



1999

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 1999**

*(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 Dhíolta Foilseachán Rialtais,
Teach Sun Alliance, Sráid Theach Laighean, Baile Átha Cliath 2
nó tríd an bpost ó
Foilseacháin Rialtais, An Rannóg Post-Tráchtá,
4-5 Bóthar Fhearchair, Baile Átha Cliath 2
(Teil: 01-6476000, Fax: 01-4752760)
nó trí aon díoltóir leabhar.

Dublin
Published by the Stationery Office

To be purchased directly from the
Government Publications Sales Office,
Sun Alliance House, Molesworth Street, Dublin 2
or by mail order from
Government Publications, Postal Trade Section,
4-5 Harcourt Road, Dublin 2
(Tel: 01-6476000, Fax: 01-4752760)
or through any bookseller.

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 1999
- Volume 2 contains the individual Appropriation Accounts for 1999 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.

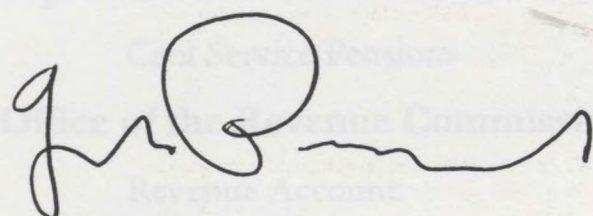
© Government of Ireland 2000

Accounts of the Public Services, 1999

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 1999 in accordance with Section 3 of the aforementioned Act.



John Purcell
Comptroller and Auditor General

13 September 2000

Table of Contents

	Page
General Matters	1
Investigations into the Administration of Deposit Interest Retention Tax	3
Tribunals of Inquiry and Investigations	4
Inspections	5
Foreign Travel Policy	5
Services Contracts	8
Department of the Taoiseach	
Millennium Celebrations	11
Office of the Minister for Finance	
Processing of Payable Orders by the Office of the Paymaster General	21
Superannuation and Retired Allowances	
Civil Service Pensions	29
Office of the Revenue Commissioners	
Revenue Account	35
Write-Offs	36
Outstanding Taxes and PRSI	38
Prosecution of Non-Filers	39
Revenue Audit Programme	40
Investigation Branch Settlements and Prosecutions	43
The Appeal Commissioners	44
Special Investigations	45
Tax Compliance and the Special Enquiry Branch	46
Garda Síochána	
PULSE Computer System	57
Environment and Local Government	
Review of Local Government Audit Reports	65
Education and Science	
Schools IT 2000 Programme	66
Uncollected Local Contributions	71
Uncollected Examination Fees Written off	71

Marine and Natural Resources

Fishery Harbour Centres - Collection of Debts	72
---	----

Agriculture, Food and Rural Development

FEOGA Operations	75
Collection of Debts	75
Collection of Land Annuities	77
Recoverability of Moneys associated with EU Schemes	80

Public Enterprise

The transfer of the public telecommunications system from State control to the Private Sector	83
--	----

Defence

Defence Forces' Consumable Stocks	87
-----------------------------------	----

Social, Community and Family Affairs

Overpayments	93
Prosecutions	95
Recovery of Maintenance Contributions	97

National Treasury Management Agency

National Debt	105
Savings Bank Fund	106

GENERAL

1. Change in Audit Approach

Section 3(10)(d) of the Comptroller and Auditor General (Amendment) Act, 1993 requires me to report any substantial change in relation to the extent or character of the audits, audit tests and examinations carried out by me on the Appropriation Accounts and the effects of any such change.

During 1999, I decided to refine the Office's approach to the audits of Departments and Offices of State. The implementation of the refinement entailed

- the carrying out of the audit of certain expenditure on an across-the-board basis
- subjecting certain areas of Departments' activities to targeted examination and reporting.

The following paragraphs record the results of that work:-

	Paragraph No.	Subject
Across-the-board Audits	9	Foreign Travel
	10	Services Contracts
	13	Civil Service Pensions
Targeted Audits	11	Millennium Celebrations
	22	Tax Compliance and the Special Enquiry Branch
	23	PULSE - Computer System
	25	Schools IT 2000 Programme
	34	Defence Forces' Consumable Stocks
	37	Recovery of Maintenance Contributions

The change reflects my Office's ongoing efforts to provide a more efficient and effective service. It also represents an attempt to further develop the Annual Report as a vehicle for public accountability.

I will keep the audit approach under review to ensure that the assurance which I give to Dáil Éireann regarding the Appropriation Accounts and the underlying financial transactions continues to be soundly based.

2. 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 £478.23m arrived at as follows:-

	£'000	£'000	£'000
<i>Estimated Gross Expenditure</i>			
Original Estimates	15,674,728		
Supplementary Estimates	<u>635,728</u>		
		16,310,456	
<i>Deduct:-</i>			
<i>Estimated Appropriations in Aid</i>			
Original Estimates	1,425,908		
Supplementary Estimates	<u>(28,746)</u>		
		<u>1,397,162</u>	
Estimated Net Expenditure			14,913,294
Actual Gross Expenditure		15,811,931	
<i>Deduct-</i>			
Actual Appropriations in Aid		<u>1,376,863</u>	
Net Expenditure			<u>14,435,068</u>
Amount to be Surrendered			£478,226 (€607,222)

This represents 3.21% of the supply grant as compared with 2.81% in 1998.

3. Extra Exchequer Receipts

Extra Receipts payable to the Exchequer as recorded in the Appropriation Accounts amounted to £95,851,847

4. Surrender of Balances of 1998 Votes

The balances due to be surrendered out of Votes for Public Services for the year ended 31 December 1998 amounted to £370.83m. I hereby certify that these balances have been duly surrendered.

5. Stock and Store Accounts

The stock and store accounts of the Departments have been examined with generally satisfactory results subject to the matters referred to in paragraph 34.

6. Investigations into the Administration of Deposit Interest Retention Tax (DIRT)

During the period December 1998 to July 1999 I carried out an investigation into the administration of Deposit Interest Retention Tax (DIRT) and related matters for the years 1986-1998.

The investigation's findings were presented to Dáil Éireann in a report dated 19 July 1999. The Sub-Committee established by the Committee of Public Accounts used the report as the basis for its hearings which were held during the period 31 August - 12 October 1999.

The Sub-Committee's first report was adopted by the Committee on 15 December 1999 and then published.

The cost of my investigation and the parliamentary inquiry up to 30 June 2000 was as follows:-

Vote 8 - Office of the Comptroller and Auditor General

	£'000
Staff Costs	116
Overtime	32
Expenses of Appointed Auditor	846
Stenography	49
Legal Expenses	3
Travel and Subsistence	3
Media Notices	9
Computers, Stationery and Printing	37
Incidental	<u>1</u>
	<u>1,096</u>

Vote 2 - Houses of the Oireachtas and the European Parliament

	£'000
Staff Costs	306
Overtime and Gratuities	75
Computer equipment, stationery and printing	318
Legal Expenses	207
Financial Consultants	118
Personal Advisers to sub committee members	72
Courier Costs	22
Working meals and entertainment	19
Foreign Travel	6
Travel and meal allowances for staff	8
Advertising	7
Miscellaneous (including witnesses expenses of £521)	<u>1</u>
	<u>1,159</u>

The total cost up to 30 June 2000 is £2,255,000. The Sub-Committee is continuing its work and some additional expenses will be incurred but it is expected that such expenses will be immaterial in the context of the total cost.

7. Tribunals of Inquiry and Investigations

The Appropriation Accounts of various government departments include expenditure in 1999 in respect of various tribunals or special inquiries. For ease of reference, the following table summarises expenditure in 1999 and cumulative expenditure to 31 August 2000 on each tribunal and inquiry.

Table 1

Tribunal/Inquiry	Year of Establish-ment	Vote of Charge	Expenditure in 1999 £m	Cumulative Expenditure to 31 August 2000 £m
Tribunal of Inquiry into Dunnes Payments	1997	Department of the Taoiseach	0.99	5.14
Tribunal of Inquiry into Payments to Messrs Haughey and Lowry	1997	Department of the Taoiseach	1.69	4.69
Investigations under Companies Acts				
National Irish Bank	1998	Courts Service	0.97	2.28 ¹
Ansbacher	1999		0.05	0.57 ¹
Tribunal of Inquiry into Certain Planning Matters	1997	Environment and Local Government	2.85	7.82
Commission to Inquire into Childhood Abuse	1999	Education and Science	0.26	0.59
Tribunal of Inquiry into the Beef Processing Industry	1991	Agriculture and Food	0.41	18.53
Tribunal of Inquiry into the Blood Transfusion Service Board	1996	Health and Children	0.71	3.45
Tribunal of Inquiry into the Infection with HIV and Hepatitis C of Persons with Haemophilia and Related Matters	1999	Health and Children	0.79	3.19
Total			£8.72m	£46.26m

¹ Charged to a suspense account pending completion of Investigations.

8. Inspections

Section 8 of the Comptroller and Auditor General (Amendment) Act, 1993 enables me to carry out, at my discretion, inspection of books, accounts and other records of regional tourism organisations and other bodies which receive 50% or more of their annual income from the State. The purpose of an inspection is to check that public moneys have been spent for the purposes for which they were provided and in accordance with any conditions specified by the relevant Minister.

In 1997 I carried out inspections in the Olympic Council of Ireland, Dublin Tourism and the South West Regional Tourism Authority Ltd. with satisfactory results.

From January to August 2000 I carried out inspections in Western Care Castlebar, Western Regional Tourism Authority Ltd., Mercy Hospital Cork and Cope Foundation Cork with satisfactory results.

9. Foreign Travel Policy

The annual expenditure incurred by Government Departments on Air Travel is about £6.1m, of which an estimated £1.9m is recouped from third parties, mainly the EU.

In order to address concerns that Departments were obtaining value for money (VFM) in air transport, that the selection of Air Carriers was fair and reasonable and that there was an adequate level of expertise within Departments to manage their air travel requirements, the Department of Finance, in March 1998, issued a Travel Policy document to Departments, which laid down certain principles and guidelines which were to be followed in selecting Air Carriers. These related mainly to issues of VFM, use of economy fares where possible, and fair competition and lack of bias in the selection of Air Carriers. It was decided that each Department would appoint a travel agent who would provide agreed services in relation to foreign travel for agreed remuneration.

The contract for all Departments was awarded to one travel agent following a tender competition. The term of the contract was initially for one year with effect from February 1999, with provision for an extension of up to two years.

In order to monitor the success of the new arrangements and to deal with any difficulties which might be arising, the Department of Finance also decided to appoint consultants to carry out reviews of the operation of the new arrangements in the various departments. The first review covered the year ended August 1999 and was completed in October 1999, a second review covering the year ended August 2000 is currently underway and it is intended that a further review covering the year ended August 2001 will be carried out in 2001.

The consultants made a number of recommendations for action by the various parties involved in the agreements, *viz.* the Department of Finance, line Government Departments and the travel agent. My staff reviewed the recommendations and the action taken by the Department of Finance in relation to them. The chief findings and recommendations of the consultants and the action taken in relation to them are as follows:

- The contract with the travel agent as an incentive to minimise costs, provided for the payment to the travel agent of a proportion of the savings effected by him. The contract provided that the savings should be calculated by a comparison of fares obtained by the agent and certain

benchmark fares and routes to be agreed between each Department and the agent. The basis on which benchmark fares and shared savings were calculated had not been agreed between the Department of Finance and the travel agent and many departments had expressed strong reservations in relation to the amounts computed by the agent.

The consultants also noted that the benchmark fares applied by the agent included commission and so savings were being calculated by comparing a net fare to a gross benchmark fare, which resulted in higher savings being computed and a correspondingly higher payment to the agent being made than if net benchmark fares were taken.

The consultants recommended that the agent should put in place an arrangement whereby the Department of Finance or an independent body reviewed the benchmark fares in detail and approved these fares for circulation to Departments. They also recommended that the shared savings arrangements needed to be structured so that like-with-like comparisons of fares were made.

The Accounting Officer of the Department of Finance informed me that a detailed agreement on the setting of benchmark fares and the calculation of the ensuing savings was concluded with the travel agent on 8 June 2000, which provides that;

- benchmark fares should exclude commission
- benchmark fares should not exceed the fares which Government Departments could have expected to pay prior to, or outside of, the contract.
- the benchmark reference fare for the 'net negotiated fares' (i.e. fares negotiated by the travel agent for Government Departments) should be the lowest equivalent published fare less commission
- the savings sharing arrangement will only arise in the case of net negotiated fares for the ten top destinations, which on the basis of figures for the three month period March - May 1999 represent about 28% of total expenditure.
- the savings sharing will be calculated on a ticket basis comparing like with like. Thus the net negotiated fare will be compared to the published fare, less commission, for the same class of ticket, on the same airline, on the same date of travel, at the time of booking the flight.

He stated that the agreement also included conditions about the verification of fare levels and billing arrangements to be agreed with Departments.

- The consultants noted that the Department of Finance travel policy requires that VFM assessments be carried out on frequently travelled routes. None of the Departments had formally addressed this requirement and documented their findings. However, it was evident that VFM considerations were taken into account in arriving at non-recoupable travel decisions.

The consultants recommended that such VFM assessments be carried out and also expressed the view that Departments may not have sufficient guidance or expertise to carry out such assessments.

The Accounting Officer informed me that a workshop to assist Departments in carrying out VFM assessments of their foreign travel, on the basis of their most frequently travelled routes, was organised by his Department in June 2000. The workshop produced a template which can be used by Travel Officers in doing VFM assessments. It was agreed that the four central

VFM considerations were effectiveness, efficiency, economy and equity (to both carriers and travellers).

- The consultants noted that consolidated fares, which were purchased in bulk by the travel agent's wholesale division from the different Air Carriers, were cheaper than carriers' published fares but that these savings were not passed on to Departments, as contractual arrangements between the agent and the carriers prohibited this.

The consultants felt that the profit being generated by the travel agent on consolidated fares, and which were not being passed on to Departments, did not appear to be in compliance with the agreements between the travel agent and the Departments and that the matter should be taken up with the agent by the Department of Finance.

The Accounting Office informed me that the prices paid by Departments to the travel agent for these tickets were the minimum which the travel agent was allowed to charge under his agreement with the Air Carriers. This price would be higher than the price paid to the Air Carriers by the travel agent and he accepted that it was in breach of the agreements between the travel agent and the individual Government Departments. However, he pointed out that these fares only accounted for 5% of total expenditure and stated that in the light of the contractual position between the travel agent and Air Carriers, his Department had agreed to pay the travel agent the "minimum selling price" for these tickets excluding commission, but reserved the right to review the position following the next audit by the Department's consultants.

- The consultants noted that no Department had reported a decrease in administrative costs even though such a decrease might be expected as a result of routing all travel arrangements through a single travel agent. They also noted that travel insurance was not provided as standard by the travel agent and that where this was required it was an additional cost which was separately invoiced. This created additional administrative work for Departments and there was also some uncertainty among Departments as to whether or not they should avail of insurance cover.

The consultants recommended a single billing arrangement for insurance costs and shared savings, as a way of reducing much of the administrative burden and cost. However, they also expressed the view that both Departments and the travel agent had to go through a learning process in the early stages of the new arrangements which would give rise to higher administration costs.

The Accounting Officer stated that his department was arranging to obtain information from Departments in relation to administration costs. He pointed out that equity considerations (*i.e.* the need to be open and transparent in all dealings with suppliers) could diminish efficiency and that there would appear to be administration costs associated with the operation of the travel policy which may not have arisen previously. However, he felt that administration costs would decrease once certain initial teething difficulties had been resolved.

He also stated that his Department had with effect from July 2000 negotiated travel insurance cover for all Departments to cover such matters as medical and accident costs and loss of baggage, but excluding death gratuities as these were provided for in the Civil Service superannuation schemes.

- The consultants noted that departments were generally not aware of the quantity of frequent flyer points which may have accrued to individual flyers and in those instances where the flyer selected the carrier it was not clear whether or not the accumulation of flyer points had an influence on the selection of carrier.

The Accounting Officer informed me that the position on frequent flyer points was being considered in the context of a Code of Ethics currently being prepared for the civil service.

Enquiries made by my staff in the Department of Finance and a selection of other Departments indicated that a number of other issues also raised by the consultants were being satisfactorily addressed.

10. Services Contracts

Background

Traditionally, security and cleaning services in Civil Service establishments were provided directly, *i.e.* by unestablished Civil Servants, employed for these purposes. With the passing of time the practice of employing people to carry out these services directly was phased out in favour of contracting private companies. At present, while there still are a small number of people employed on cleaning and security duties, outside contractors now provide almost all these services.

The rules governing the awarding of contracts are laid down in "An Outline of Government Contracts Procedures" which were issued in 1986 and updated in 1994 in the booklet "Public Procurement". The Department of Finance have issued various circulars over the years clarifying the procedures laid down in the two publications. These rules and guidelines govern such matters as the advertising and awarding of tenders, the use of a restricted tendering process, tax clearance procedures *etc.*, with the objective of having equity and fair competition in the award of public contracts.

Reference was made in my report for 1995 to deficiencies noted on the audit of this area in the Office of the Revenue Commissioners.

Audit objectives and scope

The audit was undertaken with the view to determining the level of compliance with the procedures laid down in "An Outline of Government Contracts Procedures" and "Public Procurement" and to ensure that once they had entered into contracts, the organisations had procedures in place to adequately monitor and manage the performance of the service providers. The examination also focused on compliance with tax clearance procedures and whether the contractors had adequate insurance cover in respect of employer's liability and public liability. Because of the amounts involved, the provisions in EU and GATT procurement regimes did not apply.

It was decided to examine the procedures and systems under which contracts for these services are awarded and to examine the procedures in place to ensure that the terms of these contracts were being fulfilled. The audit was carried out in four of the biggest organisations in the Civil Service.

- Department of Social, Community and Family Affairs

- The Office of Public Works
- The Department of Agriculture, Food and Rural Development
- Office of the Revenue Commissioners

The audit entailed a detailed review of existing cleaning and security contracts in the four organisations. 213 cleaning contracts currently in operation were examined in detail during the audit including contracts dealing with window cleaning. 4 of the 22 security services contracts were examined. Expenditure on security and cleaning services by the 4 organisations examined totalled £3,926,342 in 1999 as outlined in Table 2.

Table 2

	Security £	Cleaning £	Total £
DSCFA	161,115	1,030,085	1,191,200
OPW	-	117,404	117,404
Agriculture	261,991	345,759	607,750
Revenue	1,134,063*	875,925	2,009,988
	1,557,169	2,369,173	3,926,342

* Includes expenditure on cash in transit

Audit Findings

Tendering Procedures

The examination revealed that the procedures relating to advertising for tenders and the awarding of contracts as laid down in the regulations on public procurement were being adhered to. However, there were some instances where, on the termination of a contract before the end of the contract period, a new contract was entered into with the second lowest tenderer without new tenders being invited.

Renewal of Contracts

Notwithstanding the fact that most of the contracts examined were for a specified time span and that it is generally considered good practice that new tenders should be sought on a regular basis, say every three to five years with a view to entering into a new contract, the examination revealed that with the exception of cleaning contracts in the Office of the Revenue Commissioners there was no systematic review of contracts awarded and that some of the contracts were in existence for over ten years. The prices quoted in the tenders were, however, subject to increases when pay rates for the industry were revised by the Joint Labour Council.

Tax Clearance Certificates and Insurance Cover

Of the four Departments/Offices examined the Office of the Revenue Commissioners was the only one which had evidence that tax clearance certificates were renewed annually and that the contractor continued to maintain adequate insurance. In the other three organisations, evidence of tax status and of insurance cover was sought and verified at the commencement of the contract but there was no evidence available to show any subsequent review by the bodies.

Monitoring and evaluation of performance

All of the contracts examined contained detailed descriptions of the services to be provided by the contractors. These descriptions stipulated the exact nature of the work to be undertaken and the

frequency with which each operation was to be carried out. The contracts also set out how many staff the contractor was to provide on site. With the exception of the cleaning contracts in the Office of the Revenue Commissioners, the examination indicated that a documented procedure to ensure that the terms of the contract were being followed did not exist. There was, however, evidence available to show that in cases where the staff in the sites were unhappy with the standard of service that these complaints were drawn to the contractor's attention leading in a few cases to the contract being terminated where the complaints persisted. All of the bodies audited relied on staff in local offices to approve invoices for payment.

Conclusions

- In cases where a contract is terminated the tendering process should always be repeated unless the time-span between the initial receipt of tenders and the termination of the contract is of such a short duration as to make the repeat process meaningless.
- Contracts for services such as cleaning and security should be for a limited time. At the end of the period new tenders should be sought and a new contract put in place.
- The tax clearance status and the insurance cover of every contractor should be reviewed on an annual basis to ensure that both are in order during the full term of the contract.
- Every department and office should clearly document procedures to ensure compliance with all contracts for services. These procedures should ensure that the section of the organisation which negotiates and enters into the contract have a role in evaluating and monitoring the service provided.

The Accounting Officers of the Departments concerned have indicated that appropriate measures will be put in place to address the weaknesses noted in the report.

VOTE 3 - DEPARTMENT OF THE TAOISEACH

11. Millennium Celebrations

Background

To mark the Millennium, the Government, in June 1998, approved the establishment of a Government Millennium Steering Group to be chaired by the Minister of State at the Department of the Taoiseach. The overall function of the Steering Group, which was to be serviced by a small secretariat in the Department of the Taoiseach (Millennium Office), was to examine and make recommendations to the Government on a small number of significant national projects and also on a system for supporting commemorative projects at community, local, county or regional levels.

The Government, in September 1998, decided that the Millennium Steering Group should be known as the National Millennium Committee and that the funding aspects should be discussed further by the Minister for Finance and the Minister of State at the Department of the Taoiseach. Together with the Minister of State and a Principal Officer from that Department, twelve other members, drawn from different sectors of the community, were chosen to be the members of the Committee. The Committee had no executive or operational role in respect of projects.

In selecting projects to be recommended to the Government for funding, the Committee were to apply the following criteria:

- projects should relate distinctively to the Millennium and should not be eligible for funding from existing Departmental budgets
- the objective should be to co-fund projects preferably on a 50/50 basis and 100% funding of projects should be avoided save in the most exceptional circumstances
- Millennium funding should not give rise to recurring demands on the Exchequer
- all expenditure funded by the Committee should be incurred before 31 December 2000 in so far as this was practicable.

The Department of Finance, on 8 April 1999, sanctioned expenditure of £30m (which included running costs of £500,000 for the Millennium Office) of which £14.9m was for 1999 and £15.1m for 2000. An additional £3m was secured in the 2000 Budget for specific projects on the recommendation of the Committee.

The £33m budget is broadly allocated under the following categories:

	£m
Environment Projects	9.5
Social Projects	7.0
Community Projects	6.0
Arts and Education Projects	3.8
Church and Christian Projects	2.0
Exile Projects	2.0
Millennium Celebration	2.2
Millennium Office Administration Costs	<u>0.5</u>
	<u>33.0</u>

An advertisement was placed in the national press on 8 January 1999 inviting proposals, concepts and suggestions for funding by 31 January 1999. Some 5,800 submissions were received, including many after the closing date of 31 January, of which 1,300 were received by the Millennium Office and 4,500, in respect of award schemes, by Local Authorities and Area Development Management Limited (ADM)² which was assigned responsibility to design, implement and monitor Millennium Recognition awards.

At the end of 2000, the official Millennium year, it is expected that 60 national projects and 200 locally based initiatives will have been funded along with almost 2000 events taking place to celebrate the Millennium.

The following 5 flagship projects were identified by the National Millennium Committee:

The Peoples' Millennium Forests - Project to plant 1.2 million native Irish trees (£1.6m)
 The Children's Hour - Children's Project (£2.0m)
 Battle of the Boyne Site - Project to foster the message of peace and reconciliation (£500,000)
 The Irish Landmark - Restoration of five lighthouses (£500,000)
 The Last Light Ceremony - Millennium Candle and Scroll delivered to each household (£1.9m)

The Committee incurred expenditure of £6.8m in 1999 and it is estimated that £23.2m will be expended in 2000. The main categories of expenditure incurred are:

	1999	2000*	
	£m	£m	
Project Funding (Current)	6.2	3.9	(Schedule A)
Project Funding (Capital)	0.4	0.8	(Schedule B)
Administration Costs	<u>0.2</u>	<u>0.1</u>	
Total	<u>6.8</u>	<u>4.8</u>	

* Expenditure for 1 January 2000 to 31 May 2000

Audit Objectives

The objectives of the audit were to:

- establish whether procedures were in place to ensure that all applications received were appropriately evaluated and that projects were selected for funding in accordance with the criteria and directions issued by the Department of Finance and the Government
- establish whether systems and procedures were in place to ensure that payments were correct and were properly authorised and vouched
- establish whether procedures were in place to ensure that projects which were grant aided had been satisfactorily completed and that grant conditions had been complied with

²

a company set up by the Government, in agreement with the EU, to manage schemes sponsored and financed by the EU and the Government, to support the development of local areas.

- establish whether legal agreements were entered into with grant recipients and whether they were adequate to protect the State's interests and that the State's liabilities in relation to commitments entered into by the Committee were adequately controlled
- ensure that funding limits and expenditure budgets set by the Government and the Department of Finance were adhered to.

Audit Findings

Systems and Procedures

The Committee received some 5,800 applications for funding. It met every month and examined projects deemed worthy of consideration by a Working Group set up to assist in the screening of applications. (The Working Group was chaired by the Minister of State and consisted of Millennium Office secretariat staff). A list of recommended projects was forwarded to the Government for funding approval every two months. Although procedures in relation to the appraisal of submissions were not documented, they would appear to have been adequate and the audit findings indicated that proposals were considered in a standard manner.

Specifically this entailed the following:

- proposal received by the National Millennium Office secretariat
- proposal reviewed briefly and an acknowledgement sent either stating that the proposal would be further examined or giving information of relevant Local Authority Millennium Schemes if this was considered more appropriate
- proposal then reviewed by the Working Group using the criteria for the selection of projects specified by the Government and the Department of Finance.

The Working Group having reviewed all applications would either reject them or forward them for consideration by the Committee, which, following a review process, made a decision on whether or not to recommend projects for funding to the Government and set the levels of funding deemed appropriate.

The Government then considered the recommended projects and funding and, if approved, the relevant details were communicated back to the National Millennium Committee and the Millennium Office.

Grant recipients were required to sign a standard legal agreement prior to any money being drawn down on a proposal. This agreement was drafted by the Attorney General's Office and contained grant conditions designed to limit the State's financial exposure and protect its interests. The agreement also imposed certain conditions on grant recipients in relation to insurance, proper application of grant moneys, the provision of necessary additional finance to complete projects, the submission of information to the Committee when requested, and also contained provisions indemnifying the Minister, the National Millennium Committee and the State.

Grant recipients in the case of award schemes administered by ADM were required to sign similar agreements.

The Millennium Office was responsible for ensuring that all conditions of the legal agreement had been adhered to prior to drawdown of grant.

