



1997

Annual Report of the Comptroller and Auditor General

on

The Appropriation Accounts of the Sums granted by the Oireachtas for
Public Services for the year ended 31 December 1997

*(Presented pursuant to Section 3 of the Comptroller and Auditor
General (Amendment) Act, 1993 (No.8 of 1993))*

Baile Átha Cliath
Arna fhoilsiú ag Oifig an tSoláthair

Le ceannach díreach ón
Oifig Dhiolta Foilseachán Rialtais,
Teach Sun Alliance, Sráid Theach Laighean, Baile Átha Cliath 2
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The Annual Report of the Comptroller and Auditor General and the Appropriation Accounts is published in two Volumes

- Volume 1, this volume, contains the Report of the Comptroller and Auditor General on matters arising from his audit of the Appropriation Accounts for 1997
- Volume 2 contains the individual Appropriation Accounts for 1997 with the audit certificate of the Comptroller and Auditor General on each account

The report was prepared on the basis of information, documentation and explanations obtained from Government Departments and Offices referred to in the report.

Drafts of relevant segments of the report were sent to the Departments and Offices concerned and their comments requested. Where appropriate, these comments were incorporated into the final version of the report.

Accounts of the Public Services, 1997

Report of the Comptroller and Auditor General

I am required under Article 33 of the Constitution to report to Dáil Éireann at stated periods as determined by law. Under Section 3 of the Comptroller and Auditor General (Amendment) Act, 1993, I am required to report to Dáil Éireann on my audit of the Appropriation Accounts, the stock and store accounts of Departments and the accounts of the receipt of revenue of the State not later than 30 September in the year following the year to which the accounts relate.

I hereby present the report for 1997 in accordance with Section 3 of the aforementioned Act.

A handwritten signature in black ink, consisting of a large, stylized 'J' followed by a series of loops and a long horizontal stroke ending in a small upward flick.

John Purcell
Comptroller and Auditor General

14 September 1998

Table of Contents

	Page
General Matters	1
Overtime	2
Office of the Revenue Commissioners	
Revenue Account	4
Write-Offs	5
Outstanding Taxes and Levies	7
Sheriffs and other Enforcement Measures	8
Taxpayer Compliance with Self Assessment Requirements	10
Revenue Audit Programme	11
Investigation Branch Settlements and Prosecutions	15
PAYE Audit	16
PAYE Compliance	18
Value Added Tax	20
Capital Acquisitions Tax	20
Excise Duty - Wines and Spirits	23
Office of Public Works	
Irregularity	27
General Payments System	27
Payroll Deductions	30
Suspense Accounts	31
Office of the Chief State Solicitor	
Costs Retained by State Solicitors	34
Garda Síochána	
Civilianisation	36
Stores	38
Prisons	
Management of Capital Projects	44

Environment and Local Government	
Controls over Local Authority Finances	47
Nugatory Expenditure	48
Motor Vehicle Duties	50
Education and Science	
Financial Controls at Schools	53
Financial Controls at Education Centres	53
Youth Encounter Projects	56
Agriculture and Food	
FEOGA Operations	59
Area Aid	59
Disallowances by EU	65
Irregularity	67
Redeployed Staff	69
BSE Outbreak at Moorepark	71
Social Community and Family Affairs	
Overpayments	73
Fraud or Suspected Fraud	75
Recovery of Overpayments	76
Prosecutions	77
Control Activities and Measures to Combat Fraud	78
Health and Children	
Recovery of Cost of Health Services	83
National Treasury Management Agency	
National Debt	86
Savings Bank Fund	90

GENERAL

1. Outturn for the Year

The audited accounts are summarised on pages *x* and *xi* of Volume 2. The amount to be surrendered as shown in the summary is £293.85m arrived at as follows:-

	£'000	Estimated £'000	Realised £'000
<i>Gross Expenditure</i>			
Original Estimates	12,827,027		
Supplementary Estimates	<u>432,229</u>	13,259,256	12,968,938
<i>Deduct:-</i>			
Appropriations in Aid	1,152,216		
Supplementary Estimates	<u>3,211</u>	<u>1,155,427</u>	<u>1,158,959</u>
		12,103,829	11,809,979
Amount to be Surrendered		£293,850	

This represents 2.43% of the supply grant as compared with 1.45% in 1996.

2. Extra Exchequer Receipts

Extra Receipts payable to the Exchequer as recorded in the Appropriation Accounts amounted to £79,866,995.

3. Surrender of Balances of 1996 Votes

The balances due to be surrendered out of Votes for Public Services for the year ended 31 December 1996 amounted to £160.334m. I hereby certify that these balances have been duly surrendered.

4. Stock and Store Accounts

The stock and store accounts of the Departments have been examined with satisfactory results subject to the matters referred to in paragraph 24.

5. Overtime

Public financial procedures as prescribed by the Department of Finance require that each Appropriation Account shows the total amount charged to the Account in respect of overtime, the numbers who were paid overtime and the highest individual overtime payment.

The following tables give an analysis of overtime payments for the three years 1995 to 1997

Table 1 - Overtime Payments

Vote	1995 £m	1996 £m	1997 £m
Revenue	4.4	4.7	4.6
Garda Síochána	16.8	37.7	44.2
Prisons	16.3	18.6	28.8
Agriculture and Food	6.1	5.8	7.6
Social, Community and Family Affairs	3.1	2.8	2.8
All other votes where payments were less than £2m.	6.6	7.5	9.8
Total Overtime Paid	53.3	77.1	97.8

Table 2 - Overtime as a % of Pay.

Vote	1995	1996	1997
Revenue	4%	4%	4%
Garda Síochána	6%	12%	13%
Prisons	22%	24%	30%
Agriculture and Food	8%	7%	8%
Social, Community and Family Affairs	4%	3%	3%
Others (Average)	3%	3%	4%

Table 3 - Highest Individual Overtime Payments

Vote	1995 £	1996 £	1997 £
Prisons	36,253	38,488	38,378
Garda Síochána	19,260	30,882	26,564
Agriculture and Food	28,905	32,179	34,843
Marine and Natural Resources	14,770	13,813	34,599*
Revenue	14,579	26,158	18,128
Education and Science	8,903	11,175	18,318

* Includes arrears of £24,600 for the period October 1991 - December 1996

Vote 9. - Office of the Revenue Commissioners

6. Revenue Account

Basis for Audit

An account showing all revenue received and paid over to the Exchequer by the Revenue Commissioners is furnished to me annually. I am required under Section 3 of the Comptroller and Auditor General (Amendment) Act, 1993, to carry out such examinations of this account as I consider appropriate in order to satisfy myself as to its completeness and accuracy and to report to Dáil Éireann on the results of my examinations. The results of my examinations have been generally satisfactory, except for the matters referred to in paragraphs 15 and 16.

I am also required under Section 3 of the Comptroller and Auditor General (Amendment) Act, 1993, to carry out such examinations as I consider appropriate in order to ascertain whether systems, procedures and practices have been established that are adequate to secure an effective check on the assessment, collection and proper allocation of the revenue of the State and to satisfy myself that the manner in which they are being employed and applied is adequate. Paragraphs 13 to 17 refer to matters arising from this examination.

Revenue Collected

Revenue collected under its main headings was as follows

	1997 £m	1996 £m
Income Tax	5,208	4,579
Value Added Tax	3,707	3,109
Excise	2,523	2,304
Corporation Tax	1,697	1,428
Stamps	424	332
Customs	180	163
Capital Acquisitions Tax	89	82
Capital Gains Tax	132	84
Residential Property Tax	3	14
	£13,963m	£12,095m

The amount paid into the Exchequer was £13,976m leaving a balance of £11m prepaid to the Exchequer compared to a balance of £2m owing at the end of the previous year.

7. Write-Offs

The Revenue Commissioners have furnished me with details of taxes written off during the year ended 31 December 1997. The total amount written off is made up as follows

Tax	1997 £,000	1996 £,000
Value Added Tax	73,702	38,244
PAYE	61,625	29,998
Corporation Tax	40,801	12,237
Income Tax	47,343	8,781
Health/Social Insurance- Self employed	55,183	-
Other Taxes	2,495	1,473
	281,149	90,733

The distribution according to the grounds of write-off is

	1997 £,000	1996 £,000
Liquidation/Receivership/Bankruptcy	152,008	43,501
Ceased Trading	20,855	37,940
Uneconomic to pursue	77,806	-
Unfounded Liability	19,594	-
Cannot be traced/Outside Jurisdiction	4,889	6,101
Compassionate Grounds	2,938	2,643
Examinership	3,059	548
	281,149	90,733

The large increase in the amounts written off is due to a revision of the Commissioners' write-off policy with a view to deleting from their records the large amount of debts which are old and regarded as uncollectable and, in the case of estimated assessments likely to overstate the actual liabilities. The objective of the programme, which will take a number of years to complete, is that the debt showing on the books will be more realistic and in large measure collectable, and enable resources to be better targeted and more effectively deployed in collecting arrears. The additional amount written off in 1997 under the programme was approximately £194m *viz.*

- £97.4m was written off on an automated basis comprising Income tax (Estimated Liability) £19.6m, Income Tax (Declared Liability) £18.7m, Corporation Tax £3.9m, and pre-1988 Health Charges and Social Insurance contributions for the self employed £55.2m.
- £8.9m was written off as a result of the change in policy whereby amounts owing by companies in liquidation are written off at the beginning rather than at the end of liquidation proceedings.

- Enhanced efforts were also put into the task of reviewing the debt showing in respect of companies in liquidation and arising from this an additional £88m was written off in 1997. An amount of approximately £95m still remains on the books in respect of amounts owing from companies in liquidation which is intended to be written off over a number of years.

Details of taxes automatically written off amounting to £42.2m were retained by Revenue in paper copy rather than computer format and because of the volume of such write-offs it would be difficult to determine with accuracy the number of cases involved without extra work being undertaken. For this reason, the number of items making up the amounts written off is not presented in the Report, unlike previous years' Reports. Revenue have agreed to my request that such automated write-offs will be retained in computer format in future years.

I have made a test examination of the cases and I am satisfied with the action taken.

8. Outstanding Taxes and Levies

Table 4 was prepared on the basis of information furnished by the Revenue Commissioners and reflects the activities and transactions in the twelve month period ended 31 May 1998 - the latest date for which data was available at the time of finalising my Report.

Table 4 - Outstanding Taxes and Levies

	Balance at 31 May 1997 £m	Charges/ Estimates Raised ^a £m	Paid £m	Discharged £m	Balance at 31 May 1998 £m	Estimate of amount likely to be collected £m
Income Tax (Excluding PAYE) ^b	673	1,145	1,182	81	555	249
VAT (Declared Liabilities Net of Repayments)	159	3,184	3,245	-	98	38
VAT (Estimates) ^c	172	68	89	-	151	15
PAYE (Declared Liabilities)	123	4,059	4,091	-	91	59
PAYE (Estimates) ^c	71	71	98	-	44	11
PRSI (Declared Liabilities)	143	2,012	2,050	-	105	55
PRSI (Estimates) ^c	51	13	31	-	33	7
Corporation Tax	231	1,887	1,788	146	184	74
Capital Gains Tax	56	125	124	9	48	13
Capital Acquisitions Tax	3	106	95	-	14	7
Abolished Taxes	8	1	1	2	6	3
Total	1,690	12,671	12,794	238	1,329	531^d

Notes:

- Net of write-offs*
- Includes Deposit Interest Retention Tax, Withholding Tax, PRSI for the Self-employed, Health Contributions and Levies.*
- Net of discharged estimates.*
- The estimate of the amount likely to be collected takes into account factors such as :*
 - anticipated reductions of estimated amounts included in balances brought forward from previous years.*
 - the level of liquidations and business closures.*
 - historical collection patterns.*

9. Sheriffs and other Enforcement Measures

The Revenue Commissioners have supplied the following information regarding the collection of taxes from recalcitrant taxpayers in 1997:

Sheriffs

Tables 5 and 6 summarise the results of enforcement action taken by Sheriffs on foot of certificates issued under Section 962 of the Taxes Consolidation Act, 1997 (formerly Section 485 of the Income Tax Act, 1967).

Table 5 - Certificates

		No of Certificates	
		1997	1996
On hands of Sheriffs at 1 January		35,097	40,293
Referred to Sheriffs during the year		63,057	82,234
		98,154	122,527
Returned paid	21,265		
Certificates withdrawn - alternative agreements with Revenue	22,164		
Returned unaccompanied by payment	32,153 ^a	75,582	87,430
On hands of Sheriffs at 31 December		22,572	35,097

^a *These arise where*

- *tax returns or claims for repayment are later submitted*
- *companies have ceased trading or have left the address*
- *no distrainable goods are available*

Table 6 - Analysis under tax heads of certificates on hands

	No of Certificates	Value £m
Value Added Tax	9,191	26
PAYE/PRSI	6,654	28
Income Tax	6,159	18
Corporation Tax	446	1
Others	122	1
	22,572	74

The amount paid over to the Collector-General in 1997 by the Sheriffs was £58m compared to £60m in 1996. The Commissioners attribute the continuing diminishing return from sheriffs to changes in debt collection strategy introduced during the past five years. One of the main changes introduced was the Active Intervention Management (AIM) system in 1995 which placed an emphasis on caseworking rather than a computer driven process approach.

Under this strategy sheriff action is regarded as a final enforcement option after all other measures have failed, and the former practice of routinely and repeatedly referring cases to sheriffs has been discontinued. A key objective of the new caseworking approach is to pursue cases to finality through making the defaulting taxpayers compliant or, in the event of this not being possible forcing them out of business. This approach means that the sheriffs are now used much more selectively than in the past and is the main reason for the significant drop in the numbers of cases referred to sheriffs and in the revenues collected by them.

Solicitors

Two firms of solicitors are retained by the Revenue Commissioners to pursue cases which are deemed unsuitable for sheriff enforcement. In 1997 a total of 4,018 items (3,893 items in 1996) were referred to the two firms and the yield was £9m (£8.6m in 1996). The Revenue Solicitor also pursues certain cases for recovery of tax. 161 items (112 items in 1996) were so referred in 1997 and the yield was £0.9m (£0.3m in 1996).

Attachment Orders

In 1997, power to attach amounts owed by third parties to tax defaulters was successfully used in 186 cases (148 cases in 1996) resulting in a yield of £2.9m (£1.4m in 1996).

10. Taxpayer Compliance with Self Assessment Requirements

The rate of taxpayer compliance with the requirements of the self assessment system in terms of returns submitted up to 31 May 1998 was :

Year ended 5 April				
Income Tax	1993/94	1994/95	1995/96	1996/97
No of Returns issued	241,353	258,046	266,163	272,787
% Received 31/5/95	82%	*	*	*
% Received 31/5/96	92%	79%	*	*
% Received 31/5/97	96%	91%	84%	*
% Received 31/5/98	98%	94%	93%	86%

Year ended 31 December				
Corporation Tax	1993	1994	1995	1996
No of Returns issued	69,047	71,671	73,131	74,518
% Received 31/5/95	70%	*	*	*
% Received 31/5/96	79%	73%	*	*
% Received 31/5/97	82%	79%	74%	*
% Received 31/5/98	83%	82%	81%	77%

*- not applicable

Details of prosecution action in 1997 for failure to file Income Tax and Corporation Tax returns is as follows :-

	Income Tax	Corporation Tax	Total
Cases awaiting court hearing 1 January 1997	493	161	654
Legal proceedings instituted	<u>591</u>	<u>329</u>	<u>920</u>
	1,084	490	1,574
Cases heard	<u>223</u>	<u>68</u>	<u>291</u>
Cases awaiting court hearing 31 December 1997	861	422	1,283

Fines were imposed in all cases heard to a total value of £174,060 in 1997.

11. Revenue Audit Programme

An effective tax system must incorporate procedures for verifying the validity of the returns submitted by taxpayers. This involves the desk checking of returns for completeness, accuracy and reasonableness and on-the-spot inspection of documents and records.

The majority of audits carried out by the Revenue Commissioners are specific to taxheads, like VAT and PAYE, but a significant number of comprehensive audits are also carried out which may focus on all or any taxes payable but in practice are primarily aimed at Income Tax, Corporation Tax and Capital Gains Tax. There is also a body of work which comes under the general category of Revenue audit arising out of the activities of the investigation and anti-avoidance branches.

Revenue audit activity is a key element of the tax collection system and in this context I noted that the number of audits completed by Revenue had fallen from 19,767 in 1996 to 18,762 in 1997 while there was a reduction in the tax yield from £141m to £131m. In 1995, 23,294 audits were carried out yielding £148m. The outcome of the Revenue audit programme is summarised in Table 7.

I was informed by Revenue that the reduction in the number of audits and the audit yield in 1997 compared to 1996 was mainly due to:

- A reduction of 13 in the number of staff conducting Comprehensive, VAT and PAYE Employers audits. These staff were re-deployed to the Compliance and Criminal Assets Bureau areas.
- A learning period for the 11 newly trained auditors who carry out audits on computer systems to identify areas of Revenue risk.
- The re-deployment of 9 staff in Investigation Branch from investigative duties to a dedicated Prosecution Policy Unit.
- The temporary deployment in the last quarter of 1997 of 12 Relevant Contracts Tax auditors to man Revenue's nationwide operation to monitor tax compliance in the construction industry.

Table 7 - 1997 Revenue Audit Programme

(i) Audits Completed

Audit Type	1997		1996	
	No. of Audits Completed	Yield £m	No. of audits Completed	Yield £m
Comprehensive Audits	3,635	60.10	3,969	69.21
Value Added Tax	7,764	38.93	8,424	33.04
PAYE Employers	5,095	14.10	5,358	19.54
Capital Acquisitions Tax	315	3.30	315	2.60
Relevant Contracts Tax	1,856	8.10	1,582	7.99
Investigation Branch	77	3.71	90	5.95
Anti - Avoidance	20	2.40	29	2.42
Total	18,762	£130.64m	19,767	£140.75m

(ii) Comprehensive Audit Results

As part of the self assessment system comprehensive audits are carried out following review of returns made for Income Tax and Corporation Tax purposes. The result of this audit activity is as follows:

Audit Activity	Total		Income Tax Returns		Corporation Tax Returns	
Audits in progress at 1/1/97	2,087		1,237		850	
Audits initiated in 1997	<u>3,387</u>		<u>2,440</u>		<u>947</u>	
Total		5,474		3,677		1,797
Returns accepted	808		525		283	
Cases closed with additional liability	<u>2,827</u>	3,635	<u>2,059</u>	2,584	<u>768</u>	1,051
Referred to Investigation Branch		31		21		10
Audits in progress at 31/12/1997		1,808		1,072		736

(iii) Yield from Comprehensive Audits

Income Tax Returns		No.	As % of Total	Yield £	As % of Yield
Returns Accepted - No additional tax payable		525	20	-	-
<i>Agreed Settlements</i>					
£1 - £5,000	930		36	2,209,679	8
£5,000 - £50,000	983		38	14,299,145	51
£50,000 - £100,000	57		2	3,959,974	14
Over £100,000	<u>23</u>	1,993	1	6,961,318	25
<i>Referred to Collector General for enforcement action (a)</i>		20	1	317,882	1
<i>Settled by Restriction of Losses Carried Forward to Future Years (b)</i>		46	2	410,812	1
Totals		2,584	100	28,158,810	100

Corporation Tax Returns		No.	As % of Total	Yield £	As % of Yield
Returns Accepted - No additional tax payable		283	27	-	-
<i>Agreed Settlements</i>					
£1 - £5,000	264		25	754,474	2
£5,000 - £50,000	377		36	7,026,908	22
£50,000 - £100,000	51		5	3,438,167	11
Over £100,000	<u>42</u>	734	4	16,727,617	53
<i>Referred to Collector General for enforcement action (a)</i>		6	1	429,843	1
<i>Settled by Restriction of Losses Carried Forward to Future Years (b)</i>		28	2	3,562,340	11
Totals		1,051	100	31,939,349	100

- a. Where the Inspector is unsuccessful in collecting the additional tax and interest arising on audit adjustments, the amounts are referred to the Collector General. It is likely that the amounts eventually collected by the Collector General will be significantly less than the full amounts shown.
- b. A number of audit settlements involve the restriction of losses available for carry forward against future years' profits, thereby providing higher tax yield in those years. The yield shown assumes that taxable profits in future years will fully absorb the losses. This may not always be the position and hence the yield figure may be less than the figure shown.
- c. The amount of the highest individual settlement in 1997 was £3,374,495 and arose in respect of a Corporation Tax audit.
- d. Interest charges of £7.63m and penalties of £4.22m are included in the yield from agreed settlements.

