

2000

**Annual Report
of the
Comptroller and Auditor General**

**and
Appropriation Accounts**

Volume 1



2000

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 2000**

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

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The Annual Report of the Comptroller and Auditor General and the Appropriation Accounts is published in two Volumes

- ! Volume 1, this volume, contains the Report of the Comptroller and Auditor General on matters arising from his audit of the Appropriation Accounts for 2000
- ! Volume 2 contains the individual Appropriation Accounts for 2000 with the audit certificate of the Comptroller and Auditor General on each account

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

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

Accounts of the Public Services, 2000

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 2000 in accordance with Section 3 of the aforementioned Act.

John Purcell
Comptroller and Auditor General

September 2001

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General Matters

1. Outturn for the year

The audited accounts are summarised on pages x and xi of Volume 2. The amount to be surrendered as shown in the summary is £599.63m arrived at as shown in Table 1.

Table 1 Outturn for the year 2000

	£'000	£'000	£'000
<i>Estimated Gross Expenditure</i>			
Original Estimates	18,221,890		
Supplementary Estimates	<u>432,110</u>	18,654,000	
<i>Deduct:-</i>			
<i>Estimated Appropriations in Aid</i>			
Original Estimates	1,785,422		
Supplementary Estimates	<u>4,135</u>	<u>1,789,557</u>	
Estimated Net Expenditure			16,864,443
Actual Gross Expenditure		18,015,831	
<i>Deduct:-</i>			
Actual Appropriations in Aid		<u>1,751,549</u>	
Net Expenditure			<u>16,264,282</u>
Amount to be Surrendered			£600,161 (€762,047)

This represents 3.56% of the supply grant as compared with 3.21% in 1999.

2. Extra Exchequer Receipts

Extra Receipts payable to the Exchequer as recorded in the Appropriation Accounts amounted to £208,991,464.

3. Surrender of Balances of 1999 Votes

The balances due to be surrendered out of Votes for Public Services for the year ended 31 December 1999 amounted to £478.23m. I hereby certify that these balances have been duly surrendered.

4. Stock and Store Accounts

The stock and store accounts of the Departments have been examined with generally satisfactory results.

5. 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.

Since August 2000 I carried out inspections in St Patrick's Hospital, Cork, South Infirmary – Victoria Hospital, Cork, Galway County Association for Mentally Handicapped Children and the South Western Regional Tourism Authority, with satisfactory results.

6. North-South Implementation Bodies

Background

The British Irish Agreement was signed at Belfast on 10 April 1998 and was brought into force on 2 December 1999.

The following North/South Institutions, as provided for in the Agreement, were established with effect from 2 December 1999:

- The North/South Ministerial Council
- The six North/South Implementation Bodies.

The North/South Ministerial Council

The North/South Ministerial Council brings together Ministers from the Northern Ireland Assembly and the Irish Government, on a regular basis, to develop consultation, co-operation and action within the island of Ireland on matters of mutual interest within the competence of both administrations.

The work of the Council is supported by a Joint Secretariat, located in Armagh, which is staffed by personnel from the Office of the First Minister and Deputy First Minister and the Irish Civil Service. Among other duties, the Joint Secretariat is responsible for arranging Council meetings in both sectoral and plenary formats, co-ordinating the papers for the meetings and monitoring the work of the six Implementation Bodies.

The North/South Implementation Bodies

The work of the North/South Ministerial Council covers 12 sectors, six have North/South bodies and the other 6 operate through existing agencies in each jurisdiction.

The six North/South Implementation Bodies implement the policies agreed by the Ministers in the Council. The governing legislation is the British-Irish Agreement Act 1999 and the North-South Co-operation (Implementation Bodies) (Northern Ireland) Order 1999.

The six matters identified as "Areas of Co-operation" through the mechanism of existing bodies in each separate jurisdiction are: Transport, Agriculture, Education, Health, Environment and Tourism.

The following summarises the functions of each Implementation Body: -

Waterways Ireland

Waterways Ireland is responsible for navigable inland waterways on the island. Its primary function is the management, maintenance, development and restoration of the inland navigable waterway systems, primarily for recreational purposes. These systems were previously under the control of the Minister for Arts, Heritage, Gaeltacht and the Islands in this jurisdiction and the Rivers Agency in Northern Ireland.

Food Safety Promotion Board

The Food Safety Promotion Board is principally charged with promoting food safety – through public campaigns, conferences, training and advising professionals and the general public. It is also involved in supporting North/South scientific co-operation, and links between institutions working in the field of food safety – laboratories, statutory food safety enforcement agencies, and international and domestic research bodies.

Trade and Business Development Body

The Trade and Business Development Body, which operates under the name of InterTradeIreland, exercises a range of functions in the trade and business sector. Under the overall policy direction of the North/South Ministerial Council, InterTradeIreland works in close collaboration with the Department of Enterprise, Trade and Investment, Belfast, and the Department of Enterprise, Trade and Employment, Dublin. It also has a focus on promoting North/South trade and business co-operation by building enterprise capability and competitiveness.

Special European Union Programmes Body

The Special European Union Programmes Body has significant managerial, including grant-making and oversight functions in relation to the new Community Initiatives under the post-1999 European Structural Funds and the new Peace Programme. The Body is also responsible for monitoring and promoting the implementation of the Common Chapter in the National Development Plan for Ireland and the Northern Ireland Structural Funds Plan.

The North/South Language Body

The Language Body is a single body reporting to the North/South Ministerial Council, but composed of two separate agencies: the Irish Language Agency, Foras na Gaeilge, and the Ulster-Scots Agency, Tha Boord o Ulster-Scotch.

Foras na Gaeilge, which was established on 2 December 1999 after taking over the functions of Bord na Gaeilge, An Gúm and An Coiste Téarmaíochta is responsible for promoting the Irish Language on an all-island basis. Its wide range of functions includes the promotion of Irish, for example, in the area of education, dictionaries and terminology.

Tha Boord o Ulster-Scotch is responsible for promoting a greater awareness and use of Ullans and of Ulster-Scots cultural issues, both within Northern Ireland and throughout the island.

Foyle, Carlingford and Irish Lights Commission

The functions of the Commission in relation to the Foyle and Carlingford Areas are exercised through the Loughs Agency, which replaced the Foyle Fisheries Commission on 2 December 1999. Its function includes the "conservation, protection and improvement of the fisheries of the Foyle area" and to promote the development of Lough Foyle and Carlingford Lough for commercial and recreational purposes.

British and Irish legislation, when implemented will allow transfer of the Commissioners of Irish Lights functions to the Foyle, Carlingford and Irish Lights Commission, and such functions will be exercised through an agency of the Commission known as the Lights Agency. The Commission will become the General Lighthouse Authority for the island of Ireland.

General Matters

Other Bodies

With the agreement of the Northern Ireland Assembly and the Oireachtas it will be open to the North-South Ministerial Council to set up more Implementation Bodies in the future.

A limited company publicly owned by Bord Fáilte Éireann and the Northern Ireland Tourist Board was established on 11 December 2000. The new company, Tourism Ireland Limited, markets the island of Ireland overseas as a tourism destination and will operate under the overall policy direction of the North/South Ministerial Council.

Funding Arrangements

The bodies are funded primarily from grants made by the relevant government departments in both jurisdictions. They are staffed by a combination of civil servants (either transferred or seconded from their parent Departments) and directly recruited staff. A summary of the funding and staffing position of the Implementation Bodies for the period 2 December 1999 to 31 December 2000 is shown in Table 2.

Table 2 Implementation Bodies – Funding and Staffing

Body	Total Public Funding¹	Irish Contribution¹	Northern Ireland Contribution¹	Average Staff Numbers
	IR£m	IR£m	IR£m	
Waterways Ireland ²	11.950	10.912	1.038	250
North/South Language Body:				
Foras na Gaeilge ²	8.173	5.876	2.297	43
Ulster-Scots Agency ²	0.342	0.085	0.257	3
Food Safety Promotion Board	2.050	2.050		4
Trade and Business Development Body	2.448	1.637	0.811	14
Special EU Programmes Body	2.758	1.883	0.875	19
Foyle, Carlingford and Irish Lights Commission				
Loughs Agency ²	1.893	1.182	0.711	27
Total	29.614	23.625	5.989	360

Notes:

1 Includes Current and Capital Grants.

2 Unaudited Accounts.

Auditing Arrangements

Each Body is required to keep proper accounts and financial records and to prepare a statement of accounts in respect of each year containing such information and in such form as the Irish and Northern Ireland Department paying grants to the Body may direct with the approval of the Finance Departments.

