the company in June 1995 accepted the sum of £850,000 in full and final satisfaction of its claim. Eolas held professional indemnity insurance cover to a limit of £1.6m and Forbairt notified the insurance company of a claim under the terms of the policy. The insurance company, following an examination of the case, voided the policy principally on the basis of non-disclosure of material information on the part of Eolas. The insurance company stated that Eolas had been aware that the circumstances in relation to the contract were likely to give rise to a claim. All premiums paid under the policy have been refunded.

I sought information from the Chief Executive of Forbairt on the full costs associated with the project, the action taken to monitor and to recover costs and the possibility of recovering costs from the

insurance company. I also requested his observations on the apparent failure to forecast accurately the time and resource requirements of the project, the failure to disengage sooner and whether other projects had given rise to similar problems.

The Chief Executive informed me that the total estimated cost of the abortive project was as follows:

| | £'000 | £'000 |
|--|------------|--------------|
| Incurred by Eolas: | | |
| Salaries & Overtime | 1,396 | |
| Expenses | <u>101</u> | 1,497 |
| Incurred by Forbairt: | | |
| Salaries & Overtime | 120 | |
| Expenses | 3 | |
| Consultants | 10 | |
| Legal | <u>13</u> | 146 |
| Settlement | | 850 |
| Amount paid to Eolas by Company | | <u>(117)</u> |
| | | 2,376 |

Regarding the monitoring and recovery of costs, he stated that Eolas had recorded all costs to the relevant budget headings and time spent had been recorded to the relevant job numbers associated with the project over the years. However, because the contract had been negotiated on a fixed price basis, the capacity of Eolas to recover additional costs was seriously constrained. Regarding the possibility of recovering costs under the insurance policy, he stated that Forbairt had taken legal advice on the matter and was considering initiating proceedings against the insurance company.

In relation to the apparent failure to forecast accurately the time and resource requirements the Chief Executive stated that, with the benefit of hindsight, the original time span contracted (22 months) was unrealistically short. The Forbairt investigation suggested that the estimate was based on earlier success for the same company on a previous project. It would also appear that the breadth of patent restrictions was not fully appreciated and this significantly extended the problems of design as existing patents were vigorously defended. In addition, changes in the project standard occurred during the development process which delayed completion, altered the original objectives and extended the scope of the project. The pressures exerted by the client at all stages hindered the flow of the design process, as did the client's failure to appoint a technical manager at the outset, as required by the terms of the contract.

It was Forbairt's understanding that the decisions to undertake the project and, at the latter stages to commit additional resources to it, were based on the success of the product development design team

on other projects and a recognition that, while the process of innovation is inherently risky, it was nevertheless a key to growth.

On the question of earlier disengagement, the Chief Executive stated that the nature of the contract was such that no clear exit point was identifiable. Legal advice taken by Forbairt indicated that it had no choice but to endeavour to complete the contract despite the serious difficulties which had been encountered. It was impossible for Forbairt to speculate on how the company would have reacted to an earlier attempt to resolve the issue by negotiation. However, with the benefit of hindsight, it would appear that had disengagement taken place at an earlier stage the final costs would have been lower.

Regarding similar problems arising with other projects the Chief Executive informed me that Forbairt, following detailed investigations, was not aware of any projects during the period in question which gave rise to issues of this nature and of such magnitude. Following a market research review in 1994, Forbairt took the decision to discontinue the work of the Product Development Department. As a result no such projects are currently running.

FÁS

Surplus Office Accommodation

1.4 FÁS Head Office is made up of two contiguous buildings at Baggot Street, Dublin - Baggot Court to the front and Fleming House to the rear. The two buildings comprise a total of 93,815 square feet and are held under a single 40 year lease with 5-yearly upward only rent reviews. Rent in the period 1992 to 1994 was £850,000 per annum. There are approximately 18 years remaining in the lease with no break options.

In March 1992, FÁS instructed its estate agent to market up to 45,000 square feet of accommodation in Fleming House for sub-letting. In offering the property for letting, clauses within the lease restrict FÁS's options as follows:

- There is a complete prohibition against assigning any part of the building
- No sub-lettings are permitted in the front building
- Sub-lettings are restricted to a maximum of three tenancies in Fleming House
- Any such sub-letting is to be for not less than 1 complete floor i.e. approximately 9,000 square feet.

It was noted during audit that Fleming House had not been sublet and I sought information regarding the rental costs of the unoccupied space from 1992 to 1994.

In response to my inquiries the Director General stated that although 45,000 square feet was advertised as available for subletting, there was in fact only one floor of Fleming House currently unoccupied, totalling approximately 9,000 square feet. There are some 340 FÁS staff based in Head Office at

present, together with a large busy Employment Office dealing with the public. Because some space in Fleming House was surplus to requirements, FÁS advertised the full 45,000 square feet. In the event of a suitable subletting it would be FÁS's intention to relocate appropriate Head Office departments and staff to existing FÁS locations in the Dublin area, resulting in considerable expenditure for FÁS in respect of additional building at training centres. The Director General stated that the cost of rent for the unoccupied floor in the period 1992 to 1994 was £220,000, with other costs, including advertising, rates, security, insurance *etc.*, estimated at £104,500 during the same period.

Regarding the origins of the surplus accommodation he stated that, on the establishment of FÁS, a regionalised structure had been put in place with the decentralisation of operating and related administrative functions. This process, together with an early retirement scheme offered in the early years of FÁS, reduced the number of Head Office based staff and accommodation requirements. He confirmed that FÁS did not own or lease any other accommodation which was not occupied.

The Director General also informed me that steps taken to eliminate these costs began in 1992 when FÁS embarked on a comprehensive marketing campaign. However, in addition to the lease restrictions on subletting, the property had many shortcomings and fell far short of the standards currently required in the marketplace. While difficult office market conditions were experienced during 1992 and 1993, returning confidence to the market had resulted in an increase in the number and quality of enquiries and he assured me that FÁS would continue to make every effort to sublet the surplus accommodation.

Forfás

Surplus Office Accommodation

1.5 It was noted during audit that Forfás held office accommodation at various locations, under long term leases, which was surplus to requirements. Forfás, and previously IDA and Eolas, had attempted but failed to sublet the surplus accommodation in the period 1993 to 1995. The costs associated with the unoccupied surplus accommodation for this period amounted to some £1.4 million as follows:

| Property | Area | Period | Costs |
|-----------------------------|----------------|-----------------------|----------|
| Knockmaun House | 36,161 sq. ft. | July 1994 - June 1995 | £489,000 |
| Carrisbrook House (part) | 12,222 sq. ft. | May 1993 - June 1995 | £449,447 |
| Lansdowne House (part) | 15,980 sq. ft. | Dec. 1992 - Nov. 1994 | £299,747 |
| IPC House (part) | 6,500 sq. ft. | Jan. 1993 - Dec. 1994 | £163,625 |

In response to my inquiries the Chief Executive stated that, apart from IPC House, the surplus accommodation arose as a result of the IDA vacating various offices occupied by it in 1985 when staff were centralised in the newly completed Wilton Park House. The IDA held all of these offices on long term leases with no break clauses, apart from Lansdowne House which contained a break option for November 1994.