(iv) Random Audits

As part of the 1997 Audit Programme, a total of 68 random audits were completed. Additional liabilities of £115,435, including £32,057 in penalty and interest charges, were assessed in 25 cases while the returns of the remaining taxpayers were accepted as originally submitted.

(v) Arrears of Tax collected by Auditors

In addition to the yield collected by auditors on adjustments made to tax returns, they also collect any arrears of tax already on record with interest. This amounted to £22.2m in 1997.

12. Investigation Branch Settlements and Prosecutions

Audits carried out by Revenue staff on taxpayers may reveal underpayments of tax due to inaccurate records, incorrect application of taxation rules and regulations and other factors. A settlement in relation to the taxes underpaid and interest and penalty charges arising is generally reached on audit between the taxpayer and Revenue staff. However, where evidence of systematic or widespread evasion of tax comes to the attention of Revenue, either through audit or from other sources, the cases are referred to their Investigation Branch. Where such investigation reveals that a taxpayer has failed to disclose relevant information, resulting in an underpayment of tax, legal proceedings may be instituted against the taxpayer. Alternatively, the Revenue Commissioners may agree to accept from the taxpayer a sum in settlement of the tax outstanding with the addition of interest and penalty charges.

Early in 1997 the Revenue Commissioners completed a reorganisation of the Investigation Branch, concentrating the preponderance of the staffing resource in pursuing a prosecution strategy in contrast to the previously prevailing policy of accepting monetary settlements in virtually all cases. The continuing reduction in both the number of investigations completed and the yield therefrom is a direct consequence of this change in emphasis.

During 1997, investigations were completed in 77 cases, 24 of which resulted in back-duty settlements amounting to £3,712,897 (90 cases in 1996 of which 47 yielded £5,949,172) becoming collectable inclusive of £1,462,818 (£1,043,743 in 1996) in penalty and interest charges.

The Accounting Officer supplied me with the following information in relation to prosecutions in 1997:

Cases on hands at 1 January 1997	14
Cases referred for consideration for prosecution in 1997	18
Cases dropped due to lack of evidence	6
Cases brought to Court in 1997	3
Cases on hands at 31 December 1997	23

Of the 23 cases on hands at the year end, 20 were still being examined and decisions to prosecute had been made in three cases.

Of the cases brought to Court in 1997 all three resulted in successful convictions. A fine of £500 was imposed in one case and disqualification to act as a director of a company as well as a suspended prison sentence of six months was imposed in a second case. In a third case a fine of £12,000 was imposed on a company and a two years suspended prison sentence imposed on a director of the Company.

13. PAYE Audit

Following a review by my staff of PAYE audit arrangements, a number of matters were raised with the Accounting Officer.

Case Selection for Audit

Screenings of taxpayers' returns for possible audit by Revenue were all performed manually. It would appear that the screening process could be more efficient and effective if computer power was harnessed to process the vast amount of computerised information held on taxpayers. The development of appropriate computer programmes to automatically identify taxpayers falling within predetermined selection criteria would release for other tasks the significant amount of manpower currently employed in carrying out this work manually.

The Accounting Officer stated that the computerisation of the screening process was desirable and that this was being actively considered as a development to the Common Registration System and the Active Intervention Management (AIM) system. In the meantime, a computerised system was being put in place to record the results of further in-depth secondary screening carried out before final selection for audit. The feasibility of introducing a computer assisted risk rating system for audit case selection had been under active consideration for some time. The internal research had been completed and the compatibility of such a system with existing developments in the Consolidated Tax Project was currently being evaluated.

Recording Audit Results

There appeared to be scope for improving the way details of audits were recorded and classified as a means of refining audit selection strategy.

The Accounting Officer informed me that as a development under AIM, a proposed computer analysis facility would, when available, record the basis for case selection and the causes of underpayments identified on audit. It would then be possible to analyse the audit results and to identify the circumstances which occur most frequently and which give rise to the highest yields as a means of better informing audit strategy. However, because of pressure on computer development for Year 2000 and the Euro it would be some time before the facility would be available countrywide.

Imposition of Penalties

Where underdeclarations of taxes are discovered on audit, mitigated penalties of £120 are usually imposed under Section 987 of the Taxes Consolidation Act, 1997, (previously Section 128 of the Income Tax Act, 1967), on the grounds that taxes had not been paid when due. Whereas tax legislation provides for significant penalties in respect of underdeclarations in respect of Income, Corporation and Value Added Taxes amounting to 100% of the tax where the underdeclarations are attributed to negligence and 200% if they are fraudulent, no such penalties are provided for in relation to underdeclarations of PAYE and PRSI.

The Accounting Officer stated that the Tax Acts provided for a wide range of penalties for non-compliance and tax evasion. Some of these were civil penalties and others were criminal in nature under which a person found guilty could be subjected to a fine or imprisonment or both. Because the civil penalties in relation to the various taxes were developed at different times some inconsistencies had emerged which would be considered in the context of the 1999 Finance Bill. Criminal penalties were, by contrast, more consistent and applied to a range of taxes including PAYE/PRSI, and they were for the most part covered by Section 1078 of the Taxes Consolidation Act, 1997, and could only be applied by the Courts and be pursued under Revenue's prosecution programme in appropriate cases.

Duration of Audits

As the average duration of a PAYE/PRSI audit is about two to three days, I sought assurances from the Accounting Officer that the audits were of sufficient depth and penetration to afford a reasonable chance of detecting any significant tax evasion that may be taking place, and that the level of resources committed to PAYE and PRSI audits, and Revenue audits generally, was adequate.

The Accounting Officer informed me that a majority of businesses were small family-owned enterprises, and experience had shown that a 2-3 day audit was sufficient for the normal low risk that such cases presented, but that the duration of the audit would be extended for periods of up to 10 days approximately where significant risks were identified. He stated that where there was a likelihood of significant evasion, the case would be referred for a comprehensive audit to examine the risks under all taxheads. He was satisfied that the length of audits was adequate to deal with the tax risks.

He also stated that approximately 6% of taxpayers had their returns examined under at least one of the main audit programmes - Comprehensive, VAT, RCT and PAYE/PRSI - in both 1996 and 1997 and that most employers with any significant PAYE/PRSI exposure had been audited. He was satisfied with this level of audit coverage.

14. PAYE Compliance

Employers are required to pay to the Revenue Commissioners the net amount of PAYE and PRSI deducted for the relevant income tax month by the following nine days. The income tax month runs from the sixth day of a calendar month to the fifth day of the following calendar month. Section 987 of the Taxes Consolidation Act, 1997, (previously Section 128 of the 1967 Income Tax Act), provides for the imposition of a £1,200 fine for the failure to pay over the monthly amounts of taxes due by the statutory dates. Compliance has been improving in recent years as Table 8 indicates.

Table 8 - Monthly Returns Compliance - All Cases

	1993	1994	1995	1996*	1997*
	%	%	%	%	%
Due Month	31	37	41	43	49
Due month + 1	52	56	57	58	61
Due month + 2	61	65	66	65	67

* Data in respect of 1996 and 1997 are not directly comparable with the data from earlier years. The basis of measuring compliance was improved in 1996 to take account of taxpayers paying by Direct Debit and of returns received on the last day of the month.

The percentages for compliance are much higher for large liability employers as Table 9 indicates.

Table 9 - Monthly Returns Compliance - Large Liability Cases

Payment Case Size	1996			1997		
	Due Month %	1 Month late %	2 Months Late %	Due Month %	1 Month Late %	2 Months Late %
>£25,000 per month	84	95	97	87	96	98
£10,000 - £24,999 per month	73	89	93	80	92	94
£7,000 - £9,999 per month*	n/a	n/a	n/a	74	89	n/a

* Caseworking was extended to these cases in 1997.

The Accounting Officer attributes the high level of compliance for large liability employers to the success of Revenue's caseworking approach and it is intended to extend this approach to further groups of cases as resources allow. He informed me that the general improvement in compliance also reflects:

- the raising of interest charges and ensuring such charges are paid, which is facilitated by the caseworking approach.
- ongoing initiatives to promote voluntary compliance through Revenue's customer service approach.
- significant investment in information technology and in staff training.

In response to my inquiries the Accounting Officer stated that:

- The Commissioners were generally satisfied that the procedures and legal powers in relation to the collection of PAYE/PRSI were adequate.
- The charging of interest was regarded as the most efficient and effective deterrent to late payment, and that any proposal to give the Commissioners powers to levy penalties directly for late payments rather than having to prosecute through the Courts would require careful consideration.
- Varying the level of penalties in line with the amounts of tax outstanding was currently under review with regard to the submission of end of year PAYE/PRSI Returns.
- The Commissioners considered that interest should be applied where possible to late payers, but that the application and collection of interest charges was resource-related. However the levying of interest charges was being progressively extended through the various case sizes.
- Revenue now had the necessary management information tools to identify at an early stage employers who continuously or regularly defaulted. The action taken against such employers was determined by the frequency and extent of default, and the revenue at risk and would include, where appropriate, stringent enforcement action.
- Although no employers had been prosecuted in 1997 for late payment of their monthly PAYE/PRSI, a significant number of employers had been prosecuted each year for failure to file their end of year P35 Returns. However, prosecution would not be practicable as the general method of countering late payment for any sizeable number of cases, as neither Revenue or the Courts could cope with such an approach.
- The question of putting the monthly return on a more formal legal footing would be kept in mind in the context of future changes to the tax system.

15. Value Added Tax (VAT)

The VAT ledger records the VAT receipts due from taxable persons and the amount received in respect of this liability.

In the course of audit many accounts were noted where the amount received from the taxpayers exceeded the liability recorded. The total value of these account surpluses was £73.8m. In several cases the apparent overpayments were long standing. The audit findings indicated that a significant proportion of the total did not represent actual overpayments but may have been due to repayments or returns not having been posted to the ledger, accounting adjustments not having been made in respect of offsets against other taxes, and other bookkeeping errors.

In response to my inquiries the Accounting Officer informed me that:

- The detailed requirements for a control account which would reconcile all input transactions for tax charges and payments to the total changes on taxpayer accounts were currently being examined so as to consider the feasibility of including this feature when VAT was being incorporated into the integrated taxpayer computer system.
- Resource levels prevented a systematic review of all apparent overpayments on record, but cases were reviewed on a day to day basis as they were encountered through normal caseworking and, in addition, all large apparent overpayments were reviewed on a regular basis. While he was satisfied that this approach represented the most effective use of available resources, he accepted that there was a need to try and identify genuine overpayments more systematically and accordingly he was making the necessary arrangements to carry out a review of procedures to deal with the issue.
- Where a taxpayer submits an application for a refund of an overpayment, the application was processed and the circumstances of the case examined, and a refund would be made where appropriate. However, if there were doubts as to the validity of the claim, the Inspector of Taxes would be requested to carry out an inspection and certify that the refund was in order.
- While it was impossible to say how much of the apparent overpayments were genuine, he was satisfied that the vast majority of cases did not represent actual overpayments.

16. Capital Acquisitions Tax (CAT)

Capital Acquisitions Tax (CAT) is a composite term which covers Probate Tax, Inheritance and Gift Tax and Discretionary Trust Tax. In 1997 the yield from CAT was £89m. The following matters noted on audit were brought to the attention of the Accounting Officer:

Administration Controls

Up to 1995 the administration of CAT was manually based but in that year a computer system was installed to keep a record of each individual payment in respect of any new case opened after mid June 1995. The system was primarily designed as an enquiry and cash accounting system, as

well as a management information tool. It was never intended to replace the paper files as records of individual cases. The volume of transactions and numbers of users have grown since 1995 and a more sophisticated system is now required.

The Accounting Officer informed me that the CAT computer system is an RSI number based system. Prior to its introduction there was no requirement to furnish the RSI numbers of donors and taxable beneficiaries. It was not feasible given the resources available at the time to convert old files into RSI computer-based records, which would also have required correspondence with taxpayers or agents. In any event, the number of cases opened pre-1995 which remain active is decreasing.

The overall aim is a fully integrated networked computer system, serving the whole of Capital Taxes Division. It was recognised, however, that such a project in its entirety would take some time to develop especially in the light of the pressure on resources from more urgent requirements. Therefore, it was decided to develop the system on an incremental basis. To this end, the processes of the Division were examined in detail, and those areas which had the heaviest volumes of work, and which had to put most manual effort into keeping track of outstanding cases and producing management information, were identified as the areas which would benefit most from interim computer support. The fact that these areas were also the areas in which most cases started and finished their life cycle served to reinforce this decision. As and when resources become available, it is intended that the final stage of the integrated system will be added.

He was satisfied that the current system had been a useful development and met the purposes for which it was introduced.

Assessment and Collection Procedures

A review of the assessment and collection procedures for CAT revealed some shortcomings including:

- lack of supervisory checks on closed cases
- control weaknesses over the refund of tax
- inadequacies in controls over certificates of discharge i.e. certification that all due capital taxes have been paid on particular properties
- lack of assurance that all receipts issued are in respect of amounts received.

In response to my inquiries the Accounting Officer stated that:

- Cases are dealt with by different officers at various stages of the processing system which of itself provides for an element of control and allows for discrepancies to be identified and acted upon. It is accepted that a more rigorous control and checking procedure at supervisory level in relation to closed cases is desirable. Random supervisory checks were carried out in the past, but lapsed due to increased work pressures, mainly arising from the move to an RSI number based filing system. These random supervisory checks of closed cases have now been reintroduced. In addition, the use of the CAT computer system to allow for more focused quality control checks will be investigated. A detailed case by case supervisory check of closed

cases would be resource intensive and could not be justified on cost grounds. Random supervisory checks are considered to be the better value for money approach.

- For every case for which a refund is required a warrant is completed and approved by an official with the necessary authorisation. It is sent to the Accountant General's Office which issues the payment order directly. Under the arrangements Capital Taxes Division are not notified when refunds are actually paid, but following my audit these arrangements will be reviewed. Since the audit all the refund warrants are being sequentially numbered, monetary limits for the authorisation of refund warrants are being strictly adhered to and a direction has issued to all staff in this regard.
- While he recognised that there were some inadequacies in the certificates of discharge area, he considered the controls in place generally to be adequate. Nevertheless, a full review of the entire system of certificates of discharge, including security aspects, is scheduled to commence shortly.
- More systematic checks on unaccounted for receipts are being introduced and the result of such checks will be recorded.

Cash Controls

In general the post was opened by personnel who were also involved in the maintenance of the taxpayer ledger records. After recording in the taxpayers' ledger accounts the cheques are taken to the cash office for lodgment to Revenue's bank account. No records were kept of the number and amount of cheques received at the post opening stage for reconciliation with the number and amount of cheques processed and lodged at the bank.

As it was my view that the procedures represented a control risk, particularly bearing in mind the large amount of moneys received, (£89m in 1997) I sought the views of the Accounting Officer.

The Accounting Officer stated that the current policy was to process payments received in a secure and timely fashion in order to maximise same-day value for the Exchequer, while maintaining a timely and accurate updating of the taxpayer record. He considered that recording the number and amount of cheques in the post room would impede productivity and delay lodgment to the Exchequer. He stated that a balance had to be struck between the timely processing of payments and the extent of the checking and recording procedures, and that in his view the current supervisory controls and procedures had, generally speaking, got the balance right. However, he also stated that the matter would be given further consideration in the proposed review of procedures.

Revenue Audit

Underdeclared tax (including interest, penalties and surcharges) of £3.4m was discovered by the three person audit unit in 1997. While no precise figures were available, my staff were informed that there were underpayments in 70% to 80% of cases audited.

In view of the high level of underdeclarations discovered, I asked the Accounting Officer if he was satisfied that an adequate number of staff were employed on audit to ensure an acceptable level of tax compliance.

He stated that the high yield for audit cases was a reflection of the fact that the audit selection was primarily targeted rather than random in nature, and on that basis it was considered that the number currently engaged on this work was adequate, considering overall resources and demands on the Office. The number and grade of staff working on audit and investigation activities was regularly reviewed.

Penalties

The Capital Acquisitions Tax legislation provides for severe penalties for not submitting CAT returns or for making incorrect returns.

I sought information from the Accounting Officer as to the circumstances under which penalties were applied, the level of penalties imposed in 1997, and inquired if he was satisfied that full use was made of the Commissioners' powers to impose penalties to ensure that there was a real and effective deterrent against the evasion of CAT.

The Accounting Officer stated that penalties were applied in clear cases of negligence, and that such cases, which were few in number, mainly came to attention during audit and investigation work. In practice, when reaching a settlement with the taxpayer, a compromise figure was agreed which included the full tax and interest together with an amount for penalties. A number of such settlements have been reached in the past but none in 1997. He assured me that the level and application of penalties would be kept under review.

He also stated that the general practice had been to use the threat of Court proceedings as a means of securing compliance and this had proved to be largely effective. Legal proceedings would, of course, be instituted if necessary.

17. Excise Duty - Wines and Spirits

During 1997, £208m was received in excise duties relating to Wines and Spirits. The following matters were noted by my staff during the course of an audit of these duties and were brought to the attention of the Accounting Officer:

Revenue Audit

The Commissioners have traditionally relied on bonded warehouses to ensure the collection of the great bulk of excise duties. Under this system, excisable goods are required to be stored in bonded warehouses and the movement of goods into and out of the warehouses is monitored by Customs and Excise staff to ensure that the correct duty is paid on all product released from the warehouses on to the open market. Products are monitored by physical checking of goods and by checks against shipping and customs documentation. Heretofore it has not been considered necessary to have any cross checks performed against the commercial and accounting records of

traders or their audited accounts. The system was very effective in an era when tight controls could be operated at ports and along the border, and when the relatively low volume of trade permitted significant checks to be carried out on goods entering the country. However, since 1993 with the advent of the Single Market in the EU and the dismantling of trade barriers, the Irish customs authorities are severely constrained in the physical checks they can carry out on goods being imported from other EU member states. Moreover, there has been a huge increase in the volume of imports both from other EU states and from countries outside the EU. These developments have somewhat weakened the effectiveness of the bonded warehousing system as traditionally operated to ensure the collection of all due excise duties on certain goods such as wines and spirits. For these reasons the Commissioners have recently decided to introduce an audit based system, whereby the commercial and accounting records of warehousekeepers would be periodically examined and cross checked against warehouse records and excise returns.

The Accounting Officer supplied me with the following information in relation to the prospective audit based system:

- The process of moving to an audit based system was well under way, the working arrangements for the new system had been specified and the task of meeting the warehousekeepers to outline the new requirements had commenced. These meetings would initiate the process of assessing, in collaboration with warehousekeepers, the extent to which their existing systems needed to be modified to meet the new requirements. The existing control regime in warehouses would only be removed when their accounting and other control systems and procedures were satisfactory from a Revenue perspective. Because some warehousekeepers would be better placed than others to meet the requirements, it was not possible to state when all warehousekeepers would be ready for the new procedures, but it was intended that they would all be ready by December 1998.
- The staffing requirement had been identified and arrangements were in hand to provide the appropriate training.
- It was not considered appropriate to introduce a methodology for extrapolating sample audit findings. In a situation where audit results suggested that a full examination of all transactions was warranted then that would be done, particularly if there was any suggestion that duty liabilities had been underdeclared. Procedures would be kept under review in the light of audit experience.

Checking of Goods

It was noted that the level of checks on goods entering warehouses provided for in the procedures were not being carried out in a warehouse examined by my staff and satisfactory evidence was not maintained of the checks actually carried out. Furthermore, the guidelines in relation to some checks were somewhat unclear and ambiguous.

The Accounting Officer stated that it had been recognised for some time that the level of checks, particularly in the case of intra-EU movements, should be reduced. The imminent changeover to an audit-based system would, in any event, mean that much less emphasis would be placed on such checks, although they would not be dispensed with entirely. As it had been planned for some time

to introduce audit based controls, piecemeal changes to existing staff instructions had been avoided pending the issue of new audit and administration guidelines. These guidelines, which were being prepared, would require that details of any checks carried out were recorded.

Consolidation of Legislation

As the legislation relating to excise duties is contained in a number of different statutes dating back to the early 19th century, I asked the Accounting Officer if the Commissioners would see any merit in reviewing and consolidating the legislation to ensure it was appropriate and effective in current circumstances and to facilitate staff in its application.

The Accounting Officer stated that the consolidation of legislation, including Excise legislation, had already been identified by Revenue as a key strategy in its corporate plan 1997 - 1999. A planned programme, which would include updating, was underway but it was likely to be at least three to four years before the process was fully completed. The plan provided for consolidation and modernisation of the hydrocarbon oil primary and secondary legislation for enactment in 1999, followed by general excise law in the year 2000, and alcohol law in 2001. He also stated that as an essential step, the various provisions of general excise law were being consolidated into a computer record, under a range of headings, and when this work was completed the information would be circulated for use as a reference source by staff.