Each Body submits copies of its accounts to the North/South Ministerial Council as well as to the Comptroller and Auditor General for Northern Ireland and me. Staff from the Northern Ireland Audit Office and my Office audit the accounts in co-operation leading to joint certification of the accounts by the Comptroller and Auditor General for Northern Ireland and me.

The audited accounts, together with any report thereon, are then laid before both Houses of the Oireachtas and the Northern Ireland Assembly.

Tourism Ireland Limited is a company registered in this jurisdiction and it has been agreed that I should be the auditor of its accounts. While it is my intention that staff from the Northern Ireland Audit Office will form part of my audit team, the Comptroller and Auditor General for Northern Ireland will not formally participate in the audit as he does not have the necessary legislative authority to audit the accounts of private companies.

As at 10 September 2001 the audit of the Trade and Business Development Body, the Special EU Programmes Body and the Food Safety Promotion Board have been completed. The audits of Waterways Ireland and the Loughs Agency were ongoing while the audits of the Language Body had not commenced. The first set of accounts for Tourism Ireland Limited will cover the period 11 December 2000 to 31 December 2001 and will be audited in 2002.

The expenses of the North/South Ministerial Council are accounted for by the Office of the First and Deputy Minister in Belfast and by the Department of Foreign Affairs in Dublin as appropriate.

7. Domestic Travel And Subsistence In The Civil Service

Background

Officers employed on official business away from their normal workplace are compensated for the resultant travel and subsistence expenses incurred in accordance with rules and regulations made by the Minister for Finance. Expenses incurred on accommodation and meals are generally reimbursed at standard overnight or daily rates set by the Department of Finance. Where use of an officer's own car is permitted, standard mileage rates - based on the engine capacity of the car - are paid. Where public transport is used actual costs are reimbursed. The Regulations require that allowances claimed should not exceed actual expenses incurred and that expenses should not be a source of emolument or profit. Responsibility for ensuring compliance with the rules rests with the individual Government Departments and Offices that employ such staff.

Expenditure on both domestic and foreign travel and subsistence in 1999 was £49.7m. This had increased by almost 10% to £54.6m in 2000. Some £41m of this expenditure related to domestic travel and subsistence. The Departments/Offices examined spent £5.3m and £6.0m in 1999 and 2000 respectively of which £4.3m and £5.0m was in respect of domestic travel and subsistence.

Audit Objectives and Scope

The purpose of the audit was to determine the extent to which Government Departments and Offices adhered to the Regulations laid down by the Department of Finance and to ascertain whether there was a generally consistent interpretation of the Regulations across different Departments and Offices. The accounting records and the controls and procedures in operation to ensure that travel and subsistence payments were properly and correctly authorised and paid were also evaluated.

Six Departments and Offices were selected for audit. Except for the Department of Finance, the Departments and offices selected had higher than average spending per employee on travel. Audit software was used to extract a sample of travel and subsistence claims for detailed examination. Discussions also took place with managers and staff in the selected Departments and Offices who had responsibility for the processing and recording of travel and subsistence claims. The following Departments and Offices were selected for audit - Departments of Arts, Heritage, Gaeltacht and the Islands; Environment and Local Government; Marine and Natural Resources; and Finance, as well as the Valuation Office and Ordnance Survey.

Expenditure

Details relating to the costs incurred on travel and subsistence by the six Departments and Offices audited are shown in Table 3.

Table 3 Expenditure on domestic travel and subsistence for selected Departments/Offices

Department	Total Number of Staff	Total Amount Paid £	Number of Recipients	Number of Recipients £5,000 or more	Max individual Payment £
Environment and, Local Government	856	2,072,070	621	170	18,836
Arts, Heritage, Gaeltacht and the Islands	790	1,309,000	502	100	14,227
Marine and Natural Resources	597	1,099,206	390	86	16,575
Finance	569	131,703	263	0	3,696
Valuation Office	132	142,483	103	29	17,538
Ordnance Survey	316	273,798	222	16	13,553
Total	3,260	5,028,260	2,101	401	

Audit Findings

The maintenance of accounting records, and the controls and procedures in place to ensure that all travel payments were correctly and properly made in accordance with Department of Finance Regulations, were satisfactory.

The Department of the Environment and Local Government had a system in place for paying car allowances and reduced mileage rates to certain technical grades who travel regularly, rather than the standard mileage rates. The Department of the Marine and Natural Resources supplied cars to its Sea Fisheries Officers and Control Manager for use exclusively on official business. The arrangements in both cases seemed appropriate and had been approved by the Department of Finance.

In the case of the Ordnance Survey Office, an authorised officer did not approve the travel costs of its two most senior officers. I have been informed that arrangements have now been put in place to correct this position.

According to the Regulations, overnight subsistence is payable to officers when they are working more than 15 miles from home or their normal workplace. The 15 mile threshold has remained unchanged since 1982. Except for the Valuation Office, all of the Departments and Offices examined paid overnight subsistence when officers were more than 15 miles from home or normal workplace. The Valuation Office stated that it only paid overnight subsistence if this was more economically advantageous than having the officer return to the Office at the end of the working day, taking account of the cost in mileage and the work forgone due to travel.

Instances were noted in Departments where claimants were paid overnight subsistence when they were working not far outside the 15 mile threshold. With the advent of improved roads, high levels of car ownership and changes in commuting patterns it would appear that a review of the threshold is well overdue. As a result of my inquiry the Department of Finance has undertaken to examine the existing arrangements.

Vote 3 - Department of the Taoiseach

8 Multi Media Developments

Background

In May 2000 the Department of the Taoiseach on behalf of the Government signed a ten-year agreement with the Massachusetts Institute of Technology (MIT) to establish MediaLab Europe (MLE) as a University level research and education centre. MLE is to specialise in telecommunications, information and multimedia technologies, including the Internet and digital commerce. The centre is to be modelled on the existing Media Laboratory located in MIT and is intended to be an interdisciplinary and innovative facility which will offer industry a new model of access to research and intellectual property. The centre is expected to grow to a community of up to 20 full time faculty members, 35 research staff and 200 post-graduate and undergraduate students. It plans to develop a co-operative programme for conferring degrees with other Irish and European universities, with a long-term goal of implementing its own degree programme.

The agreement provides for the payment by the State of £28m (£19.6m to MLE and £8.4m to MIT) and the provision by the State of suitable premises to MLE at a nominal rent. In return MIT undertakes to provide management expertise and technical support, access to accumulated intellectual property rights, right of use of the MIT brand and exclusivity regarding the location of any similar venture in Europe. MIT also undertakes to secure corporate sponsorship and private contributions for MLE. MLE will make further payments totalling £8.9m to MIT in respect of MIT's involvement in joint research programmes and is also required to pay MIT a percentage of sponsorship moneys which it receives from year 3 onwards.

The Government also agreed to pay a further £1m per annum for 7 years to the Higher Education Authority in respect of collaborative research projects between MLE and Irish universities. It was further agreed to create a network of internationally respected leaders from the IT and communications industries to assist in promoting MLE but this has not yet been established.

MLE commenced operations in July 2000 based in the former Guinness Hopstore. At 31 March 2001, it employed seven executive and administrative staff, together with twelve research staff including two senior MIT researchers on a half-time basis.

It is envisaged that MLE will be at the centre of a multimedia village, to be known as the Digital Hub. The concept is based on New York's Silicon Alley and is intended to combine traditional arts such as film, graphic design, music and advertising with new computer based technologies. It is expected that post graduate students conducting research under leading international scientists will produce ideas which can be developed by start-up companies, leading to the creation of high technology creative jobs in the district. It is intended that the village will provide a catalyst for the development of accommodation and activities such as museums, art galleries, restaurants and other visitor attractions where science and business will interact creatively.

Audit Objectives and Scope

The objectives of the audit were to

- evaluate the management and accountability structures in place to oversee the development of MLE and the Multimedia Village and compliance with agreements concluded between the different participants in the project
- review the level of State funding and the measures and agreements in place to protect the State's

interest

- review the procedures employed in the acquisition and management of property
- establish whether adequate procedures were in place, and were complied with to ensure that payments were correct and were properly authorised.

The audit consisted of a review of the administrative procedures and structures put in place to manage the project. The files of the Department of the Taoiseach and the Department of Finance were examined, including Government Decisions and Memoranda, legal agreements, minutes of Liaison Committee meetings, and correspondence between and with relevant Departments, MIT, MLE and Digital Media Developments Ltd. (DMDL), the company set up to oversee the project. Discussions were held with officials from the Departments of the Taoiseach and Finance and a site visit to MLE was made. A selection of payments was also examined for authority and correctness.