The offices vacated by the IDA were sublet by early 1986. However, all sublettings contained break clause options, which were exercised by the tenants at various times in the period 1992 to 1994. This resulted in the surplus accommodation coming back into the hands, firstly of the IDA and then Forfás on its establishment in 1994. IPC House which was originally held by Eolas became vacant as a result of the absorption of the National Board for Science and Technology into Eolas in 1988. This property is held on a long term lease which passed on to Eolas and eventually to Forfás. A small amount of other surplus accommodation in Wilton Park House is sublet resulting in no ongoing cost to Forfás.

The Chief Executive outlined the action taken to eliminate or offset the costs associated with the surplus accommodation in each case.

Knockmaun House This building reverted to Forfás in July 1994 and the vacating tenant did not re-instate the building in accordance with the lease terms. Following legal and technical advice Forfás initiated legal proceedings against the tenant in question. Forbairt commissioned a feasibility study in June 1994 to ascertain if the building would accommodate their needs. As soon as Forbairt confirmed in March 1995 that it would not be relocating to Knockmaun House, Forfás immediately and strongly marketed the premises both itself and through agents. This resulted in a letting of the ground, first and second floors from June 1995, at a rent just in excess of the passing rent (*ie* the rent for which Forfás is liable). Part of the fourth floor was also let from September 1995 at full commercial rent.

Agreement has been reached for a long term letting of the third floor at a rent just in excess of the passing rent. Legal agreements are being drawn up with a planned commencement date of 1 March 1996. Negotiations for the purpose of letting the remaining part of the fourth floor are being held and a satisfactory conclusion is anticipated shortly. This will mean that the totality of Knockmaun House will have been sublet with no residual surplus accommodation.

Carrisbrook House Three floors were left vacant in May 1993. Two of these floors had been handed back under a negotiated deal beneficial to IDA and another floor had been handed back under a break option under the terms of the lease. The property was strongly marketed by agents and by the agencies (firstly IDA and subsequently Forfás) from May 1993. The property was partially sublet from March 1995 and entirely sublet from July 1995.

Lansdowne House The IDA endeavoured from September 1992 to sublet this space through their agents. However, it had no success despite aggressively marketing the space due to the fact that there was only a short time to the next break option in the head lease which IDA anticipated exercising and that the existing fit-out was in poor condition.

It was decided by the IDA in October 1993 to exercise the break-clause option in the lease on 1 November 1994 as the most appropriate commercial response. This decision was made to allow time to serve notice of the break. In the period leading up to break date, the option of assigning this accommodation to OPW rather than exercising the break-clause option arose with benefits to Forfás, in that the head landlord would drop the charges associated with dilapidations if the assignment to OPW was completed. This assigning was achieved and resulted in a saving of approximately £178,000 to Forfás compared with the situation that would have arisen if the break-clause option was exercised.

IPC House The property had been leased by Eolas under a 35 year lease from 1974 and the lease was inherited by Forfás on its establishment on 1 January 1994. The second floor was vacant between January 1993 and December 1994. Part of the surplus accommodation was sublet for 9 months of 1995 at the full rent for which Forfás was liable. The property has since been fully occupied by Forbairt staff.

In summary, all the surplus accommodation, with the exception of the 10,696 sq. ft. in Knockmaun House (which is likely to be fully occupied by 1 March 1996), is currently sublet with no ongoing cost to Forfás, or has been occupied by Forbairt staff.

Environmental Protection Agency

Headquarters at Johnstown Castle

1.6 The Government decided in mid 1992 that the Environmental Protection Agency (EPA) would be located in Wexford. The Minister for the Environment announced, at that time, that the EPA's headquarters would be located in Johnstown Castle, which had been donated to the State in 1944 on the basis that it would be used solely for agricultural education purposes. In late 1992 the Department of the Environment wrote to the Office of Public Works (OPW) requesting it to carry out a survey of the castle to determine the costs of refurbishment to accommodate the EPA. The OPW reported to the Department in January 1993 that major refurbishment would be required at a cost estimated at some £3.4 million. It also reported that the castle would be unable to accommodate all EPA headquarters staff. However, it identified a site in the grounds close to the castle where additional office accommodation could be built. In March 1993 the Department of the Environment requested OPW

to carry out a more extensive structural and services survey of the castle. The Directors of the EPA were appointed in April 1993 and made arrangements to establish headquarters in the castle in accordance with the Government's decision. Certain doubts were expressed as to the legality of the EPA's location at the castle, having regard to the restrictions on its use, but the EPA was advised by the Department of the Environment that any possible legal difficulties were not problematic and would be dealt with by amending legislation, if necessary. I am informed that such legislation is now being introduced by the Minister for the Environment.

An extensive and detailed survey of the castle was carried out in the period May 1993 to October 1993 and included quantity surveying services, structural engineering services and mechanical and electrical services. The EPA paid some £175,000 to OPW in January 1994 for survey fees and preliminary work related to the refurbishment of the castle. This work had been completed when in December 1993 the Government directed the EPA to seek temporary headquarters in Wexford and in March 1994 the EPA was informed that it should seek the provision of appropriate headquarters in or around Wexford and that the OPW were developing a policy for the future use of Johnstown Castle. A section of EPA staff had been accommodated in the castle from the summer of 1993 until April 1994 when temporary premises were leased by the EPA at Ardavan, Wexford. Expenditure of £100,000 has been incurred on fitting out these premises. During 1994 various location proposals were considered, but in the event the Government decided in 1995 that the EPA's permanent headquarters should be located in new offices in the grounds of the castle and the Department of the Environment has confirmed that arrangements are being made to give effect to the Government's decision.

Teagasc

Advisory Fees

1.7 Charging for advisory services was introduced in 1987 following a change in the legislation governing ACOT, the authority with responsibility for agricultural advisory and training services at that time. In the introduction of charges the emphasis was on meeting specific earnings targets in each county and nationally and maintaining a substantial client base for the organisation. The charges made are subject to the approval of the Minister for Agriculture, Food and Forestry.