Penalties and Interest

While Customs and Excise legislation provides for severe penalties in relation to underpayments of excise duties where the underpayments are considered to be fraudulent, no substantial penalties are provided for where underpayments are attributed to negligence, unlike the legislation relating to some of the main taxes such as VAT and Corporation Tax. Furthermore, existing excise legislation does not provide for the charging of interest for late payments of excise duty unlike tax legislation.

As I felt that penalties and interest could have an important deterrent effect against evasion and late payment I asked the Accounting Officer why they had not been provided for in legislation and if there were any plans to do so.

The Accounting Officer stated that the issue of civil penalties to deal with minor breaches of either the law or approval conditions, where there was no deliberate intent, had been considered. Such penalties would have application even where there was no late payment or underpayment of duty, and might deal with matters such as late submission of reports, or failure to keep adequate records. The charging of interest would be another option where an underpayment was involved. While there were arguments in favour of civil penalties and interest charges, it was considered that the introduction of such provisions should, if required, be proceeded with in the context of the planned review and updating of excise law over the next number of years.

Security Bonds

Warehousekeepers are obliged to pay their excise duties monthly and to furnish bonds to the Commissioners to guarantee payment of amounts outstanding. In response to my inquiries regarding the calculation of bond amounts the Accounting Officer stated that recommendations as to the size of bonds were made by highly experienced and expert officers. The primary concern

was to ensure that the bond was adequate to cover any potential risk. The Commissioners were satisfied that there was consistency in this procedure, having regard to the fact that no two warehouses presented identical risks. However, staff guidelines were being drafted which would codify the various factors to be taken into account in the calculation of bonds.

Vote 10. - Office of Public Works

18. Irregularity

Paragraph 24 of my 1995 Report referred to the discovery of irregularities which involved the unauthorised increase of rents payable by the Office of Public Works (OPW) on certain properties and the payment of those rents to spurious payees. The total value of the irregular payments was calculated at £176,805 covering five cases over the period 1984 - 1995.

After an internal investigation, OPW commissioned a firm of accountants to carry out an in-depth examination of the rental payment system. The firm reported in June 1996 that it found no evidence to suggest that the irregularities went beyond the five cases already identified by OPW.

However, in May 1998, the Accounting Officer informed me that the Gardaí had since drawn OPW's attention to transactions to a value of £16,401 which had come to light during their investigation of the irregularities. These transactions suggested that further irregularities may have taken place. OPW's subsequent examination established that the transactions were payments purporting to be for settlement of claims by landlords for maintenance works on rented accommodation. There was no evidence of actual claims on OPW's records to support the payments and, as with the irregular rental payments, the relevant papers were missing from Divisional files.

OPW then initiated an examination of all available accounts branch records for the period from 1981 for all payments of claims for additional maintenance works on rental properties and service charges. This examination revealed irregular payments totalling £185,918 covering dilapidations, rents and service charges. The Gardaí were notified of these payments and they now form part of the criminal investigation. OPW is satisfied that the payments are part of the original suspected fraud. The estimated total value of the discovered irregularities is therefore £379,124 which OPW feels is the full extent of the suspected fraud. The Accounting Officer has informed me that the likelihood is that the amount will be recovered in full.

19. General Payments System

Under a new payments system introduced by OPW in 1997 payments are made by the accounts branch on foot of instructions to pay from authorised officers (AOs). There are 247 AOs in the various divisions who are responsible for the validation and certification of payments and for completing a special instruction to pay form (ITP) which sets out details of payee, address, amount payable and the heading to charge the payment. The ITPs are checked by accounts staff for arithmetical accuracy and proper authority. The ITP is used as the exclusive basis for payment as no supporting documents are received from the AO.

An audit of the new general payments system by my staff revealed a number of weaknesses in the system of internal control.

- There were no effective compensating controls operated by accounts branch to counteract the non receipt of supporting documents from AOs.
- A creditors ledger and creditors control account are not maintained.
- In some cases an ITP sent to the accounts branch for processing contained multiple amounts which would appear to make it difficult to identify duplicate payments.
- The procedures for filing of invoices and supporting documentation vary between divisions. Whereas, in some divisions invoices are filed in alphabetical order, in other divisions they are filed on the main project files and this makes the audit trail more difficult to follow.

The associated control risks are:

- duplicate payments being made and remaining undetected
- payments being made for incorrect amounts
- credit notes received by AOs and not forwarded to accounts branch not being detected
- payments being made to incorrect suppliers
- irregular or fraudulent payments being made and remaining undetected

It was also noted in the course of audit that:

- In the first six months of operation of the new system 11 duplicate payments had been made with a total value of £17,639, one overpayment of £7,000 was made and one payment of £159 was paid to an incorrect supplier
- These duplicate and overpayments did not come to light as the result of effective internal controls but were brought to the attention of OPW either by the payees involved or by my staff.

I requested the Accounting Officer's observations on the audit findings and I inquired as to whether he was satisfied that all overpayments had been identified and recovered.

The Accounting Officer stated that:

- In OPW responsibility for ensuring that a proposed payment was in order had always rested in the appropriate line division and, ultimately with the certifying officer. Prior to the introduction of the new system, involving ITP, the accounts branch had a general and unspecified role in the examination of proposed payments. This was an unsatisfactory arrangement as it tended to blur the responsibility and accountability for the payment between line division and accounts branch.
- The method of authorising payments was reviewed in 1996/97. One of the principal aims of the review was to develop methodologies which would set out and explain explicitly the responsibility of the line divisions and certifying officers. Further considerations included the need to expedite the certification and payment procedures to ensure that OPW would be in

a position to comply with the Prompt Payments of Accounts Act and, also, to reduce the flow of paper between line divisions and the accounts branch.

- The review resulted in two important innovations - the simplification and dissemination to all staff of procurement procedures and the introduction of a new method of authorising payment based on ITP.
- A creditors ledger will form part of an integrated financial management system to be introduced into OPW.
- Line divisions are under clear instructions with regard to the need to retain and file in a retrievable format invoices, supporting documentation and copies of ITPs. There is no evidence to suggest that this is not being done. OPW would consider whether, and how, a uniform system of filing can be introduced throughout the office.
- In order to avoid the cost of issuing separate payments of small amounts to contractors, divisions were encouraged where practicable to group multiple invoices under one ITP form. This makes the identification of duplicate payments more difficult. OPW will examine the feasibility of extending the use of petty cash accounts to make small payments.

The Accounting Officer pointed out that

- The overpayments and duplicate payments were attributable to human error at a time when new and inexperienced staff had been recruited for the decentralisation of the accounts branch to Kilkenny and they were not fully familiar with the workings and requirements of the new system. The level of errors and irregularities can be reduced by ensuring that staff in the process are fully familiar with and accept their individual role and responsibility.
- The duplicate payments or overpayments had to be seen in the context of a total of some 26,000 ITP payments in the year. Nevertheless, OPW is introducing, from May 1998, computer software designed to identify all payments for the same amount to any payee. All payments made since the introduction of the ITP system would be examined and all future payments will be similarly vetted.
- The internal audit section was involved in the consultation process concerning the changes in the method of payment and an external firm of accountants was commissioned in December 1997 to assess whether the control procedures introduced are appropriate and conform with best practice and are operating properly. This report is awaited.

The Accounting Officer concluded that the ITP document in its present format and procedures can, and will be altered in the light of ongoing experience. He fully realises that this can only form part of a comprehensive, integrated accounting system which can track orders from the placing of contract through to payment stage. It is OPW's intention, when resources permit, to acquire a customised accounting and financial management system capable of meeting the requirements of the organisation. Regardless of the system which might ultimately be acquired he considered that as a basic requirement the line divisions would retain clear and full responsibility for the

authorisation of payments. This clarity of function was in line with the Strategic Management Initiative principles and he intended to retain it.

20. Payroll Deductions

Employers are obliged to pay to the Collector General of the Office of the Revenue Commissioners (Revenue) the net amount of PAYE and PRSI deducted within nine days of the end of each income tax month. In April each year employers are also required to send to Revenue a return (P35) for the previous tax year showing total PAYE/PRSI deductions from each employee for the tax year and amounts remitted during the year.

During the course of audit it was noted that:

- Monthly amounts paid over to Revenue during 1997 did not always correspond to the monthly deductions with the result that at the end of the financial year, 31 December 1997, the payroll deductions accounts showed that £875,203 in PAYE/PRSI remained to be paid over, whereas calculations carried out by my staff revealed that had deductions been paid over, as required, the amount would have been £648,649.
- The P35 returns for the tax years ending 5 April 1997 and 5 April 1998 disclosed that substantial balancing payments of £243,459 and £278,951 respectively had to be made to Revenue.
- A duplicate payment made to Revenue in December 1996 of £552,143 was discovered by Revenue in May 1997 when Revenue cross checked the P35 details in respect of the tax year to 5 April 1997 to its record of payments received from OPW. It transpired that payment for this amount was made on both 11 and 13 December 1996 and this escaped detection internally even when the year-end P35 exercise was completed by OPW at the end of April 1997. Revenue repaid this sum in June 1997.

As the system of internal control failed to detect incorrect payments, I communicated with the Accounting Officer regarding the adequacy of OPW's reconciliation of payroll deductions / payover and related management reviews.

The Accounting Officer stated that:

- An error in the computer programme that determines the PAYE/PRSI liability for pay over to Revenue meant that incorrect amounts have been paid over on occasions. This error did not affect the accuracy of amounts deducted from wages and salaries. This computer programme fault has now been rectified and fully correct and reconciled amounts are now being deducted and paid over.
- PAYE and PRSI details from salaries are now recorded in a spreadsheet on a weekly basis and are balanced against the monthly PAYE/PRSI report and is further balanced with the suspense account. This ensures that the correct monthly payments are made to Revenue and that the suspense account is balanced monthly.

- The duplicate payment did not lead to any loss of public funds and was made as the result of human error. The error occurred at the busiest time of year in salaries section and it came to light during normal discussions with Revenue on the end year P35 return. In the interim there had been 100% turnover of staff in salaries section. Control measures are now in place to ensure that a similar error will not occur.
- He is satisfied that measures now in place means that a reliable system exists for the reconciliation and management of the accounts.

21. Suspense Accounts

A suspense account is an account to which items are temporarily charged or credited. Public financial procedures state that where suspense accounts are necessary they should be kept under regular review and cleared as quickly as possible. Regular monitoring and reconciliations of suspense accounts are key elements in the system of internal control designed to prevent errors and irregularities or detect any which might occur.

At 31 December 1997 OPW had 2,605 suspense accounts. There were 1,609 accounts with debit balances totalling £37.2m, 332 accounts with credit balances totalling £44.4m and 664 with zero balances. In general, a debit balance represents moneys due to OPW while a credit balance represents moneys owed by OPW but, taking account of intra account transactions, a net £7.1m was owed by OPW. During 1997 more than 38,000 transactions were posted to these accounts. The large number of accounts is mainly due to the fact that OPW carries out work on a repayment basis on behalf of many Departments and other public offices.

An examination of suspense accounts by my staff revealed that:

- In many cases balances on the accounts were not being analysed to enable appropriate action to be taken.
- At the end of 1997 there were 23 accounts with balances of £10,000 or more and no movement for two years or more.
- During 1997 there were 513 dormant accounts, with zero balances and no transactions, live on the accounts system.

Up to 1998, the Government Supplies Agency (GSA), a division of OPW, arranged and paid for the majority of printing contracts and for bulk purchasing of stationery with recoupments subsequently sought from the relevant Departments or Agencies plus an agency fee of up to 5%. Each month GSA billed the Departments *etc.* in respect of the previous month's payments plus the appropriate agency fee.

From an examination of these accounts it appeared that at 31 December 1997 £5.2m in agency fees had not been transferred to the Exchequer while £2.2m was due from Departments which suggested that recoupments were up to three months in arrears.

In response to my general concern about the control over suspense accounts the Accounting Officer stated that:

- While all accounts within a particular type might not be reconciled, particular groups of suspense accounts are reviewed either by line divisions with responsibility for the account or by the accounts branch. In addition, the accounts branch reviews suspense accounts and refers issues arising to the appropriate division, particularly in cases of substantial debits. An annual statement of balances outstanding is issued to the Finance Officer of each Department. Reconciliation of suspense accounts and investigation of discrepancies is an on-going exercise.
- The decentralisation of accounts branch and the devolution of responsibility for managing accounts to line divisions resulted in certain disruption during 1997. The introduction of an integrated financial management system will ensure that problem accounts are highlighted to the appropriate division. This type of exception reporting will enable managers to anticipate and respond appropriately to emerging agency account issues. Furthermore, account balances will be highlighted at ordering stage and should facilitate immediate prompting of Departments for payment of outstanding liabilities.
- In 1997 OPW incurred expenditure of some £68m on behalf of other Departments. Efforts are concentrated on ensuring that there was sufficient non-voted cash available to meet payment demands by means of imprests or recoupments from Departments.
- In principle, all non-voted agency accounts should be in credit at all times in line with public financial procedures. In practice, however, while some Departments keep their accounts in credit, the majority only paid in arrear and on demand from OPW. The net effect is that non-voted balances reflect a combination of credits on some accounts and debits on others. While ensuring primarily that overall balances on accounts are kept in credit and while OPW strives to obtain payment in advance, there is a definite reluctance on the part of some Departments to keep accounts in credit.

In regard to my specific concern about transactions and balances on the GSA accounts the Accounting Officer stated that:

- OPW had been making phased changes in 1997 and 1998 in relation to the procurement activities of the GSA. In 1997 responsibility for invoicing Departments and collecting revenue was devolved from the accounts branch to the GSA. With effect from 1 January 1998 the system was changed further to one where the GSA places call off contracts for many of its supplies and Departments themselves place their orders and pay suppliers. Consequently the circular movement of funds between the OPW and customer Departments is now reduced with non-voted agency accounts no longer required for the supplies for which the new arrangements apply. Once these changes are fully implemented an examination of the suspense accounts concerned will be carried out resulting in final balances being drawn up and accounts closed. At 1997 levels of expenditure, this should result in reductions of some £24m annually on non-voted accounts.
- There is clearly a need for trading funds for many of the agency services provided by OPW, as the present accounting arrangements in relation to cash accounting is unwieldy and

unworkable together with the management of income. He intends taking this matter up with the Department of Finance.

- While he agreed that at 31 December 1997 the balance on the stationery suspense account in respect of agency fees was £5.2m, nevertheless, when balances on other agency accounts were taken into the calculations the overall amount on hand was £1.9m. As the bulk of this was received in late December 1997, a transfer to the Exchequer was not possible. These transfers are made when prudent and having regard to the cash balance on hands. The last such transfer, to an amount of £1m, was in 1995.
- Departmental bills relating to stationery accounts amount to approximately £0.8m per month and at any one time there could be up to 2 months outstanding (£1.6m).

Vote 18. - Office of the Chief State Solicitor

22. Costs Retained by State Solicitors

Local State Solicitors appointed by the Attorney General are responsible for the discharge of Government business requiring the services of a solicitor in all areas except Dublin where the services are provided by the Office of the Chief State Solicitor. The position is part-time and the solicitors are free to engage in private practice subject to restrictions designed to avoid conflicts of interest. Under the Conditions of Appointment the principal duties of a State Solicitor in her/his area include

- the preparation and presentation of prosecutions initiated by Ministers or Departments.
- acting as solicitor for the Director of Public Prosecutions and for the Garda Síochána in the preparation and presentation of cases in all criminal courts in which a solicitor is required.
- the provision of a solicitor service in all civil courts and tribunals in which any Department or other State Authority is involved.

For the performance of these duties local State Solicitors receive a remuneration package which presently ranges from £39,343 to £46,898 per annum and covers personal salary, staff salary costs, and other expenses. State Solicitors are in contract with the Attorney General and their salaries are paid from the Vote for the Office of the Chief State Solicitor. The Conditions of Appointment also allow the State Solicitor to retain costs recovered in civil cases only. The bulk of the State work transacted by State Solicitors is criminal in nature. Files are submitted by local Gardaí to the State Solicitors who then deal directly with the Director of Public Prosecutions.

In general, the Attorney General is not involved in criminal matters which instead are dealt with by the Director of Public Prosecutions. One exception arises from the Attorney General's retention of a prosecution function under the Fisheries (Amendment) Act, 1978. The local State Solicitor appears for the Attorney General in the District and Circuit Courts. While these are criminal prosecutions, in 1992 an arrangement was made whereby applications would be made for costs in the Circuit Court. Costs are rarely awarded in criminal trials in the Circuit Court and the award for costs in fisheries prosecutions was an innovation. Costs awarded, together with fines and forfeitures, are payable to the Vote for Marine and Natural Resources. However, the costs awarded by the Circuit Court which amounted to £180,000 by mid-1997 have been retained by the local State Solicitors.

The Accounting Officer informed me that:

- These cases refer to the prosecution of fishing boats, usually non-national, which have been arrested on the high seas. The charges are indictable and are prosecuted in the name of the Attorney General. Upon arrest a trawler will be escorted into port and a Detention Order obtained in the District Court. A decision is made on what charges to prefer and the availability of evidence. In almost all cases the defendants elect to go forward for trial to the Circuit Court without preliminary examination in the District Court on pleas of "not guilty". A bond is lodged in Court to cover the value of catch, gear and maximum amount of fines, and an agent is named for service of documents. The boat is then allowed back to sea. There

is usually great urgency to get the boat back to sea. Accordingly, State Solicitors obtain directions on charges directly from the Attorney General's Office. The only involvement of the Chief State Solicitor's Office is the payment of Counsel fees on prosecution in the Circuit Court.

- Information suggesting that these costs were not being paid to the Department of the Marine and Natural Resources came to the notice of the Office of the Attorney General in July 1997 and the Chief State Solicitor was requested to take action. At that time it was believed that two State Solicitors were retaining these costs but on further examinations it was established that only one of these two had done so. Following correspondence with a County Registrar it transpired that five State Solicitors were involved. Each was written to and each claimed entitlement under their respective Conditions of Appointment. The Chief State Solicitor obtained Senior Counsel's advice to the effect that retention of these costs did not come within the terms of the State Solicitor's Contracts of Appointment. Proceedings were then drafted and issued in two cases. The outstanding sum of £2,000 was recovered by set-off from one of the State Solicitors. Further negotiations with the State Solicitors (and their Association) ensued but without success. Accordingly, proceedings have now been served on the four State Solicitors. If the proceedings are successful the amounts due should be recovered.

The Accounting Officer also informed me that:

- The problem with the fishery prosecution costs arose because the Courts awarded the costs to the State Solicitors personally. He had never had experience of a Court naming a Solicitor as personally entitled to the costs. Costs in his experience are always awarded to the successful party - whether plaintiff or defendant.
- In these cases the costs were collected with the fines and remitted directly to the State Solicitors.

Vote 20. - Garda Síochána

23. Civilianisation

In December 1993, the Minister for Justice announced a crime fighting package, including the recruitment of 200 civilian clerical/administrative staff in the period 1995 to 1997 thereby releasing an equivalent number of Gardaí for operational duties. As a result of a Government decision in June 1995, the civilianisation proposals were put on hold.

In July 1996, the Minister for Justice announced the recruitment of 200 civilians between then and early 1997 to enable an equivalent number of Gardaí to be released from clerical/ administrative duties to operational duties. Although 200 additional posts were originally sanctioned, this was subsequently reduced to 194 following Department of Finance sanction to substitute 6 anti crime package posts for 4 posts in the Garda information technology area following a review of the staffing requirements there. This substitution of posts did not require that an equivalent number of Gardaí be released for operational duties.

The 194 staff to be recruited comprised 130 clerical and 64 non-clerical personnel. The number of these posts filled in the period July 1996 to August 1998 is as follows.