Audit Findings

Evaluation of Project

The decision of the Government to invest in the project in May 1999 followed an approach by, and discussions with, MIT. At that time MIT was seeking a European partner to create a centre for research and development in multimedia, information and communications technology and digital commerce. An interdepartmental group considered the proposal and clarified certain elements of it with MIT. The proposal was seen as a major opportunity for the development of the digital economy. It was envisaged that MLE would, as an anchor tenant, attract technology companies and entrepreneurs from around the world to establish operations in the Digital Hub.

The Information Society Commission had recommended the establishment of such a facility. Independent advice received from international sources had acknowledged MIT as a world leading facility with an unrivalled reputation. It was noted that much of MIT Media Lab's reputation and fund-raising success derives from its Director's performance and input. Thus, it was considered essential to reflect in legal agreements, specific conditions relating to his involvement and commitment.

It was also acknowledged that the proposal was not without risk, that moneys paid would represent inducements and would not be performance related. It was accepted that a proposal of this kind did not readily lend itself to assessment by any tried and tested traditional means, and that to an extent MLE would be in competition with MIT in attracting sponsorship.

Location of Project

The Government decided to base the Digital Hub in the old Guinness Hopstore and surrounding properties in The Liberties, Coombe and Thomas Street area. The area is close to Dublin's city centre, has a good telecommunications infrastructure and is close to universities and third level education institutions. The area was also seen as having suitable property available at reasonable cost. It was also expected that the project would bring much-needed physical, social and economic regeneration to the area. While two other sites were considered for MLE the advantages of locating the project in this area were seen as overwhelming. A greenfield site was not considered.

Management and Administration of Project

The Department of the Taoiseach assumed overall responsibility for managing the project in the context of its lead responsibility for the co-ordination of information society issues. A Task Force was established in November 1999 chaired by the Department of the Taoiseach. It comprised representatives of the

Departments of Finance, Education and Science, Enterprise Trade and Employment, and Public Enterprise as well as IDA Ireland, Enterprise Ireland and the Higher Education Authority. The Task Force was charged with responsibility for setting up the multimedia village and implementing the agreement with MIT. It also advised the Government regarding the corporate structures considered necessary to put the Digital Hub in place.

The agreement with MIT provided for a Liaison Committee to deal with any policy issues arising during implementation of the agreement. In practice the Liaison Committee consisted of the members of the Task Force, and in time subsumed the Task Force.

In April 2000 the Government, decided to establish a company, DMDL, to oversee the development of both the Digital Hub and MLE. Its tasks were to manage the contractual arrangements with MIT and MLE on behalf of the Government. In particular DMDL was to

- channel funding to MLE
- receive and review MLE budgets, reports and accounts
- provide premises for MLE
- develop links between MLE and the enterprise and third level educational sectors in Ireland with a view to establishing suitable degree conferring programmes and joint research projects
- consult with the Department of the Taoiseach and other Government Departments and agencies as necessary.

The audit findings indicated that there was a certain overlap of functions between the Department of the Taoiseach, the Liaison Committee and DMDL. The Liaison Committee focused most of its attention on MLE. DMDL did not carry out the functions assigned to it in relation to the development of MLE. The contractual arrangements with MIT and MLE were implemented mostly by the Department of the Taoiseach and the Liaison Committee, with the involvement in certain areas of OPW, Enterprise Ireland and the HEA. This arose from DMDL's initial focus on developing its proposals for the scope and funding of the Digital Hub.

Responsibility for the management of the project transferred to the Department of Public Enterprise in May 2001.

DMDL

DMDL was incorporated as a limited liability company in May 2000. The incorporation of a company was seen as an interim measure pending the preparation of legislation to put the company on a statutory basis. The legislation has not yet been introduced. The powers, functions and role of the company were set out in the Government Decision of April 2000, but were not incorporated in its Memorandum or Articles of Association.

The adequacy of the governance and accountability structures in place in relation to the company were reviewed by the Taoiseach and the Minister for Finance and their Departments in February 2001. In a subsequent letter to the Taoiseach in March 2001, the Minister for Finance stressed the need to draw up appropriate Memorandum and Articles of Association for the company and to enact legislation to establish it on a statutory basis. The letter also recommended that DMDL adopt the code of practice that applies to State bodies, and that the Attorney General's Office should be asked to clarify the legal powers of Ministers to set up limited companies.

In response, the Taoiseach pointed out that an accountability structure was provided by the Liaison Committee, which had approved information and reporting arrangements for the Board of DMDL, that the Board had been formally instructed that normal corporate governance procedures applicable to State Bodies would operate in its case, and that finalisation of arrangements, including preparation of legislation had been affected by the need for a full examination of the proposals submitted by the Board of DMDL.

In November 2000, following a tendering process, DMDL appointed a company to provide Executive Services by way of a team comprising people of diverse backgrounds and disciplines from the private and public sectors. Retrospective approval for these arrangements was sought from the Government Contracts Committee in December 2000. Approval was given in February 2001 subject to legal advice being obtained that the selection process complied with EU law.

In December 2000 DMDL entered into a written agreement with the company. The agreement provided for the payment of a fixed fee of £505,000 in respect of the period 15 November 2000 to 31 March 2001. The agreement included an undertaking that DMDL would negotiate a fee, on a percentage basis in respect of the period April 2001 to December 2003, and would do so when the total development value of the Digital Hub project had been established.

The Department of Finance in a letter to the Department of the Taoiseach in January 2001 expressed concerns, which I would share, that the proposal made by the Team in November 2000 that its fee after March 2001 should be a percentage of the development cost was unacceptable because it would not give the team any incentive to minimise the cost and timeframe of the development.

DMDL is in the course of finalising a fixed fee arrangement for the period June 2001 to December 2003.

Property

OPW acts as agent/adviser for the Department of the Taoiseach in relation to property acquisition and also worked closely with DMDL. MLE commenced operations in the Guinness Hopstore in July 2000. Negotiations on the acquisition of the property were completed in June 2001. Prior to that the store was being leased at a cost of £56,000 per month. In late 2000 and early 2001, DMDL submitted proposals to Government for the acquisition of additional properties costing an estimated £150m.

The Department of Finance questioned the necessity to purchase property on such a scale. It also queried whether the properties proposed would be suited to digital media industries and the extent to which adaptation costs would arise.

The arrangements for ownership and development of property once purchased are also unclear. The Department of Finance questioned whether DMDL had set out the terms under which property acquired would be made available to users whether by lease, rental or otherwise. Such information would be essential to determine the ability of DMDL to finance its programme in the absence of Exchequer funding. The information would also establish whether the terms proposed amounted to State aid, something that would require EU Commission approval.

In January 2001, OPW confirmed that deals amounting to £61m had been agreed subject to satisfactory title, tax clearance and related matters being established. The Government subsequently allocated £58m to DMDL to fund property acquisition and other capital requirements for the years 2001 and 2002.

Payment Procedures

In the course of the audit one payment was noted where Government financial procedures did not appear to have been strictly complied with. OPW sought and received £15m from the Department of the Taoiseach in December 2000 to fund property acquisitions. The money was paid to solicitors nominated by OPW pending completion of a purchase agreement. This process was not completed and the Department of Finance directed that the money be refunded. In May 2001 an amount of £15m plus interest of £214,987 was repaid to the Exchequer. The moneys were reallocated to the project in 2001.

Exchequer Funding

The Exchequer funding provided for and expended on the project is shown in Table 4.

Table 4 Exchequer funding for Multi-Media Developments

	Committed	Paid	
	£m	2000 £m	2001 ¹ £m
MLE	19.6	6.6	-
MIT	8.4	7.4	1.0
DMDL	64.0	0.2	16.2 ²
HEA	7.0	-	1.0
Total	99.0	14.2	18.2

Conclusions

The groups and organisations having an input into the management and execution of the project (Department of the Taoiseach, Liaison Committee and DMDL) would appear to have had overlapping functions, at least in the earlier stages of the project, which could have given rise to some dilution of responsibility and lack of focus. It is important that the powers, functions and role of each group or organisation should be clearly defined and adhered to, so that there are clear lines of authority and responsibility and no overlapping functions.

In relation to DMDL, while there may be circumstances, such as this, when it is opportune for Government Departments to set up private companies to administer Exchequer moneys, it is unsatisfactory that this would continue in the long term without statutory authority being obtained for the arrangement. It is also desirable that the powers of Departments to set up private companies be clarified, that the function role and powers of such companies be set out in their Memorandum and Articles of Association, and that they comply with codes of practice and financial procedures which apply to State bodies generally.

It is desirable that fixed price contracts be used for the supply of executive services in order to avoid the risk of excessive fees.

The audit findings indicated that generally satisfactory control procedures existed in relation to payments except for the one instance involving the issue of £15m to OPW before it was needed.