Charges take two basic forms:

- Advance payment of a fee in respect of an annual advisory contract based on the expected level of service that the client will require in the year
- Payment for specific services.

During 1992, 1993 and 1994, smaller farmers with development potential were provided with a free advisory service under the Small Farm Development Programme. However, on the introduction of the Farm Viability Service, funded under EU Structural Funds, charges were revised. The advisory

charges, introduced in April 1995, set out differential charges based on farm size, with the charges for the smallest categories of farmers at much lower levels than for the larger farmers.

In 1994, advisory fees amounted to £3.35 million.

An examination by my staff of advisory fees at two western Teagasc county offices indicated that a high proportion of visits and services from these offices in 1994 were recorded as being provided under contract and therefore not subject to a specific charge. Examination of a sample of such visits and services indicated that on average 50% of those which had not been charged for should have been invoiced. These included visits and services recorded as being provided under contract where no contract existed and visits and services provided outside the annual contract entitlement. As it appeared that Teagasc may have forgone significant amounts of fee income, I sought the views of the Chief Executive.

He stated that apparent inconsistencies in the implementation of the Teagasc policy in regard to advisory charges were due to a number of factors, the most important of which were:

- The policy of charging for the annual advisory contract in advance. This was, of necessity, less precise than charging for services delivered in arrears but had an enormous saving in terms of administration costs and bad debt provisions.
- The very different needs of farmer clients in relation to servicing. For example, tillage and horticultural clients generally need more frequent short visits while others need longer, more intensive visits.
- The discontinuity of service whereby staff leaving Teagasc were not replaced and outstanding service in contracts agreed with clients had to be delivered by other advisers.
- The need to provide marketing or prospecting visits that may never result in a sale of contract or service.
- The genuine difficulty of charging individuals in poor circumstances who need assistance. It had been organisational policy to "carry" these people as a public good.
- Difficulty of some staff in moving from a non charging situation to a position where all farmers had to be charged. A minority of staff, especially older advisers in western counties, had continued to have some problems in this regard.
- "Slippage" in the renewal of contracts and continuing to provide service to clients once contracts had terminated in anticipation of the subsequent renewal of the contract. This problem was being addressed in revised guidelines.
- The policy had to change and evolve due to the changing circumstances.
- Errors in coding of visits by advisers in the early stages of the implementation of a new system of monitoring and control.

The Chief Executive informed me that, in order to determine the extent of the problem and the potential loss of income, Teagasc carried out an examination of visits made in 1994 in all counties, on a random sample basis. Overall, the examination had shown that there was no measurable loss of

income to Teagasc due to the apparent delivery of excessive advisory visits. It was found that Teagasc policy was being implemented in the vast majority of situations.

He also informed me that a computerised accounting and management information system for monitoring the delivery of service to clients and for generating advisory charges had been in operation since 1989. Towards the end of 1994 and in the light of the increased reporting and monitoring required, in particular for those areas funded under the EU Operational Programme for Rural Development, a major overhaul was carried out on the system and implemented in 1995. The majority of the features available in the old system were incorporated into the new version and a number of important facilities were added which improved the functionality of the system. Extensive training was provided during 1995 for staff operating the system. Further enhancements to the system were being made in order to reduce the possibility of errors or inconsistencies arising in future.

Moreover, the internal auditor was preparing guidelines for 1996 which would clarify the existing guidelines in relation to charging for services, making of visits, invoicing/receipt of moneys and debt collection. He also assured me that locations which had been identified as having problems implementing policy would be regularly monitored in 1996.

Part II - Health Sector Bodies

Health Boards

2.1 Section 6 of the Comptroller and Auditor General (Amendment) Act, 1993 requires me to audit the accounts of Health Boards. The transactions of the 8 Health Boards for the year ended 31 December 1994 are summarised in the following schedules.

Schedule I Current Income and Expenditure

| Health Board | Pay £'000 | Non-Pay £'000 | Gross Expenditure £'000 | Income £'000 | Net Health Expenditure £'000 |
|---------------|--------------|------------------|-------------------------------|-----------------|------------------------------------|
| Eastern | 175,073 | 198,759 | 373,832 | 26,913 | 346,919 |
| Southern | 145,734 | 87,908 | 233,642 | 24,376 | 209,266 |
| Western | 118,496 | 74,940 | 193,436 | 19,807 | 173,629 |
| North-Eastern | 65,544 | 40,046 | 105,590 | 10,708 | 94,882 |
| North-Western | 81,727 | 44,646 | 126,373 | 13,499 | 112,874 |
| South-Eastern | 108,376 | 71,131 | 179,507 | 16,235 | 163,272 |
| Midland | 61,721 | 38,888 | 100,609 | 12,813 | 87,796 |
| Mid-Western | 82,151 | 50,935 | 133,086 | 15,197 | 117,889 |
| Total | 838,822 | 607,253 | 1,446,075 | 139,548 | 1,306,527 |

Schedule II Capital Account Summary

| Health Board | Balance at 1 January 1994 £'000 | Expenditure £'000 | Income £'000 | Balance at 31 December 1994 £'000 |
|---------------|---------------------------------------|----------------------|-----------------|---|
| Eastern | 8,569 | 4,117 | 6,094 | 6,592 |
| Southern | 744 | 7,155 | 7,275 | 624 |
| Western | 174 | 2,566 | 2,710 | 30 |
| North-Eastern | 1,002 | 3,619 | 3,247 | 1,374 |
| North-Western | (8) | 4,548 | 4,377 | 163 |
| South-Eastern | 5,979 | 9,249 | 12,031 | 3,197 |
| Midland | 435 | 4,836 | 3,814 | 1,457 |
| Mid-Western | 1,080 | 1,478 | 1,871 | 687 |
| Total | 17,975 | 37,568 | 41,419 | 14,124 |

Fixed Assets of Health Boards

2.2 The Department of Health accounting standards stipulate that all land, buildings, vehicles and equipment should be accounted for in the balance sheets of the Health Boards. The Boards are directed to use the insurance value of buildings as the basis for determining the amount to be included in the balance sheet, taking into account factors such as age and condition.

Only two of the eight Health Boards have included values for all fixed assets in their accounts, while one Board has not accounted for its fixed assets at all. The valuations used for buildings in the accounts have been arbitrarily computed in all cases. For instance, one Board has shown a value of £41 million for buildings whereas the insurance valuation amounted to £235 million at 31 December 1994. Another Board has shown the valuation of the buildings as being half the insurance value for accounts purposes. Moreover, the valuation for vehicles and equipment has not been properly stated in the accounts of six of the eight Health Boards.

Further action is needed to ensure that all fixed assets are correctly and uniformly recorded in the accounts of the Boards.