Grant payments were authorised and approved by officers of the Millennium Office before being paid by the Department's Finance Section out of subhead N of the Department of the Taoiseach's Vote.

Vouching for Grant Payments

It was found that in four of the six projects (Liffey Boardwalk, Liffey of Lights, Millennium Festivals, New Year's Eve Concert) examined no invoices or audited accounts had been obtained to confirm the amounts expended and grant entitlement. There was also no evidence that the alternative procedure of inspecting accounting and payments records of the grantees had been pursued. The unvouched payments totalled £2.5m which represented almost all of the expenditure claimed as having been incurred on the four projects.

The Accounting Officer stated that the Millennium Office confirmed to its satisfaction the existence of adequate vouching for grant payments through regular close contact with project promoters and in the case of public bodies involved in the major projects satisfied itself as to their management procedures and that relevant documentation, including expenditure details, was held.

Compliance with legal agreements

The audit also indicated that while legal agreements were in place in all but one of the projects examined, the Millennium Office omitted, in certain cases, to confirm that all conditions had been complied with prior to payment, particularly in relation to insurance where in four of the six projects examined no confirmation had been obtained that adequate insurance policies were in place.

Furthermore, post-payment inspections to confirm that grant-aided works had been carried out satisfactorily had not taken place up to the time of audit. However, it is acknowledged that many projects are ongoing and that such inspections would only be worthwhile for larger projects where more significant amounts of State funds had been invested.

The Accounting Officer stated that the drawing up of standard partnership agreements pre-dated the evaluation of the projects and that as the shape of the programme evolved it was necessary to apply the agreement in a realistic manner in individual cases consistent with the protection of the interests of the State and the core responsibilities of project promoters.

In relation to insurance he stated that the partnership agreement contained a clause whereby the project operator indemnified the State against "all actions, proceedings, costs, claims, demands and liabilitiesin connection with the Millennium project". The question of adequacy of insurance was seen to be a matter primarily for the individual project promoter and the fact that the degree of insurance was not verified reflected the fact that the indemnity clause was in place. However, he also stated that the Millennium Office would place a particular focus on insurance when dealing with the remaining projects.

Compliance with Budgets

The levels of funding approved by the Government were adhered to and, in the event of additional funding being necessary, the matter was resubmitted to Government for permission to pay the additional amounts.

The Department of Finance stipulated that, of the initial £29.5m budget approved in relation to project expenditure, £3m should be expended on current projects and £26.5m on capital projects. However, actual expenditure incurred on current projects in 1999 was £6.2m and a further £3.9m was expended on current projects in the period 1 January 2000 to 31 May 2000.

The Accounting Officer stated that the balance between current and capital expenditure was different to what was envisaged due to the nature of the projects put forward by the public, recommended by the National Millennium Committee and approved by the Government. He also stated that monthly expenditure profiles showing the actual breakdown between capital and current expenditure had been submitted to the Department of Finance but, in the light of my comments, the Millennium Office had requested a revised sanction from the Department.

Projects Examined

The specific findings in relation to the six projects examined were:

Last Light Ceremony

Funding of £1.9m was approved for this project, of which £869,541 was paid in 1999 and £1.01m in the period 1 January 2000 to 31 May 2000. The project involved the supply and distribution of a Millennium Candle and Scroll to every household in the country (1.3 million). Public Service tendering procedures were adhered to in the selection of the contractor for the supply of the candles at a cost of £939,180. An amount of £936,112 was also paid to An Post in respect of distribution costs. Complaints/enquiries were received from approximately 2,000 people stating that they had not received their candles. The Committee gave the details to An Post who agreed to make additional deliveries to the households concerned. The project file was complete and payments made were duly authorised and supported by appropriate documentation.

Liffey Boardwalk

Funding of £1.5m was approved for this project, of which £133,750 was paid in 1999. No payments were made in the period 1 January 2000 to 31 May 2000. This project involves the construction of a boardwalk on the River Liffey between O'Connell and Grattan bridges. The project is being fronted by Míle Átha Cliath Teo, a partnership company established in 1997 by Dublin Corporation to co-ordinate the city's commemoration of the Millennium. Company members include representatives of Dublin Corporation, Dublin Chamber of Commerce and various public and private sector bodies. In November 1998, following a public ideas competition and advisory committee consideration, 7 projects were selected by Míle Átha Cliath Teo, of which 2 were approved for funding by the National Millennium Committee - Liffey Boardwalk and Liffey of Lights project. A Grant Agreement covering the grants was signed by the National Millennium Committee and Míle Átha Cliath Teo. on 8 November 1999.

The payment of £133,750 made in November 1999 was not supported by invoices or architect's certificates. This documentation is retained by Dublin Corporation, which is regarded by the Millennium Office as being responsible for the commissioning, construction and maintenance of the boardwalk. The Millennium Office has not to date requested supporting documentation from Míle Átha Cliath Teo. or Dublin Corporation. The Accounting Officer stated that he regarded it as reasonable to hold the Corporation responsible for the maintenance of such documentation provided his Department was satisfied that it was in a position to monitor progress on the project. He also stated that the Millennium Office had since requested the relevant documents. The project is ongoing with an expected completion date of October 2000.

The agreement also provides that the Company effect adequate insurance policies in respect of the development and produce these to the Millennium Committee on request. There was no evidence that such policies had been requested or seen by the Millennium Committee or Office.

Liffey of Lights

Funding of £500,000 was approved for this project, of which £268,325 was paid in 1999 and the balance of the funding - £231,675 - was paid in the period 1 January 2000 to 31 May 2000. This project involved the floodlighting of city-centre bridges spanning the River Liffey. The first grant instalment was paid in conjunction with that of £133,750 paid in respect of the Liffey Boardwalk project. Invoices or architect's certificates covering the expenditure were not sought by the Millennium Office and there was no evidence on files examined during the audit that adequate insurance cover existed.

The Accounting Officer stated that the project was managed in a similar manner to the Liffey Boardwalk and that, as the project had been completed and total approved funding released, the Millennium Office had requested the relevant certification from the Corporation.

Millennium Festivals

Funding of £1m was approved for this project, of which £750,000 was paid in 1999 and £204,798 in the period 1 January 2000 to 31 May 2000. In 1998 the Department of Tourism, Sport and Recreation established Millennium Festivals Ltd. to organise that Department's contribution to Millennium celebrations through a range of festivals staged in conjunction with both the private sector and the community/voluntary sector. Members of the Company were drawn from the public and private sectors and included a representative of the Department.

The approval of the £1m contribution was in respect of 8 festivals taking place in 1999. Files were examined in respect of 3 festivals with total approved funding of £550,000. The main findings were:

- invoices were not sought or accounting and payments records inspected by the Millennium Office to verify the correctness of the grants applied for
- a report and accounts of the manner in which the grants were expended have not been submitted as of 30 June 2000 (deadline of 1 March 2000 per grant agreement)
- there was no evidence that confirmation of adequate insurance cover had been requested or received by the Millennium Office.

The Accounting Officer stated that as the projects were ongoing it was not practical to have audited accounts made available in the time frame envisaged.

Messiah XXI

Funding of £700,000 was approved for this project, all of which was paid in 1999 to a company which staged a contemporary production of Handel's Messiah on 4 and 5 December 1999. The event was subsequently broadcast by RTE on 30 December 1999. Funding of £700,000 based on projected expenditure of £1.85m was recommended by the National Millennium Committee and approved by Government on 20 July 1999. Further funding from RTE, record companies, broadcasting organisations and corporate sponsors was anticipated. A grant agreement between the National Millennium Committee and the company was signed on 5 November 1999. The grant was drawn down in 3 instalments in November and December 1999, each being supported by copy invoices. The main audit findings were:

- audited and certified accounts in relation to the expenditure of the grant were not submitted by the 1 March 2000 deadline specified in the grant agreement
- no evidence existed of the Millennium Office having satisfied itself as to the adequacy of insurance cover
- there was no tax clearance certificate on file

- provision for a possible monetary return to the State in the event of the production being commercially successful was not included in the signed grant agreement.

The funding proposal submitted by the company stated that it approved the concept that a portion of net profits of the company should go to a charity or charitable trust and that a formal system would be set up in consultation with the National Millennium Committee to this end. The grant agreement, however, made no reference to this point. After the matter of possible recovery of moneys had been raised in the Dáil and the media, an arrangement was finally confirmed in writing by the company on 27 March 2000. The provisions require that 10% annually of net after tax profits, up to an overall ceiling of £700,000 be paid to Irish charities agreed between the company and the National Millennium Committee. An annual audit of the company is to be carried out and provision is to be made for a continuation of the agreement after the term of the National Millennium Committee expires.

The Millennium Office has been informed by the company that, as of 30 June 2000, negotiations with music and television companies in the US are still ongoing, with no definite agreements having emerged. Furthermore, the charities to benefit in the event of profits being generated have yet to be agreed.

The Accounting Officer informed me that while the grant agreement did not make specific arrangements for payments to the State in the event of the production being a commercial success, it was clearly understood that such arrangements would apply, which was substantiated by the company's written confirmation of the position in March 2000. He stated that the National Millennium Committee had no revenue generating role and did not anticipate that any surplus was likely. He also stated that a tax clearance certificate had been requested from the company.

New Year's Eve Concert

On 19 October 1999 the Government approved, in principle, funding of £500,000 towards the cost of staging a free New Year's Eve concert in Dublin City Centre. Following consideration of two proposals, the National Millennium Committee recommended on 28 October 1999 that the concert be organised by one of the proposing companies subject, *inter alia*, to confirmation that the company could manage the event with a £500,000 award from the National Millennium Committee. At this time the company's estimated costings totalled £940,000. It was intended that most of the funding shortfall would be met by commercial sponsorship. On 16 December 1999 the National Millennium Committee approved an increase of £100,000 in funding to cover extra safety related costs, which was later increased by a further £323,000. This latter increase was based on the non-receipt of commercial sponsorship which had been anticipated and the necessity to engage additional artistes and hire additional equipment. The revised funding of £923,000 was approved by Government on 17 April 2000.

£250,000 was paid in 1999 and £672,865 in the period 1 January 2000 to 31 May 2000. Payments were supported by a schedule of costs incurred and by a final account in April 2000.

The main findings were:

- there was no legal agreement with the company
- invoices supporting payment requests were not sought by the Millennium Office and the alternative option of inspecting the accounting records to enable the Committee to satisfy itself as to the expenditure incurred and the amount of grant claimed was not pursued
- the initial grant approval of £500,000 represented a 53% funding rate. The total grant paid,

£922,865 represented 100% funding

- the failure to attract commercial sponsorship was not investigated
- the payment of £300,000 on 20 January 2000, while within the amount recommended by the National Millennium Committee exceeded Government approval at that time by £50,000.

The Accounting Officer stated that this was a high profile event which had been organised under severe time pressure. He also stated that evidence of expenditure had been obtained through inspection of a detailed schedule and statement of account provided by the promoter and that additional assurance was gained from the fact that Millennium Office staff had been involved in the organisation of the events on New Year's Eve. As regards the failure of the anticipated corporate sponsorship to materialise, he pointed out that difficulties had been experienced internationally in predicting the level of interest in events on New Year's Eve. He assured me that his Department was satisfied that the situation had arisen for *bona fide* reasons.

Award Schemes

Two major award schemes with funding approval of £3m each were administered by third parties on behalf of the National Millennium Committee and were also reviewed during the audit.

Millennium Events Awards

This scheme was introduced to assist local, community and voluntary groups and organisations to mark and celebrate the Millennium in their area in a way that was considered fitting and appropriate. Funding of £3m was approved by the Government on 21 July 1999 for the awards which were to be administered by the relevant Local Authority in each county. Individual awards were to be up to a maximum of £4,000 and were to be matched with funding by the Local Authority or with other local funding. A Millennium Officer with responsibility for administering the awards was appointed in each Authority.

Funds up to a maximum of £70,000 were issued to each Authority upon submission by Millennium Officers of details of recommended projects and confirmation that matching funding was forthcoming. A total of 1959 projects were proposed and grant drawdowns of £2.24m and £130,000 were made in 1999 and 2000 respectively.

The Millennium Office has recently written to each Local Authority requesting a report on the current status of the awards.

Millennium Recognition Awards

These awards were designed to support Millennium projects at a local level and to recognise the contribution made by local communities to the economic, social and cultural development of Ireland. The Government approved funding of £2m and £1m on 20 April 1999 and on 19 October 1999 respectively. Under an agreement dated 23 April 1999, ADM were assigned responsibility to design, implement and monitor the awards on behalf of the National Millennium Committee. A management fee of £100,000 was to be paid.

The Millennium Office was represented on an ADM Appraisal Committee which processed project proposals, provided ongoing progress reports and recommended awards to the National Millennium Committee.

Under the terms of the agreement ADM are to provide, not later than 1 December 2000, a report and accounts of the manner in which the grant provided by the National Millennium Committee was expended.

Amounts totalling £500,000 and £1m were drawn down in 1999 and 2000 respectively.

ADM approved funding of £2.86m in respect of 193 awards and at 20 March 2000 payments by ADM to grantees totalled £830,000. Examination of 3 project files with total drawdowns of £120,000 was carried out with satisfactory results. Files were maintained to a high standard and contained all relevant documents including standard application forms, standard appraisal forms, contract agreements, tax clearance certificates, tender documents and financial statements. Payment authorisations were evidenced on standard forms and acknowledgements of receipt of grant filed.

Conclusions

- The results of the audit indicate that controls and procedures in relation to the selection of projects and adherence to funding limits set by the Government and the Department of Finance were generally satisfactory, particularly when account is taken of the once-off nature of the grants and the volume of proposals processed. The only exception noted was the failure to adhere to the ceiling on expenditure on current projects set by the Department of Finance.
- The findings indicate that in a significant number of cases, adequate evidence was not obtained that the expenditure on which grants were claimed had been incurred and that grant moneys were applied for the purposes for which they were approved. Invoices and vouching should be sought or accounting and payments records inspected for the larger projects in order to obtain assurance that the expenditure has been incurred as claimed by the grant recipients. More attention should be given to obtaining vouching for the remaining expenditure which will be incurred by the Committee in 2000.
- Legal agreements appeared to be adequate to protect the State's interest and were in place in all but one of the projects examined. While it would appear to have been prudent for the Millennium Office to have monitored the position in relation to insurance more closely, the Accounting Officer's view that it was primarily a matter for the Promoters and that the State was indemnified is accepted.
- The initial agreement for the Messiah XXI production did not provide for a possible monetary return to the State.
- In the case of the New Year's Concert, the failure to receive the anticipated commercial sponsorship resulted in the State having to meet the full cost. The position on sponsorship should have been more firmly established before the placing of the contract to organise the concert. The agreement in relation to this and other matters should have been in writing.

By way of general comment, the Accounting Officer stated that the Government had made it clear that the Millennium celebrations should be focussed on the entire period 1999 to 2000 and that only approximately one third of the expenditure had been incurred up to mid 2000. In 1999 the work had been very much focussed on the evaluation and approval of projects and the release of funding and it was intended to shift the focus more towards issues such as confirmation of completion and compliance with grant conditions as the project selection phase came to a close. He assured me that as this second phase progresses, many of the concerns raised in my report were currently being addressed.

Schedule A**Project Current Expenditure**

Project Name	1/1/99 - 31/12/99	1/1/00 - 31/5/00
	£	£
Millennium Festivals	750,000	204,798
Millennium Recognition Awards	600,000	1,000,000
Millennium Book	80,000	-
Dublin/Belfast Ecumenical Service	10,000	14,145
RTE CD-ROM for Schools	116,000	-
Messiah XXI	700,000	-
Millennium Events Awards	2,240,000	265,664
Island Journey Millennium Concerts	43,000	-
New Year's Eve Concert	250,000	672,865
Millennium Information Programme	536,213	423,939
Last Light Ceremony	869,541	1,005,750
Twentieth Century Irish Art Exhibition	-	8,880
Exhibition of Christian Architecture	-	18,250
Dublin International Piano Competition	-	10,000
Millennium Celebrations	-	68,000
Skyfest 2000	-	130,000
Millennium Amateur Drama Festival	-	6,000
Bridge of Peace	-	30,000
Genetic History & Geography of Ireland	-	30,000
Total	6,194,754	3,888,291

Schedule B**Project Capital Expenditure**

Project Name	1/1/99 - 31/12/99	1/1/00 - 31/5/00
	£	£
Míle Átha Cliath	402,075	231,675
St George's Bells Taney	-	50,000
Mayo Millennium Spire	-	100,000
Milaois na Gaeltachta 2000	-	159,300
Cork Opera House	-	224,000
National Field Study Centre	-	55,000
Total	402,075	819,975

VOTE 6. OFFICE OF THE MINISTER FOR FINANCE

12. Processing of Payable Orders by the Office of the Paymaster General

The Office of the Paymaster General (PMG) acts as the clearing bank for all Government Departments except for some payments made by the Office of Public Works, the Department of Social Community and Family Affairs and the Office of the Revenue Commissioners. All Payable Orders (POs) issued by Government Departments are drawn on a bank account maintained by the PMG in the Central Bank from which transfers of money are made on a daily basis to banks in respect of POs which they have cashed and into which moneys are lodged from the Exchequer to fund such transfers. In 1999 the PMG processed 4 million POs involving gross payment flows of nearly £34bn.

A computerised system is in operation for processing POs. Details of all POs issued by Government Departments are notified to the PMG each day on Issue Schedules which are entered on the Payable Order Reconciliation System (PORS).

POs when cashed by a bank are returned to the PMG together with summary listings showing the amount the bank is claiming in respect of the encashed orders. Details from the returned POs are also entered on the PORS (PO number and amount). The PORS produces reports showing details and value of the POs which have been accepted for payment (*i.e.* those POs where values and numbers match those on the Issue Schedules). It also produces details of POs which have been rejected due to PO numbers not matching or cashed amounts not matching issued values and cancelled or out of date POs. These reports are used to compute the amounts due to the banks in respect of valid POs which have been cashed by them and to provide details of the amounts which are not being accepted for payment due to the POs having been rejected as invalid.

At the end of each month the PORS produces statements for each Government Department which detail POs cashed, those which have been cancelled, those which are out of date and those which have not been cashed. These reports are distributed to the Departments to provide them with a record of the status of the POs which they have issued and to enable them to reconcile their records with those of the PMG.

The PMG is committed to abiding by the Inter Bank Clearing Rules and, in particular, to the requirement to process POs and to notify the banks of any errors or invalid POs presented for payment within two days.

Since all POs are crossed and therefore only payable through a bank account and since banks will not normally allow cash for such POs to be withdrawn from the bank account until the two-day clearance period has elapsed, then any errors, irregular amendments or cancellations attaching to POs should be detected before cash has been paid out.

Compliance with the two day clearing period is a key control in preventing cash being obtained for unauthorised POs and is the primary protection for the banks and the PMG against the encashment of unauthorised POs. In this respect the availability in the PMG of a quick, accurate and reliable method of capturing the PO number and amount in an electronic format for each PO returned by the banks is vital.

An optical character-reading (OCR) scanner³ was installed in 1997 to electronically read the PO numbers and amounts and to produce this information in an electronic format to be loaded on the PORS. Prior to the introduction of the scanner this information was manually entered.

An audit by my staff of the PORS, compliance with the two day clearance requirement, and the purchase and performance of the scanner, noted the following:

- While funds to the value of the cheques presented to and claimed by banks were being transferred to the banks on the same day in accordance with the inter bank agreement, the PMG was not processing and clearing POs within the two-day time limit for long periods during 1999 and, in fact, was taking up to 15 days to process POs and notify the banks of POs which it was not accepting. The failure to meet the clearance deadline was mainly due to the failure of the scanning equipment to perform to the expected standard.
- The decision to acquire a scanner was made in September 1993, when a Request for Proposals (RFP) was issued to potential suppliers for a scanner with OCR software (and associated hardware) to process POs. The RFP was issued to 8 suppliers, 4 of whom replied. All proposals were greatly in excess of the GATT/EU limit for open tendering procedures; initial estimates, based on sample figures supplied by a number of vendors, had indicated that the Department would be within those limits. After discussions with a representative of the Government Contracts Committee, it was decided to place an advertisement in the EU Official Journal. Ten proposals were received by the due date (18 March 1994).

In the RFP a scanner was sought which was capable of reading POs produced using the "10 cpi OCRB" font, in line with instructions issued to Departments by the PMG on fonts in 1989. In the course of evaluating the proposals the PMG sought confirmation from Departments that they were complying with the 1989 instruction. It transpired that many Departments were not conforming to the font requirement and the PMG experienced considerable difficulty in establishing what fonts were being used. Many Departments were unclear about the fonts in use, others were reluctant to incur the cost of acquiring new printers to meet this requirement, while the fact that the "10cpi OCRB" is considerably slower to print than other fonts was a major factor for some Departments. The PMG concluded that it would, therefore, be impossible to guarantee that "10cpi OCRB" would always be used and, as a result, decided that a scanner capable of handling multiple fonts would better suit its requirements and avoid a situation whereby a scanner incapable of handling a large percentage of their throughput would be installed.

It was therefore decided to cancel this competition in August 1994 and on the advice of the Government Contracts Committee to open a new tender competition.

Following this tendering process, a company was awarded the contract in July 1996. The scanning hardware was delivered on 9 December 1996 and the software, after several months delay was received on 31 July 1997.

Payments to the contractor for the purchase of the scanner and related hardware, software and maintenance amounted to £508,330 (inc VAT) in the period 1996-1999.

³ *The term scanner refers to an integrated payable order scanning, character recognition, storage and retrieval system.*

- The scanner has never performed at or near the levels specified in the contract. An exercise undertaken by the PMG in 1999 found that the performance of the scanner was such that it would take shifts of five operators a total of 12 hours to process 20,000 POs, compared to a standard in the contract of two operators processing 40,000 POs within five hours. The character recognition error rate ranged from 10% to 25% which compared very unfavourably to the target error rate of 2% stated in the contract. The poor performance of the scanner contributed to the difficulty which the PMG has experienced in the years 1997 to 2000 in complying with the two day limit agreed with the banks for clearing POs and to an increase in staff overtime and the need to contract out work to a data entry bureau.

In tests carried out on the equipment prior to purchase, a character recognition error rate of 6% was indicated.

- The staff complement in the Banking section of the PMG as at June 2000 was 27, compared to 25.5 in 1996, prior to the installation of the scanner. Staffing which was expected to decrease by about 6 due to the automation has instead slightly increased. Furthermore, figures received during the audit indicated that overtime, which was expected to reduce on the acquisition of the system, had in fact significantly increased. In addition, £38,155 and £75,437, respectively, was expended on contracting out data entry work in 1998 and 1999.
- The purchase contract for the scanner provides for the archiving of POs and the storing of images of POs electronically. This would reduce the necessity for storage of copies of POs and facilitate retrieval. To date, archiving in the system has not performed to this standard and, for this reason, the final payment due to the contractor has been withheld. As a result the physical storage of POs has not been reduced.
- The scanner was out of operation for the period 26 April 2000 to 11 May 2000 due to a computer virus (the so called Chernobyl Virus). This was a serious incident because if the virus had been passed to the PORS it could have seriously damaged it and could have travelled through the main Department of Finance server to all other departmental locations. It would appear that there was a risk that this could have happened due to the fact that certain anti-virus software had not been installed in the scanner or the PORS. Anti-virus software was subsequently installed. As a result of the virus all programmes in the scanner were replaced along with several pieces of hardware.
- In or about February 2000 a number of POs presented for payment by banks did not accord with details on record in the PMG. It transpired that the POs had apparently been stolen and the amounts payable amended to much larger values. One PO for £244.68, dated 15 December 1999, had the amount payable changed to £7,244.68. The PO was lodged to a bank account on 17 February 2000 and sent to the PMG for payment on 18 February who transferred the relevant funds to the bank on that day. The PMG on processing the PO on 29 February detected the irregularity and notified the bank immediately. However, by that time £5,239 had been withdrawn from the bank account. The balance of £2,005 has been transferred to the PMG, who sought legal advice from the Office of the Attorney General on how best to pursue the £5,239 paid out by the bank. Ongoing consideration is continuing in light of that Office's advice. Successful action was taken in time in relation to the other POs irregularly amended so that no undue moneys were paid out by the banks. The Gardai have also been notified.

I sought information from the Accounting Officer in relation to these matters and, in particular, the consequences and financial risks of not processing POs within the two day time limit, when compliance with the requirement was likely to be achieved and if it was likely that the performance of the scanner could be brought up to an acceptable standard. I also enquired as to previous irregularities in relation to the encashment of POs, the security procedures in place in Departments for the safe custody of POs and if any new measures were being considered to reduce the risk of irregular encashment of POs.

The Accounting Officer stated that

- The Clearing Rules were an administrative arrangement for the efficient clearance of cheques and POs and did not specify the consequences of failure to comply with the requirement. The right of the banks to retain payment collected for a customer did not stem from the Clearing Rules *per se*, but from the Cheques Act 1959, section 4 of which provides that:

“Where a banker, in good faith and without negligence,

(a) receives payment for a customer of an instrument to which this section applies or,

(b) having credited a customer’s account with the amount of such an instrument, receives payment thereof for himself:

and the customer has no title, or a defective title, to the instrument, the banker does not incur any liability to the true owner of the instrument by reason only of having received payment thereof.”

The practical implication of not returning unpaid items in time was that, so far as the presenting bank was concerned, the item was paid and it would not accept any attempt by the PMG to recover the money by adjusting a subsequent day’s settlement. The procedure then was that the PMG should be reimbursed by the Department that issued the PO and the onus was on that Department to seek redress from the recipient of the money. To the extent that this was not successful, the loss was borne on that Department’s Vote. In practice, the banks had been flexible about the timing provided funds had not cleared their customer’s account.

No specific legal advice had been obtained by the PMG on the legal consequences of non-compliance with the two-day processing deadline in the event of disputes between the PMG and the banks on the question of liability for losses incurred from the irregular encashment of POs. However, advice from the Office of the Attorney General in relation to the irregularity in February 2000 indicated that the bank was liable for any unrecovered funds and, in seeking the advice, the Attorney General’s Office was made aware that the PO had not been processed by the PMG within the two-day time limit.

- The failure to meet the two day clearance deadline was due to increased volumes of work, significant variations in the level of work during the year, difficulties with the operation of the scanning equipment, staff turnover, diversion of resources to the introduction of a new computer system for processing POs, poor co-operation from some Government Departments in relation to the standardisation of PO formats, print quality and delivery of payment authorisations and a deterioration of the paperwork submitted by some banks.