	1996	1997	1998	Total
Clerical personnel	47	57	10	114
Non-clerical personnel	-	1	5	6
	47	58	15	120

In response to my inquiries regarding the delay in recruiting these staff, the Accounting Officer informed me that:

- On a general note, the Civil Service, like other employers, is facing difficulties and delays in recruiting staff because of the upsurge in our economy. Notwithstanding these difficulties, almost 90% of the clerical posts have now been filled. However, there have been significant delays in filling the non-clerical posts. Most of these relate to new grades which has complicated the process. In some cases (e.g. Call Takers) the relevant staff associations and unions have raised concerns which have to be addressed. The Department is continuing to work in close co-operation with the Gardaí, the Department of Finance and the Civil Service Commission (CSC) with a view to filling all 194 posts as soon as possible.
- The CSC did not have large numbers of clerical personnel candidates readily available when the Government decision was announced. There are delays associated with the holding of a public competition and considerable time elapses before candidates come on stream. In addition, the Garda area requires that the candidates have excellent typing skills but the CSC have encountered severe difficulties and delays in securing clerical staff with the necessary

typing/keyboard skills due to the present recruitment situation generally. For example, while a number of nominations were provided last year through the CSC, the fall off rate (because of offers of other employment, rate of pay on offer, commuting costs and transfers *etc.*) is quite significant - out of advance lists of over 120 applicants, the net intake of clerical staff to the Garda area amounted to only around a dozen staff. The Central Transfer List is a list of clerical staff seeking relocation to provincial offices across the Civil Service (including the Garda Síochána) and the list is accessible to all Departments. Agreement between the Department of Finance and staff representatives requires that provincial clerical vacancies are offered, in the first instance, to persons on the Central Transfer List and in practice this can cause considerable delays.

- Non-clerical personnel consisted of Civilian Driver (30), Call Taker (20), Telecommunications Technician (10), Researcher (2), Irish Language Teacher (1), Social Studies Teacher (2), Communications Studies Teacher (2), French/German Language Teacher (2), PE Teacher (1), Photographer (1), Cartographer (1), Occupational Health Nurse (1) and Print Room Assistant (1). In the case of posts other than Call Takers and Civilian Drivers, it was necessary to arrange, in consultation with the Garda Authorities, the Department of Finance and the CSC for public competitions to be held to select candidates to fill these posts. Because of resource difficulties facing the CSC, there have been delays in running some of the competitions. The following posts have been filled this year - 2 Researchers, 1 Irish Language Teacher, 2 Social Studies Teachers and 1 French/German Language Teacher. The position of Print Room Assistant was filled last year. In the case of the Communications Studies Teachers, it has not been possible to find suitable candidates and consideration is being given to scheduling a second competition. It is also expected that the competitions for a PE Teacher, Photographer and Cartographer will be advertised by the CSC in October 1998.
- A job specification and conditions of service for Civilian Drivers were agreed with the Department of Finance in January 1997 who asked the CSC to arrange for the holding of the necessary competition. It emerged that the CSC was having some difficulties at the time in scheduling competitions due to lack of resources to deal with the level of competitions to be held for various Government Departments. In mid 1997 it was suggested to the Department that the competition for Civilian Drivers did not appear to be appropriate to the CSC on the basis that the positions should be classified as industrial civil servants and as such would be a matter for the Department and / or the Garda Authorities to hold the necessary recruitment competition. The Department then prepared a revised job specification which was provisionally approved by the Department of Finance in October 1997. Some considerable time has been spent discussing various aspects of the posts with Garda management and the Department is currently in the process of finalising details with the Garda Authorities. A competition will be held soon.
- A job specification and conditions of service for Call Takers were agreed with the Department of Finance in January 1997 who asked the CSC to arrange for the holding of the necessary competition. The CSC suggested some minor changes to the job specification and these were referred back to the Garda Authorities for their observations. When the Garda response was received, the matter was referred back to the Department of Finance to clarify the grading of the posts following on the restructuring agreement for the Clerical Assistant (CA) and Clerical Officer (CO) grades as the pay and conditions for the Call Taker posts were originally based

on the CA grade. Clarification was received from the Department of Finance in March 1998 and the CSC were instructed to proceed with the competition arrangements that same month. The competition was advertised in June 1998 in conjunction with the forthcoming CO competition.

The Accounting Officer also stated that:

- The delay in recruiting civilians has meant that the total cost to the Exchequer of running the Garda Síochána (civilians plus Gardaí) has actually been slightly less than it would have been if the target for recruitment of civilians had been fully met earlier. There are, however, operational inefficiencies. Less Gardaí have been available for operational duties, some Gardaí are still involved in doing tasks that could be done more cost effectively by civilians and certain specialised posts have remained vacant.
- The Government decision to recruit additional civilian staff for the Garda Síochána was intended to free up Gardaí for operational duties but did not affect the total strength of the Gardaí nor was the recruitment of civilians intended to be a substitute for the recruitment of more Gardaí.
- By 31 July 1998, 106 Gardaí had been released to operational duties with a further 2 to be released in August 1998.

I also sought the views of the Accounting Officer of the Civil Service Commission (CSC) who informed me that in the course of 1996 the CSC experienced a significant increase in demand for competitions across all Departments. This was not matched with an increase in resources. The situation was exacerbated in July of that year with the demands of the anti-crime package which included both the civilian posts and a significant number of additional Garda Trainees some of which were to be recruited from the 1994 competition. Recruitment from this competition had ceased in mid-1996 and the additional resources allocated for Garda recruitment had been withdrawn. In August 1996 written and oral submissions were made by the CSC to the Department of Finance for additional resources. In particular the Department was requested to re-instate the additional resources provided for the 1994 competition or to advance allocation of additional resources necessary for the 1997 Garda recruitment campaign ahead of schedule to progress the necessary competitions. Sanction for these additional resources was not received until May 1997. By that stage the Garda recruitment programme was already under way using resources diverted from other programmes and thus the opportunity to advance other anti-crime package competitions was lost and a backlog of recruitment had built up in a number of areas. As Garda recruitment was a Government priority this proceeded at the expense of other recruitment programmes.

24. Garda Stores

In the 1991 and 1992 reports of the Comptroller and Auditor General, concern was expressed about stores management in the Garda Síochána and the Department later undertook to improve procedures.

The day to day purchasing needs of the Gardaí are met by the Barrack Masters Office which operates from the Garda Depot in the Phoenix Park. The central stores area for the country is also located there. Expenditure on inventory amounts to approximately £36 million per annum and the value of stores held in the Depot at 31 December 1997 amounted to approximately £3.2 million.

In 1991 a computerised system for stock control was introduced at a cost of approximately £270,000 for the general stores area. This system was designed to provide management information to facilitate effective stores management and proper purchasing procedures.

In 1995 a firm of consultants was engaged by the Garda authorities to develop a conceptual design plan for the Gardaí to cover the operations of the force. The consultants identified purchasing and inventory management as an area that should be reviewed separately and a study group was set up to evaluate the problems and recommend possible solutions. This group was assisted by the company who had installed the original stock control computer software and although recommendations were submitted to management in December 1996 they had not been implemented by May 1998. The group had recommended

- centralising the stores and purchasing functions
- the introduction of restructured procedures and the carrying out of a functional reorganisation
- enhancing the computer system pending its eventual replacement
- introducing an adequate number of properly trained staff
- fostering a professional attitude to the purchasing and supplies management function

In the course of an audit at the Garda Stores a number of weaknesses in the controls and procedures were noted.

- There had been no physical inventory of stocks carried out for a considerable time which militates against good stores management.
- Adjustments to stock levels on the system were made as stock issues or stock receipts rather than being shown as adjustments. There was no documentation to show how the adjustments arose and whether the reasons for the discrepancies were investigated and resolved satisfactorily.
- There were no formal procedures in place to determine the most advantageous stock levels.
- The system was not being used uniformly in all the stores areas in that
 - ▶ there was no set policy on updating stock valuations
 - ▶ the recording of stock returns differed
- The standard costs assigned to store items on the system were not reviewed and amended on a regular basis.
- There were no procedures for identifying and dealing with slow moving and obsolete stocks.

- In some stores areas there was no differentiation between new and used goods. Some items which were used for a period were returned, stored and recorded with new items, at the same value as the new items.
- There were approximately 17,000 unit code allocations on the system but only 9,000 of these were in use. It is possible for items purchased which are already in store to be allocated a new unit code.

Moreover, random stock checks carried out on audit revealed examples of

- stock recorded on the system but not in stores
- stock in stores but not recorded on the system
- stock listed at incorrect valuations
- old or obsolete stock listed at original valuation
- radio stores still in stock which were purchased several years ago for specific purposes e.g.
 - ▶ two CCTV cameras which were purchased in 1994/95 at a cost of £12,795 each for use in Cork Prison had remained unused in stock ever since, even though similar type equipment was subsequently purchased and used in the Temple Bar area of Dublin
 - ▶ a communications console system purchased for use at Dublin Airport at a cost of £69,100 a number of years ago ended up being used for spare parts and was recorded in stock at its original value.

As the audit findings indicated that stock control procedures were not satisfactory and as the value of stocks at the end of the year was questionable I sought the observations of the Accounting Officer. He informed me that:

- Despite progress being made by 1994 it was recognised by both the Department and Garda management that fundamental changes were still required if a fully efficient and effective stores system was to be achieved and this led in 1995 to the establishment of the study group.
- Until the group's recommendations have been fully implemented it is almost impossible to guarantee that some faults of the type identified by the audit will not occur. The Department must therefore be oriented towards fundamental change. The recommendations of the group, if implemented, would address nearly all the issues raised by the audit. Priority has been given to implementation of the recommendation concerning the upgrading of the computer system and that upgrading is now at the implementation phase. Some of the other recommendations posed difficulties as:
 - The implementation of many of the recommendations would be facilitated by a centralised Garda stores. While a suitable site has been purchased there have been serious difficulties in obtaining the necessary finance and sanction to carry out the works required to complete the project (cost will be in excess of £2m).
 - Serious resource and organisational implications arose but nevertheless these matters must be addressed and will be pursued vigorously with Garda management.

- The question of reorganisation of responsibility for stores and the level of staff resources has to be addressed by Garda management in a more comprehensive way than heretofore.
- To manage this process he has instructed that an implementation plan for the recommendations of the study group be drawn up by October 1998 setting out target dates for acceptance and implementation of the various recommendations. A steering group comprising officials of the Department, Garda management and outside experts will be established to monitor progress in this area.
- More generally, the question of stores management may also be addressed in the context of the current Strategic Management Initiative review.

The Accounting Officer also stated that:

- Stocktaking takes place on an annual basis in a number of stores. In the other areas i.e. clothing, U.N., Miscellaneous Stores, Armoury, a stock take took place in 1994. In addition, a series of planned rolling checks took place on selected items on a weekly basis. In 1995, as a result of the formulation of the study group, stock takes within the Barrack Master's Section were suspended pending the expected early implementation of its recommendations, when it was felt that better information and business procedures would be in place. It was not envisaged that full implementation of all recommendations would have been so prolonged. The upgraded computer system is now being implemented and all sections will now undertake annual stock takes or weekly rolling checks.
- In the main, discrepancies identified during the stock takes/rolling checks were investigated by examining the transaction history for the item concerned. If resolved satisfactorily the discrepancy was amended. If not, on approval of the Supplies Officer an adjustment was made. The practice of adjusting stock levels by issuing stock or receiving stock on to the system is not official policy. All sections have been instructed to cease this practice forthwith. This practice can only be explained by inexperience of store practices and lack of on the ground computer expertise and staff training. This problem will be remedied by documenting the procedures for stock control, which will incorporate "adjustments to stock". All discrepancies now coming to notice are being documented, investigated, amended if resolved and adjusted on approval of the Barrack Master if required. This process has been centralised and is channelled through the system administrator who has responsibility for the computer system.
- In 1993 the Garda Stores Committee was established by the Department of Justice. They examined a number of proposals for procurement procedures and ultimately decided on a strategy dedicated to purchasing stocks just before they are required and the virtual abolition of stock holdings, except where it was necessary to hold a certain level of stock for emergencies. In such cases minimum reorder levels were to be identified. To date, these have not been decided on and can only be determined by an analysis of the trend of usage levels using information from the computer system. With the recent assignment of a system administrator, this task is now receiving attention and is expected to be completed before the end of the year.

- The computer system was in the main used as a basic inventory management tool and the absence of procedures led to the system not being used uniformly. There was no emphasis on stock valuation. These problems are now being addressed and the system administrator will ensure that the necessary controls/procedures are in place to resolve this concern. A standard cost application will be used by all stores areas using the system and the matter will be finalised by August 1998.
- Slow moving and obsolete stocks were determined by local stores management who, on identification, specified the necessary process to deal with them. These were local arrangements but are now being addressed globally and formal procedures will be put in place.
- The practice of issuing items which when finished with, were returned, stored and recorded with new items, evolved by following precedents and in the belief that it was accepted as best practice. In the light of the concerns expressed, Garda management have now had this practice stopped and amended procedures are being put in place.
- A review of code allocations has not taken place since the system was put in place in 1991. While the computer software (both the existing and the proposed enhanced version) provides extremely powerful stock control management tools, lack of on the ground computer expertise and staff training has prevented the stock system being used other than for recording incoming and outgoing transactions. These factors together with the lack of centralised control have resulted in the purchasing features of the system not being fully utilised to date. A major problem in this regard was the high turnover of staff who were not there long enough to receive adequate training or develop expertise. The situation has now improved. To address the multiplicity of code allocations all sections have now been requested to liaise with the system administrator and produce a comprehensive list of current unit codes.

With regard to the specific matters of radio stores the Accounting Officer explained that:

- One part of the CCTV Camera was issued subsequently to Cork for operational use. The remaining cameras were retained in stock as a contingency for use as spares for cameras already in use in various locations and in the event of the supplier not being in a position to provide a unit at short notice for urgent security operations. The use of this equipment as spares was clearly not in accordance with best practices.
- The console for Dublin Airport was an integral part of the Garda Communication System to be installed in purpose built accommodation to be provided by Aer Rianta. However, Aer Rianta did not proceed with the plans and the console remained in stock. This system is now obsolete and is not being supported by the manufacturer. It was thought prudent from an economic viewpoint to utilise the console as spares to support the communication system rather than retain it as a complete unit. Changes in management structure and planning procedures should ensure that concerns raised in respect of radio stores will not recur.

As regards annual stocktaking and year end valuation the Accounting Officer indicated that:

- The general situation regarding stocktaking has been addressed in response to my concerns on the absence of stock takes. Stock takes in all eight stores areas have now been completed
- Matters relating to obsolete stock, item codes, costings and stock adjustments have been implemented in respect of six stores areas and will be finalised for the remaining two areas by the end of August 1998.
- The necessary structure will be put in place to ensure that the weekly transactions for each stores area are verified and certified correct.
- Rolling stock checks are now taking place on 2% of stocks in each stores area on a weekly basis. An annual inventory will take place in each stores area.
- The year end valuation placed on stocks, other than at transport section, was computed by the system. At the time of compilation he believed that the end of year value on stocks was correct but in the light of my audit findings he could not be satisfied as to its validity.

The Accounting Officer emphasised that the implementation of improvements in the Garda Stores areas will not happen overnight and that it is essential that progress is monitored and reviewed on a regular basis. In this regard, he will be supplying me with regular reports on general progress as well as keeping me informed on the specific matters raised.

Vote 21. - Prisons

25. Management of Capital Projects

Capital expenditure incurred on projects at prisons and at probation and welfare centres is carried out either by the Department itself or on its behalf by the Office of Public Works (OPW). In 1997 some £34.6m was expended while £34m is committed for future years.

The guidelines for public procurement in relation to the award and management of public sector contracts, state that it is essential that every effort should be made to ensure that all aspects of the design are finalised before a project goes to tender, so that increased costs can be avoided at a later stage. At the outset upper costs and area limits should be set and a detailed brief prepared which is sufficiently comprehensive to establish clearly the services required and the relevant standards and constraints. The unnecessary use of provisional sums or quantities as a substitute for detailed planning should be actively discouraged. At the construction stage, proper supervision is essential to ensure that the works are being carried out as required under the specifications and within the time and cost limits for the contract. Adequate regard must be had to equity in the award of contracts.

Two major capital projects directly managed by the Department itself with the assistance of consultants for planning, design and supervision of construction were examined by my staff *viz.*

Project	Cost £m
Curragh Prison - conversion of existing old military detention cell blocks	3.3
Construction of kitchen in Portlaoise Prison	2.8

Prison building projects present difficulties over and above those arising on other public capital projects because of security considerations and the ongoing pressing urgency for the provision of extra prison places. The audit took account of these special factors and recognised that strict adherence to public procurement guidelines in all respects might not be possible.

The audit revealed a number of shortcomings in the way the projects were undertaken including

- lack of precision in the definition of individual consultants' roles in the design and construction process
- the depth and scope of the briefing of the building design teams
- the absence of detailed analysis and evaluation of tenders
- the appropriateness of the performance bonding arrangements,
- the failure to execute formal contracts until the work was almost completed.

In response to my inquiries the Accounting Officer informed me that the volume of activity in the prisons development programme had increased dramatically over the last 4 to 5 years. Arising from a number of Government decisions to increase prison accommodation, the Department had, as a matter of considerable urgency, embarked on a major, accelerated prisons building programme, aimed at producing 1,000 additional places by mid-1999 and a further 1,000 places by 2002. Simultaneously with the accelerated building programme, it had been necessary to press on with and, indeed, expand the programme for refurbishing, upgrading and extending facilities in the existing prisons. Most of the existing prisons are old. Generally, they are, at best, in moderate condition and certainly they are in urgent need of upgrading and modernisation to meet present day standards and to comply with current Safety, Health and Welfare at Work Regulations. It had, of course, also been necessary to continue with organised work programmes for the routine maintenance and servicing of all prisons buildings, plant and equipment.

He stated that all of this had led to a huge increase in overall workload for the Prisons Division of the Department. Through the efforts of the limited staff resource available in the Department for this work, it had been possible, up to now, to meet the very demanding timetables set for this multi-faceted programme.

He assured me that the Department was fully committed to the observance of all Government and Department of Finance regulations and procedures relating to public sector procurement and contracting. He is satisfied that there had not been any deliberate or intentional attempt to circumvent existing regulations and guidelines relevant to the management of the prisons capital projects, and he is equally satisfied that there had not been any misappropriation or wastage of the funds provided for this work. He accepted that, arising principally from the exceptional pressures of the rapidly increasing workload, there were some oversights and he felt it was important to point out that there was no suggestion that this resulted in unnecessary expenditure or loss.

He confirmed that new procedures had already been put in place to address certain shortfalls identified by the audit. Moreover, arising out of the audit, work is well underway on measures to improve and strengthen in-house procedures for monitoring progress and financial control of prisons capital projects. Expanded use of IT management systems will play a major role in achieving these required improvements.

In regard to the specific issues he stated that the Department from its involvement in prisons building projects over many years, and from its long standing working relationship with the OPW, has accumulated a significant amount of knowledge relevant to the organisation of a design team and the roles for the individual consultants constituting that team. Further consideration would be given to formalising the arrangements.

The approach to briefing design teams generally adopted by the Department is, following identification of a potential project, to engage all involved parties (Prison Management, Governor of Prison Works Office, in-house specialists - where relevant - and Prisons Planning personnel) in a series of discussions aimed at developing and fleshing out the initial concept and fitting into the overall project programme. At the end of this process, the Department will have clear vision of what is required, where and how the building(s) will be located, together with an approach to handling the construction phase in an operational prison, where applicable. This information is used as the basis for briefing the consultants (OPW or private sector). In the absence of in-house

building design experts, the Department's brief to the consultants does not contain any detailed guidance on type or style or layout of buildings envisaged and does not offer any costed estimates for the proposed project. Generally, a cost indication, based on previous project experience and having due regard to available funding, is provided to the consultants at the outset. The appointed consultants are required, as part of their terms of engagement, to prepare and present project budget estimates from the feasibility study stage onwards and to advise the Department on value for money aspects of the proposal.

He stated that it is the practice of the Department to engage a consultant design team appropriate to the requirements of each individual project. For major projects a Quantity Surveyor is included in the design team and an itemised Bill of Quantities is prepared and included in the tender documentation. The priced Bill of Quantities, returned by the tenderers, provides an acceptable basis for tender analysis and ongoing cost control measures in the construction phase and is used by the Department for these purposes. It is accepted that in the particular case of the Curragh Prison project, due to special circumstances obtaining, a Quantity Surveyor was not appointed and an itemised Bill of Quantities was not prepared. It is the standard practice of the Department to seek a detailed tender report from the consultant building design team and to be guided by the findings of that report in deciding on the award of a contract. In this practice, the Department's over-riding consideration is to obtain best value for money. It is accepted that, in the special circumstances of urgency surrounding the Curragh Prison project, the time made available to the consultants for completing tender assessment and reporting procedures was limited. As a result, the tender report was less detailed than normal.