Stock Control in Hospitals

2.3 Stock control is an important element of the management of hospitals. In the course of audit of Health Board and other hospitals, it was noted that there was a general absence of proper control over pharmacy stocks. Apart altogether from the financial implications of such poor control, the potential misuse of any misappropriated medicines or drugs must also be taken into account.

I have drawn the attention of the relevant authorities to this area of stock control weakness.

Blood Transfusion Service Board

Manufacture of Blood Products

2.4 The Blood Transfusion Service Board was under contract to supply plasma to a European company and buy back blood products produced from this plasma. This contract expired on 31 December 1992. The Blood Transfusion Service Board continued to supply plasma to this company and buy back albumin produced from this plasma. The Board was also seeking alternative companies to meet their blood product needs at this time. In 1994 a batch of albumin produced from plasma supplied by the Board to this company was withdrawn on the advice of the Board's Medical Sub-Committee. The value of this albumin was £68,000. As a consequence of this the European company advised the Board that it now required that all plasma be ALT tested (a screening test for liver disease). Negotiations were entered into with the company regarding non-ALT tested plasma, valued at £308,000, already supplied

to the company. Agreement was reached not to pay £154,434 of this amount. Accordingly a total of £222,434 was written off in 1994 in respect of these matters.

In response to my inquiries the Chief Executive Officer informed me that although the ALT test was introduced in some European countries in the mid 1980s as a surrogate test for Hepatitis C it was not a requirement for plasma fractionation in the UK, Norway, Denmark, Netherlands, Iceland, Spain and Ireland. It was not introduced into Ireland as it lacked specificity and incorrect results could lead to increased donor deferrals, increased donor anxiety and subsequent loss of donations. He also informed me that additional write offs amounting to £255,000 may have to be made in respect of plasma withdrawn by the Board during 1995 on the advice of the Board's Medical Sub-Committee.

Sales of discarded plasma

2.5 In 1994 the management of the Blood Transfusion Service Board became aware that funds had been received in the Cork office from March 1991 to October 1994 for the sale of discarded plasma to a commercial firm. The proceeds of the sales had not been accounted for in the Board's accounting records but had been spent locally on a wide variety of services, equipment and items of a general nature without being subject to normal control procedures. An independent investigation initiated by the Board in April 1995 concluded that no evidence was found that any of the funds earned (£27,173) were misappropriated and that no fraudulent intent was involved in the manner in which the funds were generated and spent. It also concluded that 85% of the expenditure had been documented or was otherwise accounted for.

In response to my inquiries the Chief Executive Officer informed me that the practice of using the proceeds from the sale of discarded plasma was the result of a misunderstanding on the part of local management but that controls were now in place to ensure that sales of all products, and their invoicing, are managed centrally through the Board's finance officer. He stated that the Board is currently reviewing all the powers delegated to the Cork office and he assured me that the expenditure from the proceeds of the discarded plasma was proper to the Board.

General Medical Services (Payments) Board

Pharmacists' Claims

2.6 The General Medical Services (Payments) Board (GMS) operates a number of schemes that involve payments to pharmacists in respect of drugs and medicines issued to qualifying persons including the Drugs Cost Subsidisation Scheme and Long Term Illness Scheme.

The Drugs Cost Subsidisation Scheme (DCSS)

This scheme applies to people who have a regular and continuous requirement for prescription medication due to a long term medical condition. All prescribed drugs, medicines and appliances normally supplied by retail pharmacies are covered by the scheme. Pharmacists are reimbursed the full ingredient cost plus a markup of 50% plus a dispensing fee, as agreed between the Irish Pharmaceutical Union (IPU) and the Department of Health.

Persons eligible to participate in the scheme are those who:

- do not have a current medical card or long term illness book
- are certified as having a long-term medical condition with a regular and ongoing requirement for prescribed drugs and medicines costing more than £32 per month.

Applicants approved by Health Boards as eligible under the scheme are issued with an authorisation card that will entitle them to receive all their monthly prescription medicines from a pharmacist of their choice on payment of the first £32 of the cost. The total expenditure incurred by the GMS Board on this scheme amounted to £16.9 million for 1994.

The Long Term Illness Scheme (LTI)

This scheme provides for the supply of certain items free of charge for the treatment of specific long-term illnesses. Application is made by completing the Long Term Illness and Disability Scheme application form and forwarding it to the Health Board. The form is completed by the applicant and the applicant's doctor, who certifies that the applicant is under his/her care for the treatment of the specified illness and states the present requirements for treatment of the condition by listing the medical preparations, strengths and monthly quantity used by the applicant.

Items are dispensed free of charge to registered patients on production of the entitlement booklet provided by the Health Board and containing the doctor's approved prescription. The retail pharmacist is reimbursed the full ingredient cost of all items dispensed with a 50% retail markup and dispensing fee from the GMS Board. An amount of £14.8 million was spent on this scheme in 1994.

It was noted on audit that the pharmacists' claims in respect of these schemes are not accompanied by any supporting evidence as to the amount claimable.

In response to my inquiries the Chief Officer stated that a proposal to launch the DCSS was made by the Minister for Health in 1988 before negotiations had commenced with the IPU for its introduction. The design of the claim form currently in use under the scheme was not as originally favoured by the Board or as proposed by the Department of Health in negotiations with the IPU. All efforts by the

Department's negotiating team to make provision for third party verification were rejected by the IPU.

With regard to the LTI scheme, the design of the claim form currently in use had been adopted by two of the Health Boards prior to the Board being assigned responsibility for LTI claims processing in 1991 - when use of the form was extended to all Health Boards. Neither the original LTI booklet nor the current form has provision for third party verification. However, negotiations are taking place with the IPU and the management side has tabled proposals for a phased introduction of changes in form design under both the DCSS and LTI Schemes.

He also stated that while these schemes as currently structured do not provide for verification by a patient that items as claimed were in fact dispensed the Board would make direct contact with a claiming pharmacist where a doubt arises in relation to a particular claim.

In addition to scanning all claims prior to input to the computer system, the Board tries to minimise its exposure to possible loss in a number of ways including the automatic checking of:

- patients' names and numbers on claim forms with patients' data on the computer system
- all claims against predetermined maximum quantity and cost limits
- items claimed against approved entitlements

and the sending of post-payment reports of patient activity to Health Boards for examination.

Rebates from Pharmaceutical Manufacturers

2.7 A revised agreement between the Federation of Irish Chemical Industries (FICI) and the Department of Health on supply terms, conditions and prices of medicines supplied to the health services came into effect on 1 August 1993.