The PMG was not complacent about the need to meet the clearance deadline and to this end work practices and problems were being actively reviewed and it was proposed to commission

CMOD⁴ to carry out an in-depth study of the PMG banking operation before the end of October 2000. A range of options had been identified to improve performance which included, improving the performance of the scanner, employment of key punch operators, outsourcing some or all data entry work, reducing the volume of POs by increasing the use of electronic payments, use of commercial bank accounts to pay farmers, shift work and use of temporary staff. The cost and feasibility of the different options would be explored and there would be full consultation with unions and staff as the changes required to ensure that the clearance deadline is consistently met may be radical. Two staff officers had recently been assigned to the PMG Banking section who had been given particular responsibility for training, the development and use of procedures manuals and examination of improvements in processes. Detailed instructions about the printing and cutting of cheques and the delivery of authorisations to the PMG have been issued to all Departments. Moreover, demonstrations of the scanner and other PMG processes were arranged for those handling POs at operational levels in all Departments. The response had been positive. The PMG's concerns about the standard of work from the presenting banks have been raised formally with the chief executives of the banks and meetings have been held to try to resolve issues, with positive results. An officer has been assigned to monitor the banks and Departments and to maintain standards.

- In relation to the performance of the scanner, there were technical problems associated with its operation over which the PMG had very little control, due in large part to the number of organisations and people who handle POs and so affect their condition. Departments affected the read rate by faded print, using too small a font, incorrectly guillotining the POs and printing too close to the edge of the read area. Banks affected the scanner by stamping or writing on, or close to the read area. Finally, the payees caused difficulties by creasing the POs, tearing them and otherwise mishandling them. There were also difficulties caused by variations in PO layout and colouring. A major effort into revising PO layout had been made and the number of variants had been reduced from 22 to 5, but there had been poor co-operation from client Departments in adopting the new layout. For these reasons the recognition software had not lived up to expectations and it was exceedingly difficult for the PMG to exercise quality control because of the number of clients producing POs and the number of bank branches handling them.

Three years after its installation the performance of the scanner had not been anywhere near the expected standard. The archiving function was not operational at all and maintenance of the system was also unsatisfactory. Since the successful introduction of the new PORS computer system in 1999, it had been possible to devote more attention to the problems of the scanner and there had been considerable improvement in recent months but it was still not performing to specification. Concerted pressure had been brought on the supplier, who had carried out work on the system in recent months and, as a result, there had been a considerable improvement in the mechanical operation and character recognition rate. Concerted pressure had also been brought on Departments to improve print quality. The error reading rate had been reduced to 4%, and as a result the processing of POs has been within or very close to the two-day clearing deadline. It was hoped to effect further improvements in processing time through training of operators and closer monitoring of print and PO quality generally.

There were a number of reasons as to why the pre-installation tests of the scanner proved to be so inaccurate compared with full live operation, including non-use for security reasons of live current POs at the development stage, older POs not being suitable for use in tests because of variations in print and layout and problems associated with the handling of POs by payees and banks and with faint printing not being fully anticipated.

- The effort required to implement the new PORS system within Year 2000 compliant deadlines fully stretched the resources of the PMG and entailed compromises with the timeliness of the daily processing and with the development of the scanner.
- The planned decrease in staff within the PMG banking section did not take place because the productivity levels envisaged for the scanner were not achieved. Additional staff had also to be maintained to ensure that the PORS was Year 2000 and euro compliant. Staffing levels would be evaluated as part of the forthcoming CMOD review.
- While the delay in acquiring the scanner and the failure of the equipment to perform to expectations might imply that there had been failures by management in planning and implementing the project, the reality was that many of the problems and difficulties encountered were outside the control of the PMG. In this connection the Accounting Officer referred to the unprecedented levels of staff turnover, increase in volumes of payments, a printing malfunction in the Department of Agriculture Food and Rural Development in 1997 which had caused chaos in the PMG processing system and in the bank clearing system generally, slow response by Departments to adopt the PO layouts devised for the scanner and delays in the completion of payroll replacement projects in Departments. The resulting disruptions had caused havoc with the implementation schedule for the scanning project.
- There were serious technical difficulties in relation to the storing of POs electronically and while the supplier has tried a number of different solutions none have been successful. The supplier had assured the PMG that he was continuing to explore ways of resolving the problems and he was confident that a solution could be found. Payments of £38,000 had been withheld from the supplier because of the archiving difficulties experienced.
- Anti-virus software was installed as a matter of course by Network Support staff of the IT Unit on all file servers and networked PCs in the Department. In addition, standalone PCs with anti-virus software are situated in all the Department's buildings, including the PMG office, and staff are instructed to use these to check any software received on diskette or CD-Rom. As the PCs attached to the scanner were not connected to the main Department of Finance network, input to the scanner system was possible only *via* diskette or CD-Rom. All such media should first have been checked on the standalone virus checking PCs. It is believed that the virus in question originated, not on a data diskette from any of the PMG's clients which were all virus checked, but rather on a system diskette used to update the scanner software itself. This represented a gap in the security procedures and anti-virus software had now been installed on all PCs and servers used in the scanner system.

As regards the possibility of a virus transferring from the scanner to the PORS, the PCs on the PORS are part of the Department of Finance network and therefore had virus-checking software installed in line with all other PCs on the Department's network. Any virus attached to files being transferred from the scanner system would therefore have been detected at the input stage.

The fact that virus checking software was not installed on the PORS servers until May 2000 was due to an oversight arising from the division of responsibility for such matters within the IT Unit at the time. It appears that lack of familiarity with the correct procedures arose due to changes in personnel and this had now been addressed. Network Support staff, who are responsible for the maintenance of the anti-virus software, now had responsibility for all computer hardware within the Department, regardless of source and a mechanism had been put in place to ensure that they were aware of all developments on this front.

The PMG had made it clear to the supplier that it was confident that the virus had not originated in its office and shortcomings in the supplier's virus-checking procedures were also pointed out.

- There had been no other incidents in the past 5 years of the encashment of forged or altered POs. However, there had been cases of valid POs being stolen and encashed, and POs being encashed despite having been cancelled by the issuing Department. In those cases in which recovery was not made from the bank because of non-compliance with the two day processing period, follow-up action would have been taken by the issuing Department and the PMG would not necessarily be aware of whether or not the loss was subsequently made good. However, the perception was that the total number of such incidents was small and the level of complaints from Departments was low, which would seem to imply that losses were very few.

There were also cases of what were originally valid POs being encashed after they had gone out of date, *i.e.* more than 6 months after the date of issue. These amounts were all recovered from the banks. There had been an inordinate number of these recently which was indicative of a lower standard of care being taken by the banks and this matter was being taken up with them.

- The security features incorporated in the design of POs were currently being reviewed in view of the apparent sophistication of the alterations made to the POs in the February 2000 irregularity. At present POs had incorporated all features recommended by the Irish Banks Standing Committee, with the exception of one, which would interfere with the operation of the scanner. However, to compensate for this, the PMG had additional security features and its stationery was regarded as being generally more secure than cheques.

The PMG had met with its printers to explore what further additional features might be included in its POs and these were being costed but it was probable that new features would only be introduced for the new euro stationery.

- Strictly speaking, POs were non-negotiable and non-transferable, but there was a long-established practice of POs being cashed by shopkeepers. Restricting this would be seen as detrimental to customer service and would also impact on payments made by the Department of Social, Community and Family Affairs and was therefore not a course favoured by that Department. However, there was a case for requesting the banks to exercise more care, especially for POs involving larger amounts and a joint approach from various public sector paying agencies should be considered.
- There have been guidelines in place for many years about the safe custody of PO stationery, accounting for wastage, *etc.* These were clearly working well, as there had been no cases of stolen cheque stationery being used fraudulently in recent years.

The indications were that the stolen POs involved in the irregularity, which were issued by the Department of Defence, were not stolen from that Department's premises nor were any staff of the Department involved. Arising from the irregular encashment of the pension POs in question, that Department's Internal Audit Section undertook a review of the controls in operation in the production and issue of POs for the monthly pensions payroll of approximately 11,500 cases. The review concluded that, having regard to considerations of practicality and reasonableness, the controls in place were adequate and satisfactory.

VOTE 7 - SUPERANNUATION AND RETIRED ALLOWANCES

13. Civil Service Pensions

Background

The superannuation benefits paid to civil servants⁵ are provided for in the Superannuation Act 1834 to 1963 and the Superannuation and Pensions Act, 1976. The Paymaster General's Office (PMG) is responsible for the payment of superannuation benefits to retired civil servants or to their spouses and children. The benefits paid are accounted for in the Superannuation and Retired Allowances Vote.

In 1999 the PMG expended £97.6m on the superannuation benefits of civil servants and their spouses. At the end of 1999, 9,518 former civil servants and 4,665 spouses of deceased former civil servants were in receipt of pensions.

Departments are classified as either having delegated or non-delegated authority for the purposes of processing superannuation payments to civil servants. Delegated departments are authorised to calculate the pension entitlements of its retired employees and to pay the retirement lump sums. They forward the details to the PMG, which takes the information into its records and pays the pensions. The PMG also reimburses the Departments in respect of the amounts of lump sums paid.

Non-delegated departments are responsible for furnishing the necessary evidence as to length of service, salary and other career details to the Pensions Section of the Department of Finance. That Department calculates the superannuation entitlements and forwards the details to the PMG, which enters the information in its records and pays the pensions and lump sums.

Audit Objectives and Scope

The audit evaluated the controls and procedures in operation to ensure that superannuation benefits were correctly calculated, were paid only to valid pensioners and were correctly recorded in the financial and accounting records. In particular

- The documentation relating to 131 pensioners was examined in order to verify the correctness and validity of benefits paid. 93 of the pensioners were from four delegated departments and 38 were from non-delegated departments
- Test checks were carried out on selected transactions and an analysis of payments made was carried out through the use of computer software
- Discussions also took place with managers and staff in the Banking Section of the PMG, the Pensions Section and Internal Audit Unit of the Department of Finance and with staff in delegated departments who had responsibility for superannuation matters.

Audit Findings

Accounting Records

The maintenance of the accounting records was generally satisfactory. Some errors were noted in relation to the coding of payments to the relevant Appropriation Account subheads in respect of

⁵ *excludes Teachers, Gardai and Defence Forces personnel*

manually issued Payable Orders. However, the rate of error was such as not to be likely to have a material impact on the accuracy of the Appropriation Account.

Computation of Pension Entitlements

The examination of documents relating to service and career records and the computation of pension entitlements was satisfactory. No errors were discovered in the 131 cases examined. The files were well maintained.

Controls over inputs of Master Data

The pension payments system in the PMG is computerised. The payment of a pension to an individual is initiated by entering pensioner details (master data), such as name, address, date of birth, employment or pension category, pension payable, date of commencement of pension and other relevant data into the computer system. It is important that the input of master data on pensioners into the computer system is strictly controlled to ensure that only valid pensioners are set up and that the information is correct, as otherwise there is the risk that fraudulent payments could occur or incorrect amounts might be paid.

Controls over the input of master data were weak, mainly due to the fact that there were no restrictions on access to the computer for the staff carrying out different functions in the PMG. Also, while my staff were informed that the correctness of all data entered for new pensioners was checked by supervisors, this was not evidenced by staff initialling or signing the relevant computer reports. Furthermore, the huge incidence of error in the dates of birth recorded for pensioners would suggest that there was poor checking of the data input. It was also noted that no systematic checks were carried out by supervisors on changes made to master data.

Control Reports

Computer control reports are generated each pay day which give details of the numbers of pensioners paid and the totals in respect of gross payments, deductions and net pay. No reconciliations were being completed of the numbers of pensioners paid from one pay period to the next by reference to new pensioners set up and pensioners taken off due to notification of deaths. Also, the monetary totals in respect of gross and net payments and deductions were not being reviewed for reasonableness or compared from one pay period to the next. Such checks and reviews are important from the point of view of providing assurance on the correctness of the amounts paid and the validity of pensioners on the pension payroll.

Pension Declaration Forms

Under Statutory Instrument No. 134 of 1966, pensioners are obliged to complete an annual declaration confirming that they are alive and, in the case of spouses, that they have not remarried which would make them ineligible to continue to receive pensions. The Instrument also provides that the declaration should be witnessed by a person on the electoral register or other persons specified in the Instrument. The declarations must be completed on forms issued to the pensioners by the PMG.

In 1998, the forms were issued only to pensioners over the age of 80 years and in 1999 no Pension Declaration forms were issued. Declarations were issued to all pensioners in February 2000 and 1,000 pensioners had not replied by 31 July.

Overpayments of £75,314 involving five cases were made between May 1997 and May 2000 due to pensions continuing to be paid in respect of pensioners who had died. Statutory Declarations had issued in each of the cases involved on a number of occasions and had been returned duly signed

(albeit fraudulently). The cases were brought to light as a result of information received from the Gardaí and others.

It was also noted that the PMG accepts the verbal or written notification of deaths for the purpose of terminating pensions and does not systematically ensure that the death certificates are later obtained, either from the next of kin or from the General Registrar in the Department of Health and Children.

Date of birth records

An exercise completed during the audit indicated that the dates of birth were either incorrect or had not been entered on the computer system for some 4,500 pensioners out of a population of 14,183.

Spouses' Pensions

Increased Spouses' pensions are payable in respect of children up to the age of 16 years or up to the age of 22 years if they are attending full-time education.

The computer system did not flag children when they reached 16 or 22 years. This would be a useful control feature as it would identify the cessation dates of pensions and reduce the possibility of payments being made when they were no longer valid.

For eligible children over 16 years of age, a certificate is required from their school/college stating that they are in full time education for the relevant academic year. It was noted that Payable Orders were prepared even when education certificates had not been received and were withdrawn before issue and kept on the payee's file until the certificates were received. If no certificates were received the pensions would be ceased. However, there were cases where Payable Orders were issued in the summer months, where the children did not return to school after the holiday period resulting in overpayments, the recovery of which, in some cases, was not pursued.

Delays in the application of pension revisions

While there were usually no delays in adjusting the pensions of established civil servants, as they were processed by a computer programme, there seemed to be significant delays in adjusting the pensions of unestablished civil servants, as these had to be adjusted individually. Pension revisions in respect of retired unestablished civil servants of delegated departments are only awarded when the parent department notifies the Department of Finance. Until such notification is received, the pension remains at the level of the last notification received, irrespective of the time which has elapsed.

Audit tests carried out to estimate the delays in revising pensions, indicated that in excess of 2,000 unestablished pensioners had not had their pensions revised in over a year. In this context, I noted a decision by the Ombudsman that compensation, calculated by reference to increases in the Consumer Price Index, is payable to pensioners, where there have been delays of more than one year in the payment of pension entitlements. The compensation due to pensioners arising from the delays had not, up to the time of audit, been computed or paid by the PMG, as the review of 7,500 pension revisions where compensation might be payable had not been completed.

Documentation of Procedures

The PMG does not have a procedures manual which would facilitate staff in carrying out their duties and help to ensure that important controls and procedures are not overlooked.

Conclusions

- The maintenance of the accounting records was generally satisfactory and there was a high level of accuracy in relation to the computation of pension entitlements.
- Controls over the entry of data into the computer system and period-to-period processing controls need to be improved.
- The statutory requirement to obtain an annual declaration from all pensioners may need to be reviewed in the light of its apparent limited value as a control measure. The feasibility of having more cost effective procedures to verify that pensioners are alive should be explored.
- Death certificates should be automatically sought to verify the date of termination of pension.
- The high rate of error in relation to the recording of the dates of birth of pensioners in the computer system devalues the usefulness of computer generated reports on age profiles of pensioners which management might use in the course of carrying out reviews or in targeting particular age categories of pensioners for additional checks.
- Payment procedures should be tightened so that pensions in respect of children are automatically cancelled when they reach the relevant age limits.
- The PMG should put similar procedures in place for revising the pensions of unestablished civil servants as exist for established civil servants to eliminate unacceptable delays in revising such pensions.
- The individual revision of certain pensions and the subsequent checking in a large number of cases for possible entitlement to compensation are a wasteful use of resources.

The Accounting Officer made the following comments in relation to the report

- The Internal Audit unit (IAU) of the Department in a draft report on the Pensions Section of the PMG raised similar concerns to those raised by me. While that report has not been fully completed (it has yet to be discussed by the Internal Audit Committee) all of its recommendations are being addressed at present.
- Reports produced by the payments system should be the source against which all proposed changes to the payroll are checked. Staff Officers now run periodic reports as required between payroll runs and check the underlying documentation giving rise to the changes inputted by clerical staff against the reports produced. All reports are signed off and are spot checked by the Higher Executive Officer in the section.
- The following new control reports are being produced:
 - new pensions inputted in the pay period
 - restarted pensions in the pay period
 - pensions restarted and deleted from payroll in the pay period
 - pensions deleted from payroll in the pay period.

CMOD⁶ have recently completed sample reports and these have been approved by the PMG's Pensions Section. It is expected that these will be finalised and in place before the end of September 2000.

- It was accepted that the PMG should concentrate its resources on issuing statutory declarations to the high-risk categories of pensioner - those being abroad and those aged 80 years and over. This is dependent on the PMG database being updated with the missing dates of birth. There are in the region of 4,000 cases where there are no dates of birth. CMOD have written a computer programme which would identify these pensioners and generate a standard letter requesting their date of birth. This is being tested at present and it is expected that this letter will issue to the relevant pensioners shortly. The IAU also suggested that the PMG should improve upon their verification process by regular comparisons between the database of the General Register Office (*i.e.* where births, deaths and marriages are registered) when this is computerised and the live PMG database. Since 1998 the practice is that where a date of birth has been omitted from an application form it is returned for completion. All such forms have been returned with date of birth inserted.
- Since the computerisation of the General Register Office will not be completed for a further two years, it is suggested that in the meantime the PMG should run regular comparisons with the database of the Bereavement Grant section of the Department of Social, Community and Family Affairs. Preparatory work on these proposals has already begun in that
 - The proposal has been cleared by the Data Protection Commissioner's Office, subject to the manner in which the data is exchanged.
 - The Department has been in touch with the Department of Social, Community and Family Affairs to put the necessary administrative arrangements in place.
 - Arrangements are being finalised to issue a letter to any pensioners on the PMG's database who have not supplied an RSI number. (The comparisons between the databases of the PMG and the Bereavement Grant Section, or, in due course, the Register of Deaths, Births and Marriages, will be made on the basis of RSI numbers). The computer programme in question has been written and is being tested. It is expected that this letter will issue soon.
- CMOD are currently exploring the programming options, with a view to setting up the arrangement with the IT section in the Department of Social Community and Family Affairs who have responsibility for the Bereavement Grant Section in the next few months. However, it may be necessary to engage programmers from the private sector, as the programming is quite involved.
- The five fraud cases are being pursued. Two of the cases account for £71,281. One incident has been referred to the Gardaí for further investigation. The other will be pursued initially with particular sensitivity because of the manner in which it was brought to attention, so the Gardaí have not yet been involved.

⁶

- As regards delays in application of pension revisions, over 7,500 of the 14,700 pensioners in payment in PMG Pensions are non-established. This category of pensioners have, traditionally, not been coded, i.e. classified by grade, but are on individual rates of pay. When established Civil Servants, be they serving or retired, get a pay increase, it is relatively simple to update the database to the new rate for the entire grade. However, for non-established Civil Servants, each pay increase must be calculated and entered on the system on an individual basis. There is frequently a long delay involved while the delegated Departments calculate the increased annual pension that each pensioner is entitled to. This is then supplied to PMG Pensions who must update their database and calculate what arrears are due.

PMG Pensions, and officers with suitable experience from elsewhere in the Department, have been working on arrears payments on overtime in the section on a constant basis for the past 9 months and have processed over 7,000 cases. It is likely that some compensation payments will have to be made to all the pensioners involved, based on the Consumer Price Index. The Accounting Officer accepted the conclusion about the excessive resources required for precise calculation of this compensation and will be proposing a more broad-brush methodology.

Discussions are ongoing between the IAU, PMG Pensions and two sections of Pay and Remuneration Division to identify a solution to this classification problem and to arrive at a situation whereby non-established pensioners will be updated in much the same manner as established pensioners.

- The difficulties with overpayment of children's pensions arose in part because of a manual system of administration whereby important information such as children's dates of birth were recorded on Index Cards (Kardex). The Unipay Section of CMOD have set up a programme which produces lists of live children's pension cases and the Kardex has been amended as necessary. A report listing all live cases and the relevant date of births has now been set up and this will be produced at every pay-run to check for cases where a child may be due to come off pension.
- It is recognised that the current manual record system used for children's pensions is far from ideal. From discussions with the Department of Defence in Galway, who pay army pensions on the COREPAY system, it was understood that the new system offers improved facilities in this regard. For example, the system will produce reminders automatically when a child reaches 16 and for each subsequent birthday. All children can be entered onto the system, instead of only two as on Unipay. The Department of Finance will document in detail what Defence have done on children's pensions and what preparation work will be necessary in the course of the upcoming installation of COREPAY in the Department.
- It is also recognised that there is a need to prepare a detailed procedure manual for all aspects of the work of PMG Pensions. Work on this has already begun, but progress has been slow, owing to a number of vacancies in PMG Pensions which put pressure on remaining staff. Those posts have recently been filled and it is intended that, after the upcoming shortages due to annual leave, work on the manual will resume and be completed. Particular close attention will be paid to this in the staff training for COREPAY.

VOTE 9. - OFFICE OF THE REVENUE COMMISSIONERS

14. 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.

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. Paragraph 22 refers to matters arising from this examination.

Revenue Collected

Revenue collected under its main headings in 1999 was as follows-

	Gross Receipts £m	Repayments ⁷ £m	Net Receipts £m	1998 Net Receipts £m
Income Tax	6,896	590	6,306	5,742
Value Added Tax	6,587	1,692	4,895	4,267
Excise	3,321	158	3,163	2,825
Corporation Tax	2,840	129	2,711	2,059
Stamps	739	20	719	541
Customs	151	7	144	160
Capital Acquisitions Tax	155	4	151	112
Capital Gains Tax	362	6	356	193
Residential Property Tax	2	1	1	1
	21,053	2,607	18,446	15,900

The amount paid into the Exchequer during 1999 was £18,473m leaving a balance of £37m prepaid to the Exchequer compared to a balance of £10m prepaid at the end of the previous year. As the final lodgment to the Exchequer at year end is required to be made on 31 December, before final reconciliations for each tax-head can be completed, there is necessarily an element of estimation which can result in over or under lodgments by Revenue to the Exchequer.

⁷

Including drawbacks and allowances.

15. Write Offs

The Revenue Commissioners have furnished me with details of taxes written off during the year ended 31 December 1999. The total amount written off is made up as follows

Tax	1999 £'000	1998 £'000
Value Added Tax	32,833	79,128
PAYE	15,018	47,158
Corporation Tax	5,573	15,412
Income Tax	19,860	19,762
Health/Social Insurance-Self Employed	-	109
Other Taxes	2,066	5,342
PRSI	12,959	49,582
	88,309	216,493

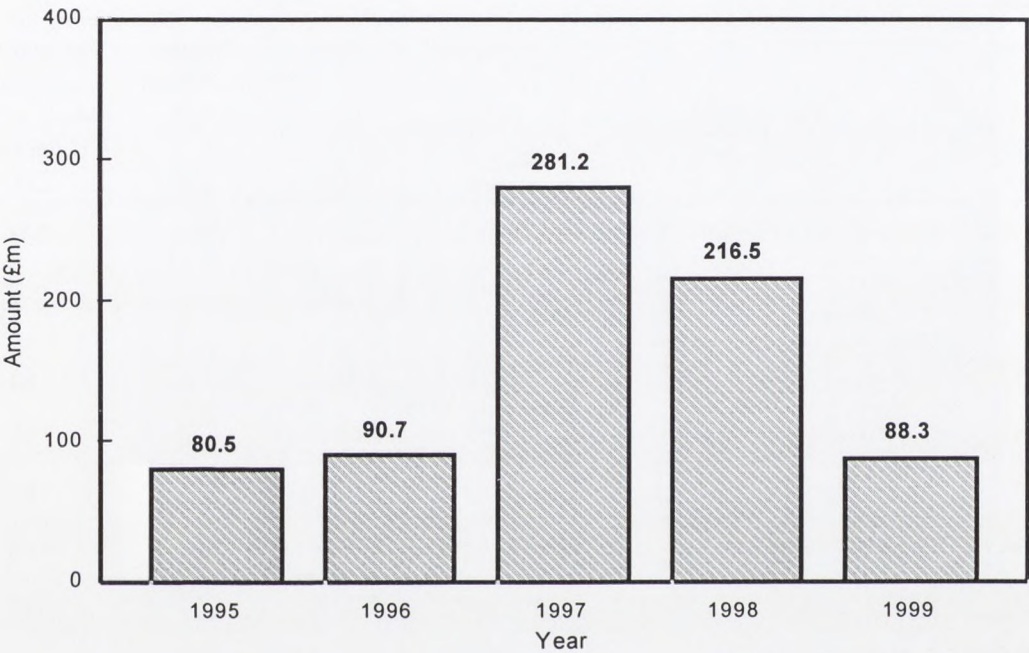
The distribution according to the grounds of write off is

Grounds of write-off	No. of Cases	1999 £'000	1998 £'000
Liquidation/Receivership/Bankruptcy	475	28,457	92,522
Ceased trading - No Assets	2,347	33,128	52,958
Deceased and Estate Insolvent	194	3,324	2,864
Uneconomic to pursue	519	6,110	54,192
Unfounded Liability	40	2,397	85
Cannot be traced / Outside Jurisdiction	403	5,573	7,099
Compassionate Grounds	83	608	4,030
Uncollectable due to financial circumstances of taxpayer	439	8,395	2,073
Examinership	1	317	670
	4,501	88,309	216,493

In 1996, the Commissioners implemented a revised write-off policy with a view to deleting from their records the large amount of debts which were old and uncollectable and in the case of estimated assessments likely to overstate the actual liabilities. The objective of the programme was that, after a number of years, the debt showing on the books would be more realistic and in a large measure collectable, enabling resources to be better targeted and more effectively deployed in collecting arrears. The key elements of the programme approach are the automated write-off of small, uncollectable amounts, the identification and subsequent write-off of unfounded liabilities, the write off of liquidation cases early in the liquidation process and a redoubling of efforts under existing collection procedures.

The impact of the programme can be seen from Figure 1 which shows the dramatic increase in write-off levels during 1997 and 1998 and a return to earlier levels in 1999. The programme is continuing and the major reduction in write-offs in 1999 arose largely because the backlog of liquidation cases, which had existed at the start of the implementation of the new policy, had been brought up to date. The occasion to use automated write-off programmes did not arise during 1999.

Figure 1 - Tax Written-Off 1995 - 1999



The Internal Audit Branch in Revenue undertakes an annual examination of a sample of cases written off. A random sample of 100 cases was examined in respect of 1997 write-offs. The internal audit did not examine cases where taxes were automatically written off or liquidation and examinership cases. The sample examined, represented just under 4% of the remaining cases. The 1998 internal audit included liquidation and examinership cases but not automatic write-offs. A sample of 225 cases was examined representing 4% of the cases manually written off. The results of both audits were satisfactory and while some minor errors were noted e.g. misclassification and incomplete paperwork, no instances were found where tax was improperly written off. The internal audit of 1999 write-offs has recently commenced with a target of 185 or just over 4% of cases.

I have also made an examination of a sample of cases representing 12% of the value of 1999 write-offs through a focus on high value cases. As a result, I am satisfied with the operation of procedures and the action taken.