The Accounting Officer also stated it is the standard practice for the Department, in accordance with the provisions of public procurement guidelines, to obtain bonds for main contracts having a value in excess of £200,000. In the case of the Curragh Prison Project, a conscious decision was taken to dispense with the requirement for bonding because of previous satisfactory experience of working with the appointed main contractor and in the interests of reducing project costs to an acceptable level. In relation to the Portlaoise Prison Kitchen Project, it is accepted that, while the original contract amount and duration were appropriately bonded, due to an oversight on the part of the Department, the bond cover was not adjusted to take cognizance of the amendment of the contract amount and duration, during the course of construction. Further, in the matter of protecting the Department's financial interests, it should be noted that all contract payments are executed one month in arrears and an appropriate level of retentions (generally 3% to 5%) are held by the Department pending completion.

He informed me that the delay in signing the formal contract documents arose due to pressure of work. However, a letter of undertaking issued before the work commenced and it was his understanding that this letter and its acceptance by the contractor, *de facto*, form the basis of a legal contract between the two parties.

Vote 25. - Environment and Local Government

26. Controls over Local Authority Finances

The Local Government Audit (LGA) service is responsible for the audit of the accounts of all Local Authorities (LAs). The LGA reports are submitted to the Department and to the LAs and form part of the controls exercised by the Department in ensuring that procedures for the spending of public moneys are satisfactory. Copies of the reports on the audits are made available to me and, at 31 May 1998, I had received copies of all 39 LGA Reports for 1995 and copies of 26 of the 1996 reports.

Paragraph 24 of my 1996 Report was concerned about controls over Local Authority finances and in it, I drew attention to certain critical comments made by LGAs which were common to a number of LAs, and which had been adverted to in their 1994 and 1995 Reports. Some £646m was paid to Local Authorities from this Vote in 1997.

My review of the 1996 LGA Reports disclosed that the LGAs still had reservations concerning a number of these matters as follows:

- Expenditure in excess of estimates on various programmes prior to the approval of the LA which, however, was given in most cases in the following financial year or, in a few cases, the year after that. In 19 out of 26 reports examined, this was the case. As stated by the LGAs, these approvals should, where possible, be obtained prior to such over-expenditure or liability being incurred.
- Collection yields in respect of commercial rates, housing rents and loan repayments together with water and service charges continued to be subject to critical comment in most cases (21 out of 26). Some LGAs referred to the statutory abolition of water and service charges with effect from January 1997 as contributing to the arrears situation.
- Unfunded debit balances on capital works where there was no foreseeable prospect of these balances being eliminated from either internal or external sources needed to be addressed.
- Many LAs incurred adverse Revenue Account balances but provision was not made for their elimination in the following year's estimates.
- While internal audit in local authorities is now more widespread than previously, the LGAs noted a significant number where the function was not in place or where it was restricted in operation.

The Department informed me that as part of its ongoing work on developing the value for money agenda in LAs, the Department, in June 1998 commissioned a consultancy study to review the way in which the LGA service can maximise its contribution to this agenda. This study will supplement other work also being carried out in the Department on the modernisation of accounting systems, enhancement of costing systems and development of performance indicators

for the local government sector, all of which is paving the way for securing better value for money performance and measurement in LAs.

27. Nugatory Expenditure

Major water supply and sewerage schemes are carried out by local authorities following approval by the Department of Environment and Local Government (the Department). The cost of these works are generally met by the Vote and while the local authority enters into the contractual arrangement, the Department has to approve the contract documents.

The West Wicklow Water Supply Scheme was examined as part of a review of expenditure on these schemes. Departmental papers indicated that:

- In December 1988, the Department of Defence (Defence) gave approval to Wicklow County Council (the Council) to use lands in the Glen of Imaal for site investigation at Knickeen Ford. Also that month, the Council informed the Department that an Order had been made accepting a tender in the sum of £69,584 for the site investigation contract and explained that the contract had to be completed by the end of January 1989 in accordance with an agreement reached with Defence concerning access to the Firing Range which is situated in the Glen of Imaal.
- The Department requested the contract documents for site investigations in February 1989. However, although the documents as submitted in July of that year were deemed to be in order, the Department insisted in November 1989 that the Council re-advertise for the contract. The lowest tenderer at £77,736 was the same firm which had been earlier accepted, but as this firm specified a completion time of 10 weeks to carry out the works and as Defence was prepared to only allow 4 weeks access to the site, the contract was awarded in August 1990 to another firm who submitted the second lowest tender of £82,920.
- The final account for the work, which was carried out in late 1990, amounted to £168,684. The increase was due almost entirely to extra costs on rotary core drilling. The Consulting Engineer on the project stated that "the results of the initial boreholes drilled on site revealed that the underlying rock was more badly weathered and highly variable than expected". The contractor was instructed to drill further boreholes over the site and, due to the time constraints imposed by Defence, the core drilling rig was used for drilling through alternative methods because of its much higher output than the cable tool rigs.
- Consultants' fees and expenses amounted to £83,520 and inhouse technical fees incurred by the Council in the preparation of the preliminary report for the scheme came to £57,402 bringing total fees to £140,922.
- The project was eventually put into abeyance in 1996 after Defence in 1992 had refused to allow the Council to build on its land, as the site chosen by the Council for the construction of a dam would severely restrict military use of the Glen of Imaal as a training area and furthermore the area could not be declared free from unexploded ordnance and would therefore present a safety risk.

- Total expenditure on the scheme funded by the Department amounted to £323,007. This comprised

	£
Site Investigation Contract	168,684
Advertising	1,419
Technical Fees - Council	57,402
Consultant Engineers' Fees and Expenses	83,520
Materials	6,018
Plant and Machinery	2,975
Stationery, Ordnance Survey Maps etc.	2,777
Miscellaneous Expenses	212
Total	£323,007

Public financial procedures require the noting in the annual Appropriation Accounts of losses in the nature of payments for which no value has been obtained by the Department concerned. As it appeared to me that this case could be regarded as falling into that category I asked the Accounting Officer why the 1996 Appropriation Account for the Department was not noted to this effect.

The Accounting Officer informed me that:

- In the normal course, the outcome of site investigations will enable aspects of a project to be designed and constructed in the most economic manner possible. It is inevitable, however, that there will be some instances where site investigations reveal that it would be uneconomic, or simply impractical, to proceed with a particular project. In these circumstances, he could not accept that site investigation costs must be classified as nugatory expenditure where the results of the investigation give rise to a project, or one aspect of it, being abandoned.
- He accepted that the case of the West Wicklow Water Supply Scheme is complicated by fundamental issues relating to the intrinsic suitability or otherwise of the Knickeen Ford site. In this context, the view of Defence and the military authorities go to the heart of the matter. At no stage prior to October 1992 was the Department or (to the best of its knowledge) the Council aware of the strong objections of Defence or the Army to development of the Knickeen Ford site as a supply source.
- The Knickeen Ford site was, and continues to be, the supply source which offers the best potential in terms of economic and civil engineering criteria. Bearing in mind that Defence agreed to the site investigations in 1988 and in 1990, it is considered that neither the local authority nor the Department had any reason to entertain reservations about expenditure incurred on the site investigation works.
- Departmental checks had not uncovered any instances in other schemes or programmes where nugatory payments occurred.

The Accounting Officer also informed me that Wicklow County Council is exploring options in relation to an alternative source for the scheme, but to date no economic or other suitable alternative has been identified.

I also sought the views of the Accounting Officer of the Department of Defence who informed me that:

- In 1984 the Council approached Defence with a proposal to abstract water from a number of points in the Glen of Imaal. Permission was granted to carry out the necessary surveys but since intake points were on land where artillery firing was taking place, Defence suggested that the Council might instead take additional water from their existing water scheme at Coolmoney Camp which is currently supplying approximately 35 local households.
- The Council informed Defence in 1987 that a new scheme was being considered which would involve the construction of a new dam. Following a survey by the Consulting Engineers, permission was given to the Council to construct and maintain a flow gauging station on the Knickeen River which is on Defence lands. Further permission for site investigations was granted in 1988 subject to the condition, *inter alia*, that it was being granted 'without prejudice to any further facilities which may be required in connection with the next phase of the water supply scheme in question' and this was accepted by the Council.
- When in 1992 the Council sought permission for further site investigation to establish the likely consequences for the area should a dam be installed, Defence outlined its fundamental objections to the building of an impoundment dam in the area chosen.
- At meetings held since 1984 with Defence personnel the Council representatives have been made aware of the dangers from unexploded ordnance in the ground and safety restrictions on military and civilian personnel entering the area were emphasised at all times. In this regard it should be noted that 3 children were killed in the Glen of Imaal in an accident involving an unexploded ordnance in April, 1979. Following the accident, a committee which was appointed to investigate the circumstances of the accident and which subsequently produced the Crean Report, included a representative of Wicklow County Council. Safety measures recommended in this Report continue to be implemented by Defence.

28. Motor Vehicle Duties

Up to and including 30 June 1997, local authorities (LAs) collected motor tax and driving licence fees in their capacity as licensing agents, lodged the proceeds to local motor tax bank accounts and from there transferred them to the central motor tax account in the Central Bank. LAs could deduct expenses incurred by them in the administration and collection of the tax before lodging the net proceeds.

The gross amount collected up to 30 June 1997, in respect of motor tax and driving licence fees was £160m with £6.6m being deducted for administration and collection expenses by the LAs.

The motor tax accounts of the LAs are audited by the Local Government Auditors (LGAs) whose reports are made available to me. My audit of motor tax revenue is limited to a test check of the transactions on the central motor tax account. I rely on the LGAs' examination for assurance that proper procedures for assessment, collection and bringing to account of motor tax revenue are being operated by the LAs. For the year ended 31 December 1997, 4 LGA reports (of a possible 29) were available to me. From a perusal of these reports, in my opinion there is nothing material on which I need to report to Dáil Éireann.

Driving test fees, which are paid to the Department, amounted to £3.7m for all of 1997 and were appropriated in aid of the Vote.

The Local Government (Financial Provisions) Act, 1997, gave effect to the new local authority funding arrangements from July 1997. In addition to abolishing the power of LAs to levy charges for the provision of a domestic water supply and sewage disposal facilities, and terminating the Rate Support Grant, it assigned LAs the proceeds of

- Motor Taxation
- Driving Licence Fees
- Miscellaneous Fees and Duties

From 1 July 1997, LAs were required to pay the sums collected in respect of these items, apart from 80% of tax on cars and motor cycles, into an Equalisation Fund which was established with effect from that date for the purpose of assisting less well-off LAs in their efforts to provide services at levels comparable with the financially stronger authorities. In addition, the central motor tax account was closed and all moneys in the account were transferred to the Equalisation Fund, which is maintained in a commercial bank. The amount transferred into the Equalisation Fund by LAs in 1997 was £47.8m while £51.2m was also transferred from the Central Bank, being the balance due from the central motor tax account at 1 July 1997. Interest received accounted for a further £160,000.

Payments from the Equalisation Fund in the period 1 July 1997 to 31 December 1997 totalled £89.4m comprising

	£
Payments to LAs	
Payments in lieu of Rate Support Grant	83,476,108
Group Water Scheme Administration	1,500,000
Rates forgone on Diplomatic Premises	314,294
Refunds of Overpayments by LAs	251,417
Other Payments	
Vehicle Registration Unit Administration	3,845,000
Deposit Interest Retention Tax and Stamp Duty	41,547
	£89,428,366

The system falls to be further reviewed with effect from 1 January 1999 under the provisions of the Local Government Act, 1998.

Vote 26. - Office of the Minister for Education and Science

Vote 27. - First Level Education

29. Financial Controls at Schools

Reference was made in Paragraph 29 of my 1995 Report to the accountability arrangements for primary and voluntary secondary schools generally. The Accounting Officer accepted that the Department could only obtain the required level of assurance regarding school financial management and internal control systems through a formal audit process. Relevant factors to be considered were cost, assessment of risk of loss to the Department, scope of audit and quality control.

The Department informed me that it undertook to carry out a consultancy risk analysis study to assist it in its consideration of the best initiative to take to ensure that public funds are safeguarded. The consultancy began in February 1997 and the consultants submitted the first draft report in June 1997. The submission coincided with the change of Government. The new Government made a fundamental change in policy by deciding that the previous policy to establish regional education boards would not proceed. As the draft report had a significant role for the education boards in the accountability controls for the schools, the consultants were requested to revisit the report and reconsider their approach in light of the new policy.

The consultants requested significant additional information on the evolution of school funding, together with relevant financial data and further analysis of school enrolments which was supplied. The consultants' request involved substantial research and manipulation of financial data in order to ensure that the information given was comparable to the current presentation of school expenditure. A further draft report was submitted to the Department in June 1998 and is now being considered.

30. Financial Controls at Education Centres

Teacher centres were initially established by the Department in 1972 and during 1994/95 developed into education centres incorporating resource and training centres for teachers, parents and school boards of management. The centres operate under guidelines from the Department and are supported financially from that source. There are currently nineteen full-time and nine part-time centres. The total amount of State funding received by education centres (both full-time and part-time) in 1997 was £3.42 million. This includes funding in respect of running costs and courses, national training and support programmes, other activities based in education centres (e.g. employee assistance), schemes funded by other departments and agencies (e.g. FÁS) and capital expenditure. The average total income of the centres in 1997 was approximately £196,500 in the case of full-time centres (ranging between £680,000 and £40,000) and £13,600 in the case of part-time centres (ranging between £23,000 and £5,000).

A management committee, composed mainly of local teachers, is responsible for the governance of a centre. The key administrative role is that of the Director, who has day-to-day management

responsibility. Each full-time centre has a full-time Director who is a teacher on secondment and whose salary is paid by the Department. Part-time Directors are generally full-time teachers who are paid an honorarium for operating the centre outside school hours. Grants are drawn down at quarterly intervals by the centres on submission of cash flow statements to the Department.

During 1997, my Office drew the Department's attention to a number of issues regarding inadequate financial control in relation to the education centres, including

- the submission of unaudited accounts
- the necessity to update the financial guidelines for the centres
- the lack of sanction for overdrafts and loans in some instances
- the lack of documented procedures for the Department's monitoring of the centres' financial returns.

In response to my Office's concerns the Department undertook to take action on these issues and advised that discussions were underway with the centres since June 1997 with a view to putting in place suitable systems to reflect the increased size of their financial operations.

During 1997 and 1998 the Department's internal audit unit undertook audits at four education centres. The audit report on one education centre, issued in April 1998, raised serious questions in relation to the adequacy, effectiveness and application of the internal control systems within the centre. The report noted instances where the Director, who was appointed in 1978, was in serious breach of administrative and financial regulations and where serious financial irregularities may have arisen.

The audit report also

- Noted that due to the inadequacies of the internal control mechanisms and the unorthodox manner in which accounting controls were maintained, it was not possible to audit the financial accounts and supporting records to the conventional auditing standards.
- Recommended that, in relation to the overall governance of the centre by the management committee, the committee engage in a strategic planning process and put in place effective financial management and control mechanisms, including the establishment of a finance subcommittee.

The Department withheld further payments to the centre after the initial audit findings became known and on being made aware of these findings, the management committee froze all existing bank accounts and opened fresh accounts with new signatory arrangements. The Director resigned in April 1998. The Department requested the management committee of the centre to refer the matter to the Gardaí and this has been done.

In the light of my Office's expressed concern in 1997 about the adequacy of financial controls in the education centres and the later findings of the internal audit unit, I sought details of the action being taken to remedy the situation.

The Accounting Officer informed me that:

- The management committees of the education centres which have been audited by the Department's internal audit unit have been provided with copies of the relevant internal audit reports. The management committees have carefully considered the reports and have taken appropriate steps, where necessary. The audit reports form part of an overall structured evaluation and development process for education centres, which was initiated by the Department during 1997.
- A special training seminar for Directors of education centres will be held in the 1998/99 school year to discuss the audit findings and recommendations and their implementation. The Department's internal audit unit will take a leading role in this seminar. The seminar is part of an overall training programme for Directors of education centres. Management committee members will also be provided with training in this and other areas.
- A detailed Administrative and Management Handbook for education centres is being prepared by a joint working party, comprising representatives of the Association of Teachers'/ Education centres in Ireland and the Department. This will include updated and much more detailed financial guidelines and procedures for education centres and will incorporate key recommendations from the internal audit unit. The work of this joint working party, which commenced in June 1997, is well advanced. The Department's internal audit unit will also visit centres to monitor compliance.
- The Department's view is that education centres, through their management committees and directors and staff, provide a very good return on State investment and are key agents in ensuring the success of the many changes and developments taking place in education. The Department considers that the structures in place are appropriate to achieving the objectives of the centres and generally work well. The management, administration and overall effectiveness of the centres will be significantly improved under the proposed structured evaluation and development process. As part of this process, all education centres will be audited by the Department's internal audit unit on a rolling basis.

In regard to the specific education centre he stated that due to unsatisfactory records, it was not feasible to reach a final figure in relation to the amounts involved, but internal audit established that £47,000 is unaccounted for while £70,000 approximately was either withdrawn, cashed or transferred from the centre's bank account to other accounts. The matter of the recovery of unsatisfactorily accounted for moneys and what steps might be appropriate in this regard will take account of legal advice and the actions, if any, which will follow from the matter having been referred to the Gardaí.

31. Control Weaknesses at Youth Encounter Projects

Youth Encounter Projects (YEPs) were established in the late 1970s to provide educational facilities for children who, for one reason or another, had become totally alienated from the conventional schools system and were involved in, or at risk of becoming involved in, minor crime and delinquency. The projects were intended to provide a caring educational environment for disadvantaged children, to foster a sense of identity and to provide a framework for co-operation between the educational system and the social support system. The YEPs enjoy a favourable level of teaching staff and place particular emphasis on personal and vocational development. Each YEP caters for approximately 25 pupils aged between 12 and 15 years and is 100% funded by the Department. Total annual expenditure on the five YEPs in operation in 1997 was £770,000 comprising teachers' salaries of £394,000 and operating costs of £376,000.

The YEPs operate as special schools under the Rules for National Schools and as such, the responsibility for their orderly running rests with the Board of Management, the members of which are appointed by the Patron. The Board is required to elect a Treasurer to be responsible for the school's accounts. The Treasurer is required to present, at each meeting of the Board, an up-to-date statement of the school accounts, giving details of income and expenditure. The Treasurer is required to retain vouchers of expenditure for inspection and audit by officials of the Department. Under the rules the YEPs are required to prepare annual accounts of income and expenditure for presentation to Board members. Subject to the authority of the Board, responsibility for the day-to-day activities of the school devolves on the Principal. The Department's capacity to ensure proper compliance with these requirements is based on the receipt of satisfactory written assurances from the school and on compliance audits carried out by the Department.

A compliance audit at a YEP commenced in December 1995 and the audit indicated that:

- Notwithstanding the regular certifications provided by the school's Treasurer to the effect that the accounts were in order and the transactions properly vouched a substantial proportion of the school's expenditure was unrecorded and unvouched and could not therefore be verified.
- Records and documentation were not available and it was suggested that these were stolen in the course of numerous break-ins at the school.
- Though the signatures of both the Principal and the Treasurer were required for transactions on the current account and on cheques, there were numerous instances of cheques presented to and honoured by the Bank bearing only one of the required two signatures.
- The officials were able to establish that an unauthorised credit card account had been used for expenditure of some £85,000 between 1990 and 1995 and that irregularities could have occurred.
- The Board of Management had become gradually inactive and ineffective over the years.
- The accounts could not be satisfactorily audited in the absence of supporting documentation of expenditure.

The audit findings were brought immediately to the attention of the Patron in December 1995. Departmental papers show that:

- Without advising the Department, the Patron immediately offered the Principal the option of going on sick leave or being suspended with pay. The Principal went on sick leave from December 1995.
- The Department was subsequently informed that the Principal was being replaced by an assistant teacher and it was understood by the Department from discussions with the Patron's representative that, in accordance with normal practice, the new appointee would assume the full responsibilities and duties of the Principal. However, during 1996 the Principal continued to hold all the financial records of the school and retained full financial control, including use of the school cheque books and credit cards. In effect, there was no Board of Management and the Principal continued to make all decisions on the management and administration of the school.
- When the Department became aware of the Principal's continued involvement with the school through a report from its Inspector in September 1996, the Patron was immediately contacted and steps were taken to ensure the Principal's complete removal from the affairs of the school, including the return in October 1996 of the school minibus which the Principal had retained for his own use since the previous December, but whose running costs had been charged to the school.
- In November 1996, the Patron took over the financial running of the YEP, closing all existing bank accounts, including the credit card account. He also began the process of repossessing all financial records and credit cards from the Principal. The Department was advised that the records had been eventually returned by the Principal in February 1997 and the Department approved his application for early retirement in June 1997, with effect from December 1996.