This agreement provided, *inter alia*, that the GMS will advise each manufacturer or importer of the quantity and value of their products dispensed under the GMS scheme each month and the manufacturer/importer will refund to the Board an amount equal to 5% of the value (at trade price level) within 30 days of the date of invoice.

The Board did not issue demands for rebates in respect of the period from January to August 1994 until September 1994 and as a result the total of rebates outstanding at 31 December 1994 stood at £4,990,176 compared with £2,428,057 at the end of 1993.

I inquired as to the reasons for the delay in issuing demands to the firms and the steps being taken to issue prompt demands in future.

The Chief Officer stated that in the course of the development of the Board's information technology system the Board's requirements including the requirement to produce each month a detailed report for each of the manufacturers/suppliers of drugs under the GMS scheme, were provided for and the system was sized accordingly plus an allowance of approximately 20% additional capacity for growth. The claims processing requirement increased dramatically in 1992/93 and by November / December 1993 was significantly greater than had been expected for this time. During the implementation of the system in November / December 1993 and well into 1994 decisions were made on a daily basis to try to resolve the contention which exists in the system between the claims processing requirement and the requirement for statistics and other information. This was one reason why the production of manufacturers' reports was delayed. A second and equally important reason was that initially transaction processing was considerably slower than expected. Therefore, it was not possible to meet all of the Board's information requirements until remedial measures taken resolved, to the extent possible, the contention between claims/payments processing and information processing. However, through the fine tuning of certain programs, transaction processing times were improved and over a period of months expected response times were achieved - the purchase of additional memory also contributed to the very significant improvement in transaction processing times.

The Chief Officer informed me that the stated contention continues in the system but is not now as acute as in the early part of 1994 and that the production of manufacturers' reports is currently up to date.

He also informed me that a request for proposals to address the capacity of the system had been prepared and that it was expected that a solution will be in place by mid-1996.

Beaumont Hospital

"On Call" payments to radiographers and laboratory staff

2.8 In addition to their basic pay, radiographers and laboratory staff receive "on-call" payments and it was noted on audit that "on-call" payments of £1,059,762 had been made in 1994. In some cases the total additional payments for the year exceeded the gross annual basic salary of the staff involved. The additional amounts paid by the hospital can be categorised as follows:

| Number of staff | Payment Range |
|-----------------|-----------------------------|
| 1 | More than £20,000 |
| 7 | Between £15,000 and £20,000 |
| 48 | Between £10,000 and £15,000 |
| 33 | Between £5,000 and £10,000 |
| 26 | Less than £5,000 |

Six radiographers also received a total of £37,650 in additional remuneration for operating the hospital's magnetic resource imaging machine outside of normal working hours as part of an arrangement with the Private Clinic under which the machine would be fully utilised and substantial additional income would be generated for the hospital.

In response to my inquiries the Chief Executive Officer (CEO) informed me that "on-call" payments were based on national agreements between the unions representing the various categories of staff, management of the various health boards and voluntary hospitals and the Department of Health. The alternative methods of paying for services provided outside normal hours, such as a 24 hour rota system or the payment of fixed allowances, would have to be negotiated on a national basis with staff representative bodies.

The CEO also stated that the present system for the provision of the "on-call" service by the laboratory staff was implemented in 1982 following a national agreement between the Department of Health and the union representing the laboratory staff. The benefit of employing additional staff to provide this out of hours service would have been investigated during the course of the negotiations of the national agreement when the decision was made to implement the present system of sessional payment between 5 p.m. and midnight, together with fee-per-item post midnight.

St Luke's and St Anne's Hospital

"On Call" payments to radiographers

2.9 St Luke's and St Anne's is Ireland's national cancer hospital. In the course of audit it was noted that £622,301 was paid in 1994 for "on call" payments to radiographers. In many cases the "on call" payments for the year exceeded the gross annual basic salary. The amounts paid by the hospital in 1994 can be categorised as follows:

| Number of Radiographers | Payment Range |
|-------------------------|-----------------------------|
| 5 | More than £25,000 |
| 12 | Between £20,000 and £25,000 |
| 4 | Between £15,000 and £20,000 |
| 9 | Between £10,000 and £15,000 |
| 7 | Less than £10,000 |

In response to my inquiries the Chief Executive Officer informed me that the annual allocation for the hospital includes a budget for "on-call" payments and that monthly reports are made by management both to the Board and the Department of Health but because of excess demand this budget was exceeded in 1994. He explained that waiting lists for treatment in the hospital were unacceptably long and this had serious implications for patients. The decision to carry out after hours treatment was taken in the interests of patient care and treatment quality. The daily demands of the hospital's services necessitated radiographers working beyond their contracted hours. The position had been aggravated over the past

two years by the increasing level of machine breakdowns and by the introduction of changed treatment regimes.

The Board and management of the hospital are seriously concerned about the escalating costs and have been endeavouring to control them while ensuring there will be no diminution in the quality of care. The hospital, in consultation with the Department of Health, continues to investigate options to reduce "on-call" payments but a 24 hour roster cannot be introduced for reasons of patient care and quality. The Department of Health is in ongoing negotiations with the trade union concerned.

The Chief Executive Officer also informed me that the hospital is carrying out a major development programme. This programme includes an extension of the radiotherapy department and the acquisition of additional radiotherapy equipment which should reduce the number of patients to be treated after hours. On the other hand, to date, the hospital has failed to attract additional radiographers because of the ongoing shortage of therapeutic radiographers.

Ex Gratia Payments to Certain Employees

2.10 Article 22(3) of the St. Luke's and St. Anne's Hospital Board (Establishment) Order 1988 states that the Board shall, with the consent of the Minister for Health, determine the remuneration and conditions of service of officers and servants. The outgoing Board at its last meeting on 22 November 1994 formally approved *ex gratia* payments of £6,000 and £3,000 to two staff members without Ministerial approval. In response to my inquiries the Chief Executive Officer informed me that he was unaware that the *ex gratia* payments in question contravened the Establishment Order and that in authorising these payments the Board was not aware that it was acting beyond the scope of its authority. He also indicated that he had written to the Department of Health seeking approval for these payments.

Dublin Dental Hospital

Non-payment of patients' bills

2.11 One of the functions of the Dublin Dental Hospital is to provide dental treatment and appliances to its patients. Emergency and routine treatment is provided without charge for medical card holders and army personnel. All other patients are liable to charges as determined by the Hospital Board and charges totalling £268,000 were raised in 1994.

During the course of audit it was noted that a proper debtors control system was not in operation and that the estimated amount due from patients was £113,316 after allowing for doubtful debts of £92,634 at 31 December 1994.