16. Outstanding Taxes and PRSI

Table 3 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 2000 - the latest date for which data was available at the time of finalising my Report.

Table 3. - Outstanding Taxes and PRSI

Balance at 31 May 1999 £m	Tax or PRSI	Charges/ Estimates Raised £m	Paid £m	Balance at 31 May 2000 £m	Estimate of amount likely to be collected £m
494	Income Tax (Excluding PAYE)	1,236	1,342	388	203
-	DIRT	115	115	-	-
87	VAT (Declared Liabilities Net of Repayments)	4,268	4,255	100	84
146	VAT (Estimates)	28	24	150	27
79	PAYE (Declared Liabilities)	4,982	4,992	69	43
27	PAYE (Estimates)	203	208	22	8
87	PRSI (Declared Liabilities)	2,428	2,444	71	43
22	PRSI (Estimates)	107	112	17	7
162	Corporation Tax	2,713	2,706	169	101
44	Capital Gains Tax	373	367	50	30
13	Capital Acquisitions Tax	155	155	13	11
6	Abolished Taxes	2	2	6	2.5
1,167	Total	16,610	16,722	1,055	559.5

The balance outstanding at 31 May 2000 of £1,055m is £112m less than at the same point in 1999. It is estimated that only £559.5m or 53% of the total outstanding is likely to be eventually collected. However, this compares with an estimated collection rate of 46% at May 1999. The estimation of the amount likely to be collected takes into account such factors as anticipated reductions of estimated amounts brought forward, the level of liquidations and business closures and historical business patterns.

While the table records a 'nil' balance in respect of DIRT outstanding as at 31 May 2000, it is expected that the continuing audits by Revenue into DIRT compliance by the financial institutions (see Paragraph 21) will yield significant payments of arrears, interest and penalties.

17. Prosecution of Non-Filers

A summary of prosecution action in 1999 for failure to file Income Tax and Corporation Tax returns is as follows:

	Income Tax	Corporation Tax	Total *
Awaiting court hearing 1 January 1999	1,596	609	2,205
Legal proceedings instituted	2,369	400	2,769
Cases heard	1,159	85	1,244
Awaiting court hearing 31 December 1999	2,806	924	3,730

* *Provisional - the Revenue Solicitor's Office is currently reviewing the status of all cases. The opening balance as shown in the table above represents an amendment of earlier figures and the remaining figures will be subject to adjustment once the review has been completed.*

Fines were imposed in the cases heard to a total value of £1,174,530.

Until 1999, a successful conviction in respect of a non-filing offence did not always result in the convicted person submitting the outstanding tax returns as the offender was not compelled to do so. A legal amendment in the Finance Act, 1999 allows the prosecuting solicitor to apply to the court for an order requiring the convicted person to submit the outstanding returns. This was instituted initially in the Dublin area and is now the practice in all cases.

A summary of the position over the period 1995 to 1999 is outlined in Table 4 below.

Table 4 - Prosecution of Non-Filers in period 1995-1999

	1995	1996	1997	1998	1999
Legal Proceedings Instituted	364	774	920	2,295	2,769
Cases Heard & Fines Imposed	122	362	291	857	1,244
Value of Fines Imposed (£)	63,650	170,500	174,060	709,090	1,174,530
Awaiting Court Hearing at y/end	242	654	1,565	2,205	3,730

18. 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 tax-heads, 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. The outcome of the Revenue audit programme is summarised in Table 5. The further reduction in 1999 of 767 in the number of audits completed was due mainly to

- the transfer of auditors to special project work connected with the various tribunals of inquiry, the DIRT and Ansbacher projects
- the introduction of a stricter penalties regime in 1998 led to delays in achieving taxpayers' agreement to proposed audit settlements resulting in an increase of 1,339 in the number of audits in progress which totalled 6,429 at 31 December 1999
- an on-the-job training programme to enable auditors of Higher Tax Officer grade to specialise in more than one tax area and to audit accounts of some self-employed taxpayers.

Table 5 - Revenue Audit Programme

Audit Type	Number of audits completed		Yield £m	
	1999	1998	1999	1998 ^a
Comprehensive	2,512	2,844	47.3	61.5
Value Added Tax	5,101	6,886	31.9	44.1
PAYE Employers	2,768	2,824	12.3	12.9
Relevant Contracts Tax (RCT)	384	261	1.5	1.4
Combined Fiduciary (PAYE, VAT, etc.) ^b	892	735	3.0	2.3
Capital Acquisitions Tax	490	293	3.2	3.3
Verification ^c	1,848	4,314	3.1	6.8
Desk Verification ^d	3,400	-	6.9	-
Investigation Branch	7	22	0.2	1.3
Anti - Avoidance	26	16	1.6	2.9
Total	17,428	18,195	111.0	136.5

(a) Revised 1998 figures.

(b) Formerly included under Relevant Contracts Tax. Up to 1998 such audits were confined mainly to the Construction Sector District.

(c) 1999 is the first year that this type of audit is separately reported because of the increase in verification activity. In previous years they were shown under the main audit headings. The 1998 figures have been restated accordingly.

(d) These mainly relate to queries on VAT repayment claims and to adjustments to tax computations in returns filed for income tax, corporation tax and capital gains tax. In previous years they were shown under the main audit headings. Figures for 1998 are included with verification audits.

Table 6 analyses the number of audits in each of the main audit types by turnover or overall income of the entity or person being audited. The "not known" category includes cases selected for audit because of the unavailability of complete financial data.

Table 6 - Audits Completed by Turnover

	Number of audits by turnover band at selection					Total
	Turnover not known	Less than £250,000	£250,000 to £1m	£1m to £5m	Greater than £5m	
Comprehensive Audits	477	1,357	377	201	100	2,512
Value Added Tax	306	2,806	1,122	561	306	5,101
PAYE Employers	194	997	913	526	138	2,768
Relevant Contracts Tax	54	223	88	15	4	384
Combined Fiduciary	553	134	98	98	9	892
Total	1,584	5,517	2,598	1,401	557	11,657

Comprehensive Audits

As part of the self assessment system, comprehensive audits are carried out following the review of returns made for Income Tax and Corporation Tax purposes. 296,805 returns were issued for Income Tax for the 1998/99 tax year and 80,526 Corporation Tax returns were issued for accounting periods ending in 1998 making the total of returns issued 377,331. A total of 2,512 comprehensive audits were completed in the year. The results of this audit activity are set out in Table 7. The yield from comprehensive audits is analysed in Table 8.

Table 7 - Comprehensive Audit Activity 1999

Audit Activity	Total		Income Tax Returns		Corporation Tax Returns	
Audits in progress at 1/1/99	1,955		1,179		776	
Audits initiated in 1999	<u>2,871</u>		<u>2,246</u>		<u>625</u>	
Total		4,826		3,425		1,401
Returns accepted	760		531		229	
Cases closed with additional liability	<u>1,752</u>		<u>1,379</u>		<u>373</u>	
		2,512		1,910		602
Audits in progress at 31/12/1999		2,314		1,515		799

Table 8 - Yield from Comprehensive Audits

	Income Tax		Corporation Tax	
	Number	Yield £'000	Number	Yield £'000
Returns Accepted - No additional tax payable	531	-	229	-
Agreed settlements				
£1 - £5,000	576	1,537	121	405
£5,001 - £50,000	640	9,745	182	3,458
£50,001 - £100,000	73	5,861	29	2,013
Over £100,000	42	10,394	26	9,953
Referred to Collector General for enforcement action (a)	23	410	4	269
Settled by restriction of losses carried forward to future years (b)	25	338	11	2,855
Totals	1,910	28,285	602	18,953

- 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.
- 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.
- The amounts of the highest individual settlements in 1999 were £1m and £3,495,165 for Income Tax and Corporation Tax respectively.
- Interest charges of £9.21m and penalties of £4.53m are included in the yield from agreed settlements.

Comprehensive Audit Yield 1995 - 1999

The yield arising from comprehensive audits over the five year period from 1995 to 1999 is shown in Table 9 following, together with details of the audits completed for Income Tax and Corporation Tax in each year.

Table 9 - Comprehensive Audit Yield 1995 - 1999

Income Tax	1995	1996	1997	1998	1999
Audits Completed	2,625	2,475	2,358	2,079	1,910
Total Yield in Year	£23.49m	£24.1m	£27.41m	£31.8m	£28.29m

Corporation Tax	1995	1996	1997	1998	1999
Audits Completed	1,267	1,281	966	765	602
Total Yield in Year	£27.8m	£44.43m	£31.27m	£29.7m	£18.96m

While the number of new audits completed each year and the yield, have remained fairly constant for Income Tax over the period, there has been a steady fall for Corporation Tax since 1996. The Revenue Commissioners have informed me that the particular reduction in the number of Corporation Tax audits and in the audit yield arose because

- in recent years more emphasis has been placed on the audit of larger and more complex cases which tend to be more time consuming with a consequent reduction in the number of audits completed
- the transfer of audit staff in 1996 and 1997 to other work areas such as Compliance, Prosecution and Criminal Assets Bureau
- specialist training on computer audit software was undertaken in 1997 and 1999
- on the job training for 160 auditors as part of a restructuring agreement commenced in 1998 and continued through 1999
- 24 auditors were transferred at various times during 1999 to special project work connected with the various Tribunals of Inquiry, the DIRT and Ansbacher projects.

Random Audits

Random audits were carried out as part of the comprehensive audit programme up to 1997. Since 1998 random audits are also carried out as part of the VAT and PAYE/PRSI audit programmes. The objective is that 2% of all audits undertaken in the year will be selected randomly. This would mean that almost 210 random audits would be completed in 1999. In the event, 192 random audits were completed in 1999 consisting of 91 comprehensive, 48 VAT and 53 PAYE/PRSI audits. Additional liabilities of £116,540 including £29,266 in interest and penalties were assessed in 41 cases while the returns of the other 151 taxpayers were accepted as originally submitted.

19. Investigation Branch Settlements and Prosecutions

The reorganisation in 1997 of the Investigation Branch, which deals with cases of systematic or widespread tax evasion, concentrated the greater part of the staffing resource in pursuing a prosecution strategy in contrast to the previously prevailing policy of accepting monetary settlements in virtually all cases. As a result, most large and serious cases which would have been sent to Investigation Branch are now finalised through the audit district and only particularly complex cases which may, for example, involve dealing with matters in the Courts are forwarded to Investigation Branch. During 1999, investigations were completed in 7 cases resulting in back-duty settlements amounting to £183,000 (22 investigations completed in 1998 yielded £1,337,382 in 11 cases). In addition, investigations were discontinued in 4 cases where no yield was likely. At the year end, 56 cases were under investigation.

Under the Revenue prosecution strategy, audit districts are required to forward cases to Investigation Branch for investigation with a view to criminal prosecution where there is prima facie evidence of revenue offences having been committed. These cases are further evaluated within the Branch before commencement of the very resource intensive criminal investigation work. The Accounting Officer has supplied me with the following information in relation to prosecutions in 1999.

Cases in hands at 1 January 1999	26
Cases accepted for investigation in 1999	13
Cases dropped due to lack of evidence	(6)
Cases decided in Court in 1999	(3)
	<hr/>
Cases in hands at 31 December 1999	<u>30</u>

Of the cases decided in Court in 1999, one was convicted with a fine of £15,000 imposed for submitting false PAYE/PRSI returns, one was acquitted and the other case ended when the taxpayer's appeal against an earlier fine of £1,000 was withdrawn.

Of the 30 cases on hands at year end, 24 are still under investigation, 4 are proceeding to prosecution and convictions have since been secured in 2 cases.

20. The Appeal Commissioners

If not satisfied with the decision of an inspector of taxes, a taxpayer has, under Part 40 (and other Sections) of the Taxes Consolidation Act 1997, a right of appeal to the Appeal Commissioners, who are appointed by the Minister for Finance. While the salary and expenses of the Appeal Commissioners are paid from the Revenue Vote, the Appeal Commissioners operate independently from Revenue. The appeal procedures are set out in the Act. If dissatisfied with an Appeal Commissioner's decision the general position is that the taxpayer may then seek a full rehearing in the Circuit Court⁸, while matters of law (as opposed to fact) may be continued by the taxpayer or Revenue through the High Court and Supreme Court. There are presently two Appeal Commissioners.

As part of my ongoing general review of the systems, procedures and practices as applied to the assessment and collection of revenue, I sought information as to the annual throughput of appeals cases and as to the overall summary of outcomes *e.g.* decided in favour of the taxpayer or Revenue, appealed to the Courts and of the extent of cases on hand. I was informed that each case was dealt with on an individual basis from scheduling to hearing. While details of issues of principle are published, the Appeal Commissioners are not a tribunal of record and are not required to and, do not, retain a written record of determinations, proceedings or documents submitted. Statistical or summary records were not maintained either by the Appeal Commissioners or the Tax Inspectorate.

However, the Revenue Commissioners estimate that between 500 and 600 appeals were lodged with the Appeal Commissioners in 1999 and that approximately 250 cases are heard and decided annually. The remainder of appeals are either withdrawn or settled before going to a hearing.

⁸

In the case of Capital Acquisitions Tax, Revenue may seek a full rehearing in the Circuit Court.

21. Special Investigations

During 1999 Revenue were engaged in a number of special investigations which are summarised as follows:

DIRT and Financial Institutions

An investigation into the administration of Deposit Interest Retention Tax was carried out by the Comptroller and Auditor General and was followed by an inquiry by a Sub Committee of the Committee of Public Accounts (PAC). The Sub Committee Report issued in December 1999 recommended that Revenue undertake a full look back audit to April 1986 in each financial institution to assess any DIRT liability. DIRT audits were undertaken in 37 financial institutions and, to date, settlements have been reached and payments made to Revenue as follows:

Institution	DIRT Paid £m	Interest & Penalties £m	Total £m
Bank of Ireland Group (4 institutions)	12.7	17.8	30.5
Agricultural Credit Corporation	7.5	10.4	17.9
Irish Life and Permanent	3.7	3.8	7.5
Ulster Bank Group (3 institutions)	1.7	2.5	4.2
Educational Building Society	1.3	1.5	2.8
Total	26.9	36.0	62.9

Under the provisions of the Finance Act 2000, the Revenue Commissioners are required to report the audit results to the PAC before 1 November 2000.

Offshore Investments via National Irish Bank

Following media revelations about tax evasion by Irish residents who invested in an offshore investment scheme operated by National Irish Bank the bank provided Revenue with details of 429 individuals involved. By 24 July 2000, settlements were reached in 232 cases totalling £12,435,107 including interest of £4,217,798 and penalties of £2,465,644. In addition, payments on account totalling £6,974,323 were received in respect of other unresolved cases. 12 individuals have been referred for criminal investigation with a view to prosecution through the Courts.

Ansbacher (Cayman) Limited

In September 1999, Revenue received a copy of the Report by the Inspector appointed by the Minister for Trade, Enterprise and Employment to examine the bank accounts of Ansbacher (Cayman) Limited held in Guinness and Mahon Bank. The Report contained information about the involvement of 120 named individuals in these bank accounts. A Special Project Team authorised under section 21(3)(e) of the Companies Act 1990 was brought together to examine the tax affairs of the named individuals. This examination is ongoing.

Tribunals

Matters disclosed at the Moriarty and Flood tribunals which suggest that tax evasion may have occurred are being investigated as they come to notice.

Pick-Me-Up Schemes

Pick-Me-Up-Schemes involved payments for goods and services incurred by a political party being met directly by those who wished to support the party. Revenue investigated the tax treatment of these expenses and found that a large number of traders had understated their tax liabilities. To date, Revenue have collected £350,000 as payments on account of such additional liabilities. Enquiries are continuing.

22. Tax Compliance and the Special Enquiry Branch

Background

Tax Compliance and the Black Economy

Since the changeover in 1988 to a system of self-assessment, the onus is on a taxpayer to make a complete and timely tax return and to remit the amount of any tax due in accordance with the statutory requirements and the arrangements and procedures set out by the Revenue Commissioners. The degree of non-compliance with the tax system ranges from the filing of late returns, filing of incorrect returns and failure to pay tax or duty as it falls due, through the filing of incomplete returns, to the failure to file returns, failure to register or comply with any statutory obligations and outright evasion which are the features of the black economy. While the term 'shadow' or 'informal' economy is used to describe that part of total economic activity which is excluded from the official measurement process, the term 'black economy' is reserved for those components which are not recorded because of the desire of participants to conceal their activities. Such components include individual or corporate incomes not reported in order to evade taxation, working while claiming unemployment payments and various criminal activities. People operate in the black economy to varying degrees. There are those who are unknown to the tax authorities, those who are known but conceal a specific source of economic activity and those who understate their income from declared sources.

Size and Effect of the Black Economy

By its nature, it is difficult to measure the size of the black economy and estimates are generally based on high-level economic analysis. A 1997 article⁹ on the black economy, concluded that the available evidence pointed to the existence of a black economy of a significant scale in Ireland and, having outlined five possible measurement approaches, suggested that the size of the black economy might lie between 3% and 11% of GNP (£1.5bn to £5.7bn). The damaging effect goes further than the loss of tax revenue as an unfair advantage is given to operators in the black economy over compliant businesses and traders; there is a reduction in public confidence in the administration of tax; and, if a perception persists that the Revenue Commissioners are not effectively tackling non-compliance, the numbers operating in the black economy will grow.

Revenue Approaches to the Problem

The Statement of Strategy¹⁰ of the Revenue Commissioners stated that the overall Revenue approach was to achieve the highest possible levels of voluntary compliance. There would be early effective enforcement for the non-compliant and public confidence in the equity of Revenue administration

⁹ *The Black Economy in Ireland, Gabriel P. Fagan; Irish Banking Review, July 1997.*

¹⁰ *Statement of Strategy 1997-1999; The second Corporate Plan of the Office of the Revenue Commissioners*

would be maintained by adopting a tough stance on tax evasion and avoidance, the black economy and other illegal activity. The main elements of Revenue's approach to tackling the black economy are identification of all those liable for taxes and duties, in-depth investigation of persons and groups engaged in evasion, particularly where there is a likelihood of significant back-taxes and in some instances the referral of cases to the Director of Public Prosecutions with a view to prosecution. Where the liability is unlikely to have been substantial, the focus is on getting cases registered and on a proper tax footing for the future.

Revenue action against the black economy is undertaken in many divisions of the organisation and a summary is given in Table 10. Activities range from information which may be noted from the selection and review of cases in the course of desk-based routine processing of tax returns, through the outdoor intelligence gathering activities of units such as the Special Enquiry Branch, Joint Inspection Units (with the Department of Social, Community and Family Affairs) and the Revenue Mobile Service, to joint operations with the Gardai in the Customs National Drugs Team and the Criminal Assets Bureau. Revenue is part of the Black Economy Monitoring Group which includes representatives of the Department of Social, Community and Family Affairs, the CIF, IBEC and ICTU and which monitors trends in black economy activity and reviews the effectiveness of measures taken to combat tax and social welfare fraud.

Table 10 - Areas of Revenue with Some Responsibility for Dealing with the Black Economy

Office of the Chief Inspector of Taxes
Special Enquiry Branch and Local Enquiry Units (outside Dublin)
Investigation Branch
Audit Districts and Units throughout the country
Compliance Districts and Units throughout the country
Joint Inspection Units with Dept. of Social, Community and Family Affairs
Anti-Avoidance Unit
Office of the Collector General
AIM Teams and Case Review Unit
Dedicated Pursuit Unit
Customs and Excise
Revenue Mobile Service
Investigation Branch
C&E Anti-Fraud and Prosecutions Unit
Local Collection Units
Customs and Excise Audit Units
General Excise Compliance
Customs National Drugs Team
National Freight Intelligence Unit
Capital Taxes Division
Collection and Enforcement Branch
Audit and Investigation Branch
Direct Taxes Policy and Legislation Division
Capital Gains Tax/Anti-Evasion/Avoidance & Financial Services Branch
Indirect Taxes Policy and Legislation Division
VAT, EU and National Excises Policy/Legislation and Administration Branches
Office of the Revenue Solicitor
Prosecution and Civil Penalties Unit

Revenue has also established an internal group under the aegis of its Partnership Committee to review and develop new strategies to tackle the black economy.

Audit Objectives

Of the various avenues through which Revenue impacts on the black economy, it was decided for reasons of time and resources to confine my audit to the special enquiry function and, in particular, the Special Enquiry Branch (SEB). This area has a key role as it is in receipt of large amounts of third party information and has a capacity and a mandate for outdoor work. The objectives of the audit were

- to establish the systems, procedures and practices employed by the special enquiry area of Revenue to detect evasion of tax by those unknown to the Revenue Commissioners or those not declaring an additional source of income
- to assess whether the application of such procedures was adequate
- to review the follow-up action including registration and assessment of back taxes.

Extent and Scope of Audit Work Carried Out

Following initial interviews with members of senior management covering such areas as the Revenue strategy to combat the black economy and the organisation of the enquiry function, the audit focused on the SEB in Dublin and three Local Enquiry Units (LEUs) - in Cork, Tralee and Dundalk. Discussions were held with the managers and staff of the SEB and LEUs covering functions, planning, resources, intelligence sources, the gathering, processing and recording of information, and communications and relationships with other areas of Revenue.

Documentation was reviewed relating to systems, business plans, statistical reports, outputs from information databases, project reports and correspondence with government departments and State agencies. Walk through tests were conducted and records scanned for case selection. Samples were extracted and cases were examined by reference to

- enquiry records for source analysis and follow-up action
- new cases referred to central registration and promptness of registration
- new sources of income from existing taxpayers referred to audit
- outcome of referrals to Audit Units.

The Special Enquiry Branch's Role and Operations

The SEB, which operates as a separate Tax District under the aegis of the Office of the Chief Inspector of Taxes, has a unique intelligence gathering role. The Branch was formed in 1979 primarily to combat the black economy. While this remains an important part of its work it has, over the years, taken on other responsibilities. Since the introduction of Self Assessment in 1988/89 it has increasingly taken on a supporting role for Audit by undertaking business observation and monitoring on request. In more recent times SEB has been involved with the Criminal Assets Bureau both as liaison for Revenue and in profiling cases. SEB has also become involved in the National Irish Bank (NIB) Financial Services and Ansbacher (Cayman) Ltd inquiries as national co-ordinator as far as information gathering is concerned. The SEB, which is based in Dublin, works with the LEUs which mainly fall under the compliance function in provincial districts and also liaises with other Revenue divisions. There are a total of 59 staff involved in special enquiry, of which 35 are based in SEB Dublin, with the remainder spread over the 13 LEUs. Table 11 shows the staffing structure of the four areas visited during this audit and the overall grade numbers.

Table 11- Special Enquiry Staff

	Dublin	Cork	Tralee	Dundalk	Overall
Senior Inspector	1				1
Inspector Higher Grade	1				1
Inspector	6	2	1*	1	11
Higher Tax Officer	8	2	1*	1	14
Tax Officer/Assistant	6	4			13
Clerical Staff	13				19
Total	35	8	2*	2	59

** shared with audit*

The essence of the SEB function is the gathering, assimilation, interpretation and dissemination of information on persons, businesses, transactions and sectors of commercial activity. Work may be undertaken on its own initiative, at the request of another area e.g. an Audit Unit, or as the result of a corporate decision. However, the source of much information is the extensive range of third party information received on either a statutory or voluntary basis from other areas of Revenue, from Departments and State Agencies and from external sources, and which is summarised in Table 12.

Table 12 - Third Party Information received by the SEB

Information from Revenue Sources
Stamping Branch - disposals of property or leases
Capital Taxes Branch - probate cases for inspection
Vehicle Registration - various classes of new registrations e.g. luxury cars
Other Tax Districts - cases of interest; Capital Gains Tax cases
Departments and State Agencies
Government Departments - payments to persons or classes of persons on request
Health Boards - rent subsidies, listing of landlords
Local Authorities - business licences; planning permissions
Companies Registration Office
Land Registry
External Information Required by Law
Companies - payments for services in excess of £3,000
Tenants Applying for Rent Relief - details of landlords and property
Letting Agents - details of landlords and property
Financial Institutions - certain interest paid gross
Stockbrokers - nominee holders of securities
Solicitors etc. - receipt of income of others
Other External Information
Outdoor Work and Local Knowledge
Newspapers, Magazines and Other Media
Business Directories incl. Accommodation Guides
Information from the General Public

Information considered useful for current or future enquiry work was recorded on various stand-alone computer systems. In line with Year 2000 compliance policy, most SEB Dublin systems have now been consolidated into one database, which can provide all information on a case, including SEB actions and current status, from a single request. Some 2,000 cases have been entered on the new system since January. Information on the old system, which was compiled between 1990 and 1999, amounted to 52,000 cases of which 1,000 have yet to have their status finalised. Some information

e.g. the property disposals file containing 250,000 records, are still retained on separate systems. The four main systems in Cork hold 42,000 records of which 37,000 relate to property disposals.

All information received into the SEB is initially vetted by an Inspector for cases which merit enquiry action. More than one call may be made in an effort to establish contact with the individual under enquiry. If it is clear that the individual has been operating for some time without making tax returns SEB endeavour to regularise the case by bringing the individual's affairs up to date. In some instances this can involve getting returns and payment for back years. Most cases are closed at this point because either the necessary information has been provided or no further progress seems likely to be made. Previously unregistered cases are referred to Central Registration Section. At the end of this process a decision is taken on the case. Where significant amounts of undeclared income are uncovered, either in respect of new cases or previously undeclared sources, or where returns could not be obtained, the cases are referred for audit to the relevant tax districts. Such references from enquiry activity are included in the pool of cases from which the final sample for audit is selected. In a more recent innovation, some work has recently been done using the information databases in SEB, on linking certain wealth indicators (e.g. large property purchases/sales) to individuals and profiling them from other information available, to establish whether or not they are likely to be tax compliant. The results are outlined in the following table. It is intended to continue with this initiative and expand on the number of cases involved.

Table 13 - Results of Wealth Indicator Project

		Profiles	Audit	Audit Yield £
Cases Profiled	90			
Profiling not Complete		20		
No Action Necessary		38		
Referred to Capital Taxes		1**		
Non Resident		3		
Referred to Audit		29**		
Audit Completed			6	236,700
Audit Ongoing			7*	
For Future Audit			4	
Audit Deemed Unnecessary			12	

* Additional yield is expected in these cases

** One case was referred to both Capital Taxes and to Audit

Examples of direct outdoor SEB activity include the identification and undertaking of projects whereby segments of commercial activity are targeted for surveillance and follow-up enquiries, and business observation and monitoring on request from tax districts. Projects carried out in recent years included security firms, hackney cars, heavy goods vehicles, rented properties on a large housing estate and a small check of headage and premium payments to farmers. However, it is understood that, due to the diversion of staff on to the DIRT inquiry and coordination and involvement in the NIB and Ansbacher inquiries, only one new project was undertaken in 1999. Table 14 gives an analysis by source of the 5,742 previously unregistered cases and 9,926 undeclared sources of income in respect of registered cases which were identified on the SEB Dublin enquiry system in the period 1990 to 1999.