In making decisions in relation to the acquisition of property, due consideration should be given to the risk of

¹ expenditure to 10 July 2001

² includes £15m channelled through OPW

the project failing or not growing to the degree envisaged, so that no avoidable costs accrue to the Exchequer.

Care should be taken in relation to any aid or subventions given to occupants in the Digital Hub that it does not breach EU competition laws.

Observations of the Department of the Taoiseach

- The audit was a timely exercise and will provide useful directions for the future development of the project. It also highlighted important accountability issues for the conduct of special tasks by the Department in the future.
- In relation to evaluation, the project represented a relatively small part of the overall effort to place Ireland in the vanguard of those countries developing the next generation of information and communications technology, (ICT) and by undertaking it the Government was signalling very visibly its commitment to the future development and deepening of Ireland's ICT industries. It was a flagship project and so traditional cost benefit analysis of the project on a standalone basis could not be decisive as to its real value to Ireland.
- In relation to location, the Department's experience in the development of the IFSC and Temple Bar projects showed the potential of initiatives such as this to regenerate urban areas. There was a clear correspondence between the opportunity offered by the Digital Hub and the needs identified by Dublin Corporation in the Liberties area, together with the availability of a comparatively large amount of property suitable for development.
- In relation to management and administration, the Department accepted that there was little formal demarcation of responsibilities between the various parties responsible for implementing the project. There was, however, constant communication between them. It was and remains the intention of the Department that DMDL would be put on a statutory footing, and in advance of this it had made it clear that DMDL would be bound by all the relevant government accounting procedures and had taken all steps possible to compensate for any deficiencies in formal accountability requirements.
- As regards property, the Department's policy was that OPW should acquire and hold property until such time as DMDL was placed on a statutory footing but the Department accepted that there may have been some misunderstanding on the part of DMDL as to its relationship with OPW. However, the fundamental point was that OPW had been successful in gaining options to acquire property at what were regarded as advantageous prices from the State's perspective, but which were time bound. Also the State would have faced greater competition in acquiring a critical land bank in the area as awareness of the State's plans for the area grew, and so it was important to proceed with the acquisition of property quickly. This was not seen as high-risk given the Government's stated determination to proceed with the project, and the likelihood that the costs of the properties would be recovered even if it was later decided to abandon it.
- In relation to the premature payment of £15m to OPW, the Department had acted in good faith in the belief that the funds were required to secure properties by way of deposits. It transpired that the funds were not required until some time later.
- The potential State aid issue which might arise in relation to the project had been considered by the Department and the Departments of Finance and Enterprise, Trade and Employment, and these considerations were raised with DMDL so that its development strategy would take them into account.
- No loss has accrued to the State and no unplanned expenses or liabilities have arisen.

Vote 9 - Office of the Revenue Commissioners

9. 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. Paragraphs 15 and 16 refer to matters arising from this examination.

Revenue Collected

Revenue collected under its main headings in 2000 is shown in Table 5.

Table 5 Revenue Collected

	Gross Receipts £m	Repayments £m	Net Receipts £m	1999 Net Receipts £m
Income Tax	7,875	688	7,187	6,306
Value Added Tax	7,809	1,928	5,881	4,895
Excise	3,631	147	3,484	3,163
Corporation Tax	3,187	127	3,060	2,711
Stamps	884	25	859	719
Customs	174	11	163	144
Capital Acquisitions Tax	181	5	176	151
Capital Gains Tax	616	7	609	356
Residential Property Tax	2	1	1	1
Total	24,359	2,939	21,420	18,446

Of the net receipts of £21,420m, a total of £132m was paid during 2000 under Section 3 of the Appropriation Act, 1999 from the proceeds of tobacco excise to the Vote for Health and Children and £21,300m was paid into the Exchequer. As a result, there was a balance of £49m prepaid to the Exchequer at year end compared to a balance of £37m 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.

10. Write Offs

The Revenue Commissioners have furnished me with details of taxes written off during the year ended 31 December 2000. Details of the total amount written off and the distribution according to the grounds of

write-off are shown in Table 6 and Table 7.

Table 6 Taxes Written Off 2000

Tax	2000 £'000	1999 £'000
Value Added Tax	33,783	32,833
PAYE	13,202	15,018
Corporation Tax	5,445	5,573
Income Tax	15,092	19,860
Other Taxes	1,758	2,066
PRSI	12,831	12,959
Total	82,111	88,309

Table 7 Grounds of Write Off

Grounds of write-off	2000 No. of Cases	2000 £'000	1999 No. of cases	1999 £'000
Liquidation/Receivership/Bankruptcy	397	19,558	475	28,457
Ceased trading – no assets	1,432	32,980	2,347	33,128
Deceased and Estate Insolvent	144	2,579	194	3,324
Uneconomic to pursue	1,196	12,197	519	6,110
Unfounded Liability	34	458	40	2,397
Cannot be traced / Outside Jurisdiction	297	4,713	403	5,573
Compassionate Grounds	89	1,184	83	608
Uncollectable due to financial circumstances of taxpayer	382	7,965	439	8,395
Examinership	4	477	1	317
Totals	3,975	82,111	4,501	88,309

The Internal Audit Branch in Revenue undertakes an annual examination of a sample of cases written off. The internal audit of 1999 write-offs in which 185 or just over 4% of cases were examined has recently been completed. The results of the audit were satisfactory and while some procedural problems were identified, no instances were found where tax was improperly written off. The internal audit of 2000 write-offs has recently commenced and it is again planned to examine 4% of cases.

I have examined a sample of cases representing over 12% of the value written off through a review of the procedures followed and of supporting reports and records with a focus on high value cases. The results indicated that, in general, the authorised procedures were followed. However, I have also commenced a more in depth examination of a sample of cases in some categories of write-off in order to establish the extent and adequacy of Revenue activity over the years prior to write-off and whether the relevant lessons are learned from such cases. I intend reporting on the results of that examination in due course.

11. Outstanding Taxes and PRSI

Table 8 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 2001 - the latest date for which data was available at the time of finalising my Report.

Table 8 Outstanding Taxes and Levies

Balance at 31 May 2000	Tax or Levy	Charges/Estimates Raised	Paid	Balance at 31 May 2001	Estimate of amount likely to be collected
£m		£m	£m	£m	£m
388	Income Tax (Excluding PAYE)	1,538	1,553	373	223
-	DIRT	350	350	-	-
100	VAT (Declared Liabilities Net of Repayments)	5,117	5,091	126	110
150	VAT (Estimates)	52	37	165	75
69	PAYE (Declared Liabilities)	5,476	5,471	74	49
22	PAYE (Estimates)	241	241	22	9
71	PRSI (Declared Liabilities)	2,896	2,889	78	45
17	PRSI (Estimates)	117	118	16	9
169	Corporation Tax	3,208	3,148	229	157
50	Capital Gains Tax	661	638	73	58
13	Capital Acquisitions Tax	182	181	14	9
6	Abolished Taxes	1	1	6	-
1,055	Total	19,839	19,718	1,176	744

The balance outstanding at 31 May 2001 of £1,176m is £121m greater than at the same point in 2000. It is estimated that £744m or 63% of the total outstanding is likely to be eventually collected. This compares with an estimated collection ratio of 53% at May 2000. 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.

Included in the total of £350m for DIRT is a sum of £173m comprising tax, interest and penalties from 'look back' audits of financial institutions.

12. Revenue Audit Programme

Overall Audit Programme

In a self assessment system returns filed by compliant taxpayers are accepted as the basis for calculating tax liabilities. The validity of returns is established by the auditing of a selection of cases either through reviewing and seeking further verification of particular details or by the examination of documents and records at a taxpayer's premises. The majority of audits carried out by the Revenue Commissioners are specific to taxheads such as VAT or PAYE, but a significant number of comprehensive audits are also carried out. These may focus on all taxes but are primarily aimed at Income Tax, Corporation Tax and Capital Gains Tax. In the course of my audit, a small representative sample of settlements were reviewed with satisfactory results.

The outcome of the 2000 programme of Revenue audits is summarised in Table 9, which also includes 69 audits arising from investigation and anti-avoidance activity. I have been informed that the reduction of 1,040 in the overall number of audits over the 1999 figures was due mainly to the involvement of 67 auditors in the more intensive DIRT audits.