In response to my inquiries the Chief Administrative Officer stated that a review of internal controls had been carried out in 1992 and, as a result, a number of improved controls had been implemented. He accepted that the system as it stood was not satisfactory but he was of the opinion that the best way forward was to incorporate a proper debtors control system into the new computerised patient records system which was being developed rather than expending significant human resources on a manual system. Extracting a debtors listing manually would involve reviewing every chart in use (over 90,000 each year) and manually striking a balance at a particular point in time. He considered that such a use of resources would be wasteful and would not be a feasible or practical solution to a management problem which was wider in its implications than just the control of patient debtors. He expects that when the new computer system is completed in early 1996 it will address a series of management deficiencies which have existed in the patient management area for very many years.

In regard to the high level of bad debts, he stated that the Dublin Dental Hospital had traditionally been viewed as the place to go for free dental treatment and the application of patient fee charges was relatively recent. There tended to be some confusion among patients about their liability for charges and, together with the lack of an effective invoicing system, he felt that it was understandable that many patients do not settle their accounts. As a result there is a high level of debt in this area. The hospital is reluctant, at the present time, to pursue patients through the courts particularly where students are directly involved in the treatment of patients because of the potential for litigation.

St James's Hospital

Stock Misappropriation

2.12 A stock misappropriation of electrical shower units in the technical services stores was discovered in January 1995. It appeared that while 336 shower units had been supplied over a ten year period only 7 had in fact been installed within the hospital and there were no units in stock at 31 December 1994.

In response to my inquiries the Chief Executive Officer informed me that the misappropriation was discovered when evidence of alterations to stores issue vouchers was detected. The Chairman of the Board was informed in January 1995 and a detailed verbal report on the matter was made to the Hospital Board at its July 1995 meeting. He stated that the investigation had been completed and indicated that the period covered by the misappropriation was 1985-1994 inclusive and that the estimated value of stocks misappropriated was £41,857 excluding VAT. He also informed me that none of the identified loss sustained had yet been recovered by the hospital. However, he assured me that the matter was being addressed in the context of attempts to identify and pursue the source of the misappropriation and the extent to which the hospital's insurance arrangements provide cover in this respect. Furthermore the Financial Controller had been requested to undertake a detailed review of this area in conjunction with the Services Manager and implement changes where appropriate.

Research Grants

2.13 Under Section 4 (2) of the St James's Hospital Board (Establishment) Order 1971 as amended by an Order of 8 August 1984, one of the functions of the Board is to provide facilities for the conduct of medical research as may from time to time be determined by the Minister for Health after consultation with the Board.

During the audit it was noted that comprehensive guidelines had not been issued to staff outlining procedures to be followed by persons in receipt of research grants. In addition, it was noted that while research grants to a value of £72,500 were accounted for by the finance section and were therefore subject to the hospital's normal financial controls, the majority of research funding was received and disbursed through bank accounts held by individuals in the various departments - at least £200,000 of such funds were identified during audit. In response to my inquiries regarding the adequacy of the current arrangements, the Chief Executive Officer acknowledged that the hospital had moved from a position of accommodating a small level of research requiring little intervention in control terms to one where a significant amount of such activity is now being undertaken on site. The hospital's response has been to ensure that where research is patient based all necessary controls to protect the patient and the hospital are put in place. He also recognised that the administrative and financial aspects of research initiatives had tended to be dealt with on a less formal basis depending on the specific nature, magnitude and funding criteria for the project, but as an interim measure, prospective grant recipients were now being requested to furnish specific information on the financial aspects of their projects.

A Board sub-committee has been established to develop comprehensive guidelines and protocols pertaining to research at St. James's which will embrace, *inter alia*, the issues raised by me. He also stated that the involvement of representative groupings with an interest in research will be necessary in the development of these guidelines. The hospital will be anxious to ensure that a proper balance is maintained between the need to promote and not constrain research while simultaneously exercising the necessary controls.

National Rehabilitation Board

European Social Fund Payments

2.14 The National Rehabilitation Board is the designated authority in Ireland for the co-ordination and monitoring of European Social Fund (ESF) funding for vocational training programmes for persons with a disability and as such, the ESF funds are routed through the Board for onward transmission to the various agencies.

Ordinarily, an advance representing 50% of the expected ESF allocation is made to each of the bodies concerned in February/March of each year, with a further advance of 30% in the early Autumn. However, in 1994, the ESF moneys did not become available in the usual way because of protracted negotiations between Ireland and the EU Commission on the Operational Programme for Human

Resources Development 1994/99. In the event, agreement on the programme was not reached until the end of November 1994.

In order to avoid a crisis in the delivery of services to persons with a disability it was agreed by the Department of Health, with the sanction of the Department of Finance, to pay the advances which would have been normally due under ESF. The Board was requested to arrange overdraft facilities for those organisations not directly funded by the Department of Health. It duly did so and carried the overdraft until the end of December 1994, by which time the necessary ESF assistance had been authorised and paid by the EU Commission. These funds were used to clear the overdraft.

As a result of these arrangements the Board incurred £210,238 in overdraft interest which was not recoupable from the EU.

Part III - Vocational Education Committees

General

3.1 Section 7 of the Comptroller and Auditor General (Amendment) Act, 1993 requires me to audit the accounts of Vocational Education Committees (VECs). The financial transactions of the 38 VECs for the year ended 31 December 1994 are summarised in the following schedules.