Table 14 - New Cases and New Sources Identified by SEB 1990 - 1999

Source	New Cases	New Sources
Payments for Services Returns	1,277	2,703
L.A. Trading Licences - Taxis & Hackneys	804	125
Rental Income	662	2,516
Information from the General Public	469	417
Referred Leads from Revenue Sources	345	322
Self-Generated Leads	268	258
Review of Probate Cases	222	1,070
Financial Institutions - Deposit Interest	211	1,196
Street Surveys by SEB	120	104
Other Sources	1,364	1,215
Total	5,742	9,926

Two internal reviews which related to aspects of SEB and LEU operations were examined during the course of my audit. The first¹¹, in May 1996, which examined the position from an audit viewpoint, indicated that there were differing views within Revenue on the appropriate focus of SEB resources as between uncovering new cases and undeclared sources of income irrespective of materiality, and the provision of quality intelligence to assist in the selection of potentially significant cases for audit and thereby maximising the value of tax collected.

This report also referred to limited resources for enquiry, a low level of outdoor work in the LEUs and poor communications between SEB/LEUs and the rest of Revenue both in relation to access to and dissemination of information held by the SEB/LEU, and the absence of feedback from the Audit to the Enquiry areas on the value of the intelligence received. The Accounting Officer stated that it was decided by management not to change the primary role and priorities in SEB as the existing screening process for audit cases was in general considered satisfactory. However, arrangements were established for more meetings to be held between SEB staff and Dublin Audit staff to enhance the quality of referrals. Another group was recently established following a National Audit Conference in June 2000 to consider and report on the management and use of information. The group, which is chaired by a Senior Inspector and includes the District Manager of SEB, reports to a project board and ultimately will submit its report to the board for consideration.

The second report¹² in June 1996 made both short term and longer term recommendations for a strategy to maximise the value of third party information received by Revenue. In general the proposals favoured the recording of information on the Revenue mainframe computer for general access as opposed to on stand alone PCs, together with links to the Common Registration System and sophisticated search and query facilities. The Accounting Officer informed me that there have been some developments towards facilitating the more effective correlation of third party data with existing mainframe data.

¹¹ *Intelligence Support for Audit; Report of Review Group, May 1996.*

¹² *A Strategy for Matching Third Party Information; Report, June 1996.*

Audit Findings

The findings arising from this audit are summarised under five headings below. These comments are made in the context of the successful work performed by the SEB and the LEUs in Revenue. An indication of the impact which has been made can be seen from the overall statistic that 15,668 or approximately 30% of the enquiries made by the SEB over the period 1990-99 uncovered new unregistered cases or undeclared sources in registered cases. However, it is considered that a resolution of some of the issues set out below would enable special enquiry work to increase its potential for disruption of the black economy.

Resources and Activities

In recent years the growth in the volume of information received, together with the need to divert resources to other priority areas has resulted in a reduction in some of the more traditional enquiry work, with increasing pressure on the already small overall number of staff allocated. With the exception of occasional projects e.g. security firms, special enquiry appears to adopt a generally reactive approach through scanning incoming data for items of interest, with a focus on the quantity of new cases to be achieved each year, as opposed to a proactive strategy of cross-checking and analysing the large quantity of information held and identifying projects, sectors and wider trends. Particular indications noted included:

- there was a growing SEB involvement with work such as the Criminal Assets Bureau and the NIB Financial Services and Ansbacher (Cayman) Ltd enquiries with a substantial reduction in fieldwork in Dublin and a reduction of eight clerical staff since 1996
- while the inspector has the key case selection and investigation roles in the enquiry area, there was no inspector allocated to enquiry work in five of thirteen provincial tax districts, generally the smaller districts
- some LEUs are attached to the audit function and can be fully occupied in servicing requests arising directly from that audit function, which curtails the follow-up of worthwhile enquiry leads
- work reporting in the enquiry area is case-based; the absence of overall reporting and assessment of work completed can inhibit development and the maximisation of resources available.

Processing, Review and Evaluation of Information

The key resource of the SEB is the extensive range of third party information (Table 12 refers) which is supplemented on an ongoing basis. The points noted during the audit in relation to aspects of the collection, storage and management of the information received would appear to indicate that the maximum benefit is not extracted from the resource:

- the processing of information has fallen into arrears, with priority being given to the most valuable sources. The information on some statutory returns e.g. material interest in unit trusts has not been captured on databases for some years although there is a vetting by senior staff for potentially worthwhile cases.
- the Accounting Officer pointed out that because of the growth in the volume of third party information in recent years, the fact remains that much of it is in paper format and with the pressure on resources, it has not been possible to capture all of it on PC databases. However, it is scrutinised for potential evaders and also retained as reference material for use in audit/investigation case selection.
- while the amount of information accumulated and the sources utilised are very extensive, they are by no means exhaustive; for example, there would appear to be possibilities in the area of

directories (currently used only for reference), the Internet and e-commerce, and share transactions.

- the existing sources of information would not appear to be subjected to review and evaluation to establish how they could be best utilised and to identify which are most productive.
- while the new Year 2000 compliant consolidated enquiry system in SEB has the capability to provide details of a range of economic activities on a case basis, the potential of the large amount of data accumulated on other databases in SEB and the LEUs is not fully exploited.

Co-ordination and Liaison

The efficiency of special enquiry is diminished by the lack of co-ordination and liaison between the SEB and LEU areas and by the lack of a meaningful flow of information to special enquiry from the other areas of Revenue, outside of requests for intelligence data on specific cases:

- there is no sharing of information held on SEB and LEU databases
- contact between the SEB and LEUs is limited to co-ordinating figures for the annual Business Plan; there is no national co-ordination or evaluation of the work of the units; SEB are endeavouring to improve information sharing through the organisation of familiarisation sessions regarding the work of the SEB and the type, benefits, and availability of the information held
- there is rarely feedback to the special enquiry area in respect of cases referred to other areas for follow-up; this hinders evaluation of the quality of information sources, the work of the enquiry section and assessment of the revenues collected arising from enquiry work. Motivation of enquiry staff could also be enhanced with such feedback.

Information from Government Departments and State Agencies

Government Departments are required by law to forward to Revenue, on request, details of payments to persons or classes of persons and such information is received by the SEB. Information is also readily supplied by the Local Authorities.

However, the performance of the Health Boards and, in particular, the former Eastern Health Board, in relation to a Revenue request for the supply of the names and addresses of the landlords of properties in respect of which rent subsidies are paid, together with the aggregate sums paid in each tax year, has been dilatory. SEB efforts to obtain details of the payments date back to 1992 when the annual payout was £8m. The current overall amount paid is of the order of £100m in respect of over 36,000 tenants. In an effort to resolve matters, a specific legislative provision was introduced in the 1995 Finance Act to little early effect. Revenue efforts continued through the Department of Social, Community and Family Affairs and information which included landlord details finally began to flow from mid-1999. However, the following points were noted:

- information supplied was to a large extent 'point in time', in that a weekly rate on one current date was quoted, as against the aggregate paid for the tax year as requested and required by law
- despite SEB efforts, the bulk of the information is current and only two Boards have returned earlier years
- even on this restricted basis, the Northern Area Health Board (which has responsibility for the management of Supplementary Welfare Allowances in the Eastern Region in the transitional period) has only provided information to date on 6,600 or less than 25% of cases
- while the original request was made in 1992, it was not until April 2000 that Revenue were informed that the key details of landlord name and address were finally to be captured on computer for each new claim; the first return as specifically required by law since 1995 would then be expected in April 2001

- information may still be incomplete as the new development was not operated immediately due to industrial action.

The Chief Executive of the Northern Area Health Board has informed me that while the provisions of Section 14 of the Finance Act, 1995 placed an obligation on the Health Boards to provide information on landlords to the Revenue Commissioners, it had been pointed out to Revenue and the Department of Social, Community and Family Affairs that the Health Boards did not have details of landlords on computer file, but that these were held on claimants' personal files at local offices. At this stage, there were significant resource implications in providing that information on a historical basis. She stated that proposals which would have enabled the Board to comply *i.e.* amendment of the ISTS computer system to include landlord details, or the provision of additional resources to manually extract the information requested were not considered feasible at that time by the Department of Social, Community and Family Affairs. The Chief Executive also informed me that following receipt of the first formal request under the Finance Act, 1995 for a return of information in relation to landlords for the year ended April 1996, a number of meetings were held with the Department and Revenue following which, as a short-term solution, it was agreed to use the data already on the computer system. As an initial check on the method, a computer file of all rent payments in the Eastern Health Board area was sent to Revenue for testing in March 1997. That was intended to enable Revenue to check which premises, as opposed to which landlords, were not already in the tax net. With regard to the longer term supply of information on the names and addresses of landlords, it was agreed to look for a possible solution using the new ISTS system. In September 1998 Revenue informed the Department that it was not satisfied with the information which had been provided as, without landlord details, it had not proved possible to match the addresses of the premises against tax data. Following further meetings between the Department, Revenue and representatives of the Health Boards, it was agreed in November 1998 that the Health Boards would supply data on landlords and rent supplements, subject to certain qualifications, to a database in the Department from which the information would be supplied to Revenue. The Chief Executive confirmed that this policy had been adopted by the three Area Health Boards and that copies of all new applications and rent review forms with landlord details are now forwarded to the Department of Social, Community and Family Affairs as agreed.

Action Taken in Cases Uncovered

All new cases are referred to the Central Registration Section and, if it is clear that an individual has been operating for some time without making returns, the SEB endeavours to regularise the case by getting returns for the back years which are then sent on to the relevant tax district. SEB can check the subsequent registration of any case from the central computer registration system. Of an audit test sample of 20 new cases, all were registered promptly.

All new cases not finalised by SEB and all new sources of income in respect of registered taxpayers, are referred to Audit Districts (PAYE cases are referred to the relevant PAYE district). There was no indication of the outcome available in the enquiry area, so the relevant papers in a sample of 40 cases were requested for review from the relevant Audit Units. The majority of these cases had been referred during 1999 (11) and 1998 (21), while the others dated back to 1995 (3) and 1993 (5). Details of the current position on these cases is shown in Table 15. Of the 20 cases which were subjected to review or audit by the Audit Units, additional liability was assessed in 10 cases and an advance payment of £50,000 has been received in one ongoing case. The largest values of the completed assessments were £900,000, £235,000 and £20,365 (each excluding interest and penalties), with the remainder in the £1,000 to £10,000 range.

Table 15 - Action Taken in Sample of 40 Cases Referred to Revenue Audit Units

	SEB Dublin	LEU Cork	Total
No Response from Audit Unit	1	-	1
No Trace of Enquiry Memo in Audit Unit	5	2	7
No Action Taken by Audit Unit to Date	6	-	6
Decision to Audit; Not Initiated to Date	-	6	6
No Audit Action To Date	12	8	20
Audit Review; Source Declared; No Further Action	2	-	2
Audit Commenced; Not Yet Complete	2	5	7
Audit Completed; No Additional Liability	1	-	1
Audit Reviewed or Completed; Additional Liability	8	2	10
Audit Action Under Way or Complete	13	7	20
	25	15	40

The Accounting Officer pointed out that because Audit Districts/Units adopt several approaches to case selection, including extensive screening of cases themselves, referrals from SEB or the LEUs may not always be selected immediately or at all for audit.

Conclusions

- A general review of the varied sources of information available to the SEB and of the volume and detail of much of that information, would appear to indicate that it should be quite difficult for a person to participate in the black economy to a material degree for any considerable period without coming to the attention of the SEB.
- However, the extent to which tax evaders are identified for follow-up action in an efficient and comprehensive manner is dependent on how well the challenge provided by the sheer volume and variety of the information is met. Essential requirements for the optimum efficiency and effectiveness of the activities undertaken would appear to be the identification and utilisation of all sources of intelligence, the storing and pooling of information (subject to immediate operational requirements) in a manner which facilitates full processing and analysis, and the possibility of common retrieval and review, together with a culture of co-ordination and co-operation between SEB/LEU and the other branches of Revenue.
- Being the point of receipt of such a volume of quality information and having the capability to undertake outdoor observation and investigative activity places a particular responsibility on the SEB in relation to restricting and minimising the extent of the black economy through the detection of instances of tax evasion, the identification and registration of offenders and the referral of material cases to audit. Examples of the type of activity conducted by the SEB and LEUs together with an indication of the outcomes of such work are given in this report. However, it would appear that the capability and efficiency of the SEB has been diminished to some extent by the factors outlined in the findings of this report, including the reduction in the level of activity, the failure to extract maximum benefit from the information received and the low co-ordination and liaison between the SEB and LEU areas, and between both of these areas and the rest of the Revenue organisation. The Accounting Officer indicated that the reduction in the level of activities was due to increased demands in other areas but stated

that within the framework of the resources available both human and technological, significant results have been achieved.

- The residual difficulties in obtaining information on landlords from the Health Boards and the full and efficient implementation of the provisions of Section 14 of the Finance Act, 1995 need to be addressed as a matter of urgency.
- In the light of the equity and deterrence considerations inherent in the capture of tax evaders operating fully or partly in the black economy, the seemingly low priority accorded to some cases forwarded by the SEB for audit is somewhat surprising. While the potential tax take from some enquiry-sourced cases may often be less than that of other cases competing for scarce audit resources, Audit Districts should also take due account of equity and deterrence considerations when selecting cases. The commitment to follow-up action may be improved by the introduction of a requirement for each Audit Unit to maintain a formal record of cases received for audit from SEB/LEU, together with the current status and ultimate outcome of all of such cases, with a periodic report to the referring Enquiry Unit.

By way of general comment on the report, the Accounting Officer informed me that, apart from current strategies for tackling the black economy, Revenue had recently completed a 'root and branch' review of its organisational structure with a view to enhancing its overall effectiveness. However, the implementation of proposals awaited the outcome of the current Department of Finance review of Revenue. With regard to the operational areas which were most of interest in the context of this audit, the changes envisaged the establishment of a Large Case Division and a series of new Revenue Regions, with each new division under the direction of one individual at Assistant Secretary level. The Large Case Division would have responsibility for all the tax affairs of large corporates and high net worth individuals, while the new regions would have responsibility for all the tax affairs of all taxpayers in their areas, except large cases. He stated that the aim was to build up Revenue local intelligence and enquiry capability and, at the same time, to ensure that the successes that had been achieved and acknowledged in this report together with the skills and expertise which existed in the SEB were preserved and developed.

The Accounting Officer also stated that while ensuring that there was clear responsibility for the affairs of individual taxpayers, the changes were also designed to improve the manner in which information available to Revenue was used and to facilitate the build up of a more complete picture both of taxpayers and of economic activity in a particular area. In addition, he considered that the locating of management and accountability for Revenue operations close to local economic activity should enhance Revenue effectiveness in both the gathering and application of intelligence data. Revenue also intended to develop its research and analysis capability to build up knowledge and expertise of specific sectors to allow more ready identification of deviation from industry norms and trends. The Accounting Officer added that Revenue was currently examining its overall management information and systems in the context of developing the civil service wide generic financial management model. The aim was to ensure that the best possible information was available for monitoring the effectiveness of its strategies and to allow timely and corrective actions to be taken where necessary.

VOTE 20 - GARDA SÍOCHÁNA

23. PULSE Computer System

Background

Consultants were engaged in 1992 to draw up an Information Technology (IT) Strategy Plan for the Garda Síochána to replace its technologically out-dated standalone computer systems. The consultants recommended strategies

- to maximise the resources devoted to operational duties and their more effective use in preventing and detecting crime
- to devise a plan to integrate operational systems and to upgrade the existing computer platform
- to identify how IT can facilitate the achievement of the goals in the Garda Síochána's corporate plan
- to identify interdependencies, relationships and inconsistencies between the various plans and proposals, to assess their likely impact on each other and to consider how they may be resolved
- to develop a framework to simplify and automate operations and integrate information to achieve the overall objectives of efficiency, effectiveness and cost management.

The Government approved implementation of the IT plan, as part of its anti-crime drive in 1993, at an estimated cost¹³ of £36.5m, with an expected annual increase in Exchequer receipts of £3m.

Following a competitive tendering process, the consultants were subsequently contracted, at a cost of £1m, to bring the plan to conceptual design stage. The conceptual design was to

- determine the extent to which work practices and flows had to be re-engineered
- determine the broad scope of the applications to be designed
- determine the high level functional, technical and change management requirements
- update the Strategy Implementation Plan and business case based on the most up to date information.

The completed conceptual design formed the blueprint for the PULSE¹⁴ project and provided for 27 distinct but integrated system modules. The overarching objective of the project was to improve

¹³ *All costs shown are inclusive of VAT.*

¹⁴ *PULSE: Police Using Leading Systems Effectively*

the contribution of the Garda Síochána in policing and the fight against crime as part of an overall law and order strategy.

Benefits Envisaged

The main benefits to the Garda Síochána envisaged from the project are

- freeing up Garda resources for operational duties
- fast access to vital data on persons, addresses, vehicles, etc. to ensure better response to incidents
- major improvements in criminal intelligence analysis, crime detection and service to the public
- increased detection of property crimes and return of stolen property
- improved analysis of road traffic accidents, identification of accident black spots and implementation of road safety initiatives
- targeting of potential high-crime regions
- supporting greater integration across the criminal justice system
- improved monitoring of persons on bail and the conditions of such bail, summons service rate, warrant service and monitoring of young offenders
- on-the-spot transmission of alerts and information on the status of incidents.

Audit Objectives and Scope

The audit set out to review planning, implementation and management of the project and to compare progress against plans.

The audit included a review of departmental papers including minutes of the meetings of the various committees set up to manage the project, the Strategic Information Technology Plans produced by the consultants, the consultancy and development contracts and the project management methodology.

Meetings were held with the staff of the Department and with Garda Síochána Management including members of the project management committees.

Management of the Project

The PRINCE¹⁵ project methodology used in conjunction with the Structured Systems Analysis and Design Methodology and recommended by the Department of Finance, is applied to the project. The methodology defines roles rather than individuals and allows concentration on the products of the project and sub-divides the project into stages. Under the methodology the following management and implementation structures are in place.

- The Information Technology and Telecommunications Executive Committee (Executive Committee) charged with strategic direction of the project, reports to the Garda Commissioner and the Minister.
- The PULSE Project Board provides overall direction and management of the development contract. It approves all major plans, authorises any deviations from agreed stage plans and approves the completion of each stage and the start of the next stage. It reports quarterly to the Executive Committee.
- The Central Systems Project Board, responsible for the management and implementation of the Garda only aspects of the project, reports to the Executive Committee quarterly.

The Boards are drawn from the Department of Justice, Equality and Law Reform, the Department of Finance (CMOD), senior members of the Garda Síochána, outside academic and business experts and prime contractor staff.

The project management and systems development methodologies have been used in an appropriate manner.

Change of Project Scope

Before the project commenced, the estimate for implementing the 27 elements identified in the conceptual design and a separate automatic fingerprint identification system costing £2.18m had increased from £36.5m to £55.6m. The reasons for the increase were

- identification of new systems to be developed
- increased scope across the identified systems
- the inclusion of office automation in the project.

The main cost element of the project was software development and a request for tenders covering this element and change management aspects of the project was issued in April 1995. The request was prepared on the basis of implementing the 27 modules originally envisaged but included a proviso that the areas to be developed could be negotiated with the preferred supplier. After evaluation of tenders, the consultants who prepared the initial strategy plan and conceptual design, being the lower of two qualified tenderers, were selected in January 1996 as the prime contractor at a price of £23.6m (prime contractor staff costs of £18.52m and software costs of £5.08m). As this would have brought the overall cost significantly above the amount approved by Government, the

¹⁵

PRINCE: Projects IN Controlled Environments - a structured project management methodology

Executive Committee opted to negotiate a reduction in scope of the overall project to remain within that approval. The reduced scope gave priority to operational systems as opposed to administrative systems.

Following negotiations with the contractor it was agreed in March 1996

- to reduce the number of modules to be implemented from 27 to 17. This was achieved by separating the project into two phases, with 17 modules being implemented in Phase 1 for which funding was available and the remainder being deferred to a subsequent Phase 2 for which funding had not been sought
- to reduce the quantity of computer and ancillary equipment to be acquired
- to reduce the number of locations from 242 to 161 (subsequently increased to 181). The original plan was to install the system in all Dublin Metropolitan Region (DMR) stations and all Divisional, District and Area headquarters outside the DMR. These account for 90% of incidents reported to the Garda Síochána and ensure that 80% of Gardaí would have access to the systems. The reduction meant that the system would be implemented in all DMR stations and all Divisional and District stations outside the DMR. Procedures are to be put in place to ensure that Gardaí in non-networked locations have access to PULSE data
- to remove office automation from the project.

A contract in the sum of £12.9m for prime contractor's staff costs plus software costs¹⁶ of £5.67m was entered into on 20 September 1996.

Systems Development Contract

The contract provided, *inter alia*, that

- the 17 modules be delivered in three phased releases (see table 16)
- the contract would automatically terminate on the acceptance, to the reasonable satisfaction of the Garda Síochána, of completion and pilot implementation of Release 3
- the parties may review the continued relevance of deliverables and where appropriate agree revisions in writing
- copyright and any and all intellectual property rights in the systems developed be vested in and owned by the Garda Síochána
- the prime contractor would have exclusive marketing rights to the systems developed and pay a royalty of 3% (advised by the Department of Finance) of the net sale price to the Garda Síochána
- the prime contractor would supply additional personnel to fill particular project roles should the Garda Síochána fail to meet its contractual staffing obligations

¹⁶

Development, architecture and executive software licences and maintenance costs.

- the total sum payable to the contractor is a fixed maximum sum.

The contract did not provide for penalties for the late delivery of releases but did make provision for penalties for the non-delivery of the elements within each release.

Table 16 - Module delivery schedule

	Release 1	Release 2	Release 3
Planned Delivery Dates	September 1996 to September 1998	May 1997 to September 1999	June 1998 to September 2000
	Incident Response (Interim)	Incident Response (Full)	Driving Licence and Insurance Production
	General Inquiry	Court Outcomes	Juvenile Liaison
	Property	Computer Aided Dispatch	Bail
	Firearms	Alarms	Prisoner Log
	Intelligence (Interim)	Summons	Intelligence (Full)
	Incident Analysis (Interim)	Warrants	Incident Analysis (Full)
		Charges	Traffic Accident Analysis

Meeting the Human Resource Requirement

Under the contract 60% approximately of the man hours required to develop the project were to be provided by the Garda Síochána in order to ensure that in the long term they would be self sufficient in terms of operations, maintenance and enhancement of the systems.

As the project progressed additional scope and functionality were identified and, in accordance with the appropriate use of the project management methodology, were approved by the Executive Committee. From the very beginning it proved difficult to obtain Department of Finance sanction for the recruitment of the requisite number of IT staff to meet the Garda commitment under the contract. Moreover, recruitment and retention of suitable staff proved difficult due to considerable buoyancy in the IT market.

The changes in scope resulted in an estimated shortfall of 2,100 Garda days being provided to the development effort to the end of December 1996. The contractor exercised his right to meet 300 days of this shortfall at a cost of £300,000.

A major review of the remainder of the project carried out in December 1996/March 1997 indicated that 9,980 additional days would be required (including the 2,100 shortfall referred to).

The Department of Finance proposed that the additional staff be sourced from within the Garda Síochána or by competitive tender. The Department of Justice, Equality and Law Reform felt that

these were not feasible options as internal resources were not available and the engagement of a third party contractor would complicate an already complex project and could expose the project to further delay and year 2000 risks. Furthermore, more competitive rates had been negotiated with the prime contractor for the extra days required. Following consideration of all the factors, the Government, in February 1998, approved the proposal of the Department of Justice, Equality and Law Reform to engage the additional staff resources from the prime contractor at an extra cost of £6m. This brought the contract for the supply of staff to £18.9m.

Rescheduling

The review of the project also pointed to the need to reschedule delivery of Phase 1. As the project progressed, the project management process identified changing requirements (as well as evolving technological changes) which necessitated deferring some of the originally planned modules, bringing forward another which had previously been deferred and adding further functionality.

At the date of this report, of the original seventeen modules planned for Phase 1, seven have been fully implemented and four others partly implemented in a first release; the second release scheduled for delivery in March 2001 envisages full implementation of the four partly implemented modules together with three others; the remaining three are deferred. Therefore, by the third quarter of 2001, on full implementation of Phase 1, fourteen of the contracted seventeen modules, together with the module originally deferred to a subsequent Phase 2 and four previously unplanned modules will be in operation.

The prime contractor is responsible for each release up to the satisfactory completion of the pilot stage. Full implementation of each release is scheduled to take place six months after delivery by the prime contractor and is the responsibility of the Garda Síochána.

Costs

The cost of the project up to 30 June 2000 is £43.64m made up as follows

Cost element	£m
Prime contract costs (inclusive of the initial IT strategy plan and conceptual design consultancy contracts)	20.42
Estimated costs of directly employed civilian staff engaged in the project	2.00
Hardware costs	10.97
Software costs	2.78
Telecommunication	3.15
Training and research	0.20
Maintenance costs	1.86
Automatic fingerprinting service	2.26
Total #	43.64

Because of delays in bringing the project into operation expenditure of a further £480,000 was incurred when the old system, which was not year 2000 compliant, had to be replaced.

The estimated final cost of Phase 1, which is expected to be fully implemented by the third quarter of 2001, is now put at approximately £46 m. This does not include the cost of Gardaí involved in the project as records of this involvement were not maintained.

Industrial relations difficulties pertaining to the involvement of Gardaí in the day-to-day operation of the project were not resolved until October 1999.

Conclusions

- Phase 1 is to be delivered by the prime contractor by March 2001 rather than September 2000 at a cost of £46m. Elements deferred to Phase 2 are currently being reviewed in the context of establishing priorities and approaches in relation to the next stage of IT development in the Garda Síochána. Fifteen of the twenty seven modules, identified in the conceptual design which followed Government approval of the IT Strategy plan in 1993, will be in operation on completion of Phase 1 of the project together with 4 unplanned modules identified during its development.
- The scaling down of the project by reducing the number of functions being provided, the volume of hardware being installed and the number of locations in which the system would be installed from 242 to 181, to remain within the Government approved budget, raises questions as to whether what is being delivered is what Government had effectively approved and whether the original objectives were realistic. In this regard the Accounting Officer stated it may have been that the consultants engaged to assist the Gardaí in formulating their IT plan were over-optimistic in their costing. Nevertheless, he pointed out that the PULSE project was put out to competitive tender and there was no choice but to accept the lowest tender received which involved cutting back on scope to remain within the Government approved budget.
- The initial submission to Government did not take account of the full costs to be incurred by the Garda Síochána in the development of the project although it was clearly intended that this would occur. The expected availability of Garda resources for the project was overestimated. The failure to ensure that this internal resource materialised has resulted in the approval of additional contractor costs of approximately £6m with the final extra cost not being determined until completion of the project. The Accounting Officer stated that it was recognised before the contract was placed that the number of civilian IT posts sanctioned for the project would be inadequate. This was partly compensated for by using Garda resources. However, in the absence of sanction for the creation of further IT posts in the Garda area there was no other choice but to contract the additional resources needed.
- Records of Garda staff costs in developing, training and piloting the project through its various phases should have been maintained so as to enable complete costs of the project to be computed and recognised.
- While acknowledging the complex nature of the overall project and that projects of this sort cannot be fully designed at the planning stage, nevertheless, given the extent of the same consultants' involvement from the outset it is a matter of concern that the main contract required such significant change in scope over its lifetime. The consequence of such change would have been much greater but for the use of an advanced project management and implementation methodology by the Department. The Accounting Officer emphasised that

the PULSE project involved leading edge technology, in national terms was very big in scale and had no direct counterpart elsewhere in police services.