Table 9 Revenue Audit Programme

Audit Type	2000		1999	
	No. of audits completed	Yield £m	No. of audits completed	Yield £m
Comprehensive	2,270	53.8	2,512	47.3
Value Added Tax	4,409	27.6	5,101	31.9
PAYE Employers	2,104	9.4	2,768	12.3
Relevant Contracts Tax (RCT)	352	1.3	384	1.5
Combined Fiduciary (VAT, PAYE and RCT)	670	4.7	892	3.0
Capital Acquisitions Tax	388	2.9	490	3.2
Verification	1,733	3.7	1,848	3.1
Desk Verification	4,393	4.3	3,400	6.9
Investigation Branch	4	0.2	7	0.2
Anti-Avoidance	7	1.9	26	1.6
'Pick-Me-Ups'	21	0.1	-	-
DIRT	37	173.3	-	-
Total	16,388	283.2	17,428	111.0

Comprehensive Audits

The selection of cases for comprehensive audit from the 409,299 returns issued for 1999 is made on the basis of such factors as screening of annual returns, re-audit of cases with previous undercharges, other information available to Revenue and random selection. Generally, a settlement is agreed following completion of the audit and any outstanding amount is paid. A number of settlements involve the restriction of losses which may be carried forward against future years' profits. Where an Inspector is unsuccessful in collecting the additional amount of tax and interest arising on audit adjustments, the amounts are referred to the Collector General for collection.

The outcome of the 2,270 comprehensive audits completed in 2000 is detailed in Table 10. The highest individual settlements were £1,222,870 for Income Tax and £1,046,088 for Corporation Tax. The overall yield of £53.8m includes interest charges of £7.8m and penalties of £6.4m.

Table 10 Yield from Comprehensive Audits

	Income Tax		Corporation Tax	
	Number	Yield £'000	Number	Yield £'000
Agreed Settlements				
£1 to £5,000	400	1,058	93	314
£5,001 to £50,000	575	9,191	195	3,651
£50,001 to £100,000	50	3,413	35	2,427
Over £100,000	56	13,238	41	11,283
Other Settlement Activity				
Returns accepted – no additional tax payable	592	-	177	-
Settled by restriction of losses carried forward to future years	20	480	16	8,101
Referred to Collector General for enforcement action	17	414	3	258
Totals	1,710	27,794	560	26,034

Random Audits

Prior to 2001, it was Revenue policy that 2% of cases selected for audit as part of the comprehensive, VAT and PAYE/PRSI audit programmes would be selected randomly. This was increased to 6% with effect from 2001. The 2% policy for 2000 would indicate a target of approximately 175 random audits. In the event, 437 random audits were completed in 2000 consisting of 77 comprehensive (3%), 195 VAT (4%) and 165 PAYE/PRSI (8%). The returns of 342 taxpayers were accepted as originally submitted while additional liabilities of £493,459, including £105,564 in interest and penalties, were assessed in the other 95 cases

13. Revenue Prosecution Activity

Prosecutions for Serious Tax Evasion

Under 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 serious revenue offences having been committed. These cases are further evaluated within the Branch before commencement of the very resource intensive criminal investigation work which can take several years before reaching the Courts. Of a total of 37 cases on hands at the end of 2000, 19 are still under investigation, 13 are proceeding to prosecution, 3 have been closed and convictions have been secured in two cases.

Convictions were obtained in all three of the cases decided in Court in 2000. A director of a company was convicted of submitting false VAT repayment claims and sentenced to two years imprisonment. In the second case, a director of a company was convicted of delivering an incorrect return and fined £750. In the third case, an individual was convicted of submitting a false VAT repayment claim and received a twelve month suspended sentence.

Prosecution of Non-Filers

Taxpayers failing to submit returns of Income Tax and Corporation Tax normally receive a warning letter from the Revenue Solicitor. In the event that returns are still not submitted, legal proceedings are instituted. During 2000, 8,190 warning letters were issued and 1,017 cases (936 Income Tax and 81 Corporation Tax) were successfully prosecuted with fines totalling £734,656. Court orders were obtained in two of these cases which required the convicted person to submit all outstanding returns.

Penalties totalling £146,700 were imposed by the Courts on 79 employers for failing to make P35 Employer returns on time. In a further 219 cases, penalties totalling £277,500 were imposed by Revenue and were paid by employers. Penalties totalling £271,000 were also imposed by Revenue on 157 employers but were not paid and court proceedings are now being taken for recovery of the amounts due.

14. Special Investigations

DIRT and Financial Institutions

In accordance with Section 904B (inserted by Section 68 of the Finance Act 2000) of the Taxes Consolidation Act, 1997 Revenue submitted a report on the outcome of the DIRT 'look-back' audit of the financial institutions to the Committee of Public Accounts on 31 October 2000. The report, which indicated that a total of £173m in respect tax, interest and penalties had been collected from the institutions, was examined by the Committee in December 2000.

In the course of my audit of Revenue collection in 2000, I carried out an examination of the overall DIRT

look-back audit. This included an assessment of the reasonableness of the approach and methodology adopted by Revenue, the consistency with which the methodology was applied, an examination of the key documentation relating to the audits undertaken in four financial institutions, and discussions with the relevant Revenue staff. In the course of my examination the basis of any decision taken by the Revenue audit team in relation to any sampled account was not reviewed as the original papers examined by Revenue remained in the financial institutions.

The approach and methodology followed during the look-back audit is set out in detail in the Revenue report to the Committee of Public Accounts. In essence, listings of DIRT-exempt accounts together with deposit balances were obtained from each institution for dates in 1990, 1995, and 1998. These lists were accepted by Revenue without checking as the risks to the audit were considered to be minor, and the resources needed for a validation process would be excessive. Samples of these accounts were checked in detail by Revenue with a heavy weighting towards high value accounts. Where the Revenue audit of the financial institution found sufficient indicators of Irish residency in respect of DIRT-exempt accounts within the sample such accounts were deemed to be bogus unless the financial institution could provide satisfactory evidence to the contrary. The results of the sample were then applied to the total of the DIRT-exempt listing at each key date, and an overall liability established which also included interest and penalties.

As the result of my examination I am satisfied that the approach and methodology employed by Revenue were reasonable given the circumstances and timescale in which they had to operate. The methodology was consistently applied across the audits except where it was impractical to do so.

Offshore Investments via National Irish Bank

The investigation into 429 individuals who invested in an offshore investment scheme operated by National Irish Bank is continuing. By 31 May 2001, settlements were reached in 281 cases totalling £17,067,477 including interest of £5,960,909 and penalties of £3,432,551. Of these cases, 79 were settled with no liability.

In addition, payments on account totalling £7,258,828 have been received in respect of other unresolved cases. 12 cases have been referred for criminal investigation with a view to prosecution through the courts.

Ansbacher (Cayman) Limited

A special project team was established to examine the tax affairs of the 120 individuals named in the Report of the Authorised Officer appointed by the Minister for Enterprise, Trade and Employment to examine the books and documents of Ansbacher (Cayman) Limited held in Guinness and Mahon Bank. Offshore activity by persons other than those named in the report has also come to light during this on-going investigation.

Revenue have been availing of their powers under the Taxes Consolidation Act, 1997 to require persons, third parties and financial institutions to provide relevant records and information. Such records and information are sought by means of formal requests as well as the issue of notices under the Act. In addition, to date, four successful applications have been made to the High Court under the Act requiring third parties and financial institutions to provide records and information relevant to a person's tax liability. Under the Act, Revenue have applied to the Appeal Commissioners for their consent to issue a notice to a financial institution to provide records and information relevant to a person's tax liability

Payments on account totalling £4.64m have been received in 24 cases directly related to the Authorised Officer's report. A further £3.14m has been received as payments on account in respect of 15 other cases that have all the characteristics of the original Ansbacher list. Payments on account totalling £0.59m have been received from six other cases. Two cases have been settled, one for £0.2m and the other for no liability.

Pick-Me-Up Schemes

Pick-Me-Up Schemes involved expenses for goods or services incurred by a political party being invoiced by the supplier to another trader who paid the supplier as a means of supporting the party. Such payments were not deductible for tax purposes, the VAT was not reclaimable and the invoices issued were not in accordance with legal requirements. The investigation has found that while some traders treated these payments correctly for tax purposes quite a large number did not. Where the tax involved was small, Revenue decided to settle the case on the basis of payment of the tax underpaid plus statutory interest and a penalty based on the Code of Practice for Revenue Auditors. Settlements have been reached in 34 of these 'smaller' cases totalling £129,944 (including £41,015 in interest and £29,996 in penalties). Payments on account totalling in excess of £350,000 have been received in 16 'larger' cases. Investigations are on-going in these and 20 other 'large' cases.