Schedule 1

| | Current Receipts | Current Payments | Accumulated Current Balance 31 December 1994 | Capital Receipts | Capital Payments | Accumulated Capital Balance 31 December 1994 |
|------------------|------------------|------------------|---|------------------|------------------|---|
| | £ | £ | £ | £ | £ | £ |
| Bray | 3,940,394 | 3,772,504 | 199,367 | 59,261 | 57,500 | 0 |
| Carlow | 3,732,674 | 3,748,230 | 82,297 | 147,985 | 153,562 | (17,453) |
| Cavan | 4,021,945 | 4,069,823 | 65,351 | 27,579 | 30,697 | 12,044 |
| Clare | 6,417,117 | 6,278,535 | 263,772 | 663,579 | 677,147 | (4,591) |
| Cork City | 12,155,315 | 11,901,094 | 9,666 | 80,082 | 115,737 | (133,434) |
| Cork County | 17,927,105 | 17,886,329 | 377,376 | 960,577 | 767,783 | (32,248) |
| Donegal | 11,277,291 | 11,580,073 | (143,485) | 697,302 | 688,665 | (6,125) |
| Drogheda | 3,279,109 | 3,300,600 | 180,607 | 228,485 | 229,295 | (810) |
| Dublin City | 42,316,416 | 42,215,360 | 1,011,524 | 147,587 | 257,584 | (68,474) |
| Dublin County | 24,032,480 | 23,960,468 | 1,272,721 | 1,063,973 | 1,003,966 | (25,152) |
| Dun Laoghaire | 6,635,022 | 6,959,096 | 362,075 | 367,586 | 166,716 | 201,904 |
| Galway City | 5,121,782 | 5,246,826 | 552,817 | 13,148 | 53,433 | (41,417) |
| Galway County | 8,627,233 | 8,368,228 | 324,281 | 407,641 | 266,966 | (78,993) |
| Kerry | 6,951,644 | 6,866,932 | 30,078 | 528,541 | 562,390 | 457 |
| Kildare | 9,706,814 | 9,698,992 | 113,052 | 747,812 | 724,926 | (93,645) |
| Kilkenny | 5,007,141 | 4,957,045 | 24,636 | 1,401,990 | 1,239,856 | 88,652 |
| Laois | 3,757,490 | 3,645,671 | 349,833 | 151,090 | 151,090 | 0 |
| Leitrim | 3,200,291 | 3,128,214 | 69,635 | 80,109 | 115,448 | 9,665 |
| Limerick City | 9,078,827 | 9,169,521 | (144,063) | 70,460 | 70,460 | 0 |
| Limerick County | 5,675,185 | 5,418,326 | 659,176 | 1,089,365 | 1,181,752 | (92,706) |
| Longford | 3,406,809 | 3,326,447 | 215,371 | 62,121 | 114,599 | (69,773) |
| Louth | 3,949,624 | 3,960,439 | 149,811 | 147,744 | 194,746 | (25,359) |
| Mayo | 7,602,666 | 7,565,144 | 245,367 | 399,934 | 537,704 | 25,474 |
| Meath | 5,991,928 | 6,013,092 | 160,025 | 368,369 | 346,536 | (19,302) |
| Monaghan | 4,869,110 | 5,012,566 | 93,123 | 201,014 | 200,583 | 14,755 |
| Offaly | 6,141,436 | 6,208,160 | (109,439) | 127,529 | 120,504 | (13,072) |
| Roscommon | 2,558,826 | 2,576,647 | 24,228 | 0 | 6,161 | 69,629 |
| Sligo County | 2,484,394 | 2,410,240 | 1,153 | 108,906 | 108,313 | 266 |
| Sligo Town | 1,778,936 | 1,994,782 | (20,724) | 0 | 0 | 0 |
| Tipperary North | 5,278,786 | 5,233,195 | 111,914 | 6,737 | 2,000 | 12,245 |
| Tipperary South | 5,683,329 | 5,684,518 | 62,479 | 281,840 | 234,384 | (14,618) |
| Tralee Town | 2,842,317 | 2,846,910 | 77,276 | 4,648 | 7,516 | (3,904) |
| Waterford City | 4,041,360 | 3,906,877 | 211,381 | 167,021 | 194,879 | 431,615 |
| Waterford County | 2,061,628 | 1,999,074 | 95,001 | 12,501 | 9,204 | (14,380) |
| Westmeath | 6,380,716 | 6,299,720 | (470,755) | 862 | 862 | (22,644) |
| Wexford County | 6,140,813 | 6,120,279 | 120,063 | 322,953 | 321,957 | 4,568 |
| Wexford Town | 1,828,493 | 1,790,930 | 46,058 | 1,659,900 | 1,681,252 | (19,389) |
| Wicklow | 6,319,577 | 6,320,034 | 71,255 | 356,505 | 310,624 | (27,080) |
| Total | £272,222,023 | £271,440,921 | £6,744,303 | £13,162,736 | £12,906,797 | £46,705 |

**Schedule 2
Current Receipts**

| | £ | £ |
|--------------------------------------|------------------|---------------------|
| Department Grants | | |
| Main Second Level Scheme | 196,006,819 | |
| Scholarship Grant | 6,198,487 | |
| Free Book Scheme | 1,144,214 | |
| Youth and Sport | 3,449,710 | |
| Community and Literacy | 2,348,817 | |
| Youthreach Pay | 4,638,169 | |
| Youthreach Non-Pay | 2,559,535 | |
| VTOS Non-Pay | 4,672,102 | |
| VTOS Allowances | 9,513,093 | |
| VPTP Grant | 768,176 | |
| Other | <u>3,717,240</u> | 235,016,362 |
| Local Authority Contributions | | 853,714 |
| Tuition Fees | | 3,682,571 |
| Bank Interest | | 454,053 |
| Superannuation Contributions | | 8,567,783 |
| European Social Fund | | |
| Youthreach Allowances | 2,449,981 | |
| Other | <u>378,089</u> | 2,828,070 |
| Other Sources | | |
| Insurance Claims | 946,088 | |
| Refunds and Recoupments | 2,951,238 | |
| Cancelled Paying Orders | 491,167 | |
| Community Employment Programmes | 7,093,420 | |
| Miscellaneous | <u>9,337,557</u> | <u>20,819,470</u> |
| Total Receipts | | £272,222,023 |

Footnote

VTOS - Vocational Training Opportunities Scheme

VPTP - Vocational Preparation Training Programme

Schedule 3
Current Payments

| | £ | £ |
|--|-------------------|---------------------|
| Pay | | |
| Administration | 12,209,728 | |
| Instruction | 163,324,612 | |
| Maintenance | <u>9,553,520</u> | 185,087,860 |
| Non-Pay | | |
| Administration | 7,999,535 | |
| Instruction | 1,544,133 | |
| Maintenance | 16,335,325 | |
| Other | <u>13,516,323</u> | 39,395,316 |
| VTOS | | |
| Administration Pay | 475,589 | |
| Instruction Pay | 3,752,370 | |
| Non-Pay | 3,814,431 | |
| Allowances | <u>11,100,223</u> | 19,142,613 |
| Youthreach | | |
| Administration Pay | 255,114 | |
| Instruction Pay | 4,434,307 | |
| Non-Pay | 2,432,018 | |
| Allowances | <u>2,460,823</u> | 9,582,262 |
| Community and Literacy | | 2,112,913 |
| Scholarships | | 6,605,369 |
| Community Employment Programmes | | 7,268,072 |
| Free Book Scheme | | 1,000,977 |
| Youth and Sport | | <u>1,245,539</u> |
| Total Payments | | £271,440,921 |

Use of Petty Cash Accounts in Vocational Education Committees

3.2 The Vocational Education (Accounts, Audit and Procedure) Regulations, 1931 issued pursuant to the Vocational Education Act, 1930 govern in detail all aspects of the accounts and the procedures in relation to VECs. These regulations stipulate that the vocational education fund of every Committee shall consist of two accounts namely a capital account and a current account. No payment may be made out of these accounts without the issue of an order by the Committee to the treasurer (banker) known as the Treasurer's Advice Note. To facilitate the operation of Committees on a day to day basis the regulations also provide for the making of petty cash payments not exceeding £5 in any one case.