In response to my inquiries the Accounting Officer informed me that:

- Although the Treasurer certified the monthly accounts, she subsequently admitted to the Department that she never checked the supporting documentation - she simply signed the covering certificate.
- Original ledgers, cheque books and other available records were removed from the school to the Department to preserve the available records and to allow for more detailed analysis. This analysis of the school's financial records showed that a significant element of the non-pay expenditure was unvouched but uncovered no evidence of misappropriation.
- He accepted that the Department should have been more forceful in pressing the school authorities when evidence of the credit card account and the missing financial records first came to its attention in 1994.

- All the financial records of this YEP are now retained by the Patron and Chairperson of the Board of Management. Only the minimum documentation required for the daily operation of the project is retained at the project.
- The difficulties encountered in the extended audits of young offender centres delayed the Department's capacity to embark on the intended audits of YEPs.
- The monthly imprest returns and bank statements from all the YEPs are now monitored for evidence of any unauthorised accounts. Details of the authorised bank accounts of each YEP are held in the Department and no other accounts may be opened or operated without Departmental approval and subsequent receipt of the monthly bank statements.
- The Department is satisfied that effective Board of Management structures are now in place and operating in all YEPs as a result of compliance audits completed in three YEPs and from detailed meetings which the Department had with patrons and Boards of Management of the other two YEPs pending the carrying out of audits.

Vote 31. - Agriculture and Food

32. FEOGA Operations

The EU makes monthly advances to the Department of Agriculture and Food, refunding payments made to farmers and others who are eligible to receive support under the Common Agricultural Policy. The accounting year for FEOGA operations ends on 15 October. By the following 10 February, the Department submits a detailed claim to the EU itemising all expenditure incurred and amounts received on behalf of the FEOGA Guarantee Fund. The claim is certified by a private firm of accountants (certifying accountants) appointed by the Department in accordance with EU regulations.

During 1997, £1,468m was incurred on FEOGA expenditure comprising

	£m
Export Refunds	415.2
Intervention Costs	67.5
Production Aid	74.4
Premia Schemes	668.6
Other support measures	242.3

In addition to the certifying accountants and normal management controls, the control procedures in the Department include an internal audit unit. This unit also reports on the results of its audits to an audit committee, appointed by the Minister to advise on the development of internal audit within the Department. During my audit of Departmental FEOGA operations I examine the reports of both the internal auditors and the certifying accountants and rely on their work, where appropriate, to enable me to fulfil my audit mandate.

In the following paragraphs 33 to 35 reference is made to matters noted during my audit and to other matters noted by the internal audit / certifying accountants. Similar type matters have been referred to in my previous years' Reports and are indicative of the inherent difficulties of administering many FEOGA schemes. The Accounting Officer points out in paragraph 33 that many of these matters are being resolved in 1998 and were in the main due to the unprecedented increase in the volume and complexity of FEOGA schemes following the 1992 CAP reform programme.

33. AREA AID

Controls Overview

The Integrated Administration and Control System (IACS), which was introduced as part of the 1992 CAP reforms, obliges each farmer to submit an area aid application by 15 May each year. The area aid application shows the area, location, and crop of any land parcel in respect of which arable aid is being claimed and the area and location of any land parcel being used as forage area to feed the farmer's livestock.

Under IACS, each Member State was required to have a Land Parcel Identification System (LPIS) in place by 1 January 1996, to allow it to verify the accuracy of the area aid applications being submitted each year. This enables the Department to ensure that arable aid is being claimed correctly and that the total forage area of each livestock farmer is declared accurately so that the stocking density limits applicable to the holding under livestock premia schemes can be applied correctly.

The LPIS database shows the unique identification number, gross area, location and boundary of each land parcel declared to date (digitised on to maps after being cross-checked against aerial photography) and its previous arable or forage use. Subsequent area aid applications are verified against the database for accuracy. As a general rule, claimants under the various FEOGA livestock and arable aid schemes cannot qualify for payment unless they submit a valid area aid application. Therefore the efficient processing of area aid applications is vital to the operation of these schemes.

The normal processing of area aid applications, including receipt, registration, input to database, cross-checking against the LPIS database, administrative checks, remote sensing and on-farm inspections, must be completed between April and October each year to allow payment of all eligible arable aid and livestock premia in a timely manner. The EU Commission requires all such work to be completed before payment if disallowances are to be avoided.

In 1997, about 2,500 farmers submitted area aid applications with claims for arable aid only. Another 14,500 farmers submitted combined arable aid and forage area applications and 117,000 farmers submitted forage area only applications. Approximately £91m was paid on foot of 1996 arable aid applications between October 1996 and September 1997. A further £669m was paid in respect of various premia headage schemes.

While carrying out their 1997 review of the administration of area aid applications, the certifying accountants reported in January 1998 that there were certain major weaknesses requiring immediate attention by senior management. They concluded that the Department needed to perform an in-depth analysis of the management systems and internal controls then in place in the area aid division and to analyse the adequacy of resources and the need for increased training of officials. Audit work carried out by my Office confirmed these findings and raised further concerns regarding controls. The specific weaknesses are addressed on pages 62 to 64.

On a general level the Accounting Officer stated that:

- the whole IACS project was both complex in nature and of very extensive proportions. The sheer scale of the processing necessary can be seen from the fact that the number of applications received annually is of the order of 135,000 and that there are in excess of 900,000 land parcels involved.
- The introduction of the LPIS was the final element in the integrated control system governing the implementation of the 1992 CAP reforms. The nature and details of area aid application requirements made major demands on Irish farmers who were largely unfamiliar with complex bureaucratic form filling procedures. As a result there was a very extensive error rate in area aid applications. Indeed, the Department had to supply applicants with ready reckoner sheets

to enable very many of them to meet the EU requirement that acreages be converted to the metric system correct to two decimal places.

- Additionally, all farmers were required to supply Ordnance Survey maps, which in very many cases were significantly out of date. They had to outline their farm by field or plot of fields on the maps so that the Department could digitise every plot of the 135,000 farms in the country. Farmers, without any mapping draughtsman or land survey experience, mapped in their holdings to the best of their ability.
- The project also had major information technology implications. A whole new system had to be devised to facilitate digitising and it had to be linked with the separate payment database. As with any new system operating on this scale the Department faced a wide variety of operational and control difficulties, some of them major. These were addressed by the constant review and refinement of the Department's arrangements.
- In the context of the initial undertaking to have the LPIS in place by 1 January 1996, there was considerable pressure on both the Department and the LPIS contractor to deliver a very large project within a very short time frame. Initial development of the LPIS took place in 1995 using maps provided by farmers upon which they had endeavoured to outline the parcels making up their holdings. As a consequence of the extent of errors in this complex process the Department and its LPIS contractor in turn had difficulties in correctly locating and identifying land parcels and combining adjoining farms. Of course, Ireland was not alone in the EU in having these problems. Implementation of the new system from 1 January 1996 was subsequently seen by the European Commission to be unattainable in Member States. The result was that the Commission agreed to extend the deadline for completion of the LPIS to 1 January 1997.
- While the certifying accountants' report highlighted certain weaknesses, it also recognised that significant progress has been made in the development and implementation of the LPIS and supporting systems. The report went on to recommend that the complete resolution of the problem being encountered by the Area Aid Unit continues to receive the highest priority from the Department. This recommendation was given effect by the commissioning of an external consultancy to address the key issues in the Area Aid Unit, modelled on the project which successfully addressed problem areas in the Beef Intervention System in the previous year. The project was completed in February 1998 and the key outputs from this consultancy were:
 - a detailed work plan for the clearance of the backlog of 1996 and 1997 applications, together with a system for monitoring progress of the backlog clearance,
 - a detailed project plan for processing of 1998 applications, including details of all changes to existing processes and procedures
 - an outline consideration of the most appropriate system for use in 1999 onwards.
- In implementing the recommendations, the Department has undertaken a major reorganisation of the Area Aid Unit. Five distinct Sections have been created, each with

responsibility for specified counties. Each Section has total responsibility for the processing of all applications from the relevant counties and for the arable aid payments to eligible applicants in those counties. Additional staff resources have been assigned to the unit.

- A high-level Monitoring Group, which includes two officers at Assistant Secretary level, was established to monitor implementation of the Consultants' report. This Monitoring Group meets on a regular basis to oversee all Area Aid Unit operations and to ensure that the consultancy recommendations are implemented.
- The issues raised by my Office have now been examined fully and appropriate additional control features have been incorporated into 1998 arrangements.

The Accounting Officer also stated that the Department is constantly reviewing and refining its control procedures. In this context, my Office, the certifying accountants and the EU Commission auditors have been helpful in identifying weaknesses. He is confident that significant progress is being made in the implementation of the IACS system.

Electronic Scanning of Applications

The Department employed an external contractor during 1996 and 1997 to process and validate area aid applications by means of a computerised scanning technique, which captured printed and handwritten data from each application in the form of digital images. Following the scanning process the data is validated using a software package which interprets the handwritten data and presents anything that it queries to the operators for validation. If insufficient information exists to resolve a query, then it is flagged as an error. The integrity of the scanning procedure is vital to the effective processing of applications.

A review by my Office indicated serious weaknesses in the scanning process in that:

- there was no quality testing of the system before it went operational
- undue reliance was placed on the contractor for the correctness of scanned data input to the system
- the Department failed to carry out quality control checks or verify the data
- 17 applicants for forage area aid only were found to have been incorrectly paid for arable aid totalling £53,000
- scanning errors included
 - ▶ failure to detect decimal point on area claimed. A case was noted of a cheque for £250,670 cancelled prior to issue due to the misinterpretation of the declared area as 608 hectares instead of 6.08 hectares.
 - ▶ false areas created by the scanning process from continuous or broken lines and other markings on forms which were misinterpreted as declared areas.
 - ▶ failure to ensure that all application details were scanned. For 1,284 arable aid applicants, only summary details were recorded on the area aid database and the data from the main section of the application was omitted.
 - ▶ failure to correct cases flagged as errors by the scanning process.

- the certifying accountants queried the efficacy of the scanning process, noting widespread discrepancies between the details on the application form and the details captured on the system by the scanning process.
- the Department's internal audit unit noted that no record was maintained of applications sent for scanning or returned and that there was a risk that 1996 applications were processed and paid on declarations which were not fully validated and on which overdeclarations of land area may have been made.

As these audit findings suggested that a detailed review should be undertaken to cover all aspects of the scanning process I sought the views of the Accounting Officer who informed me that:

- The processing of area aid applications has to be completed over a very short time span. Any project involving the complex processing of a huge volume of applications and which also involves the introduction of a new technology, inevitably involves a learning process.
- Lessons have been learned from the experience of 1996 and 1997 and appropriate administrative changes and controls have been put in place to ensure that similar problems are avoided in 1998.
- The verification system has been further developed in 1998 to include validation cross-checks and ensure greater accuracy with the data capture. It also provides a facility to refer queries to the applicants concerned as early as possible in the processing stage.
- Precise validation rules are in place not only at the validation stage but also in the programming instructions for the payments computerised system. This will capture any error not highlighted at the initial verification stage.

Checking Discrepancies

The Department identified some 27,000 applications received in 1996 where the area of land claimed was greater than that recorded on LPIS. In order to allow payment under the various FEOGA schemes affected, permission was received from the EU in late 1996 to pay the problem cases on a claimed area basis rather than on the area digitised under LPIS. Payment on this basis was allowed by the EU provided no fault lay with the applicant, the difference between the claimed area and the LPIS area was no greater than 3%, the application was correct, including the provision of all necessary maps and the difference between the land area claimed and that digitised under LPIS was to be reconciled and any overpayments recovered.

During audit it was noted that:

- While most cases of geographical discrepancy had been resolved, the Department had not, by April 1998, re-validated claims to ensure payment discrepancies were also corrected. A recalculation exercise by my staff on a sample of 46 claims, based on the revised forage area, revealed likely overpayments amounting to some £61,000.

- While the area aid application form shows detailed and summarised information on each farmer's land area and usage, payment was made on the basis of the application summary rather than on the main section which contains the details of plot area and usage. Following a review of a sample of applications, discrepancies were noted by my staff between the main section of applications and the summaries. Any re-validation procedure will also have to check for overpayments arising from these discrepancies in addition to those arising from differences between the area claimed and the area digitised.
- As the 1996 application problems had not been resolved by November 1997, the Department obtained a further EU concession to process some 30,000 area aid applications for 1997 on the basis of claimed area, provided that any problems were fully cleared up during 1998, no inspection cases were paid prior to inspection and any overpayments which could not be recovered from future premia payments are carried by the Exchequer.

In response to my inquiries, the Accounting Officer assured me that arrangements have been made to undertake a systematic recalculation of headage and premia payments made in respect of the applications in 1996 and 1997.

Payment Procedures

A review of payment procedures brought to light the following:

- The certifying accountants observed that during 1997 there was only partial compliance with payment procedures, noting that 15 computer payment runs amounting to £14.5m had proceeded without authorisation, and recommended that management continuously monitor full compliance with this control.
- The information on LPIS database and the payments database did not match. As the databases are not interlinked, revisions to the land area recorded on the LPIS database are not automatically downloaded to the payments database. This is significant as, for example, a revision of the land area claimed would also revise the grant payment. Urgent attention should be afforded to reconciling the information on the different databases. The EU and the certifying accountants have expressed concern on this issue also.
- A number of overpayments which were attributable to deficiencies in payment procedures were discovered on audit by my staff. They had already noted overpayments which had come to light as a result of payees returning cheques to the Department rather than being detected by payment controls.

The Accounting Officer informed me that :

- A revised payment authorisation procedure has been put in place incorporating improved pre-issuance controls and random checks on the payment runs.
- Difficulties associated with the use of different databases are being addressed in consultation with the LPIS contractor. This will include arrangements to avoid delays in the transfer of material between the databases.

- Out of 254 overpayments identified to July 1998 in respect of 1997 arable aid payments, 179 amounting to £139,648 have been fully recovered.

34. Disallowances by the EU Commission

The EU Commission, having carried out selected audits of the expenditure and receipts declared in the annual FEOGA claim, gives a decision on the correctness and validity of the transactions and, arising from this, determines what adjustments should be made. If these adjustments involve disallowances of expenditure they give rise to a charge to the Vote, although where the amounts disallowed are recovered from individual traders, any resultant receipts are brought to the credit of the Vote. Claims up to and including the 1995 FEOGA financial year¹ will be cleared by this procedure. The 1993 claim was cleared in this way during 1997.

Commencing with the 1996 claim, new account clearance arrangements introduced by the EU Commission involve the annual claim being cleared in two stages. The first stage involves the independently certified annual claim account of the Member State being submitted to the EU Commission by 10 February following the end of the FEOGA financial year. Any accounting adjustments arising from the reconciliation of the annual claim to the monthly advances made by the EU to the Department in the previous year, are charged or are credited to the Vote as appropriate. The second clearance stage is based on the Commission's audit of the annual claim account and disallowances arising therein are also chargeable to the Vote. The first stage clearance of the 1996 claim was carried out during 1997.

Penalties for late payments are also imposed by the EU Commission for non-adherence to the payment deadlines and are implemented by making quarterly deductions from advances to the Department. Deductions in respect of late payments for the final quarter are implemented in the first stage clearance of the annual claim. In 1997, a total of £1.46m in late payment penalties for the years 1994, 1996 and 1997 was charged to the Vote.

A total of £4.67m in disallowances was charged to the Vote in 1997, as outlined in Table 10.

Table 10 - Feoga Disallowances

	£	£
Amounts charged following the 1993 Clearance of Account		
Premia Schemes	1,237,393	
Intervention Beef		
- financial penalty for crediting FEOGA where the minimum deboning yield was not achieved, incorrect valuation of losses, rejected beef not declared plus various adjustments	856,101	
Milk Promotion Measures	198,001	
Beef Promotion Measures	69,464	
Afforestation Scheme		
- administration fee ineligible for FEOGA financing	<u>34,761</u>	2,395,720
Penalty for late payments		
1994	37,241	
1996	1,272,748	
1997	<u>152,865</u>	1,462,854
Other Adjustments and charges		
Intervention Beef Stock losses for previous years	787,709	
Other adjustments	<u>25,624</u>	813,333
		£4,671,907

My 1995 Report detailed disallowances of £1.55m imposed in respect of unsatisfactory controls over securities for 1991 Beef Export Refunds. £605,000 of this amount was subsequently recovered by the Department as a forfeiture from the party concerned and by agreement with the Commission was retained by the Exchequer and credited to the 1997 Vote by way of Appropriations in Aid.

¹ *The financial year for FEOGA purposes ends on 15 October.*

35. Irregularity

The Dairy Hygiene Scheme is part of the Operational Programme for Agriculture, Rural Development and Forestry 1994-1999 and was designed to assist small dairy farmers meet the cost of investment on their farms to reach the standards required under EC Directive 92/46. The scheme was suspended in October 1996 and no further applications were accepted after that date. 1,862 applicants received grants totalling £11.4m in 1997.

Each person making application under the scheme is given a reference number and is required to quote his client identification number (herd number) where applicable. Applications are processed by local offices and, when all scheme conditions are confirmed, a Recommendation for Payment form (RFP) is forwarded to Agriculture Structures Division (ASD) of the Department based in Cavan for checking and recording. ASD then authorise the payment and payments are issued by Accounts Branch which is also based in Cavan. The RFPs are then returned stamped 'Paid' to the local offices for filing.

Following information received from private sources, investigations were initiated by the Gardaí in December 1997 into the alleged fraudulent cashing of cheques issued by the Department in respect of the Dairy Hygiene Scheme. Internal investigations by the Department indicated that a number of fraudulent claims had been initiated through the Sligo Farm Development Services Office. The investigations revealed that:

- 4 irregular payments totalling £101,479 were issued in September 1997 and cashed in October 1997 while 5 irregular payments totalling £131,059 issued in December 1997 were detected and cancelled prior to encashment.
- Bogus RFPs were prepared with false applicant names and addresses, but with legitimate reference numbers and client herd numbers already used in abandoned applications
- The addresses provided were registered guest houses which were apparently used for collecting payments
- The RFPs also included fraudulent signatures of two authorised signatories
- The Department has been unable to trace the bogus RFPs in the Sligo office as it appears that they were intercepted

An interim report by the Internal Audit Unit of the Department in March 1998 noted that

- Procedures in ASD in Cavan did not ensure that RFPs received were valid.
- Lists showing paid RFPs were returned by ASD to local offices but were not reconciled with RFPs sent for payment.
- While all payments were close to the maximum of £27,000 which can be claimed by any one applicant under the scheme, this level of grant indicated a size of investment not consistent with the small milk quotas declared on the bogus applications.

- Had checks for reasonableness been in place in ASD, they might have highlighted an incorrect application, as the average grant for the Sligo area in 1997 was £8,281 while the national average was £6,003.

As the irregularity was not uncovered by the Department's own control procedures I sought the views of the Accounting Officer, who informed me that:

- As soon as the irregularities came to the attention of the Department, detailed administrative documentary and on-site checks were carried out by the Department on grant approvals executed under the Dairy Hygiene Scheme and other on-farm investment schemes at the Sligo Office.
- At the Sligo Office no other suspected irregular payments on foot of RFPs completed in the same manner as those used to support the irregular claims have been found under the Dairy Hygiene Scheme or under any other Scheme. However, discrepancies were found in two cases dealt with within that office under Schemes other than the Dairy Hygiene Scheme, which resulted in overpayments of £3,279 and £1,557. Demands for recoupment of the moneys concerned have issued to the applicants and the matter has been brought to the attention of the investigating Gardaí. An officer attached to the Office has been suspended for these overpayments.
- Administrative documentary checks were extended to other local offices and all local offices were alerted to the need to exercise increased vigilance in the checking of investments for which grants are claimed. While the checks at the other local offices are ongoing, no suspected irregular claims have been uncovered.
- The irregularities uncovered in the Sligo Office involved a sophisticated level of expertise and a detailed knowledge of the control and administrative procedures. New procedures introduced in the period since December 1997 strengthen controls and eliminate the scope for the presentation of incorrect or falsified documents for payment. Moreover, the setting up of the computerised Client Data Register within the Department will further ensure that only valid registered clients are paid under all schemes, including the on-farm investment schemes.
- With regard to checks for reasonableness it should be noted that the procedural guidelines in relation to eligibility include clear instructions designed to ensure that grant aid approval is confined to justifiable investments based on criteria such as herd size, quota etc. However, the need for and role and nature of further reasonableness checks at payment level are currently being considered having regard to the increased effectiveness of the revised procedures recently introduced.
- In order to provide further reassurances the Internal Audit Unit of the Department will be broadening its checks on these investment schemes to include operations at the investment site with the audit team co-opting senior technical staff from a region other than that in which the investment concerned is located. In addition, consideration is being given to the conduct of systematic administrative audit checks of local offices on a regular basis by the ASD and associated inspectorate.