Tribunals

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

15. Customs Controls over Third Country Imports

Background - Customs in the EU context

Up to 1993 all imports from outside of the State were subject to customs control procedures at the 43 customs stations located at airports, seaports and at the land frontier with Northern Ireland. The establishment of the Single Market in that year removed all customs barriers between EU Member States, and now only goods imported from non-Member States (i.e. third countries) are subject to customs clearance. The legislative basis for the levy of duty is the EU Customs Code, and customs duties collected by Revenue, less a retention of 10% in respect of administration costs, are paid over to the EU. The 1994 GATT Agreement brought about a gradual reduction in the rates of customs duty. However, in addition to Customs Duty, Excise Duty and VAT may arise in respect of imports, and an indication of the amounts collected in the period 1994 - 2000 is given in Table 11. The customs function provides the first control point for the collection of these taxes.

Table 11 Customs Duty, Excise Duty and VAT on Imports 1994 and 2000

	1994	2000
	£m	£m
Customs Duty	189	163
Excise Duty	30	80
VAT	330	641
Total	549	884

Development of National Customs Procedures

National policy has been strongly influenced by the underlying policy of the EU to encourage the speedy clearance of goods and Revenue has adapted customs control procedures, since the mid-1980s, to facilitate the freer movement of goods. The current system is highly computerised. The previous system, which relied on extensive documentation and physical checks at point of entry, has been replaced with a routing system, which allows the vast majority of consignments to be cleared through customs without physical checking. Owners of approved premises undertake the physical handling and release of goods with a very limited

intervention by customs staff. In effect, there is now a system of self-assessment in place, which is similar to that in use for the collection of direct taxes. The system is policed by the extensive use of intelligence and the audit of a selected sample of traders.

Audit Objectives and Scope

The objective of the audit was to assess the extent to which current customs control procedures provide adequate assurance as to the assessment and collection of all amounts due in respect of both customs duty and other taxes arising on the importation of goods from third countries, against a background of radical change in customs procedures.

As part of the audit customs regulations and procedures and relevant reports were reviewed. The computerised system for recording customs entries and the role of customs stations in the clearance of goods were examined, as were the enforcement and intelligence gathering functions of Revenue. Outline examinations were conducted at Shannon and Cork Airports and at Tivoli Docks, and a comprehensive audit was carried out at Dublin Airport. Customs approved warehouses at these locations were visited to establish the physical and accounting controls and the customs reporting procedures in operation. The Central Transit Office in Donegal, which co-ordinates the receipt and return to other member states of transit documents in respect of consignments initially taken under customs control in another Member State, was also visited. The operation of post clearance controls through the customs audit function was reviewed, and the risk analysis approach, selection process, appraisal of results and quality control were examined.

Audit Findings

The audit findings are summarised by reference to the key activities undertaken at the point of entry, in the warehouse, during transit and internal customs audit, and as part of the enforcement and intelligence functions of the Revenue. The relevant procedures are briefly described in each case.

Point of Entry

AEP routings - green/orange/red

Import details for each consignment are declared on a form known as a Single Administrative Document (SAD) and input into the central Automatic Entry Processing (AEP) system. The system also requires transportation details for a consignment. Following the completion of validation checks, the AEP system automatically assigns either a green, orange or red colour coded 'routing' to each consignment. Goods which are routed 'green' are free for release without any further customs check. Goods routed 'orange' are subject to documentary checks, while 'red' routed goods are subject to documentary and physical checks.

Routings are assigned by the system through three selection phases – mandatory, profiling and random. Consignments falling within the criteria for mandatory checking e.g. all excisable goods, are always assigned a red or orange routing as appropriate. Import consignments are 'profiled' or targeted for customs checking on the basis of previously known problems, risk analysis criteria or intelligence reports. In addition, the system maintains a minimum level of orange and red routings through the random allocation of such routings to SADs which would normally have qualified for green routings. Figures supplied for 2000 indicate that a total of 3% of all consignments were routed 'orange' and 8% received a 'red' routing. Customs stations receive details of all orange and red routings on daily reports, and also receive a monthly report of uncleared orange and red routed cases.

The audit findings in relation to this activity are:

- There is a definite risk that importers, with direct input access to the AEP system, may be able to establish the customs routing of a particular consignment prior to committing that consignment to a specified flight. Such knowledge would remove the element of surprise associated with random checks and could provide an opportunity for importers to circumvent customs controls. Flight details are sometimes entered on the system before flight departure. Therefore, it is possible for an importer intent on circumventing customs controls, to establish the routing prior to departure and to withhold the consignment if 'red' routed. Alternately, any importer may re-input red or orange routed SADs until a favourable 'green' routing is obtained. However this will only be successful where the routing was assigned on the basis of random selection, and may come to Customs' attention either through a trader's claim for refund of the duplicate duty or the investigation of an uncleared SAD.
- During our audit at Dublin Airport, eleven instances were noted where SADs routed orange or red were not presented, but goods were cleared by a duplicate entry which had been routed green. There were many instances at Shannon Airport of goods arriving on a later flight than that recorded on the SAD. These may be attributable to normal commercial practice of switching goods between flights to maximise usage of available space.
- Station checks are made in response to the submission of documentation by clearance agents or traders. The daily AEP reports of goods routed orange or red were not used by the customs stations to initiate such checks. Station monitoring and follow up of red and orange routed cases are not initiated until receipt of the monthly report of uncleared items. By then it may be too late for effective action as the goods may have been removed from customs control. Significant numbers of SADs are not cleared promptly and many are never cleared or even investigated by the station. It was noted that there were 1,000 such uncleared SADs at Dublin Airport.

Selection of Import Consignments by Profile

Where import consignments are selected for customs checking through 'profiling', orange or red routings are assigned to SADs where declared particulars match the criteria specified in the profile. Particular consignments may be targeted either nationally, by sections such as the Investigation Branch or the National Freight Intelligence Unit, or locally, at each customs station. The computer system can handle a maximum of ten national profiles together with five at each local station.

The audit findings relating to this activity are:

- The availability of national profiles to counter evasion of duty or taxes is reduced by other demands for profiles e.g. detection of prohibited goods and health risks.
- The utilisation of local profiles is patchy. Of the four stations visited there were no active profiles at Shannon or Dublin Airports while the two Cork stations used their full allocations.
- Where risk analysis is used, the process is unstructured in comparison with that used for customs audit selection.
- Only traders registered on the AEP system can be directly targeted by profiles. The imports of traders using agents may not be profiled. The use of a trader's VAT number as a profile identifier can be countered by the trader making a 'Not Registered for VAT' declaration thereby avoiding selection. There are no checks on the correctness of VAT details declared. In January 2001 only one SAD had been selected from four traders profiled by their VAT No.
- The effectiveness of some profiles is dependent on the element of surprise. Leaving a profile in place overlong may reduce its utility by revealing selection criteria.

Use of the Cargo Manifest as an aid to Customs Control

All goods arriving by freighter from a third country should be listed on the ship or flight manifest which must be presented to customs on arrival. The manifest provides a focus for boarding checks by customs officers. It also facilitates a completeness check as customs entries are written-off the manifest when cleared. Follow-up enquires are made for goods not written-off. At airports, daily stock reports, submitted to customs by approved warehouse operators, fulfil a similar function. These reports include SAD reference numbers in respect of cleared items.

The audit findings relating to this activity are:

- Boarding checks have been severely curtailed e.g. there are no boarding checks at Dublin Airport and have been limited to about three each month at Shannon. Manifests are generally accepted by customs as complete in the absence of boarding checks.
- There are no checks to ensure that imports recorded on a manifest are subsequently declared i.e. verification through the follow-up of quoted SAD reference. Customs use of manifests is limited to follow-up of goods not written-off, and for reference purposes in case of query.

Release of Goods from Customs Controlled Warehouse/Compound

Imported goods are held under customs control in a warehouse or compound pending customs clearance. Approved licensees operate the warehouses. At airports these include freight handlers and the major airlines. Customs officers are not present in the warehouses on a regular basis. Warehouse operators forward daily reports of goods taken in under customs control. These reports provide documentary evidence of the arrival of goods. A warehouse operator will release goods on presentation of customs clearance documentation, which is either routed green, or routed orange or red and stamped by customs. A second daily report detailing how goods were released is forwarded to customs within 21 days. Items not written-off are subject to customs enquiry.

The audit findings in relation to this activity are:

- In response to explanations sought during audit relating to outstanding uncleared SADs, we were informed that seven consignments routed orange and two routed red at Shannon for the period March - May 2000 and 18 red routed consignments at Dublin Airport for the period July 1999 – June 2000, had been removed from the warehouse without customs clearance.
- The absence of a pre-determined format for customs clearance documentation may facilitate the use of bogus documentation.
- In two of the four warehouses visited, the systems used to account for goods under customs control were integrated with the warehouse operators' own accounting systems. This provided additional assurance as to the completeness of records.