- The amendment to the contract changed the balance of man days to be spent on the project. The contractor is now to supply 53% approximately of the man days for the project as against the 40% originally envisaged. The consequences of this in the long term is a possible detrimental impact on the requirement for self sufficiency, fewer Garda resources to undertake Phase 2, a reduction in the Garda capability to undertake the execution of pilot schemes and the long term loss of expertise on the project within the Garda Síochána. The Accounting Officer accepted that this was an inevitable consequence of the inadequate number of Garda IT staff for which it proved possible to obtain sanction.

VOTE 25. – ENVIRONMENT AND LOCAL GOVERNMENT

24. Review of Local Government Audit Reports

The Local Government Audit (LGA) service is responsible for the audit of the accounts of all Local Authorities. The LGA reports are submitted to the Department of the Environment and Local Government and to the Local Authorities and form part of the controls exercised by the Department in ensuring that procedures for the spending of public moneys are satisfactory. In 1999, Local Authorities received £577m from the Vote and an additional £593m from the Local Government Fund¹⁷. Copies of the audit reports are made available to me in my capacity as auditor of the Department. All LGA Reports for the main Local Authorities for 1997 and 1998 with the exception of those for Wicklow County Council have been furnished to me.

In my previous Reports I have provided information relating to some of the matters on which the LGAs have critically commented in their reports on the audit of Local Authorities. I noted the following in my review of the 1998 reports:

- In contrast to previous years, there were only a few instances where the LGAs had found evidence that excess expenditure had been approved by the Local Authorities after it had been occurred.
- there was less criticism than in previous years regarding unsatisfactory collection yields on Local Authority service charges and housing rents and annuities.
- the work of the internal auditors in Local Authorities is in some cases hindered by lack of resources or delayed appointments.
- The situation with regard to deficits on Capital Account, referred to in earlier reports, continued into 1998 with many Local Authorities reporting specifically very large unfunded debit balances and other balances where it was unclear as to whether the deficits would be funded. Most capital projects are funded by the Department. The LGAs do not always indicate in their reports the precise breakdown between funded and unfunded balances, so the true extent of the unfunded amount is not always clear.
- As is the case with other auditors of public bodies falling within the scope of the Prompt Payments Act, 1997, LGAs are required to report their opinion on whether Local Authorities have complied with the terms of the Act. Of the 38 prompt payments reports examined, 7 had been qualified by the LGAs while critical comments had been made in 7 others.

¹⁷ *The fund is established under the Local Government Act, 1998. It is funded by motor vehicle duties collected by local authorities and by an annual grant from the Vote. Payments are made from the Fund in respect of expenses incurred or to be incurred by local authorities in performing their functions.*

VOTE 26 - OFFICE OF THE MINISTER FOR EDUCATION AND SCIENCE

25. Schools IT 2000 Programme

Background

The Schools IT Programme

In November 1997, the Government announced the establishment of a £250m Scientific and Technological Education Investment Fund. Its purpose was to develop technology education at all levels ranging from primary schools to advanced research. Following the passing of the Scientific and Technological Education Investment Fund Act in December 1998, an additional £30m of Exchequer funding was allocated specifically for research.

One area targeted for support was the Schools IT 2000 Project, which was designed to further the integration of information and communication technologies (ICTs) into first and second-level education. The project was launched as a 3-year programme (1998-2000) to be administered by the Department of Education and Science (the Department) and was allocated £40m of State funding. Additional commercial sponsorship of approximately £15m was received from Eircom over this period.

The core objectives of the project are

- To put in place a permanent infrastructure to ensure that pupils in every school will have the opportunity to achieve computer literacy and to equip themselves to participate in the 'information society'.
- To ensure that support is given to teachers to develop and renew professional skills which will enable them to use ICTs as part of the learning environment of the school.
- The formation of partnerships at school, local and regional levels involving teachers, parents, local communities, third-level institutions and public and private sector organisations.

In November 1999, the Department allocated additional funding of £75m to further develop the integration of ICTs in schools over the period 2000 to 2002.

National Centre for Technology in Education

The Department delegated all aspects of implementation of the Schools IT 2000 Project to the National Centre for Technology in Education (NCTE) which was set up by the Minister for Education and Science (the Minister) for this purpose. NCTE, which is based in Dublin City University (DCU), provides advice and assistance to schools as they decide on their purchases of ICT equipment and materials and is charged with co-ordinating the special training programme under the scheme. Written guidelines, detailing the requirements and procedures attaching to the expenditure of public funds together with financial management and equipment procurement procedures were issued to each primary and post-primary school. The NCTE also held 17 regional seminars for school principals at which all of the relevant requirements and procedures were explained. Grants are issued directly from the Department with the expenditure involved being administered by the IT Unit of the Department in co-operation with NCTE.

Audit Objectives

The primary objectives of the audit of the Schools IT 2000 Project, which included an examination of a representative sample of primary and post-primary schools, were

- to evaluate the method chosen by the Department to channel the grants to schools
- to examine the procedures in use in schools for the procurement of computer equipment and software and verify that appropriate public procurement procedures were applied
- to confirm that equipment and software acquired with grant assistance is in place in schools, is properly maintained and controlled and is being used in an appropriate manner by pupils and staff
- to establish that purchases made by schools comply with the specifications laid down by NCTE
- to establish that the grants paid to schools under the programme were properly accounted for and used for the specified IT purposes.

Extent and scope of audit work carried out

The audit comprised a review of departmental papers to assess the methods used by the Department in allocating the funds available across the schools population. Departmental statistics on enrolment numbers were used to verify the appropriate level of phase 1 and 2 project grant payments to schools. Visits were made to 20 schools in the Dublin/Louth area to review the systems used to procure IT equipment and software, to establish whether the purchases were within specifications laid down by NCTE and to verify the existence of the equipment and the extent to which it was being used. School Principals were interviewed and the relevant school documents and inventory were examined. The records of NCTE, used to control and monitor the progress and effectiveness of the project, were also examined. Discussions also took place with relevant Departmental Officials (including the Department's Internal Auditor who had already carried out an operational audit on aspects of other areas of the Schools IT 2000 programme) and the Director of NCTE.

Audit Findings

Allocation of Grants

The principal options considered by the Department to assist schools in developing their ICT infrastructure were

- central procurement and distribution of hardware and software to schools, or
- provision of block grant aid to schools to enable them to purchase equipment and services directly.

The grant aid option was selected for a number of reasons including the view that the feeling of local ownership, where schools are empowered to determine their own needs outweighed the advantages that may be gained through economies of scale if open tendering was used.

Following a review of costing alternatives, the Department decided that the grant to be paid to schools under the programme should be related to school enrolments, subject to a minimum grant of £2,000.

Phase 1 - Grant allocation under the 1998 - 2000 programme

Phase 1 of the project described in the Schools IT 2000 Project Framework Document of the Department as the Technology Integration Initiative commenced in May 1998. Grant aid was provided to all eligible primary and post-primary schools except further education colleges and schools not recognised for grant purposes under the Free Education Scheme to support them in building up their basic IT infrastructure so that at a minimum each school would have Internet connectivity and access to at least 2 multimedia computer systems to support the integration of ICTs in teaching and learning. The majority of the grants of £13.09m were disbursed to schools in May 1998 on the following basis

- Ordinary primary and post-primary schools - a basic grant of £2000 plus £5 per pupil
- Ordinary schools with one or more special classes - a further grant of £1,500 plus £20 for each special needs pupil
- Special schools - a basic grant of £3,000 plus £20 per special needs pupil.

Phase 2 - Grants

Further grant allocations of £9.77m under the Technology Integration Initiative were announced by the Minister in November 1999 and focused on educational software, special needs, career guidance and staff support. Grants amounting to £7.86m were disbursed in December 1999 under the following headings

- equipment and Internet connectivity needs of the career guidance service in each eligible post-primary school
- support for the integration of ICTs into teaching and learning in all eligible schools through purchase of educational software
- supplementary hardware/software to support the ICT skills development programme for teachers being delivered through NCTE
- provision and running costs for computerised school administration systems in post-primary schools.

Other ICT grant aid was provided for Remedial and Resource Teacher Service in primary schools, the needs of individual special needs pupils and for additional projects under the Schools Integration Project.

NCTE monitoring of grants

Schools were required to acknowledge receipt of grant aid and prepare and submit to NCTE details of equipment purchased, written reports on how the grant was used, as well as a school's IT Plan.

At the conclusion of the audit visits (May 2000) 3,191 (approx 78%) of the 4,053 recipient schools had returned the acknowledged receipt of the phase 1 grant while 2,873 (70%) had filed the additional

information required. (A reminder requesting the information in these returns had been issued to schools by NCTE in April 1999.)

Notwithstanding this, the Department issued phase 2 grants to all eligible schools in December 1999. Only 1889 schools (46%) had acknowledged receipt of the phase 2 grants by 31 May 2000.

In March 2000, NCTE appointed a provider of consultancy services in information technology to compile a database of phase 1 (paid in May 1998) returns from schools. Prior to this, the returns had not been monitored or checked for accuracy due to the pressure of other work in NCTE.

It is understood that NCTE intend to use their own in-house staff to input phase 2 returns. NCTE issued reminders to all non-compliant schools in May 2000.

There was no evidence that NCTE has used the purchases returns or schools' IT Plans in evaluating that the objectives of the Technology Integration Initiative were being met and that the procedures and specifications laid down for schools were being adhered to. The Accounting Officer stated that the NCTE did, however, issue a detailed questionnaire to all first and second-level schools in May 2000 with a view to compiling a database on the current state of IT development in every school. This database is now up and running.

Results of audit visits to schools

- While the visits did not uncover any evidence of grants having been expended other than for the purpose given, of the 20 schools selected, 14 had not remitted phase 1 returns to NCTE. At the time of the visits, 8 of these schools had their returns prepared. The remaining 6 schools have not submitted completed returns.
- 6 schools had not returned Schools IT Plans.
- Price quotations for materials purchased under phase 1 grant was not available for inspection in 5 cases.
- 8 schools had not used the phase 2 grant received in December 1999 by April/May 2000.
- 4 schools could not provide evidence of competitive tendering for their disbursement of phase 2 grant.
- In 7 schools, no official inventory of equipment was being maintained.
- In the case of one primary school, there was no expenditure of either phase 1 or phase 2 grants to May 2000 because there was no location available to site the equipment. The grant had been lodged to the school account. A computer room was under construction by May 2000 however.
- A phase 1 grant of £7,850, paid to a post-primary school in the Dublin area was incorrectly coded in the school's records and as a consequence remained unexpended until discovered on audit. The grant has since been expended.
- A duplicate payment of a phase 2 grant for £10,823 was made by the Department in respect of the same school to two VECs. The payments were made in December 1999 and March 2000. The error occurred because of a breakdown in departmental procedures for notifying

a change in VEC responsibility for the school concerned. The Accounting Officer informed me that the payment issued in error has since been refunded by the relevant VEC and the Department has modified its procedures with a view to preventing any recurrence in the future.

Conclusions

- The allocation method chosen by the Department did not take account of the different levels of IT implementation in schools as a result of local activity.
- The response of schools in making the required returns to NCTE in respect of phase 1 and 2 grant payments is unsatisfactory.
- Failure of NCTE to ensure that returns were submitted and the limited analysis of returns, mean that confirmation was not available in all cases that
 - the grants were duly received
 - proper procedures were applied in procuring IT goods and services
 - the grants were expended for the purpose given
 - the overall objective of the Technology Integration Initiative was being addressed.
- Phase 2 grants were paid by the Department to all eligible schools despite the absence of evidence in a significant number of cases that the initial grant was properly accounted for and used appropriately.
- The results of the audit visits to the 20 primary and post-primary schools give cause for concern and confirm the need for a more rigorous enforcement of the conditions applying to the grants. The Department and NCTE should be more proactive in this area.

VOTE 27- FIRST LEVEL EDUCATION

VOTE 28- SECOND LEVEL EDUCATION

26. Uncollected Local Contributions

Reference was made in my 1994 Report to delays in the collection of supplementary local contributions by Boards of Management arising from cost overruns on primary schools capital building projects. At 31 December 1994 the total local contributions remaining to be collected was £206,647 representing 50 projects.

Since 1996 the local contribution is based on project costs which includes a provision for contingencies. In January 1999 the Minister for Finance approved a proposal from the Minister for Education and Science to cap local contributions at a value of between £10,000 and £50,000 depending on the nature of the project involved. These initiatives obviate the necessity to levy supplementary local contributions in the future.

In May 2000, the Minister for Finance sanctioned the write-off of approximately £600,000 representing uncollected supplementary local contributions dating back to the 1980s. The write-off is noted in the Appropriation Account for Vote 27.

27. Uncollected Examination Fees Written off

Examination fees levied on students sitting second level examinations have traditionally been collected on behalf of the Department by schools. The total amount collected in respect of candidates for the 1999 examination amounted to £5.25m representing a collection rate of 97%.

Despite the existence of schemes to alleviate hardship, approximately £1,572,000 due from 1984 up to and including the 1998 examinations remained uncollected. As the Department deemed these fees to be uncollectable, due mainly to students having left the second level system without making payment, the sanction of the Minister for Finance was obtained to write-off these debts.

In order to refine and improve fee collection in 2000, the Department has introduced an individual candidate giro payment system which will facilitate students by enabling them to pay their examination fees directly through the banks. This reduces the need for schools' involvement in the handling and transmission of fees.

The Department is confident that the new collection system will lead to a greater level of collection from 2000 onwards.

The write-off is noted in the Appropriation Accounts of Vote 28.

VOTE 30 MARINE AND NATURAL RESOURCES

28. Fishery Harbour Centres - Collection of Debts

The Department of the Marine and Natural Resources is responsible for the control and management of Fishery Harbour Centres. The day-to-day management of each Centre is carried out by a Harbour Master. The Centres are located at Killybegs, Castletownbere, Rossaveel, Howth and Dunmore East. A Fishery Harbour Centres Fund is maintained to record all moneys received and expenditure incurred in respect of these harbours.

Revenue to manage the five harbours is raised locally through the charging of harbour dues for the use of facilities, through rentals received for leased properties and by way of an annual grant paid by the Department.

During the audit of the Fishery Harbour Centres Accounts for the year ended 31 December 1998, it was noted that total debtors had increased from £414,601 at December 1996 to £693,450 at December 1998. The average time period for which debts were outstanding had increased from 149 days to 289 days.

It was also noted that outstanding harbour dues constituted 75% of the total debtors and that there was a poor and varying performance between the different Centres in relation to the collection of these dues. At 31 December 1998 the average period for which harbour dues were outstanding varied from 130 days in Howth and Rossaveel to 573 days in Dunmore East.

Financial details on the overall level of debtors and income for the years 1996, 1997 and 1998 plus the level of harbour dues outstanding and income for each Centre for 1998 are as follows:

Table 17 - Level of Debtors relative to Income 1996 to 1998

Year	Debtors at 31 December £	Income for Year £	Average Collection Period
1996	414,601	1,012,680	149 Days
1997	466,799	903,829	188 Days
1998	693,450	876,814	289 Days

Table 18 - Harbour Dues for 1998 by Centre

Centre	Harbour Dues Uncollected at 31 December 1998	Harbour Dues Income for Year	Average Collection Period
	£	£	Days
Castletownbere	82,750	91,848	329
Killybegs	340,264	285,326	435
Dunmore East	58,669	37,371	573
Howth	24,996	70,157	130
Rossaveel	12,305	34,596	130
Total	518,984	519,298	365

In response to my inquires concerning the high level of debts outstanding the Accounting Officer stated that the extent of harbour dues outstanding between 1996 and 1998 was attributable largely to a campaign of withholding dues organised by the Killybegs Fishermen's Organisation at Killybegs Harbour Centre. Payment of the withheld dues was pursued by the Department and £291,215 was paid over by the organisation in August 1999. The effect of this payment was to reduce from £518,984 at the end of 1998 to £388,568 at the end of 1999 the amount outstanding in respect of harbour dues as outlined in the following table:

Table 19 - Harbour Dues Outstanding at 31 December 1999

Centre	Harbour Dues Uncollected at 31 December 1999	Average Collection Period
	£	Days
Castletownbere	104,421	438
Killybegs	161,263	224
Dunmore East	71,943	853
Howth	34,134	148
Rossaveel	16,807	169
Total	388,568	283

There was scope for improvement in the overall position in relation to collection of harbour dues and the position at certain harbours required particular attention. The current standard procedures for dues collection were being reviewed with a view to effecting improvements in efficiency. In addition, clerical support has been or is being provided for the Harbour Masters at Killybegs and Castletownbere. Consideration was being given to the provision of similar support for the Harbour Masters at the three other Fishery Harbour Centres. Arrangements were in train also for the recruitment of a temporary Assistant Harbour Master for Dunmore East.

Harbour dues constituted the bulk of the Fishery Harbour Centres' income. Their income was, therefore, substantially determined by the levels of harbour usage and the dues accruing in respect of such usage and the efficiency of dues collection. Steps to improve the collection of dues would

ensure that available income was maximised and would be accompanied by continued rigorous control of expenditure to ensure the viability of the Fishery Harbour Centres going forward.

The position in relation to debt collection generally in this area was under review and any further action identified as necessary to effect the necessary improvements in the position would be taken.

VOTE 31 - AGRICULTURE AND FOOD

29. FEOGA Operations

The EU makes monthly advances to the Department of Agriculture, Food and Rural Development, 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 1999, £1,270m was incurred on FEOGA expenditure comprising

	£m
Export Refunds	356.2
Intervention Costs	89.2
Production Aid	97.2
Premia Schemes	461.5
Other support measures	266.3

Disallowances by the EU in 1999 totalled £3.18m. In addition to the certifying accountants and normal management controls, the control procedures in the Department include an Internal Audit Unit. The 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.

30. Collection of Debts

Participants in the Rural Environment Protection Scheme (REPS) must carry out their farming activities for a five-year period in accordance with an agri-environment plan approved by the Department and are paid annually. In the event of participating farmers failing to comply with the conditions of the scheme, such as not remaining in it for five years, they are obliged to repay some or all of the amounts paid, depending on the particular circumstances. Since 1994 some £560m has been paid under the programme.

A report issued by the Internal Audit Unit of the Department in March 2000, noted that there were no written procedures in the REPS procedures manual in relation to how farmers withdrawing from the scheme should be dealt with. It also noted that there were no procedures in place to recover moneys which could not be recovered by offset against moneys payable to farmers, such as livestock premia and headage grants and it recommended that appropriate procedures be put in place and action be taken through the courts if necessary to recover moneys due.

The certifying accountants' report on the 1999 FEOGA (Guarantee) Annual Account referred to the Department's debtors ledger and REPS debtors. It noted that while there was a central debtors ledger unit, it was not fully meeting the requirements of the EU Commission and, in particular, was not maintaining a centralised debtors ledger. The report stressed the importance of the continued prioritisation of the implementation of the new accounts system within the Department, as this would provide a fully-integrated central debtors ledger system and would permit a central review of the age of debts as well as the prospects for recovery. The report recommended that the Department address the issue of outstanding debt and take appropriate action.

Under Commission Regulations, the Department is responsible for maintaining a ledger of all debtors in relation to FEOGA expenditure and taking the necessary steps to recover the amounts on a timely basis. This is the main function of the Department's debtors ledger unit. It is also responsible for ensuring the ledger's completeness and for monitoring the activities of the Operating Divisions in the area of debt establishment, recording and recovery. The unit produced a review of the debtors ledger system in July 2000 which indicated that the overall level of REPS debts owing was continuing to rise significantly. The review noted that the debt stood at £1,968,000 as at 30 April 2000 and no recoveries, partial or full, had been received from the vast majority of the REPS debtors.

The records of the Department showed debtors in relation to the farmers Early Retirement Scheme (ERS) of £1,063,232 at 31 December 1999. The main reason for this debt was, apparently, that in the course of a review of farmers receiving early retirement pensions who were aged 66 and over, it came to light that many of them were also in receipt of a pension from the Department of Social, Community and Family Affairs, which had not been deducted from the early retirement pension. Since 1994 some £312m has been paid under the scheme.

In response to my inquiries the Accounting Officer stated that

- Penalties applied under REPS were clawed back from participants' future payments where possible. Debts occurred when participants' remaining payments were not sufficient to offset penalties due or where participants were removed or withdrew from the scheme and previous payments had to be recovered. Since the inception of the scheme in 1994 until July 2000 £1.5m in debts have been recovered from 426 debtors.
- The policies and procedures for the recovery of amounts owing in respect of REPS were now detailed in the REPS Procedures Manual for Debt Recovery, as recommended by the Internal Audit Unit in March 2000. The manual included formal procedures in relation to review of data entry and transfer of amounts owed and subsequently recovered and procedures would be reviewed regularly to ensure their adequacy.

It was acknowledged that the recovery process had been slow and that the level of debt had increased, but the full effect of the consistent referral of debts to the Department's Overpayments section had not yet become apparent and that this together with improvements in debt management generally, would in due course generate results. The Department was also giving consideration to alternative means of debt recovery such as the factoring of debts and the use of legal proceedings.

- The Department had put increased emphasis at Divisional management level on the importance of debt management. Additional resources had been allocated to debt collection, as recommended in the 1999 certifying accountants' report and an individual assigned to the REPS unit had been given specific responsibility for debt management.

Further additional staffing had been approved for the REPS area and, as these posts were filled, Divisional management would continue to review resources to ensure that they were adequate. The increased resources, together with additional management input, would ensure a more focused approach and greater potential for debt recovery.

It was felt that as a result of these measures, together with work completed on the development of the debtors' ledger database, the Department would be able to comply with EU Commission standards and that financial corrections by the EU Commission were unlikely.

- It was a condition of the ERS Scheme that participants, on reaching the age of 66, must apply for a national retirement pension and notify the Department of the outcome. A significant number had not done so in the past, however, and it was from those cases that the bulk of the ERS debt had arisen. Of the total ERS debt of £1,063,232 as at 31 December 1999, £836,408 related to national retirement pensions. The control procedures involved the periodic identification and investigation of participants who had reached the age of 66 but who were not having a national pension offset against their ERS payments. However, the frequency with which this control procedure was activated proved insufficient and a corrective exercise begun in 1999 and now in its final stage had identified a significant number of overpayments.

Procedures in place since the beginning of 2000 would ensure that future debts relating to national retirement pensions did not arise. The Department had also arranged to have direct on-line access to relevant Social Welfare computer records which would give the Department immediate access to all necessary information on ERS participants' national pension entitlements as a means of verifying the information given by participants on Social Welfare pensions. The remainder of the ERS debt arose mainly from irregularities, where participants in the scheme or transferees broke their undertakings. These were of their nature difficult to predict but the Department's inspection system was the chief deterrent.

- About 75% of the existing ERS debt related to participants still in the scheme and could be recovered by withholding part of the payments due to them during their remaining time in the scheme. Between January and July 2000 £400,000 was recovered in this way. Where this was not possible repayment was demanded by the Department. The Department was giving consideration to other means of debt recovery, where the repayment demands were ignored.

31. Collection of Land Annuities

Problems in relation to the effectiveness of the procedures to collect land annuities and rents have existed since the mid 1980s and have previously been referred to in the 1985, 1992 and 1996 C&AG Reports on the Appropriation Accounts.

The arrears increased from £2.2m in 1985 to £6.1m in 1992. Following the introduction of a scheme in 1993 under which high interest annuities were reduced, small annuities were written off and farmers not in arrears were allowed to buy out their annuities at a discount of 50%, the level of arrears decreased to £2.6m in March 1994. The amount of income forgone as a result of the scheme was £16.3m. The arrears again continued to grow and stood at £4.5m at April 2000. The figures

indicate that annuities and rents are on average not collected for some 2½ years after their due date. Apart from the risk that some of this debt may never be collected, the arrears give rise to a significant and continuing cost to the Exchequer due to the financial cost of carrying the debt and the interest forgone. The cost incurred in billing and collecting these debts in 1999 was £292,642.

While the Department has, as stated in previous Reports, indicated a number of measures which it proposed taking, the arrears figures over the past ten to fifteen years would suggest that they have been largely ineffective.

In a review of the collection procedures being employed by the Department, carried out by my staff, it was noted that the offsetting of land annuity and rent arrears against headage and premia grants owing by the Department to farmers ceased in 1993 but was recommenced in 1998 and arrears of approximately £250,000 were collected by this measure in 1999. It was also noted that there were doubts about the legality of the procedure and the Attorney General had advised in June 1998 that legislation would be necessary to put the procedure on a sound legal footing. The necessary legislation has not been introduced. It was also noted that interest is not charged on annuity and rent arrears.

A review carried out by the Economic and Planning Division of the Department in 1999 recommended that interest should be charged on overdue accounts, but that this would require minor legislative amendment to the Land Acts. Greater use of offsetting was also recommended in the review.

In the light of the level of annuity and rent arrears which has existed over the past fifteen years, I sought the Accounting Officer's views on the adequacy and effectiveness of the procedures employed by the Department to collect land annuities and rents, and enquired as to the Department's policy on offsetting arrears against moneys owed to farmers and the charging of interest on arrears and whether there was any expectation within the Department that performance would be improved.

The Accounting Officer stated that:

- A major reason for the increase in arrears since the end of 1993 was the resource problems which the Department faced in implementing the CAP reform schemes during the 1990s resulting in an inability to pursue defaulters as diligently as would have been desirable. The arrears peaked at £5.2m in June 1998 when 8,700 annuitants were in arrears. Since then there had been a decline in the level of arrears to £4.8m in June 2000 with 5,900 annuitants in arrears.
- The Department had taken a number of measures to reduce the arrears. Between 1993 and 1996, collection work was principally confined to issuing bills and recording cash payments which were made to the 'collection' office in Castlebar. In view of the continuing growth in annuity arrears, the Department decided in 1996 to assign an officer full time to collection work and seek repayment from the top defaulters through visits by the Department's Inspectorate. A new computer system for billing and recording receipts of annuities was introduced in 1998. Also, in 1998, the Department decided to resume offsetting from headage and premium payments. Following a further review of the situation during 2000, the Department had decided to take a more comprehensive approach towards reducing the level of arrears and the Minister intended to bring these proposals to Government in early Autumn.