- A letter issued to each of the banks at which the irregular cheques were cashed requesting reimbursement of the amounts involved on the grounds that proper procedures had not been followed by the banks in accepting the payments. One of the banks refunded a payment of £23,811 following receipt of that letter. The other banks denied liability. Efforts to recover the amounts involved are continuing and legal advice to that end has been sought from the Office of the Chief State Solicitor.
- Investigations to establish the source of the irregularity are continuing. No action has been taken against any member of staff as a result of the irregularity as no formal charges have been made against any officer by the Garda authorities.

36. Redeployed Staff

The Dublin and Cork District Milk Boards were established in the 1930s to regulate the supply of milk for liquid consumption in their respective metropolitan areas. Over the years, the Boards developed ancillary businesses and as a result acquired considerable assets and employed up to 130 full-time staff. By the mid 1980s however, the Boards were in decline and their ancillary businesses were losing money. About this time the EU Commission indicated that their milk regulatory activities were contrary to EU Competition Policy. The Government decided that the Boards should be abolished, their businesses sold to private sector interests and their milk regulatory activities transferred to a new Agency on a basis acceptable to the Commission. However, as matters neared a conclusion, it became apparent that this proposed solution in relation to the Milk Boards' staff was not acceptable to either the staff or the prospective new owners. Late in 1991, the implementing legislation, the Milk (Regulation of Supply) Bill, was withdrawn from the Oireachtas because it was not perceived as making adequate provision for the protection of staff interests.

The vast majority of the Milk Boards' staff were trade union members. The Programme for National Recovery contained a provision that there should be no compulsory redundancy in the State sector. The trade union involved interpreted this as extending into the Programme for Economic and Social Progress (PESP) and being applicable to the Milk Boards' staff. This was accepted by the Central Review Committee established under the PESP. There followed two years of discussions between the Department, in conjunction with the Department of Finance, and trade union representatives to resolve the matter. It was ultimately decided to rationalise the Boards' staffing situation and then sell their businesses on the open market as commercially attractive concerns. In 1993, an agreement was concluded with the trade union representatives under which some 50 staff were to be granted voluntary early retirement while the remainder would transfer to the employ of the new owners on the sale of the businesses. Those who were in full time employment with the Boards were guaranteed the option of redeploying to the Public Sector at a salary level analogous to their previous Milk Board salary in the event of their subsequently being made redundant by the new owners.

The Milk Boards were abolished in December 1994. A three member Interim Board, comprising a senior official from both the Department and the Department of Finance under the Chairmanship of a business consultant drawn from the private sector, was established to sell their businesses and property and discharge their liabilities. As part of the conditions of sale, the new

owners were required to pay redundancy compensation at the "going rate" (as opposed to the statutory minimum entitlement) to any staff they might make redundant and who opted for redeployment. The staff, as part of the agreement, undertook to hand this money over to the Exchequer as one of the conditions of their redeployment.

The ancillary businesses of the former Milk Boards were sold to two private companies in April and May 1995. The vast bulk of their businesses and assets have now been sold. Total proceeds exceeded £4.3 million and after the discharge of liabilities the net return to the Exchequer was of the order of £2.6 million.

The new owners began to make staff redundant from mid 1995. By April 1998, 22 former Milk Board staff had been let go, including 20 from one company and these staff have exercised their right to redeploy into the public service. They received only the statutory minimum redundancy.

The Department received the redundancy payments cheques from the staff, but it has refused to cash them on the grounds that it is not in accordance with the rationalisation agreement. The cheques are now out of date. Consequently, the Interim Board formulated a claim for just over £1m against the new owners for redundancy compensation and has taken steps to initiate legal action against both companies for the recovery of this money.

The Accounting Officer informed me that:

- Progressing the sale of the Boards and the establishment of the National Milk Agency, the passage of National Legislation for the regulation of the supply of drinking milk, compliance with EC requirements in relation to freedom of competition and certain related issues all depended on the successful negotiation of an agreement with the staff side. Without the guarantee of redeployment there was no possibility of getting any such agreement.
- The Department's ability to find positions for the 22 former Milk Board personnel was constrained by legal and industrial relations difficulties. Under current regulations, these redeployed persons cannot be appointed by a Department of State unless they are deemed qualified by the Civil Service Commissioners, or are covered by a relevant excluding order, or are appointed by the Government in the public interest.
- In the period from mid-1995 to May 1998, just under £500,000 had been paid in salaries from the Vote to redeployed staff. During that period, the redeployed staff did not engage in Departmental work.
- In April 1998, the Civil Service Commission issued an excluding order enabling the appointment of 15 out of the 22 former milk board staff. Ten of these were assigned to duties within the Department. In July, following discussions with the staff association concerned, a further four were assigned to duties. The option of retirement is being considered in the case of three further individuals. The Civil Service Commission and the Department of Finance had reservations in providing excluding orders for the remaining staff who were at levels above the normal civil service recruitment grade. The current situation is that proposals are being considered on the appropriate selection methods to be used to determine their suitability for

the executive posts concerned. In July, a further 25 former milk board staff were made redundant. All of these were assigned to duties in August 1998.

- There are 18 other persons covered by the Milk Boards' rationalisation agreement still employed by the companies concerned.

37. BSE Outbreak at Moorepark

An outbreak of Bovine Spongiform Encephalopathy (BSE) occurred at Teagasc's farm at Moorepark, County Cork, in August 1997. The report of the veterinary inspectorate of the Department of Agriculture and Food on this matter concluded that while the source of the infection could not be definitely identified the most likely cause was the contamination of dairy ration in Moorepark's feed mill with meat and bone meal used for pig rations. In accordance with the Department's regulations the farm's entire herd of 563 cattle was destroyed and compensation of £650,743 was paid by the Department. Six tonnes of cheese to a value of £115,644, processed from the milk of the dairy herd, was also withdrawn as an exceptional precautionary measure. Additional expenditure involving payments to certain staff for consequential lost overtime earnings was also incurred.

In response to my inquiries the Director of Teagasc informed me that:

- It is not possible to give a historic cost for the herd, as all the calves were born in Moorepark. An external valuation was carried out on behalf of Teagasc which indicated that the replacement value of the herd was £872,425. Following negotiations with the Department of Agriculture and Food the final agreed valuation amounted to £650,743 for the herd destroyed. The herd was of exceptionally high quality and consisted of pedigree registered and pure-bred non-registered friesian stock as well as some 70 imported animals of exceptionally high genetic merit.
- Following the BSE breakdown in Moorepark, a rigorous restocking strategy was drawn up by Teagasc in conjunction with the Department of Agriculture and Food. With the objective of minimising the risk of further disease outbreaks, not only due to BSE but also TB and Brucellosis, as well as a range of other infectious diseases, it was decided that all animals brought into Moorepark would be subjected to a testing regime similar to that for cattle being imported into Ireland. Also, the cattle were held in separate "purchase groups" until they had passed the specific post-calving tests. To obviate the possibility of importing infectious diseases from other countries, all cattle were sourced in Ireland. The implementation of the strategy delayed the re-stocking of Moorepark and involved additional costs due to the extensive testing, quarantine and vaccination measures undertaken to minimise the risk of further breakdowns. In the circumstances, it was felt that such precautions were necessary. Also, the experience gained in implementing the strategy should be of benefit to farmers undertaking the re-stocking of herds that have been depopulated.
- Teagasc conducted its own investigation into the breakdown. Four possible causes of the BSE outbreak were identified. Despite the detailed records maintained at Moorepark, the actual cause of the breakdown could not be definitely determined. However, the possibility exists that some cross-contamination of animal feed-stuffs may have occurred in the blending mill.

Prior to March 1996 the same mill was used in Moorepark to blend dairy and pig rations - the latter normally contained 5% meat and bone meal. To minimise the possibility of cross-contamination between dairy and pigs rations, 50kg of the first batch of each run of feed-stuff blended in the mill was routinely discarded. The practice of using the mill to blend pig rations containing meat and bone meal was discontinued in March 1996.

- Regarding actions taken to guarantee safety of animal feedstuffs, in October 1996 the Department of Agriculture and Food introduced a statutory instrument which, in effect, prohibited the use of meat and bone meal in mills used to produce feed-stuffs for ruminant animals. This practice had been discontinued at Moorepark in March 1996 - some seven months in advance of the legislation and since that date no meat and bone meal has been purchased by Moorepark. Subsequent to the outbreak, a directive was issued to all Teagasc farm centres to the effect that any meat and bone meal or animal feed stocks held under licence should be returned immediately to the suppliers.
- The total payments made to farm operatives in lieu of rostered overtime over a period of up to 24 weeks amounted to £47,720. The day-to-day operations of the dairy systems at Moorepark have always necessitated rostered overtime work for the farm operatives involved. Following consultation with the Irish Business and Employers Confederation concerning the procedures normally adhered to when such overtime is temporarily interrupted due to circumstances outside the workers' control, the Chairman and Director were informed that in the circumstances there was no choice but to continue the payments.

Having regard to this advice, the allowances were paid to the farm operatives, subject to them agreeing to operate (i) the flexible working arrangements which were necessary to implement the rigorous re-stocking strategy and (ii) new codes of practice in relation to milking, animal management and food safety. As will be appreciated, the effective quarantine of animals in "purchase groups" until cleared to join the herd following post-calving testing could not have been undertaken without the full co-operation of the staff involved.

The Director also stated that:

- By August 1998 £455,135 had been expended on the purchase of livestock. In addition, £27,591 had been expended on the extensive herd testing and vaccination measures and an estimated £3,000 on travel and subsistence incurred as a direct result of the outbreak.
- The re-stocking is being completed through the importation of embryos from New Zealand and Holland at a projected cost of some £70,000. While meeting the requirements of the research programme, this additional precaution is being taken to obviate the risk of importing infectious diseases from other countries.
- Income losses were also incurred due to the non-production of milk. The best indication of the loss arising is the adverse variance on the 1997 Teagasc Moorepark dairy income budget of £103,041.

Vote 40. - Social Community and Family Affairs

38. Overpayments

The Department of Social, Community and Family Affairs administers some 50 social assistance and social insurance schemes, with 1997 expenditure amounting to £2.5bn and £1.8bn, respectively.

During 1997 the annual expenditure on social welfare programmes increased by 2.4%, while the monetary value of fraudulent claims detected by the Department increased by 6.4%.

As indicated in Tables 11 to 12, during 1997, some 34,684 cases (32,609 in 1996) amounting to £20.8m (£18.9m in 1996) in overpayments were recorded for recovery.

Table 11 - Social Insurance - Overpayments Recorded for Recovery

Scheme	1997		1996	
	Amount £'000	Cases	Amount £'000	Cases
Disability Benefit	1,005	2,248	1,343	2,982
Maternity Benefit	5	17	11	40
Unemployment Benefit	1,523	8,576	1,288	7,761
Old Age (Contributory) Pension	308	491	161	293
Survivor's (Contributory) Pension	445	392	141	192
Invalidity Pension	830	414	635	414
Retirement Pension	174	347	97	211
Disablement Pension	14	18	66	24
Injury Benefit	12	72	21	127
Deserted Wife's Benefit	146	213	252	70
Pay Related Benefit	1	15	4	33
Unemployability Supplement	4	14	37	28
Treatment Benefit	10	107	10	118
Equal Treatment	3	1	52	73
	4,480	12,925	4,118	12,366

Table 12 - Social Assistance - Overpayments Recorded for Recovery

Scheme	1997		1996	
	Amount £'000	Cases	Amount £'000	Cases
Old Age and Blind Pensions (Non-Contributory)	4,977	959	5,441	936
Child Benefit	463	2,298	443	2,389
Unemployment Assistance	7,477	15,270	6,030	14,645
Pre-Retirement Allowance	644	257	621	263
Widows' and Orphans' Pension (Non-Contributory)	293	86	220	52
Deserted Wife's Allowance	39	14	36	8
Lone Parent (Prisoner's) Allowance	30	10	14	5
Family Income Supplement	393	965	396	973
Lone Parent (Unmarried) Allowance	1,374	995	1,296	756
Lone Parent (Separated) Allowance	318	271	139	103
Lone Parent (Widowed) Allowance	42	35	35	8
Carer's Allowance	41	65	10	32
Supplementary Welfare Allowance	1	4	0	0
Disability Allowance	40	95	0	0
One Parent Family Payments	79	298	0	0
Rent Allowance	3	6	0	0
Part-time Job Allowance	3	25	4	16
Back to Work Allowance	84	106	50	57
	16,301	21,759	14,735	20,243

39. Fraud or Suspected Fraud

During 1997, 11,185 cases amounting to £14.5m of overpayments were attributed to fraud or suspected fraud, compared to £13.6m in 10,560 cases in 1996 as indicated in Tables 13 and 14.

Table 13 - Social Insurance - Overpayments Attributed to Fraud or Suspected Fraud

Scheme	1997		1996	
	Amount £'000	Cases	Amount £'000	Cases
Disability Benefit	328	211	695	311
Maternity Benefit	2	3	2	3
Unemployment Benefit	986	2,890	759	2,486
Old Age (Contributory) Pension	7	7	2	2
Survivor's (Contributory) Pension	128	12	10	4
Invalidity Pension	447	96	528	161
Retirement Pension	27	5	4	2
Disablement Pension	4	1	14	4
Injury Benefit	3	19	11	56
Deserted Wife's Benefit	84	14	189	17
Pay Related Benefit	1	13	2	20
Unemployability Supplement	0	0	15	6
Equal Treatment	0	0	1	2
	2,017	3,271	2,232	3,074

Table 14 - Social Assistance - Overpayments Attributed to Fraud or Suspected Fraud

Scheme	1997		1996	
	Amount £'000	Cases	Amount £'000	Cases
Old Age and Blind Pensions (Non-Contributory)	3,872	445	4,391	556
Child Benefit	206	497	272	780
Unemployment Assistance	6,429	6,494	4,898	5,664
Pre-Retirement Allowance	430	83	523	99
Widows' and Orphans' Pension (Non-Contributory)	215	39	147	29
Deserted Wife's Allowance	21	2	22	5
Lone Parent (Prisoner's) Allowance	8	1	8	1
Family Income Supplement	167	81	227	96
Lone Parent (Unmarried) Allowance	886	148	799	203
Lone Parent (Separated) Allowance	137	22	79	24
Lone Parent (Widowed) Allowance	17	4	1	1
One Parent Family Payments	26	9	0	0
Disability Allowance	21	39	0	0
Supplementary Welfare Allowance	1	1	0	0
Carer's Allowance	8	3	2	5
Rent Allowance	2	2	0	0
Part-time Job Allowance	1	3	2	4
Back to Work Allowance	56	41	41	19
	12,503	7,914	11,412	7,486

40. Recovery of Overpayments

The cumulative position on overpayments is outlined in Table 15.

Table 15 - Overpayments

	1997 £'000	1996 £'000
Overpayments not disposed of at 1 January	35,082	31,423
Overpayments recorded for recovery	20,781	18,853
<i>Less:</i> Overpayments recorded in prior years cancelled	<u>301</u> <u>20,480</u>	<u>430</u> <u>18,423</u>
	55,562	49,846
<i>Less:</i> Sums recovered in cash	4,638	4,399
Sums withheld from current entitlements	4,274	3,311
Amounts written off as irrecoverable	<u>9,071</u> <u>17,983</u>	<u>7,054</u> <u>14,764</u>
Overpayments not disposed of at 31 December	37,579	35,082

The Department has stated that the recovery of overpayments once they have been raised is treated as debt management. The overall debt management strategy during 1997 involved the following priority activities:

- the setting up of a debt recovery function in each scheme, local office and health board area
- pursuing clients from scheme to scheme, where there is an outstanding overpayment
- identifying defaulters and taking appropriate follow-up action
- initiating recovery action when claimants take up work and there is an outstanding overpayment
- recourse to civil action where appropriate
- debt recovery guidelines were drawn up and adapted individually for scheme sections, local offices and health boards.

The Department also stated that:

- During 1997 to underpin the debt recovery effort, a business case for a central computerised overpayment system was prepared. However, due to other commitments, such as Year 2000 and the completion of the ISTS system, no further progress has been made to date. As an interim measure, a PC based system was developed for the Pension Services Office and tested during the year. The question of adapting the system for use in the other scheme areas was examined, and it is now planned to install the system in the other scheme sections during 1998.

- A total of 3,149 outstanding local office overpayments (value £1.2m) were extracted from the central overpayments system and forwarded to the relevant local offices for appropriate recovery action. These were cases of existing unemployment overpayments, designated as 'fraud' cases, where the debt was owed by persons with a current unemployment claim and from whom, it appeared, no recovery was being made. A further 2,913 cases where the overpayment was in excess of £2,500 (total value outstanding - £18.8m) and where the debtor was no longer in receipt of a social welfare payment were also issued for recovery action by the local offices. By 30 June 1998 some £371,000 was recovered in relation to 812 cases.

41. Prosecutions

The Department has informed me that:

- Any case involving abuse of the system is scrutinised with a view to taking legal proceedings. Prosecutions are taken against employers who fail to carry out their statutory obligations and persons who defraud the social welfare payments system. Prosecutions can be either by summary or indictment proceedings. Civil proceedings are taken to facilitate the recovery of scheme overpayments or collection of PRSI arrears, but are only contemplated where it has been established that the debtor has sufficient means to discharge the debt.
- During 1997, the Central Prosecutions Service (CPS) carried out a review of the entire business process involved in submitting and preparing cases for legal proceedings with a view to reducing the time taken to finalise these cases. As a result of new procedures adopted the objective of clearing scheme cases within specified time limits has been achieved in more than 90% of all cases processed by the section and the amount of prosecution traffic has increased significantly.
- 329 cases were processed by CPS during 1997. Of these, 245 cases (231 criminal and 14 civil), were forwarded to the Chief State Solicitor's Office for prosecution, of which 5 were forwarded to the Director of Public Prosecutions for consideration of indictment proceedings. The remaining 84 cases were not deemed suitable for prosecution. By comparison, 162 cases were processed in 1996, of which 106 were forwarded for prosecution and 56 cases were not deemed suitable.
- Of the criminal cases forwarded, 133 were for offences in relation to the receipt of Unemployment Assistance, 29 to the receipt of Unemployment Benefit, 6 to the receipt of Disability Benefit, 2 to the receipt of One Parent Family payments and 61 were in relation to offences committed by employers.

- The prosecution outturn for 1997 is outlined in Table 16

Table 16 - Results of Court Cases finalised in 1997

Result	Unemployment Assistance	Unemployment Benefit	Disability Benefit	Family Income Supplement	One Parent Family Payment	Employers	TOTAL
Fined	31	11	3	-	-	30	75 ^a
Community Service	2	-	-	-	1	1	4
Imprisonment	6	-	-	1	-	-	7 ^b
Probation Act	5	4	2	-	1	3	15
Proven/No Penalty	3	2	2	-	1	10	18
Total	47	17	7	1	3	44	119 ^c

^a Value of fines imposed was £17,895

^b 6 Subsequently suspended.

^c No civil case finalised in 1997.

- An inhouse group was set up to examine if changes are needed in the range of measures available to the Department to enable it to be more effective in the fight against social welfare fraud.

42. Control Activities and Measures to Combat Fraud

The aim of the Department's control policy is to keep fraud and abuse to an absolute minimum, by promoting control as an essential element of the day-to-day work of the Department. There are some 600 staff working on control activities, both in Local Offices and Scheme Sections, including specific investigation units which work at local, regional and national level. These units, one of which works in conjunction with Revenue staff, carry out inspections of employers in relation to their PRSI obligations, investigate cases of concurrent working and claiming of social welfare payments, review recipients' means for assistance payments purposes and monitor ongoing entitlements to social welfare payments.

The Department informed me that during 1997, control and other anti-fraud measures included the following:

General

- 465,000 claim reviews were carried out and 7,700 employers were visited to check PRSI compliance and that employees were not working and claiming.

Unemployment payments

- The control effort in relation to unemployment payments resulted in estimated savings amounting to £76m (£59m in 1996). These savings represent the estimated future reductions arising as a result of the control action.
- Reviews of means tested payments are undertaken where there are indications of changes in a person's circumstances or where there is a potential for increased income from

employment or self-employment. Where deemed necessary, a full review of all other aspects of the claim is carried out. During 1997, 86,096 means reviews were carried out, 17% of which resulted in reductions in payment or termination of entitlement giving rise to estimated savings of £31m.