Transit System

The EU Transit System facilitates trade by allowing the temporary suspension of duties and taxes while goods are transported through EU territory. The suspension, which is covered by guarantee, remains in place until the goods leave the EU, are transferred to an alternative customs regime or are released following payment of duties and taxes. The first EU country from where goods depart creates and retains the original transit documentation. One of two copies is stamped by the customs authority of the country of destination, returned, and matched with the original allowing release of the guarantee. If a stamped copy is not received back within 10 weeks, an enquiry is initiated by the country of departure to trace the documentation or, if

necessary, the consignment.

The audit findings in relation to the operation of the Transit System are:

- The audit at Dublin Airport indicated that stamped transit documents were not reconciled with corresponding SADs or other appropriate customs procedure. Reconciliation, which is carried out at land and harbour stations, verifies that imports have been entered in the customs system, and that duty has been assessed for payment.
- In 1999, 3,100 enquiries were initiated arising from 40,000 inward transits processed in Ireland, and £275,000 was collected from 18 SADs created retrospectively by Customs. In these 18 cases goods had been imported into Ireland without any form of customs declaration. These cases were treated as innocent oversights.

Customs Audit

The level of customs checks at point of entry has been greatly reduced in recent years. Customs audit units, located in each Collection area, but under the direction of the Audit Management Unit (AMU) in Dublin, are now the main means of policing the entire system. Risk analysis techniques are used to select traders for check. The focus is evenly divided between local selection, based on local knowledge, and national selection which is product and trader based. Checks can cover periods of up to three years, and are carried out at the premises of the trader who is required to retain all business and customs documentation for that period. The audit approach is set out in comprehensive guidelines, which require that work performed is recorded on detailed checklists.

During 2000, 396 or approximately 5% of traders were audited with the following results

- underpayments in 33% of cases totalling £1.4m,
- overpayments in 10% of cases with £0.4m repaid,
- less than half of cases were fully compliant.

Details of audits conducted during the years 1997 - 2000 are given in Table 12.

Table 12 Results of Customs Audit of Traders 1997-2000

	1997	1998	1999	2000
No. of Audits	258	324	321	396
Underpayment Cases	52%	41%	37%	33%
Underpayment Value	£4.5m	£2.3m	£1.9m	£1.4m
Overpayment Cases	6%	12%	20%	10%
Overpayment Value	£0.2m	£0.7m	£0.7m	£0.4m

A customs inspection of 70 clearance agents in December 1999 found numerous poorly completed SADs. Errors included misclassification of goods, wrong VAT number and no country of origin recorded. Some importers were marked 'not registered for VAT where VAT numbers were available. In other cases duplicate SAD entries were noted. These errors gave rise to both under and over payments of duty and VAT.

The audit findings in relation to this activity are:

- The risk analysis selection process for customs audit is confined to traders registered for VAT. A SAD which does not include a VAT No. will be excluded from selection for customs audit.
- No tests for non-declarations, e.g. tracing items from traders' records to declaration forms, were found in a random sample of 12 customs audit files reviewed in the course of my audit.
- Completed audit files are returned to the AMU, but are not subjected to quality control examinations. The audit checklist had been completed in only one of the 12 audit files examined. Audit evaluation and quality control is not possible without a record of work done, findings reached and action taken. Notwithstanding these findings it was noted that post-SADs in relation to customs duty were raised in all underpayment cases and repayments instigated in all overpayment cases in the sample examined. When adjustments giving rise to underpayments of customs duty also resulted in additional VAT charges, there was no evidence of any action being taken to collect the additional VAT.

Enforcement

The Investigation Bureau is the criminal investigation arm of the Customs and Excise service. Most of its work is directed against smuggling operations in the tobacco and alcohol sectors. It targets particular consignments for examination on the basis of both its own assessments and the results of mutual assistance arrangements with other countries. It also follows up referrals from the EU Anti Fraud Unit and the Irish customs and excise service. Targeted consignments are subjected to physical checks by local station staff under Investigation Branch supervision. Over 96 million cigarettes and 4.9 tonnes of tobacco were seized in 2000: £15m was the potential revenue loss. In excess of £5m was collected in additional duties and compromise penalties. A total of 10 cases were referred for prosecution.

The audit findings in relation to this activity are:

- The main priorities of Investigation Branch are the seizure of smuggled goods and the collection of unpaid duties. Interest and the threat of prosecution appear to be of little practical deterrent value. However, the disruption in the clearance of the goods of traders, which follows profiling, can act as a deterrent. Prior issue of a letter of sanction puts a trader on notice, that further irregularities may have such a result.
- Prosecutions of customs fraud, other than for the sale of smuggled alcohol or cigarettes, are rarely pursued due to the difficulty in obtaining convictions.
- There is no provision for the imposition of administrative monetary penalties in the case of a customs irregularity involving only error or neglect. In accordance with the EU Customs Code, interest is chargeable only from the date of the demand as distinct from the date of arrival of goods. Consequently interest amounts tend to be small and of little deterrent value.

Intelligence

The National Freight Intelligence Unit (NFIU) was established in 1999 to centrally collect, analyse, enhance and disseminate freight intelligence on a national basis. Its task is to target smuggled goods transported by sea. The Unit has access to Revenue and EU databases and various other sources of information. It continues to develop its own database from these resources and from information provided by customs operational units. Detailed intelligence reports are produced which assist operational units to identify high-risk traffic. These are passed to other areas of Revenue when relevant to tax compliance issues. The Unit issues messages categorised as 'high risk', 'low risk' or 'background'. The effective development of the Unit's work is dependent on adequate feedback from users of the information. The messages issued during 2000 led to the seizure of 53 million cigarettes and consignments of counterfeit goods when followed up by

operational units. The NFIU may respond directly to the information at its disposal by creating a “national profile” in the AEP system. Customs stations are required to notify the NFIU following the declaration of a consignment which the NFIU has profiled, and the Unit may decide on further action by the local station or the Revenue Mobile Service.

The audit findings in relation to this activity are:

- The NFIU does not cover airfreight.
- Responses to the information distributed by the NFIU vary. Good responses to 'high risk' messages were noted but the response to 'low risk' and 'background' messages appears patchy. There has been no feedback from the detailed intelligence reports issued.
- It would appear from AEP system reports that the NFIU is not always contacted in relation to cases it has profiled.

Conclusions

The requirements of national, EU and international trade dictate that the operation of customs controls by each country facilitates the rapid recording and clearance of imports. The assessment and collection of the appropriate duties and taxes must now adapt to the necessity to avoid disruption to trading activity. The customs authorities must operate adequate procedures for the detection of evasion of duty and the importation of prohibited goods within this constraint.

The Revenue approach has been to offset the greatly reduced level of policing and checking at point of entry with a combination of initiatives. These include a more focused sample selection process, a greater emphasis on the gathering and dissemination of quality intelligence, and the conduct of periodic audits on traders' premises. The findings of this audit note aspects of control procedures in different parts of the system which merit examination by Revenue with a view to making changes leading to an improvement in the overall quality of customs control.

In particular;

- At point of entry, verification of SAD references entered on a manifest, and early review and follow-up of uncleared red/orange routings on each AEP daily report would reduce the risk of manipulation of the system. The AEP system should be reviewed to ensure that importers have no opportunity to influence the “routing” given to any particular consignment.
- It is unsatisfactory that items from consignments selected for customs check can be released from warehouses without any customs authorisation.
- The option of providing each warehouse operator with an enquiry/verification facility might be considered together with the promotion of more widespread integration of warehouse accounting records with those relating to goods under customs control.
- It is unclear why all airport stations do not reconcile stamped transit documents with corresponding SADs, as is the practice at land and harbour stations. This check ensures that all items have entered the customs system and have been assessed for duty.
- Ongoing efforts to improve the quality of customs audit should continue. Standard audit programmes and checklists should be used for all checks, both to provide evidence of work done, and to facilitate review and quality control. The selection of cases for customs audit should be broadened to increase the possibility of detecting deliberate misdeclarations by infrequent users. At least some audits should trace items from traders' records to declaration forms. The outcomes and impact of the audit programme should be kept under review both from the audit viewpoint and as

part of the overall control system;

- The focus of controls on the collection of customs duty needs to be balanced with recognition for the greater revenue earning VAT on imports.

The collection and dissemination of quality information is very important in the changed environment in which customs controls now operate. Prompt feedback from stations would undoubtedly aid the operation and development of the intelligence function. The ongoing project to improve the flow of information throughout Revenue may impact positively on the information exchange both between NFIU and customs stations, and between the unit and the rest of Revenue.