As Committees typically meet on a monthly basis it became the norm for many of them to use the petty cash account to make ongoing payments to suppliers and employees rather than confine its activities to transactions of a petty cash nature *ie* an arrangement developed whereby the petty cash account is used as an imprest account which is regularly reimbursed from the current account. In such

circumstances many Committees authorise the reimbursement of the petty cash account rather than the individual payments made on the account. In the year ended 31 December 1994, £26,318,610 out of total expenditure of £271,440,921 was paid through petty cash accounts. As can be seen from the following table, 15 VECs use their petty cash account as an imprest account, 10 VECs use the petty cash account as a true petty cash account and 13 VECs don't use a petty cash account.

Table

| | Payments £ | Petty cash £ | % |
|---------------------|---------------|-----------------|--------|
| 1 Dublin City | 42,215,360 | 15,086,970 | 35.74% |
| 2 Dun Laoghaire | 6,959,096 | 2,177,209 | 31.29% |
| 3 Bray | 3,772,504 | 961,019 | 25.47% |
| 4 Westmeath | 6,299,720 | 1,374,530 | 21.82% |
| 5 Waterford City | 3,906,877 | 699,865 | 17.91% |
| 6 Offaly | 6,208,160 | 839,379 | 13.52% |
| 7 Wexford Town | 1,790,930 | 199,866 | 11.16% |
| 8 Carlow | 3,748,230 | 406,343 | 10.84% |
| 9 Wicklow | 6,320,034 | 649,411 | 10.28% |
| 10 Dublin County | 23,960,468 | 2,448,459 | 10.22% |
| 11 Laois | 3,645,671 | 270,433 | 7.42% |
| 12 Louth | 3,960,439 | 281,636 | 7.11% |
| 13 Drogheda | 3,300,600 | 212,107 | 6.43% |
| 14 Meath | 6,013,092 | 374,661 | 6.23% |
| 15 Cavan | 4,069,823 | 206,559 | 5.08% |
| 16 Limerick City | 9,169,521 | 46,279 | 0.50% |
| 17 Monaghan | 5,012,566 | 16,800 | 0.34% |
| 18 Tipperary South | 5,684,518 | 15,339 | 0.27% |
| 19 Cork City | 11,901,094 | 22,355 | 0.19% |
| 20 Tipperary North | 5,233,195 | 5,121 | 0.10% |
| 21 Longford | 3,326,447 | 2,937 | 0.09% |
| 22 Donegal | 11,580,073 | 8,984 | 0.08% |
| 23 Galway County | 8,368,228 | 6,219 | 0.07% |
| 24 Clare | 6,278,535 | 3,812 | 0.06% |
| 25 Limerick County | 5,418,326 | 2,317 | 0.04% |
| 26 Cork County | 17,886,329 | 0 | 0.00% |
| 27 Kildare | 9,698,992 | 0 | 0.00% |
| 28 Mayo | 7,565,144 | 0 | 0.00% |
| 29 Kerry | 6,866,932 | 0 | 0.00% |
| 30 Wexford County | 6,120,279 | 0 | 0.00% |
| 31 Galway City | 5,246,826 | 0 | 0.00% |
| 32 Kilkenny | 4,957,045 | 0 | 0.00% |
| 33 Leitrim | 3,128,214 | 0 | 0.00% |
| 34 Tralee Town | 2,846,910 | 0 | 0.00% |
| 35 Roscommon | 2,576,647 | 0 | 0.00% |
| 36 Sligo County | 2,410,240 | 0 | 0.00% |
| 37 Waterford County | 1,999,074 | 0 | 0.00% |
| 38 Sligo Town | 1,994,782 | 0 | 0.00% |
| Total | £271,440,921 | £26,318,610 | 9.70% |

In the case of VECs which either don't use a petty cash account or else use it only for petty cash transactions an arrangement has evolved with their treasurers whereby paying orders presented for payment are honoured pending a Treasurer's Advice Note. Information supplied to me during my audit suggests that the treasurers have indemnified the VECs in the event of paying orders being honoured that are not properly drawn. This situation is at best informal and, in the short term, stricter practices regarding the drawing, issuing and honouring of paying orders should be put in place. In the longer term, the system of payment should be changed to reflect modern day needs so that VECs won't be put in the position of circumventing outdated financial procedures in order to operate smoothly.

A project is currently underway in the Department of Education to modernise all aspects of financial reporting and procedures for VECs.

Capital Accounts of Vocational Education Committees

3.3 The capital account of VECs is used for recording the receipt and payment of amounts related to the capital cost of buildings, their associated fitting-out costs and the acquisition of land. Purchases of capital equipment and furniture and fittings not associated with a new building or a major refurbishment are a charge on the ordinary account of Committees. Capital projects processed through the capital account are funded from moneys specifically allocated by the Department of Education for this purpose. In theory the amounts advanced by the Department, together with whatever local contribution may be involved, should equal the cost of each project and the individual account of each project should result in a nil balance when the project has been completed. When reduced to a nil balance the project forms no further part of the accounts of the Committee. This treatment is out of line with normal accounting practice where the asset would be taken to the Balance Sheet and depreciated over its useful life.

My examination of the capital account of all 38 VECs showed that a number of projects had been completed but that balances, both positive and negative, remained on the accounts of some individual projects. This indicates that these projects were either under or over funded. The underfunding would have arisen from overruns on original agreed costs or a shortfall in local contribution. The overfunding would have arisen in some cases from the sale of property where the proceeds had not been utilised on the capital account or transferred to the current account. As Committees do not have a right of set-off, these balances must be carried on the accounts in perpetuity unless the Department specifically authorises write offs, recovers the unexpended balances or provides funds for projects which have incurred overruns.

At 31 December 1994 the balances on 145 completed projects in VECs amounted to:

| | |
|---|----------------|
| | £ |
| Balances expended in excess for 82 projects | 485,231 |
| Unexpended balances for 63 projects | <u>674,933</u> |
| Net | 189,702 |

As a consequence of the cash basis of accounting and the reporting of results in the prescribed format there is no means of clearing these accounts which would adequately reflect the transparency of the transactions. Discussions are currently taking place with the Department to give effect to greater

transparency in relation to capital accounts and to the means by which balances will be cleared from completed accounts.

The receipts and payments of capital in 1994 together with the summarised balances at 31 December 1994 are shown in Schedule 1 of paragraph 3.1.

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