- Persons in receipt of unemployment payments are checked on an ongoing basis by the external control unit to verify continued compliance with such requirements as being capable of, available for, and genuinely seeking work. A total of 45,959 recipients were interviewed, as a result of which 7,056 (15%) signed off the live register. The estimated savings from this activity amounted to £19m.
- The Special Investigation Unit investigates employers and employees where abuses of the social welfare system are suspected. They also deal with reports where individual cases of fraud and abuse are alleged. These reviews are targeted on the basis of reports received from local offices, other investigations, the Gardaí, the general public and from their own local knowledge. A total of 21,231 reviews of employees were carried out during 1997. As a result 3,485 (16%) people signed off the live register giving savings of £11m.
- Savings in unemployment payments arising from counter staff activity in local offices were estimated at some £11.5m during 1997.
- The special focus on unemployment payments which was introduced in 1996 was continued, and the local area control teams co-ordinated all the activities and resources in relation to the control of the live register at local level.
- Small specialised units of inspectors deal specifically with employers in certain industries. A key element of their work is to check for working and claiming on the part of employees. Arising from their activities estimated savings of £2m in unemployment payments were achieved.
- A programme was put in place to review long-term unemployed claimants so as to ensure that they are fully aware of the support services available to assist in their return to work. The primary focus of job facilitators is on the needs of the unemployed and lone parents. Their main role is to inform and encourage these groups to avail of a wide range of incentives and initiatives to rejoin the workforce. As a result of being called for interview by job facilitators, a total of 113 persons ceased signing on the live register, resulting in savings of £300,000.
- All 18/19 year olds on the live register for more than 6 months were required to register with FÁS. Those who failed to do so, or who failed to accept or complete a programme, were identified and their continued payment of unemployment assistance or benefit was reviewed.
- Improvements were made in the flow of information between all of the agencies dealing with employment and / or unemployment matters - Social Welfare, FÁS, Local Employment Services, Area Based Partnership Companies, Revenue, Health Boards.

- Extra places were allocated to the back to work allowance scheme as it is regarded as a good incentive in encouraging the long-term unemployed to get back into the workforce and reduce the potential for abuses of the Social Welfare system.

Employer Notifications

- The Employer Notification System holds details relating to the commencement of employment by employees and sub-contractors in certain specified industries, as required by legislation. Returns are made to the nearest local office where a minimum of 10% are checked. Notifications received for 1997 increased by 11% over 1996. Returns increased in all sectors, except the forestry industry. In addition to the private transport industry, the most significant increases arose in the security, road haulage, licensed bar trade and catering sectors.
- Regulations were introduced with effect from April 1997 requiring employers engaged in the meat processing industry to notify the Department when engaging new employees or sub-contractors. The time limit for all industries in notifying the Department was reduced from 28 to 14 days.
- All employer notifications are matched against the Central Records system to identify potential cases of concurrent working and claiming. As a result of this exercise 1,199 cases were sent for investigation during 1997. Reports on 512 of these cases were received to the end of the year, resulting in estimated savings of £84,500.

Employer Inspections

Employer inspections carried out by the Department's inspectors comprise a number of tasks -

- detailed examination of employer records to ensure that accurate records of employees are being maintained and that correct PRSI payments are being made in respect of all their employees
- checks to ensure that employees are not concurrently working and claiming social welfare payments
- checks to ensure that the correct class of PRSI is being deducted and remitted
- outlining employers' responsibilities with regard to Social Welfare legislation
- general advice and information to employers on matters such as the operation of the PRSI system, incentives available to employers, the correct classes of contributions and employees' entitlements.

In 1997 a total of 7,742 inspections were carried out resulting in estimated savings of £23m, comprising £10m in PAYE/PRSI underpayments detected and £13m in estimated scheme savings, mainly unemployment payments. Returns compiled from inspections carried out showed that, of the employers inspected, 82% were found to be compliant, in comparison to 81% for 1996.

Illness Payments

- Control activity in the illness payments area resulted in savings of £30.3m in 1997 (£25m in 1996). Referral of recipients for medical examination yielded savings of £26.13m with the remaining £4.18m coming from other control activity.
- A total of 59,282 recipients were called for a medical review examination as follows:

Examined		
- capable of work	8,886	
- incapable of work	<u>32,287</u>	41,173
Did not attend for examination		
- submitted final certificates	10,358	
- certified unfit to attend	566	
- submitted excuses	<u>5,252</u>	16,176
Attended but not examined *		1,933
Total		59,282

* Claimants attended but were not examined for various reasons e.g. late for appointment.

Pensions

- Some 38,000 reviews of entitlement were carried out by regional investigators in respect of schemes operated by the Pension Services Office (PSO).
- The Estate Case Recovery Unit, which was set up in 1993 by the PSO, continued to monitor the estates of deceased pensioners with a view to identifying those who had failed to disclose means. In 1997 a total of £4.76m was set up in overpayments, of which £3.66m (77%) was collected. Cases where solicitors failed to comply with legal requirements, or where agreement could not be reached on the debt due to the Department, are referred to Central Prosecutions Service for necessary action. The Law Society was asked for its assistance in recovering overpayments of pensions in 11 cases where the estate of the deceased person was distributed by the solicitor acting for the estate without prior notification to the Department of the intention to distribute the assets.
- A review of 4,994 Old Age Pension claims was carried out to determine if the claimant's rate of payment was affected by the new capital means assessment which was introduced in the 1997 Budget. As a result 876 payments were reduced and 80 terminated.

Lone Parents' Payments

- The Maintenance Recovery Unit in the PSO determines the liability on the part of the spouse / partner of a lone parent recipient to make contributions to the Department and pursues such recoveries. Some £676,000 was received during the year from 479 contributors.
- During 1996 the General Registrar's Office provided the Department with a computer tape of all the marriage records for 1993 / 1994. This tape was matched against the PSO's database of lone parents and cases where the lone parent was married were identified. Work continued on the project during 1997, resulting in estimated savings of £642,000 from 23 cases.

Child Benefit

Some 32,800 claimants had their entitlement to payment of Child Benefit reviewed. As a result of these reviews a total of 2,167 recipients had their entitlements to payment either terminated or reduced.

Pre Retirement Allowance (PRETA)

Reviews of transfers to the PRETA scheme and reviews of the capital means of those already in receipt of PRETA resulted in 357 reductions in payment, 28 terminations of payment and 38 terminations of the free fuel allowance.

Family Income Supplement (FIS)

FIS differs markedly from most other Social Welfare schemes in that it is paid to people in employment, and once awarded correctly, the rate of payment remains constant for 52 weeks despite any change in circumstances. After this period clients may re-apply. Because of the way the scheme is operated, all cases are reviewed annually. In addition, in-depth reviews of selected cases take place on a regular basis. Selection may be random or targeted. During 1997, 14,944 reviews were carried out giving savings of £200,000 in 777 cases.

Vote 41. - Health and Children

43. Recovery of cost of Health Services provided under regulations of the European Community

Under EU regulations, the country in which an employed or self-employed person is insured (or was insured before becoming a pensioner) must bear responsibility for the cost of health services for himself and his dependants even when he or they are resident permanently or temporarily in another Member State. A reimbursement agreement has been entered into with the United Kingdom (UK) on the basis of calculating its net liability, as there is a greater number of people living in Ireland who previously worked in the UK. Reimbursement is calculated on the basis of average health costs and estimates of the number of persons concerned. Each year, 80% of the estimated balance due to Ireland is paid by the UK authorities in two equal instalments in mid July and mid December, with the balance being paid some years later when the average cost calculation has been approved at EU level. The amounts are brought to account as appropriations in aid.

Receipts for 1997, according to the Appropriation Account, amounted to £69.7 million, comprising balances of £15.3 million, £13.1 million and £3.8 million for the years 1993, 1994 and 1996, respectively and an advance of £37.5 million for 1997. However, it was noted during audit that:

- In November 1997, the Department had requested the UK authorities to delay payment of a further 1997 advance of £20m, due in December 1997, until early 1998. The Department had also guaranteed to indemnify the UK authorities against any exchange loss which might occur due to re-scheduling of the payment from December 1997 to January 1998.
- The UK authorities, however, lodged £20m with the Central Bank of Ireland on 16 December 1997. The Central Bank then requested accounting instructions on the lodgment of the funds to the Department's account.
- The accounting instructions from the Department of Health and Children to the Central Bank did not issue until January 1998 and, as a result, the £20m was not credited to the Department's account until 5 January 1998.

As this delay in the transfer of the £20m to the Department from December to January had the effect of changing the surplus to be surrendered on the 1997 Appropriation Account from £21m to £1m, I asked the Accounting Officer to clarify the circumstances in which the delay occurred.

The Accounting Officer informed me that:

- The UK authorities initiated a review of the recoupment methodology in 1996. There were unresolved issues and other matters which made the net liability of the UK authorities somewhat uncertain during 1997.
- The issue was further compounded by the changes in the calendar for the public finances brought about by Government in 1997, which required the Department to determine its appropriations-in-aid figures earlier than normally would have been the case. The moving

forward of the Supplementary Estimate for 1997 and the early approval of the abridged Book of Estimates for 1998, did not allow the Department the necessary time to clarify the issues surrounding the UK liability for 1997. In this regard, an overstatement of the Department's income would have resulted in health agencies being notified of approved levels of spending, not matched in the Vote and the Department has always taken a prudent line on such matters.

- As the UK receipts are significant when determining the net contribution to health spending from the Exchequer such income should be clearly seen to benefit the Health Vote. The decision to bring the £20m UK receipts to account in 1998 has regard to the principle of applying such receipts to the provision of health services in 1998. He had asked his officials to explore with the UK side the possibility of making the payment in 1998 to achieve the outcome as stated but in the end this was not possible.
- He and his officials had spoken to officials from the Central Bank in order to fully understand the process of receiving and clearing such payments and did not request the Central Bank to delay the transfer.
- The offer to indemnify the UK authorities against any exchange loss was made in an effort to achieve some movement on this issue. Approval of the Department of Finance was not sought at that point of the process.

The Accounting Officer stated that he is absolutely satisfied that these funds were brought to account in a manner that is consistent with the funding principles of the health service. This treatment, of what is considered to be health-related receipts, is both transparent and equitable and will be available to support health spending when taken into the Supplementary Estimate during 1998. Treating such funds as a surplus in 1997 would be wholly incorrect in the context of the UK agreement and general health funding.

One of the fundamental principles upon which accounting is based is that substance should take precedence over form. In my opinion the substance of the transaction is that £20m was received by the Central Bank in mid December 1997 for the Vote for Health and Children and should have been brought to account as appropriations in aid in 1997. The failure to do so means that the Appropriation Account for that Vote does not reflect the full receipts proper to 1997.

In cases of disagreement between an Accounting Officer and myself about the accounting treatment of transactions it is customary to obtain the views of the Department of Finance which has overall responsibility for public financial procedures. Accordingly, I sought the views of the Secretary-General of the Department of Finance in relation to (i) the accounting treatment of the receipt and (ii) whether it should be accounted for in the 1997 Appropriation Account. In response to the first question he stated that his Department had not been previously informed of or consulted about this matter. Had they been consulted, they would have been obliged to advise that the receipt should be brought to account promptly in line with the provisions of the public financial procedures¹. In response to the second question, he stated that he was conscious of the fact that the Appropriation Account is a cash-based record of receipts and payments compared

¹ *Public financial procedures state that it is imperative that all receipts by Departments or Offices (including foreign currency receipts) should be brought to account promptly.*

with the Estimate provision in the year in question. Because of this, he was not convinced that, at this stage, a receipt actually brought to account in January 1998 should be recorded as an appropriation-in-aid in the Appropriation Account for 1997. It would seem preferable if the receipt were dealt with in the context of the 1998 Accounts. Nevertheless, he would consider it incumbent on the Department of Health and Children to note the Central Bank lodgment as part of the accrued income shown in the closing accruals column of the Appropriation Account. The Account has been amended by the Accounting Officer of the Department of Health and Children to reflect this view.

Notwithstanding the Department of Finance's view, I am still of the opinion that the £20m receipt should be recorded as an appropriation in aid of the Vote for 1997 and my audit certificate on the Appropriation Account of the Vote is qualified accordingly.

National Treasury Management Agency

44. National Debt

Role of the Agency

The National Treasury Management Agency has the statutory function of borrowing moneys on behalf of the Exchequer and managing the National Debt on behalf of and subject to the control and general superintendence of the Minister for Finance.

The Agency in managing the National Debt is obliged to comply with two key performance objectives -

- that annual debt service costs “correspond as nearly as may be” to an Exchequer funding budget approved by the Minister for Finance.²
- to manage the debt relative to a benchmark which is recommended by an independent external advisor and approved by the Minister for Finance on the basis of a medium term trade-off between cost and risk.

Basis for Audit

Expenses incurred by the Agency in the performance of its functions are met from the Central Fund. The Agency incurred expenditure of £6.2m on administration in 1997 (£5.9m in 1996).

Under the provisions of section 12 of the National Treasury Management Agency Act, 1990, I am required to audit the accounts of the Agency and when making my statutory annual report on the Appropriation Accounts, to make also a report to Dáil Éireann regarding the correctness of the sums brought to account by the Agency in the year. The Agency's accounts for 1997 have been audited and the accounts, including an administration account and accounts relating to the National Debt, have been presented to the Minister who has laid copies thereof before both Houses of the Oireachtas.

I am satisfied that the accounts properly present the transactions of the Agency in 1997 and its balances at year end.

Debt Service Cost

Debt service costs, at £2.8 billion, increased in 1997 by £279m over the 1996 cost. The increase was made up of the following elements

² Section 5(2)(a)(iv) of the National Treasury Management Agency Act, 1990.

Cost Heading	Increase / (decrease) £m
Provisions	110
Interest costs	
-underlying	(138)
-debt management	<u>218</u>
	80
Debt Management:	
-capital payments	65
Sinking fund payments	<u>24</u>
Total increase	279

Increase in provisions-£110m

£110m of the increase in servicing costs was accounted for by an increased provision in respect of the Small Savings Reserve Fund. As a cash basis of accounting is used interest on small savings is only recognised in the National Debt accounts when paid on encashment. Because of this deficiency inherent in the basis of accounting the Small Savings Reserve Fund was established in 1994 to take account of interest due but not provided for. The Small Savings Reserve Fund provides a fund of money to meet encashments of interest on Savings Bonds, Savings Certificates and National Instalment Savings in specified instances. As of 31 December 1997 an estimated £1.6 billion in interest had accrued under these schemes. After allowing for the Small Savings Reserve Fund which stood at £623m by 31 December 1997 the net interest liabilities not provided for in the National Debt accounts amounted to £950m.

Underlying interest costs -(£138m)

- The interest paid on Irish Government Bonds in 1997 decreased by £28m due primarily to lower interest rates in the Irish bond market. This decrease occurred despite the level of bonds outstanding increasing from £16.4 billion at the end of 1996 to £17 billion at the end of 1997.
- Interest paid on foreign currency borrowing in 1997 decreased by £121m reflecting reduced interest rates in international markets and a reduction in foreign currency borrowing outstanding.
- An increase in interest paid on small savings schemes of £25m arose as a result of increased encashments on such schemes which became less attractive to investors following a reduction in interest rates introduced during 1997.
- Interest due on other debt decreased by £14m.

Interest costs-debt management- £218m

In 1997 there was a variance of £218m in interest paid in respect of debt management activities (net payments of £108m in 1997 compared with net receipts of £110m in 1996).

The Agency took the view during 1997 that long term rates were relatively low and short term rates were expected to rise over the course of the next two to three years. It was therefore decided to increase the weighting of fixed rate liabilities in the foreign currency portfolio - a change that was in line with the benchmark. The additional outlay associated with fixing the cost of longer dated liabilities included an amount of £88m in respect of foreign currency interest rate swap terminations. The benefits from the action taken are projected to come in the form of cash savings in 1998 and future years.

Debt management activity- Capital payments-£65m

An increased charge of £65m arose in respect of capital payments in 1997 relating to maturing and terminated cross currency swaps and foreign exchange contracts. The Agency informed me that these transactions, which were designed to keep the portfolio in line with the benchmark, had the effect of reducing the foreign currency debt while at the same time maintaining debt service costs within budget. These payments, while relating to the capital element of the swaps and foreign exchange contracts, are nevertheless accounted for as a debt service item in accordance with the accounting policy of the Agency.

Sinking Fund Payments-£24m

An increase of £24m arose in respect of certain capital payments on the National Debt which are charged to debt service costs annually to provide for the amortisation of Government borrowing for voted capital services. These capital payments are provided for in each year's Finance Act.

Outstanding Debt

The National Debt outstanding at 31 December 1997 was £30.7 billion which represented an increase of £777m over the debt at the end of the previous year. The composition of the debt was as follows:

	£m	£m	£m
Domestic Debt:			
National Loans		17,010	
Medium/Long term Indebtedness		240	
Short term Indebtedness	6,123		
Less: Domestic Liquid Assets	<u>(972)</u>		
Net Short term Indebtedness		<u>5,151</u>	
Net Domestic Debt			22,401
Foreign Debt:			
Foreign Loans			<u>8,288</u>
National Debt			30,689

Note:
An estimated £4.1 billion of National Loans were held by non-residents at 31 December 1997.

The increase in the nominal value of the national debt arose as follows:

	£m
Net new borrowings	415
Exchange fluctuations	612
Net movement in nominal value of debt due to issues and cancellations ³	<u>(70)</u>
Gross increase	957
Less increase in cash balances	<u>180</u>
Net increase	<u>777</u>

Risk Management and Performance

In managing the National Debt the Agency has to take account of a number of risk factors including interest rate and exchange rate risk, counter-party credit risk, operational risk and the obligation to maintain liquidity.

The Agency has developed policies to measure and control such risks including liquidity targets, currency and interest rate limits and techniques to assess value at risk.⁴

The strategic management of the national debt is effected relative to a benchmark (a shadow portfolio) which is devised and measured by an international investment bank and approved by the Department of Finance.⁵ The general approach in devising this benchmark is to maintain a low risk portfolio over the medium term. While funding and debt management transactions aim to add value by reducing overall debt costs, such transactions are effected within value at risk limits. The investment bank determined that, measured on a net present value basis against the benchmark portfolio, savings attributable to the Agency's management in 1997 amounted to £30.9m.

The Agency controls a major part of its debt management risk and in order to comply with benchmark requirements adjusts the currency composition of the national debt through engaging in swaps and foreign exchange contracts. The Agency informed me that, on a net present value basis, there was a liability of £154m at 31 December 1997 arising from this activity. This liability is attributable to sterling swaps and foreign exchange contracts which formed part of a strategy, agreed with the Department of Finance, to reposition the portfolio over a number of years to take account of the Exchequer's exposure to the sterling exchange rate.

³ *Tranches of national loans are issued or cancelled from time to time. The movement reflects the fact that the nominal debt created or cancelled differs from the cash proceeds or outlay since such transactions are effected at market values.*

⁴ *Value at risk allows for an assessment of the worst-case loss expected over a given holding period. It summarises in one number the combined risk arising from all instruments in the portfolio, taking account of the degree to which certain exposures may be offset by others.*

⁵ *The benchmark takes account of funding targets and portfolio composition adjustments agreed with the Department of Finance.*

45. Savings Bank Fund

The audit of the Post Office Savings Bank is carried out on my behalf by the auditors of An Post subject to my right to carry out any further audit tests which I consider necessary.

In 1998 they reported to me on their audit of the 1997 accounts. I accept their opinion that the accounts of the Post Office Savings Bank give a true and fair view of its transactions for that year end and of its year end balance.

In addition to managing the National Debt, the National Treasury Management Agency is responsible for the investment and management of funds remitted to the Exchequer by the Post Office Savings Bank and the TSB Bank. The Exchequer is responsible for the repayment to the Banks of all such funds and for meeting interest charges thereon.

The state of affairs of these funds at year end was as follows:

	1997 £m	1996 £m
Liability in respect of funds due to depositors and creditors	481 ^a	609
Value of related investments held by Post Office Savings Bank Fund (at cost prices) ^b	<u>508</u>	<u>632</u>
Surplus at 31 December	27	23

^a The decrease is mainly due to a reduction in funds received from the TSB Bank (£15m at 31 December 1997 as compared to £137m at 31 December 1996) in line with arrangements made in 1992 whereby the funds to be deposited by the TSB Bank with the Agency are being reduced each year.

^b The market value of the investments held by the Fund was £0.6m more than their cost price.