- The Department adopted a targeted approach to securing repayment of arrears from the largest defaulters in 1996, when 150 files - each involving minimum arrears of £4,000 - were referred to the Inspectorate. The visits of Departmental inspectors were extended in subsequent years to defaulters with minimum arrears of £2,000 and a total of 620 farmers had now been visited. In some cases substantial payments were made as a token of good faith with promises to clear the balance of the arrears over a number of years. In other cases written consent to offset against headage and premium entitlements had been obtained. Where the outcome of the visit was unsatisfactory the Inspector's report was considered with a view to what further action should be taken. In the course of and follow-up to these visits £1.4m had been collected in payments made to Inspectors and follow-up payments made directly to the Department. Some £700,000 had been offset against headage and premium entitlements with or without the consent of defaulters. In addition, 40 warrants for arrears amounting to £343,000 were issued and £91,563 has been paid on foot of them. 22 farmers had been given the benefit of rescheduling and their capitalised arrears amounted to £213,000. It was a condition of rescheduling that the beneficiary must give written consent allowing the Department to offset against headage and premium entitlements if he falls into arrears.
- The Department's policy on offsetting has been determined by EU policy and law. It had operated offsetting to a limited degree in the early 1990s. However, following the introduction of the new direct income schemes under CAP reform, the EU Commission advised Member States in 1994 that offsetting was not legally permissible. This position was based on the view that payments under the schemes had to be paid in full to the beneficiary. In the light of this, the Accounting Officer stated that his Department had no option at the time but to cease the practice of offsetting.

However, in 1995, the Danish Government took a case to the European Court (the Jensen case) seeking to establish a right to offset certain EU payments against liabilities which a farmer had in respect of the Danish State. In 1998, the European Court found in favour of the Danish Government and in the light of this judgment, the Department resumed offsetting from 1998 onwards.

- Offsetting of annuity arrears was confined to headage and premia schemes. This was due to administrative reasons, as the Division dealing with these schemes was based in Castlebar along with the Section dealing with the collection of annuities. Since the re-introduction of offsetting in 1998, a total of £512,810 had been offset. In 1999, £249,905 was collected from 188 farmers using the offsetting measure. There were limitations in the computer systems to assist in offsetting and there was a significant amount of manual work involved.
- It was not possible to say with accuracy how many farmers with annuity and rent arrears on 1 January 1999 received headage or premia grants or grants of any type from the Department in 1999. This was because, in many cases, the names and addresses of annuity payers and of beneficiaries of payments did not match. This shortcoming would be addressed in the context of the development of the new Departmental Client Database on which all basic client details would be held. The development of this database was at an advanced stage and when completed, it was the intention that any money owed to the Department would be automatically offset against money due to be paid to the beneficiary.
- There was no provision in the purchase or rental agreements which have been signed between the Land Commission and allottees for charging interest. It was considered that

a legal challenge to charging interest would be successful. Furthermore, the Department was not aware of any provision in the Land Acts that would enable interest to be charged and it was not considered possible to enact legislation providing for the charging of interest on arrears arising under existing agreements. The Department would, however, seek the advice of the Attorney General's Office on these points.

- The Department had earlier in 2000 reviewed the adequacy and effectiveness of its procedures to collect land annuities and rents. While progress had been made, it had not been rapid enough or effective enough. The main way through which effectiveness could be improved was through a larger number of farmers being subjected to offsetting and the key to achieving this was through the final development of the Client Database which would enable a match to be made between farmers with annuity arrears and beneficiaries from other Departmental schemes. It had also been decided to extend the requirement to redeem annuities when consents to let holdings were granted.
- The Minister intended bringing a Memorandum to Government in early Autumn proposing legislation on a number of Land Commission matters, including rationalisation and updating of the legal basis for offsetting and the upgrading of the status of warrants issued to County Registrars for enforcement against annuity defaulters from 'enforcement' orders to 'attachment' orders. The Attorney General's Office has advised that legislation would be necessary to make a warrant the equivalent of any attachment order which would mean that a County Registrar could then direct any institution which owes money to a defaulter to pay it to him for onward transmission to the Department.
- Consideration was being given to the employment of a professional debt collection agency and this, together with the other measures in train, should lead to a significant decrease in the land annuities and rent arrears.

32. Recoverability of Moneys associated with EU Schemes

Beef Fines

In the aftermath of the decision by the EU Commission to impose fines totalling £68.7m on Ireland as a result of weaknesses in the operation of the beef intervention system in Ireland in 1990-1992, the Government set up an expert group to examine the feasibility of recovering some or all of the disallowed amounts from the beef industry. The group made its report in March 1996 and concluded that the imposition of a general levy on the industry or, indeed, a specific levy on those companies where there was evidence of wrongdoing, would not be sustainable.

In relation to specific recoveries based on proven irregularities, legal advice was obtained by the group that the disallowance levied on Ireland did not of itself give any entitlement to the Minister for Agriculture, Food and Rural Development to recover any part of the disallowance from companies who may have featured in the case against Ireland by the Commission. Any proceedings brought against companies must be based upon a recognised cause of action in Irish law and be proven in accordance with the applicable rules of evidence in civil proceedings. The main elements relied upon by the Commission in their disallowances related to inadequate control systems by the Irish authorities. In addition, certain companies were alleged to have retained meat yields in excess of the minimum required by the EU Regulations and the group considered that this might give rise to the possibility of proceedings. The group pointed out that there is a substantial difference in the

procedure and burden of proof as between the Commission's application of disallowances and Ireland's possibilities for recovery arising from irregularities. The proof required in order to win a civil claim for recoveries would be extensive and detailed.

The position regarding the specific action taken by the Department on recoveries relating to the disallowances can be summarised thus:

During the course of the investigations into the beef processing industry by the Beef Tribunal in May 1991, a former staff member of a beef processing company disclosed serious irregularities at a Rathkeale boning hall to the Tribunal. The Minister decided to set up a Control Enquiry Team which visited the plant at Rathkeale in October 1991. The team identified a number of serious irregularities in the conduct by the beef processing company of deboning and canning of intervention beef, which were later to become the subject of a whole chapter in the Beef Tribunal Report. As a result of what was found by the team, the Minister suspended intervention deboning operations at Rathkeale in accordance with the deboning contract, refused to pay the deboning and canning fees for the contracts in question and referred the matter to the Gardaí.

The Director of Public Prosecutions brought criminal proceedings arising out of the irregularities against three senior employees of the company at Rathkeale involved in boning operations. In April 1995, two of the employees pleaded guilty in the Circuit Court to three charges of conspiracy to defraud the Minister arising from the misappropriation of intervention beef at Rathkeale. The third employee was acquitted by the trial Judge. He has taken a case against the Minister for damages arising out of the criminal proceedings. Separate criminal proceedings were commenced against three other senior employees of the cannery at Rathkeale, arising out of the canning of beef for the former Soviet Union. The three all pleaded guilty of conspiring to defraud the Minister.

In October 1994, the Department asked the Attorney General's Office to proceed with civil cases against the company. In February 1996, the Minister issued proceedings for the recovery of damages of £2.7m arising out of the misappropriation by the company, its servants or agents of intervention beef the property of the Minister, which was deboned at Rathkeale. In April 1996, the Minister issued a second set of proceedings against the company concerning further irregularities at Rathkeale in respect of canning operations carried out under an EU Scheme which provided for the supply of canned meat intended for the former Soviet Union. In this case the Minister is seeking to recover £0.9m arising out of the misappropriation of more than ten thousand cartons of intervention beef. The first case should soon be ready for trial and in the second case the Minister has sought a trial date.

In December 1996, the company issued proceedings against the Minister for £1.6m damages because of the non-payment of deboning and canning fees at Rathkeale.

In October 1997, the Minister issued proceedings against the company for the recovery of damages of £1.8m for allegedly retaining meat yields in excess of the minimum required by EU Regulations in the boning halls of ten of its subsidiaries. The Department delivered a statement of claim in February 1997 and following an order of the Court the company delivered its defence on 24 July 2000.

Export Refund Cases

The Minister is taking four sets of cases in respect of export refunds. In August 1990, the Minister issued proceedings against five companies to recover £454,000 in respect of forfeitures of export

refunds on exports of beef to Canada and the USA during 1983-1985 which had been rejected. In January 1992, the Minister issued proceedings against two companies to recover £156,000 as securities were released before the Department became aware of the failure to market the beef in South Africa. In 1994, the Minister issued proceedings against two guarantors to recover £1.16m as a result of their failure to honour their guarantees. Finally, in January 1998, the Minister issued proceedings against a company to recover £595,000 of export refunds on beef rejected in Egypt in 1993.

Ballaghaderreen Fire Case

The Department is also involved in another series of cases arising from a fire which broke out at a cold store in Ballaghaderreen, Co. Roscommon in January 1992. About seven thousand tonnes of intervention beef with an approximate value of £20m, which had been stored there on behalf of the Minister for Agriculture, Food and Rural Development was completely destroyed. While intervention beef is the property of the EU, the Department, as EU Intervention Agency, is responsible for its safe custody and is obliged to compensate the EU for any loss that may occur. Thus, the Minister was obliged to refund £19.8m to the EU in respect of the beef destroyed. Further costs sustained involved clean-up expenses of (£0.8m). The Commission has proposed a further correction of £9m to convert the intervention price for carcase weight into boneless yield. The Department has presented counterarguments on this amount for the Commission's consideration. A decision is expected in early 2001.

In January 1992 the Department notified its brokers of the fire and provided an estimate of the cost of the beef destroyed and the clean-up operation. The estimated cost, at that time, was £21.9m but the actual cost came to £20.6m. In February 1992 all insurance companies involved under the first lead insurer denied liability and sought court orders against the Department to this effect on the grounds that they alleged that cover had been cancelled from 31 October 1991. They also claimed material non-disclosure by the Department. The Minister counterclaimed against the insurance companies for the recovery of the costs arising from the fire.

In 1993, the Minister instituted proceedings against another insurance company with whom the insurance brokers had purported to replace the original lead insurer. This insurance company challenged the jurisdiction of the Court, an objection ruled ill-founded by the High Court in March 1998. An appeal is pending in the Supreme Court.

In 1997, the Department instituted proceedings against its insurance brokers.

These cases are being pursued on the Minister's behalf by a private firm of solicitors appointed in July 1999 at the request of the Chief State Solicitor because of the complexity of the cases.

Other estimated costs incurred by the Department since the fire occurred are interest on moneys borrowed for the value of beef destroyed and repaid to the EU (£10.7m) and legal costs (£0.5m).

VOTE 32. - DEPARTMENT OF PUBLIC ENTERPRISE

33. The transfer of the public telecommunications system from State control to the Private Sector

Background

Control over public telecommunications, since its advent in Ireland in 1869, had, up to 1983, been vested solely in the predecessors, in title, of the Minister for Public Enterprise. Direct departmental management of the system ceased in December 1983 when the Government set up a company, Telecom Éireann Ltd, to manage and administer the public telecommunications system. The Minister for Public Enterprise retained responsibility for determining and executing policy on behalf of the Government in relation to telecommunications and was also responsible for exercising a general supervisory role over the activities of the company. The shares in the company were vested in the Minister for Finance and the Minister for Public Enterprise (The Ministers).

In December 1996, the company was re-registered as a public limited company, Bord Telecom Éireann plc (BTE). BTE was the parent company of a group of companies which provide a range of telecommunications services. In September 1999 the Company changed its corporate identity to Eircom plc.

The formation of the public limited company was the first step in a series designed to allow for the possibility of the State divesting itself of its share holding in the company and effectively ending State control of the telecommunications system.

Strategic Alliance

In December 1996, BTE entered into a strategic alliance with Comsource, an entity owned by KPN Telecom BV of The Netherlands (60%) and Telia AB of Sweden (40%). The purpose of the strategic alliance was to strengthen BTE in advance of the loss of its monopoly position in the Irish telecommunications market which would arise following the liberalisation of the telecommunications sector in the EU.

A complex set of arrangements were put in place for the strategic alliance under which Comsource was to acquire 20% of BTE with an option, exercisable before December 1999, to acquire a further 15% of the company. The agreement provided that Comsource would pay £183m for its initial 20% and £200m for a further 15% in the event of it exercising its option. The strategic alliance agreement also contained a clawback provision, which provided that Comsource would pay an additional amount for the shares it purchased, which broadly equated to 60% of the increase in the real value of the shares in the three years following the agreement, when account was taken of the normal rate of return which KPN and Telia would earn on their capital. Immediately prior to the public offer of the shares in July 1999, Comsource exercised its option to acquire the additional 15% share holding and, in January 2000, paid an additional £1,138m under the clawback provision.

Under the terms of the strategic alliance agreement the State agreed to provide funding of £220m to the company from the proceeds of the sale of the shares to Comsource.

The terms of the agreement were effected as follows:

- Ministers sold and Comsource purchased 15,869,887 shares for £33m.
- BTE issued and Comsource purchased 72,443,181 shares for £150m.
- BTE issued and the State acquired 33,806,818 shares for an interest bearing Promissory Note of £70m. (This was paid in December 1998. Interest of £9m was paid on the Note)
- State gave Comsource an option exercisable within three years to buy 66,234,800 shares for £200m.

Under the Strategic Alliance the Government also enacted legislation to provide for the continuation of the class D modified PRSI rates to be applied to the company for all employees who commenced their employment in the company prior to 5 April 1995.

Employee Shares

As part of the framework for the part or complete privatisation of the company, the Government and the unions operating in BTE agreed, in February 1997, to the establishment of an Employee Share Ownership Plan (ESOP) which provided for 14.9% of the shares being transferred to the employees. A trust was set up to facilitate the transfer of the shares to staff - Employee Share Ownership Trust (ESOT). The transfers were to be effected as follows:

- 5% of the shares to be transferred in stages based on implementation of agreed productivity measures and changes in work practices. Two thirds of these shares were transferred to ESOT in May 1999. The remaining one third were transferred in May 2000. It is intended that the shares will be distributed to staff not later than May 2004 subject to prevailing taxation conditions.
- 9.9% to be purchased for an agreed price of £190m which was payable to the Exchequer as follows:
£100m paid by BTE in May 1999, in return for which staff agreed to make contributions to their pension scheme and waived rights to certain bonus arrangements.
£60m and £30m funded by borrowings by ESOT, were paid in May 1999 and July 2000 respectively.

Initial Public Offering

In March 1998, the Government decided that an Initial Public Offering (IPO) of the shares would take place in 1999. Initially, it had been decided that the remaining shares held by the Ministers would be offered for public subscription in a number of tranches. However, following assessment of the reaction by institutional investors and the number of individuals who, following a registration process, indicated an interest in acquiring shares in the company, it was decided to issue 48.9% of the total company shares in a single tranche under the IPO.

The remaining 1.2% of the company's shares were retained by the Ministers for distribution as a loyalty bonus, on the basis of one share for every 25 shares held, to retail investors who held their shares for a period of one year after the date of the IPO.

The final decision on the extent of the stake to be offered at the IPO was made by a Cabinet Sub-Committee and was determined by factors such as maximising the return to the Exchequer, having a wide share ownership and value for money on expenditure related to the sale.

The Government appointed joint advisers and global co-ordinators to advise in relation to the strategic and financial aspects of the execution of the flotation, to co-ordinate the offering and to ensure that the flotation was successful and that there would be investor confidence in the shares. They also gave advice as to the price at which the shares should be issued taking account of all of the factors and interests involved and on compliance with legal and International Stock Market requirements. They were selected on the basis of a competitive tendering process and their fees amounted to 1.7% of gross sales revenue.

The following legislative changes were also effected:

- The Postal and Telecommunications Services (Amendment) Act, 1999 was introduced to enable the State to lower its share holding to below 50%.
- The Companies (Amendment) (No.2) Act, 1999 was also introduced to enable price stabilisation in the immediate aftermath of the flotation. This Act was required to bring Irish legislation into line with international practice to facilitate price stabilisation on the Irish Stock Exchange.

The shares were offered to the Public in July 1999. Both Government and the Company agreed the prospectus and the price range for the shares of £2.64 to £3.27 that was set prior to the flotation.

The flotation price approved by the Cabinet following the closing date for the receipt of applications for shares was £3.07.

Costs of Flotation

The cost of the flotation was £76.9m which is approximately 2.3% of the £3.3bn raised in the IPO and was funded out of the Vote for Public Enterprise. An amount of £9.2m is due from the Company in respect of their portion of the total cost of the flotation. The provision in the Estimates was originally set at £40m but this had been calculated on the basis that the share holding would have been disposed of in tranches. A Supplementary Estimate of £40m was required to meet the additional costs associated with the sale.

Details of the costs of the flotation are as follows:

	£m
Joint Advisers	58.6
Advertising	3.8
Public Relations	3.4
Printing	3.4
Postal Costs	3.3
Processing of Applications	1.9
Legal	1.5
Other	<u>1.0</u>
Total	<u>76.9</u>

Share Acquisitions and Amounts Paid

The following is a summary of the share acquisitions and the amounts paid

Year	Purchaser	No of Shares Acquired	Amount Paid £	Average Price per share £
1996 - 2000	Comsource	772,739,342	1,520,371,976	1.97
1999 - 2000	ESOP	218,574,842	190,000,000	0.87
1999	ESOP	110,391,334	Nil*	Nil*
1999	IPO	1, 081,490,338**	3,320,175,339	3.07
Total		2,183,195,856***	5,030,547,315	

* These shares were distributed to employees in return for agreed productivity measures which were expected to deliver payroll cost savings of £110m over five years.

** This figure does not include the 23,810,828 shares which have been retained by the Ministers for distribution as a loyalty bonus. 16,047,305 of the bonus shares had been distributed up to 6 September 2000.

*** As at 6 September 2000 the Ministers held 8,583,532 shares, which represented 7,763,523 bonus shares which had not yet been issued or may not be required due to failure of purchasers to hold shares for the required 12 months and 820,009 shares offered for sale in the IPO which had still not been allocated.

Pension Liabilities

The Minister for Finance under the Postal and Telecommunications Services Act, 1983 (as amended) is responsible for meeting and discharging the liability in relation to the pension costs of former staff of the Department of Post and Telegraphs who retired or died before 1 January 1984, and in relation to the costs of pension entitlements, relating to reckonable service prior to 1 January 1984, of staff who transferred to BTE from the Civil Service. Up until April 2000 the Minister provided funds to meet the cost of pensions as they became due for payment. However, at the end of 1999 the Minister paid £800m into a Trust fund which was set up to discharge all his future obligations in relation to the pensions. The Board of Trustees comprises two BTE representatives, four BTE employee representatives and two civil servants. The Exchequer will be liable for any deficit in the event of there being insufficient funds to meet the liabilities. Similarly, in the event of there being surplus funds, such surplus moneys will be surrendered to the Exchequer.

VOTE 36 - DEFENCE

34. Defence Forces' Consumable Stocks

Background

The Department of Defence budget for 1999 was £510m of which about £31m was for the replenishment of consumable stocks. The estimated value of the stocks at 31 December 1999 was £74m, which were held in 92 stores in 19 locations throughout the country.

The stocks have increased in value from an estimated £42m in 1995 to £74m in 1999 but this is attributed by the Department to being due to more accurate estimation of stock values rather than to an increase in the volume of stocks held.

Responsibility for the control of stores, including nearly all of the purchasing, rests with the Deputy Chief of Staff (Support) but the Secretary General of the Department of Defence is the Accounting Officer for the entire Defence Vote, which includes expenditure on and control of Defence Forces stocks.

Since 1996 the Department's Appropriation Account contains a note regarding the non-adherence to public accounting procedures regarding the valuation and recording of these stocks.

The following is an analysis of the Department's estimate of the value of the stocks as at 31 December 1999

	£
Air Corps	20,000,000
Naval Service	12,986,351
Clothing	10,155,850
Weapons & Ammunition Spares	7,533,009
Cavalry	5,859,011
Communications & Information Service	4,758,148
Barrack Services	3,989,767
Engineers	3,814,969
Transport Spares	3,650,263
Medical Supplies	914,312
Other	382,217
Total	<u>74,043,897</u>

Objectives and Extent of Audit

The objectives of the audit were to ascertain and evaluate:

- The controls in place to ensure that adequate security was being maintained over the stocks.

- The procedures in place to ensure that stocks were maintained at an appropriate level taking account of the costs of holding stocks on the one hand and ensuring security of supply on the other and that they were fairly and correctly valued.
- The efficiency with which the stores function was being operated.
- The policy and procedures being employed in relation to obsolete and surplus stocks.

During the course of the audit, four locations containing six stores were visited: Baldonnell - Air Corps; Haulbowline - Naval Stores; Clancy Barracks - Clothing and Transport; Curragh Camp - Cavalry and Engineers.

Discussions also took place with Department of Defence and Defence Forces personnel.

Audit Findings

Security of Stocks

The stocks are held in military locations and the buildings containing the stocks are patrolled on a 24 hour basis by military personnel, as is the case for all buildings in the locations.

The management of military stores is governed by Army Regulations in particular Army Order 2/87 and Defence Force Regulation S2. They provide for management supervision and accountancy procedures for all technical stores and workshops. The procedures were well documented and contained sufficient instruction for the safeguarding and management of stocks. They set out clearly the stores procedures in relation to management and accounting, purchasing, receipt and issue of goods, disposal of surplus items and stocktaking. The audit indicated that the procedures were being followed, except in relation to the disposal of surplus and obsolete items.

The stores area is subject to ongoing audit by the Department's Internal Audit team and regular physical checks on stocks are also carried out. My audit confirmed that discrepancies found on these checks are relatively minor and appropriate follow up action is taken by way of investigation and adjustment of book balances.

In relation to stores records, while detailed records are maintained in relation to goods received, issued and in stock, no stock control accounts, showing totals of goods received and issued, and overall balances which could be reconciled to the detailed listing of stores balances, are maintained. Such accounts would provide assurance on the accuracy of the detailed stock records. Furthermore, the total value of goods booked into stock is not agreed to the total amounts expended on stock items, which would provide assurance on the correctness of the amounts paid for stock items and the amounts booked into stock.

Stock Values

The Department's policy is to value all stocks at their most recent purchase price.

Surplus and obsolete stocks were therefore overvalued in the books relative to their true worth resulting in an overstatement of stock values in the Appropriation Accounts. This was most noticeable in the Air Corps and Naval Service stocks.

The Air Corps stock was valued at £20m as at 31 December 1999 and included some 21,000 item types of stock. In 1999 the Air Corps identified about 8,300 item types, which had not moved in the previous 5 years and which have been certified as being surplus to requirements. They have been segregated and are awaiting a decision on disposal. (No value was available for these items many of which were between 10 and 20 years old).

The Naval Service stocks were valued at £13m as at 31 December 1999. Tests carried out during the audit identified about 10,000 item types, showing a value estimated at £3.1m, which had not moved in the last 7 years. As a result of the audit findings, the stores personnel have commenced an exercise to ascertain the items which are surplus to requirements.

In the case of Air Corps stocks it was acknowledged by the military authorities that the stock value of £20m as at 31 December 1999 was not computed on the basis of quantities held at the most recent purchase price, but was their best estimate because of pricing inaccuracies and anomalies found on the system.

Audit tests carried out on Naval Service stocks revealed stock overvaluations estimated to be in the order of £2.2m. These overvaluations centred on the incorrect treatment of foreign currency conversion, notwithstanding the fact that the stock system had a facility to automatically convert such amounts.

Stock Levels

The principal reason the Department of Defence holds stocks is to avoid shortages which might make it impossible to carry out functions critical to the success of military missions. Other reasons relate to:

- Holding insurance spares for equipment or machinery which are no longer being manufactured.
- Gaining quantity discounts from buying in bulk.
- Reducing administration costs by reducing the number of orders placed.

It was noted that the ratio of stocks held to annual throughput was quite high. The ratio overall for 1999 was 2.3 which varied from 0.05 for provisions to 12.72 for engineering stocks. The figures indicate that for some categories, the level of stocks is higher than is appropriate taking into account the costs associated with carrying excess stocks such as storage and financial costs as well as the likelihood of stocks becoming obsolete or redundant.

The audit indicated that the high level of stocks was due to a build up of stocks in past years arising from a policy of buying on the basis of predetermined budgets and in large quantities so as to maximise quantity discounts, rather than on the basis of need. However, the Defence Forces have in recent years moved to a policy of buying on the basis of previous year's usage and where feasible on a "just in time" basis, which should in time lead to lower and more appropriate stock levels being maintained when the surplus stocks have been disposed of.

Operational Costs

A Report by the Efficiency Audit Group in 1993 recommended that a rationalisation of the stores area was needed with the ultimate goal of having one multi-purpose store per location. The Department stated that the number of stores has been significantly reduced since 1993 and that it is

not feasible to reduce the number of stores very much further in the short term due to the high capital costs involved in providing new multi-purpose stores or adapting the existing ones.

At December 1999 there were 101 civilian staff employed on full time stores duties. The gross annual salary cost for these employees was about £1.5m which represents about 5% of the annual stores budget. A further 120 Defence Forces personnel were also employed on stores duties on a part time basis.

Inventory Management

The efficient management of the stores function is dependent on quality and timely management information.

Since the early 1990s the Military Information Technology section in conjunction with the Department has been developing an in-house software computer stock system known as the Inventory Management System (IMS), with the objective of supplying accurate and timely information on stock levels, turnover, usage, status of deliveries and purchase orders and cumulative expenditure relative to budgets.

Although this system has been operational since 1992 in some stores and is potentially available to all stores, only 61 out of a total of 92 stores were availing of it at the end of 1999. The remaining stores were using either manual ledgers, kardex systems or locally developed computer spreadsheets, with the exception of the Air Corps, which has purchased a computerised Aircraft Maintenance Management System. This system is capable of providing an inventory management system combined with an aircraft maintenance costing system, but is not linked to IMS and is not regarded as providing reliable values for stocks.

Obsolete and Surplus Stocks

There would appear to be significant surplus and obsolete stocks in respect of Air Corps and Naval stores.

The following are examples of items identified on audit which would appear to be either surplus to requirements or obsolete:

- Stocks of Land Rover spare parts, some of which were purchased up to 20 years ago and cost in the region of £100,000. The particular Land Rover jeeps have been scrapped some years ago and replaced by Nissan vehicles.
- The value of stocks of army clothing, footwear and raw cloth for the manufacture of military uniforms has been in the region of £10m since 1995, while purchases and usage in each of the years 1998 and 1999 were in the region of £3m to £4m. Much of this stock would appear to be surplus to requirements, because, recently, new ready to wear combat uniforms were purchased for army personnel where previously uniforms had been made from pre-purchased cloth. It has been decided that the old uniforms will be issued to the FCA and the remaining cloth will be offered for sale.
- Substantial quantities of barbed wire having a value of some £60,000, as well as some timber and felt stocks having a value of £4,200, were noticed during an inspection of the stocks held in the central engineering store, much of which would appear to be surplus to requirements or obsolete.

Conclusions

- The management, supervision and accounting procedures were well documented and were adequate to ensure that stocks are properly safeguarded and accounted for in relation to quantities. However, the failure to maintain stock control accounts which would provide assurance on the correctness of the detailed stores balances and the failure to reconcile payments for stores items as charged in the Appropriation Account to the values of items booked into stock is an accounting weakness which should be addressed.
- The recorded stock values did not represent their true worth insofar as apparently high quantities of surplus or obsolete items were being carried at full value. Furthermore, pricing errors and inaccuracies discovered in the course of the audit raise questions as to the reliability of the recorded values for some stocks.
- The failure to install IMS in all stores over a period of some eight years raises questions as to the commitment given to the project. The absence of the management information which this system would provide, if fully implemented in all stores, militates significantly against the effective and efficient management of the stores operation.
- While stock levels would appear to be higher than could be justified when financial and economic factors are taken into account, the change in buying policy indicates that the matter is being addressed. However, it would appear that a more systematic and coherent policy needs to be developed on stock levels and purchasing policies for the different categories of stock, which can only be achieved following the installation of IMS in all stores.
- The evidence would suggest that surplus and obsolete stocks are being retained, which seems to be due to a failure in the past to address and deal with this question. Recent exercises carried out on Air Corps and Naval Service stocks indicate that a process of review is in train with the object of reducing stocks to appropriate levels.

The Accounting Officer of the Department of Defence made the following comments in relation to the report:

- He accepted that surplus and obsolete stocks had been allowed to build up in the past and that the issue needed to be addressed. The existence of surplus and obsolete stocks had been identified by the Department prior to the audit taking place and measures had been put in place which should significantly reduce stock levels. Work had commenced in the Naval Service and Air Corps and all other corps would be required to commence reviews immediately. These measures coupled with the full implementation of IMS in all stores accounts, would further enhance stores management in the Defence Forces.

The issue of surplus and obsolete stores had been highlighted in recent annual reports of the Department's Internal Audit Unit and had also been discussed by the Internal Audit Committee. The present Board of Survey procedures were cumbersome and militated against the review of stock on a regular basis and the Internal Audit Unit had made proposals in relation to a more streamlined procedure for dealing with the disposal of surplus and obsolete items. The efficient use of the Board of Survey system, in conjunction

with the use, whenever possible, of “just in time” purchasing techniques, should significantly reduce stock levels.

- He accepted that the pace of development and implementation of IMS had not been satisfactory, due in the main to:
 - the loss of experienced Defence Forces’ IT personnel to the private sector
 - the extensive re-organisation of the logistics function in the Defence Forces over the past few years
 - the need to concentrate the available IT resources on year 2000 issues in 1998/99
- The absence of a fully computerised stores system had made it impractical to operate stock control accounts because of the complexity of the military stores system and the huge number of transactions undertaken each year. However, control accounts would be maintained when the IMS had been fully implemented and the requirement would also be included in the planning for the introduction of the Generic Model Financial Management System which is currently in train throughout the Civil Service.
- The need to expedite the roll-out of the IMS to all stores was now being actively addressed and substantial progress was expected to be made over the next 12 months.

VOTE 40. - SOCIAL, COMMUNITY AND FAMILY AFFAIRS

35. Overpayments

The Department of Social, Community and Family Affairs administers some 50 welfare schemes paid through Vote 40 and the Social Insurance Fund. Expenditure on assistance and insurance schemes was £2.61bn and £2.11bn respectively in 1999.

The following tables outline overall expenditure on various schemes over the period 1995 to 1999, and for the same period, the amounts recorded as overpayments, the amounts of overpayments attributed to fraud or suspected fraud and the Department's cumulative record of recovery since 1995.

Table 20 - Total Scheme Expenditure

	1995	1996	1997	1998	1999
	£m	£m	£m	£m	£m
Social Insurance	1,868	1,794	1,842	1,983	2,112
Social Assistance	2,152	2,399	2,491	2,567	2,614
TOTAL	4,020	4,193	4,333	4,550	4,726

Table 21 - Number and Amount of overpayments recorded for recovery

(Numbers shown in brackets)

	1995	1996	1997	1998	1999
	£m	£m	£m	£m	£m
Social Insurance	4.13 (12,914)	4.12 (12,366)	4.48 (12,925)	4.14 (13,897)	6.03 (18,080)
Social Assistance	12.31 (17,769)	14.73 (20,243)	16.30 (21,759)	18.08 (22,054)	16.38 (21,346)
TOTAL	16.44 (30,683)	18.85 (32,609)	20.78 (34,684)	22.22 (35,951)	22.41 (39,426)

Table 22 - Number and Amount of overpayments attributed to fraud or suspected fraud

(Numbers shown in brackets)

	1995	1996	1997	1998	1999
	£m	£m	£m	£m	£m
Social Insurance	1.96 (3,505)	2.23 (3,074)	2.01 (3,271)	2.16 (4,810)	2.53 (5,821)
Social Assistance	9.66 (7,315)	11.41 (7,486)	12.50 (7,914)	8.54* (9,383)	9.56 (9,273)
TOTAL	11.62 (10,820)	13.64 (10,560)	14.51 (11,185)	10.70 (14,193)	12.09 (15,094)

* This fall of almost £4m was principally due to a change in the way the Department classified overpayments arising from the finalisation of the estates of recipients of non-contributory social welfare scheme payments. Prior to 1998 such overpayments were deemed to be attributable to fraud or suspected fraud.

The amount of overpayments attributed to fraud or suspected fraud compared to total overpayments since 1995 is summarised in Figure 2.

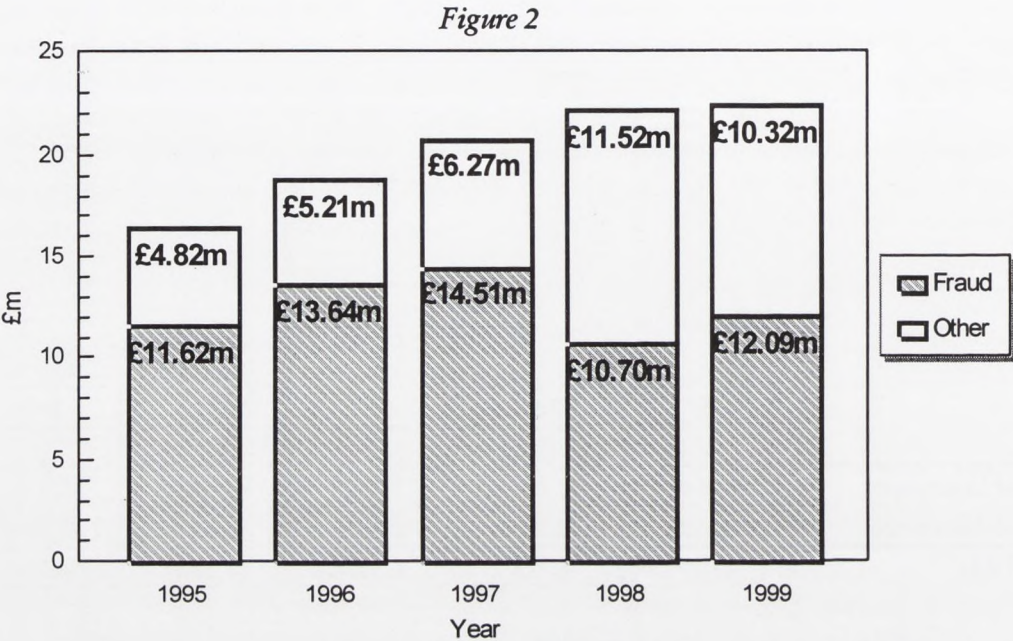


Table 23 - Department's record of recovery of overpayments 1995 to 1999

	1995 £'000	1996 £'000	1997 £'000	1998 £'000	1999 £'000
Overpayments not disposed of at 1 January	31,945	31,423	35,082	37,579	42,229
Overpayments recorded for recovery	16,438	18,853	20,781	22,221	22,405
<i>less:</i> overpayments recorded in prior years cancelled	(436)	(430)	(301)	(378)	(230)
sums recovered in cash	(3,895)	(4,399)	(4,638)	(5,335)	(4,059)
sums withheld from current entitlements	(2,712)	(3,311)	(4,274)	(3,880)	(3,307)
amounts written off as irrecoverable	(9,917)	(7,054)	(9,071)	(7,978)	(9,326)
Overpayments not disposed of at 31 December	31,423	35,082	37,579	42,229	47,712

36. Prosecutions

Cases involving abuse of the system are considered 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 either be by summary or indictment proceedings. Civil proceedings are taken to facilitate the recovery of scheme overpayments or the collection of PRSI arrears. Such cases are only taken where it has been established that the debtor has sufficient means to discharge the debt.

During 1999, 329 criminal cases (1998 - 234 cases) and 9 civil cases (1998 - 9 cases) were forwarded to the Chief State Solicitor's Office for prosecution.

Table 24 - Criminal cases forwarded to the Chief State Solicitor

	1998	1999
Unemployment Assistance	117	171
Unemployment Benefit	34	77
Disability Benefit	10	27
Invalidity Pension	2	1
One Parent Family Payments	13	10
Other Schemes	1	3
Offences Committed by Employers	57	40
Total	234	329

A total of 107 prosecutions (1998 - 117 prosecutions) involving social welfare recipients were finalised in court in 1999. The total amount of overpayments assessed in cases of persons who attempted to or obtained benefits/assistance fraudulently was £426,078 (1998 - £411,510). The results of these 107 court cases and the penalties imposed are given in **Table 25**.

Table 25 - Results of Court Cases involving Social Welfare Recipients

	Fines Imposed	Communi-ty Service	Imprison-ment	Probation Act	Proven No Penalty
Unemployment Assistance	24	5	9	19	10
Unemployment Benefit	7	3	6	4	2
Disability Benefit	6	1	-	2	1
Invalidity Pension	1	-	-	1	-
One Parent Family Payments	3	-	-	1	1
Other Schemes	-	-	-	1	-
Total	41*	9	15[#]	28	14

* Fines to a value of £9,728 were imposed by the courts (£14,095 in 1998 in 59 cases)

9 subsequently suspended

The prosecution of 37 cases involving employers (1998 - 43 employers) were also finalised. The results of these court cases and the penalties imposed are given in **Table 26**.

Table 26 - Results of Court Cases involving Employers

	1999
Cases Fined	31*
Prison Sentence	-
Probation Act	1
Proven/No Penalty	5
Total	37

* Fines to the value of £10,006 were imposed by the courts (1998: £13,050 in 37 cases)

There were no civil cases finalised in 1999 (1998 -zero cases)

The number of prosecutions finalised in the courts since 1995 is summarised in Figure 3.

Figure 3



37. Recovery of Maintenance Contributions

Introduction

One Parent Family Payment (OPFP) is payment for both men and women who for a variety of reasons are bringing up a child(ren) without the support of a partner. A person who is unmarried,¹⁸ widowed, a prisoner's spouse, separated¹⁹, divorced or whose marriage has been annulled and who is no longer living with his/her spouse is eligible to apply for payment. The other schemes that may apply in this area are Deserted Wife's Allowance and Benefit.

Liable Relatives and the Recovery of Maintenance

Part III of the Social Welfare Act 1989 (as amended by Part IX of the Social Welfare (Consolidation) Act 1993) imposed an obligation on spouses to maintain each other and their children. The Act also imposed a liability on the spouses or partners of certain social welfare recipients to contribute to the Department of Social, Community and Family Affairs (the Department) towards payments of Lone Parent Allowance and Deserted Wife's Allowance and Benefit. The legislation was effective from 29 November 1990 and was subsequently amended to provide for OPFP when it replaced some of the earlier schemes in 1997.

The issue of maintenance payments is first and foremost a private matter for the persons concerned and if they cannot resolve the problem, for the courts through Family Law provisions. Social welfare payments act as a safety net for people who have failed to obtain adequate maintenance, but those claiming must satisfy the Department that they have made reasonable efforts to obtain such maintenance. The Department encourages the parent caring for the children to pursue the other parent for maintenance in line with the conditions of the OPFP scheme. Take-up of schemes for lone parents has grown significantly over the years. This is mainly due to social change (more births outside marriage, increasing marriage breakdown) but also because scheme conditions have been extended, thus allowing more people to remain qualified - e.g. an earnings disregard of £115 per week on the OPFP scheme now applies.

Persons who are liable to contribute to the maintenance of lone parents and their children who are being supported through OPFP are known as liable relatives. Where the lone parent has failed to secure any, or adequate, maintenance then the Department can take direct action to recover some or all of the cost of OPFP issued to the lone parent. It should be borne in mind that the Department's action to get contributions is aimed at a liable relative target group that has already shown a marked reluctance to make maintenance payments to their spouse and children.

¹⁸ *Efforts to seek maintenance prior to award of OPFP is not a qualifying condition but unmarried recipients are expected to make efforts to seek maintenance after the OPFP claim is awarded.*

¹⁹ *It is a condition that a separated OPFP claimant must make efforts to seek maintenance before the claim is awarded.*

Statistics

Table 27 - Expenditure on Schemes covered by Maintenance Provisions

	1998 £'000	1999 £'000
One Parent Family Payment	307,039	342,730
Deserted Wife's Allowance	6,696	6,598
Deserted Wife's Benefit	69,772	67,707*
Total	383,507	417,035

* *Provisional*

Table 28 - Number of Recipients

Year	Total
1990	37,711
1991	42,446
1992	47,180
1993	51,662
1994	56,465
1995	62,195
1996	67,441
1997	75,312
1998	81,194
1999	85,342

Table 29 -Recipients by Number of Qualified Children 1999

Without Qualified Children	7,362 ²⁰
With 1 child	46,934
With 2 children	18,992
With 3 children	7,546
With 4 children	2,932
With 5 children	1,029
With 6 or more children	<u>547</u>
Total	<u>85,342</u>

²⁰

This consists of Deserted Wife's Benefit, Residual Deserted Wife's Allowance and Prisoner's Wife's Allowance claimants.

Audit Objective

The audit objective was to assess the performance of the Department's Maintenance Recovery Unit (MRU), set up in 1990, in implementing the liable relative regulations and in particular their assessment, administration and collection of maintenance contributions under the regulations to ensure that the Department recovers all moneys rightly due to it.

The audit did not address the policy issues relating to the design of the OPFP scheme, including the maintenance payable formula.

Extent and scope of audit work carried out

- The relevant regulations and legislation were examined
- Statistics on OPFP payments and contributions from liable relatives were obtained and analysed
- The Department's procedures and systems for implementing the regulations were documented and tested
- A sample of files was examined to ascertain the current status of liable relatives who were receiving social welfare payments or were untraceable when OPFP was originally awarded in 1998
- Discussions with relevant officials in the Department

Audit Findings

- (a) At 31 December 1999 the position in the MRU was as follows
- 537 liable relatives were active for maintenance contributions
 - Total maintenance contributions received in 1999 from cases active in that year was £630,751 from total maintenance assessed of £1,902,563
 - The target for recovery in 1999 was £700,000.
- (b) The Department also calculates that 2,323 OPFP cases are in receipt of maintenance privately as a maintenance amount was included in the means assessment for the OPFP decision. These cases result in savings of £2.7m per annum and are achieved mainly by the action initiated by the Department at the processing of the OPFP claim by requiring applicants to make their own efforts to obtain maintenance.
- (c) The operation of the maintenance recovery provisions also yielded savings on scheme expenditure. These savings arise where the recovery operation has resulted in the termination of a claim by the Department on receipt of new facts. From the setting up of the MRU in 1990 to 30 June 2000, 137 claims have been terminated yielding savings of almost £1.5m. Further savings of £251,000 have been achieved as a result of 192 claims being reduced in cases where Departmental action has led to the commencement of regular maintenance payments being made directly to the client.

- (d) Only a liable relative in employment or self employed (35% of total) at the time of the award of OPFP are assessed for maintenance. If the liable relative is on a social welfare payment (43%) or untraceable (22%) at time of decision no further action is taken. Audit tests revealed that
- in April 2000, of 100 cases where the liable relative was in receipt of a social welfare payment at the time of OPFP decisions in 1998, 21 were no longer in receipt of such payment
 - of 50 cases where the liable relative was untraceable at the time of OPFP decisions in 1998, there were 12 cases where the liable relative had made social welfare contributions or had received a social welfare payment since.
- (e) At 31 December 1999 there was a 2 year backlog in assessing liable relative cases that were classified as working or self employed at time of decision on OPFP. At that date there were 14,895 cases (5,741 separated and 9,154 unmarried) on hand where the liable relative was in employment.
- (f) The issue of staff resources in the MRU is currently under review in the Department. The limited staff resources in the MRU - at present 7 officials at a direct salary cost of approximately £150,000 per annum - means that it currently concentrates on pursuing maintenance payments from liable relatives who were in employment or self employment at the time of assessment as these result in a better financial return.
- (g) An important consideration for MRU in deciding how best to allocate resources is that in the case of separated families the liable relative is liable for maintenance for spouse and children and that in the case of unmarried OPFP the liable relative is liable for maintenance in respect of children only. The MRU concentrates its resources on the separated cases (current total 16,127) as the maintenance payments are generally larger and the financial return to the Department is greater.
- (h) Where a liable relative is employed or self employed and is informed of maintenance assessment and the liable relative makes no response, or starts payment and subsequently stops payment, the Department have no follow-up procedures.
- (i) No procedures exist to review the income of a liable relative after the initial assessment for maintenance contribution.
- (j) The Department's debt collection policy has the following shortcomings
- no individual debtor accounts maintained
 - no aged analysis of debtors maintained
 - no procedures for the follow-up of defaulters
 - no debt review procedures
 - no procedures for the write off of uncollectable amounts

- no legal case was taken against defaulters until 1998 when the Department forwarded 3 cases to the Chief State Solicitor for action but they have not yet reached the courts
 - no risk analysis strategy *i.e.* the prioritisation of debt.
- (k) The Department has, since November 1999, operated a new computerised debtor system for MRU. Staff are familiarising themselves with the capability of the system which is said to have the potential for the compilation of a complete database of liable relatives which will enable the MRU to operate a comprehensive debt collection procedure. The previous system in MRU was only capable of recording details of the payments made to the Department.
- (l) The only output performance indicator the Department has is a savings indicator. The Department does not have detailed measurable performance indicators such as
- the proportion of liable relatives paying maintenance for their children
 - the proportion of maintenance cases in collection compared to a set target
 - the proportion of maintenance assessed that is actually collected
 - collected maintenance total as a proportion of cost of collection.
- (m) A lone parent can receive tax relief if the child resides with him/her. The qualifying period for residence is one night. The Department does not provide or seek information from the Office of the Revenue Commissioners in relation to persons in receipt of this tax allowance. A liable relative in default of maintenance payments could be in receipt of a tax allowance for the child as there is no constraint on the allowance being granted to both parents. This potential area of shared information between the Office of the Revenue Commissioners and the Department should be reviewed taking cognizance of existing legislation and data protection matters.
- (n) There is inconsistency in the treatment of maintenance between different social welfare schemes. Maintenance payments for children are not assessed as means for Unemployment Assistance and some claimants refuse to transfer to OPFP for this reason. This has the effect of underestimating the number of OPFP claimants.

Conclusions

- It is important that maintenance should be fairly, firmly and efficiently enforced with appropriate safeguards for those who are not able to provide financial support.
- The total of 2,860 liable relatives (537 to the Department and 2,323 by personal arrangement) making maintenance contributions is 3.5% of total recipients of OPFP. This is a very small proportion of total liable relatives.
- While it is appreciated that it is the failure of liable relatives to maintain their spouses and/or children in the first place that gives rise to their liability to contribute to the Department, the small proportion of liable relatives making maintenance contributions, when taken with the

absence of court proceedings, suggests that the Department's performance in the collection of maintenance could be interpreted as ineffective and of little deterrent value for liable relatives to meet their commitments. If the public perception is that the prospect of assessment and active pursuit, legal and otherwise, is low or non-existent then the major deterrent to discourage avoidance of maintenance contributions is severely compromised.

- The Department needs to develop a strategy to establish a climate where the payment of maintenance by a liable relative is regarded as a normal, not exceptional, contribution towards the maintenance of lone parents and/or their children.
- While acknowledging that the Department has to allocate resources to the areas where they can be most cost effective, nevertheless the MRU is unable at present to fully implement the liable relative regulations due to insufficient resources.
- The Department should ensure that systems and guidelines in the area of maintenance collection becomes an area of diligent assessment and pursuit. It must carry out the collection of maintenance due to the State in the most cost effective way. In this regard, the Department should exploit the total capability of the new computerised debtor system. MRU procedures should be updated to specifically ensure that
 - controls exist to regularly review the status of liable relatives who were not liable or traceable at the time of the original OPFP assessment
 - procedures are in place to record the income of liable relatives after the original assessment
 - a robust debt collection policy with detailed follow up, review and write off is followed
 - a risk analysis strategy is devised to develop a more focused approach to the use of resources
 - indicators are put in place that effectively measure the performance of the Department in collecting maintenance contributions.
- The Department should have a monitoring system to ensure that procedures and guidelines are properly implemented and performance indicators attained.
- The Department should consider ways where relevant data on liable relatives can be exchanged with the Office of the Revenue Commissioners and speedily conclude an agreement on the matter of transfer of data.
- The Department should consider the standardisation of the treatment of maintenance payments in all means tested social welfare schemes.

The Accounting Officer offered the following comments on the report

- While one-parent families may be entitled to maintenance under Family Law, they may in practice receive little if any support from their spouses. It has been variously estimated that payments under maintenance orders are actually made regularly in only 12 - 20% of cases.

- The implementation of the statutory provisions to recover contributions from liable relatives is one element in a range of activities designed to minimise misuse/abuse of the social welfare system, including activities to detect fraud and to secure recoupment of moneys which control activities have identified as having been wrongly received.

The activities in any one area of control activity must be viewed in the wider context of the whole range of controls which the Department operates and the relative effectiveness of the various measures employed.

The Pensions Services Office, in which the OPFP administration and MRU are situated, manages an old age, widowed and lone parent client base of 500,000 and deals with 170,000 new claims and revisions per year. Out of a staff complement of around 460, 36 staff are devoted fully to control activities of various types, including 7 in the MRU specifically. In addition, Social Welfare Inspectors in each region deal with the investigative aspects of liable relative assessment in support of MRU work. The collective work of the staff currently deployed yields some £1m per annum in contributions and indirect scheme savings.

- The Department has implemented the liable relative provisions over the years as vigorously as possible having regard to the resources available and to the other control and customer service demands arising. The aggregate results from this process are estimated at some £23m over the 9 year period from end-1990 to end-1999. This aggregate amount mainly comprises an estimated £18m in reduced Lone Parent's Allowance/OPFP rates due to the requirement on applicants to satisfy the Department that they have made reasonable attempts to obtain maintenance. The balance is made up of £3.2m in direct contributions from liable relatives and scheme savings of £1.8m indirectly arising through liable relative investigative work.
- The Department is currently undertaking a widescale review of overall staffing in the Pensions Services Office in the light of changing workloads and other priorities. As part of this, the options for stepping up activity in maintenance recovery and other control areas are being assessed. In addition, a small database system developed by the Unit in the mid-1990s was recently replaced by a more comprehensive debt management system and staff are being trained to use this enhanced system as a means of tracking liabilities and identifying defaulters.
- Furthermore, a major review of financial support for lone parents has recently been completed by the Department. One of the objectives of the current scheme is to support and encourage lone parents to consider employment as an alternative to long-term welfare dependency. On foot of this review²¹, a new programme of supports to assist lone parents to find employment is being developed. The review also put forward a number of possible options for enhanced action in the area of maintenance recovery from liable relatives and these are being considered.
- The review also addresses the matter of liable relatives receiving tax relief for their child(ren) while they are not contributing to the cost of the social welfare payment to their spouse

²¹

Review of the One Parent Family Payment September 2000 Programme Evaluation Report No. 7

and/or child together with improving data transfer arrangements with the Revenue Commissioners in this regard.

- The question of inconsistencies in treatment of maintenance between different social welfare schemes has been considered in the context of the review. Any changes in this regard would require legislation.
- The Department is also making arrangements for greater localisation of the OPFP scheme. Ultimately it is envisaged that the administration of this scheme will be transferred to social welfare local offices and a working group has been established to progress this. The localisation of claims would, *inter alia*, enable a more effective use of staff resources in this area and closer control for payments.
- Consideration is being given to targeting a percentage of cases where an employed or self-employed liable relative either does not respond to an assessment or begins contributing and then defaults, subject to an assessment of the impact of this on new case work and the resulting overall yield within the resources available. It should be noted that some reviews do take place either at the request of the liable relative or when the Department receives information which might affect the liability due by the liable relative.
- The Department is conscious of the need to enforce the maintenance provisions fairly, firmly and efficiently. Where there are resource constraints and conflicting priorities, the focus is on getting maximum return for resource allocation.
- The Department has to work within a finite level of staff resources and has had to make choices in deploying these to deal with an increasing claimload and to deal with controls having regard to the risks and the return on the effort involved. However, the Department is currently engaged in a widescale review of overall staffing in the light of changing workloads and is reviewing the resource requirements of the Maintenance Recovery function specifically within that process.
- It is the Department's intention to initiate a regular number of cases for prosecution under the liable relatives provisions each year. The fact that no cases submitted have yet reached court is outside the Department's direct control, but does not indicate any unwillingness on the part of the Department to take prosecutions.
- The level of recourse to the scheme(s) and international experience both demonstrate the marked resistance to contribute which exists among people who walk away from their responsibilities. This is the backdrop against which the Department operates. The position will be reviewed in the light of the experience gained.

The extension of the Family Mediation Service, as is already happening, is also expected to make an impact in the case of couples prepared to participate in mediation.

- The new computer system will be used increasingly in support of maintenance recovery work. The degree to which the other matters outlined in the Report can be achieved - will depend, *inter alia*, on the impact of the new computer system.

NATIONAL TREASURY MANAGEMENT AGENCY

38. National Debt

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.

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 1999 (£6.3m in 1998).

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 1999 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 1999 and its balances at year end.

Table 30 shows the outturn for the National Debt in the five year period 1995-99.

Table 30 - National Debt 1995-99

Year	National Debt Outstanding £m	Debt Service Cost £m
1995	30,209	2,341
1996	29,912	2,475
1997	30,689	2,755
1998	29,541	2,410
1999	31,384	2,205

The composition of the National Debt²² at 31 December 1999 was:

	£m
Medium/Long term Debt	24,704
Short term Debt	4,535
National Savings Schemes	3,858
Less: Domestic Liquid Assets	<u>(1,713)</u>
National Debt	31,384

²²

The National Debt is stated on the basis of nominal amounts of principal originally borrowed.

The Agency's performance in regard to debt management activities is independently measured by an international investment bank specifically engaged for that purpose. The rationale and basis of the performance measurement was agreed with the Department of Finance. The Bank determined that, measured on a net present value basis against an independent benchmark portfolio, savings attributable to the Agency's management in the year amounted to £27.2m.

39. 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 2000 they reported to me on their audit of the 1999 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. The Exchequer is responsible for the repayment to the Bank of all such funds and for meeting interest charges thereon.

The state of affairs of the fund at year end was as follows:

	1999 £m	1998 £m
Liability in respect of funds due to depositors and creditors	502	474
Value of related investments held by Post Office Savings Bank Fund (at cost prices) ^a	512	498
Surplus at 31 December	10	24

^a The market value of the investments held by the Fund was £1.4m less than their cost price.