16. The Administration of Relevant Contracts Tax

Background

Relevant Contracts Tax (RCT) is a tax deduction system introduced in 1970 to counter tax avoidance in sub-contracting or 'lumping' in the construction industry. Many of these sub-contractors had escaped the tax net due to the difficulty of identifying them. Under the RCT system, a sub-contractor faces the choice of registering with and obtaining clearance from Revenue for receipt of payments from principal contractors without deduction of tax, or of having tax deducted at a flat rate of 35% from all payments. The system also applies to forestry and meat processing operations, but most principal contractors (98%), certified sub-contractors (95%) and uncertified sub-contractors (98%) are involved in the construction industry. Indicators of the level of activity for 1999-2001 can be seen in Table 13.

Table 13 Relevant Contracts Tax Activity 1999-2001

	1999	2000	2001
RCT paid to Revenue	£196m	£267m	
No. of Contracts where RCT not deducted	155,000	196,000	
No. of Principal Contractors*		22,000	23,000
No. of Certified Sub-Contractors *		27,000	32,000
No. of Uncertified Sub-Contractors		36,000	37,000

* About 11,000 Principal Contractors also act as certified sub-contractors and these are included in both categories.

Under the RCT system, a principal contractor must establish, for each job, whether a worker is more properly considered as a sub-contractor or as an employee for that job. There is no absolute definition covering all cases, and the correct categorisation will be an overall assessment based on what each worker actually does, the way they do it and the terms and conditions under which they are engaged. In addition to whether the worker should be taxed under the PAYE or self assessment systems, there is an extended issue relating to PRSI contributions and benefits coverage for the workers concerned. In relation to all cases where it is appropriate to operate RCT, a principal contractor is required to keep certain records and to make monthly and annual returns and pay over tax deducted to Revenue.

Audit Objectives and Scope

The overall objective of my audit was to establish whether the systems and procedures for the administration of RCT, as operated by Revenue, were adequate to ensure that all tax due was collected and, in so far as it was reasonable for Revenue to do so, that any aspect of that tax scheme was not used to avoid payment of other

taxes or to perpetrate abuses in other areas of State administration e.g. Department of Social, Community and Family Affairs (DSCFA).

In particular, the audit examination focused on the key segments of the overall RCT system i.e.

- o the control of sub-contractors Certificates of Authorisation (C2 Certificates)
- o the issue of Relevant Payment Cards to principal contractors
- o compliance and enforcement activities of the Collector General
- o annual returns of RCT to Tax Districts
- o repayment or offset of RCT deductions from sub-contractors
- o Revenue audit and liaison with DSCFA.

Following discussions with officials in the Technical Services Branch of the Chief Inspector's Office, the operation of procedures were reviewed in two tax districts - Dublin Audit District 1 (which deals exclusively with the construction industry in the greater Dublin area) and Galway District. Work undertaken at each location included:

- o review of procedures for issue and renewal of C2 Certificates
- o review of procedures for issue of Relevant Payment Cards
- o identification of extent of processing and checking of year end returns
- o review of procedures for dealing with claims for refunds/offsets
- o examination of a sample of audit files for evidence of RCT checks
- o extent of liaison with DSCFA.

Compliance and collection procedures in operation in the Collector General's Office were also reviewed.

Further documentation and data were examined during the course of the audit relating to general RCT statistics, tax instructions issued to districts, Revenue audit statistics, liaison with DSCFA and sanctions for non-compliance, together with a 1999 report by Revenue's Internal Audit Division on procedures governing the issue of C2 Certificates.

While RCT applies to sub-contracting in both the forestry and meat processing industries, all of the cases which came under review during my audit related to the construction industry. This was not surprising as with up to 98% of the principals and sub-contractors based in that industry, it provides the main focus of the operation of the scheme and consequently of this report.

C2 Certificates for Certified Sub-Contractors

A sub-contractor whose tax affairs are fully in order for the previous three years may receive a C2 Certificate from Revenue. The certificate is valid for one year (3 years in the case of sub-contractors with a turnover in excess of £5m) and allows the sub-contractor to receive payments from the principal contractor without deduction of RCT. The legislation allows Revenue to issue a C2 Certificate even though there has not been full compliance if in all circumstances of the case they consider one should issue. If the sub-contractor falls into arrears with tax returns or payments, the renewal of certification is withheld. In the years 1999/2000 and 2000/01, Revenue policed the system by checking the tax position of all new applicants, together with a sample of renewals. There are approximately 32,000 certified sub-contractors.

The audit findings in relation to this section are:

- For 2000/01 Revenue checked 26% of renewals in the Dublin area and 12% or 839 were withheld. Galway had a higher check rate of 66% with 450 (24%) withheld.
- A Revenue Internal Audit report of November 2000 noted that the majority of cases in the Dublin area were renewed without an adequate check of the holders' tax affairs. Revenue have stated that there was a 100% check on renewals prior to 1999/2000 and that the low level of checking in 2000/01 was due to resource constraints. A subsequent general instruction, issued in November 2000, required that all future renewals were to be checked. Of the 8,600 Dublin renewals checked for 2001/02, 4,500 cases were initially withheld, and in excess of £8m in outstanding taxes was collected from 1,100 of these cases. 1,500 have not yet been released.
- The Internal Audit Report also found that proper records were not maintained of the reviews performed. This deficiency was also reflected in the sample examined during my audit, which noted that evidence was not retained on file to indicate checks completed or the extent of any outstanding tax. Revenue have stated that from November 2000, Districts are required to ensure that a record is maintained to indicate by whom the renewal decision was made.

Payments to Certified Sub-Contractors

Prior to making payments without deduction of RCT to a certified sub-contractor with a valid C2 Certificate, a principal contractor must obtain a Relevant Payments Card from Revenue in respect of the sub-contractor. In doing so, the principal and the sub-contractor make a joint declaration that the contract between them is not a contract of employment. Details from the payment cards of all principals making payments to each sub-contractor and of the number of contracts undertaken by each sub-contractor are entered on a computer system.

The audit findings in relation to this section are:

- Revenue set a case specific limit on the number of contracts held by each sub-contractor and each case is required to be reviewed before a payments card in excess of the limit is issued. However, details of the limit set are not held on the computer system which is used to issue payments cards. The requirement to review details from two separate systems increases the risk of a payments card being issued off one system which may breach the limit recorded on the other.
- At the end of a tax year, a principal contractor may submit a single application for the renewal of payment cards in respect of sub-contractors with ongoing contracts. Less information is required than with an original single application. Revenue checks to ensure that each sub-contractor has collected a valid C2 Certificate, but does not check that the principal contractor had originally submitted a full application and obtained a Relevant Payments Card for each sub-contractor. Revenue have indicated the practical difficulty in making such checks due to the very large number of payments card applications which are received shortly before the beginning of the tax year. The approach has been to deal with incorrect applications by principals by way of audit checks.

Compliance and Enforcement

The principal contractor is required to send to the Collector General a monthly return of RCT deducted from payments to sub-contractors and to pay over the total amount of tax. The Collector General is responsible for the pursuit of principal contractors who fail to comply. RCT has not been incorporated into the main computerised assessment and collection systems. The resulting weakness in the RCT collection process is considered below in the context of recent initiatives by the Collector General to improve the position.

1998 Collector General Working Group

The Group recommended amendments to legislation to address deficiencies in the legal framework underpinning the RCT collection and enforcement process and the legislative changes were introduced in the Finance Act, 1999. It also proposed that RCT be incorporated into the Collector General's co-ordinated tracking and case-working system pending eventual incorporation into the Revenue mainframe computer system. As interim measures, it recommended ongoing monthly monitoring of principal contractors who paid large amounts of RCT and a review of the register of principal contractors to remove any which may have gone out of business.

The audit findings in relation to this section are:

- The method of holding information in the existing RCT system did not fit easily into the Collector General's case-working system and the pursuit of arrears remained essentially a manual operation.
- Since 2000, the 400 principal contractors who have paid in excess of £75,000 annually are monitored quarterly to ensure that returns and payments are up to date. It is reckoned that estimates to the value of approximately £6m have been raised in about 200 cases as a result of this control. The shortcomings to this approach are that high value defaulters may not be included, and no other cases are systematically monitored for compliance. RCT arrears are followed up when coming to light in the pursuit of VAT or PAYE arrears cases.
- The full scale monitoring of RCT through the Collector General's computerised case working system will not be possible until RCT is incorporated into the main Integrated Taxation Processing system which is under continuing development. A final date has not been set for the inclusion of RCT in the development programme.

Collector General's Debt Management Task Force 1999

During 1999, the Collector General's Debt Management Task Force assessed the extent of Revenue's exposure to significant RCT liabilities through examination of a sample of 1,000 principal contractors selected on the basis of payment levels or through indications of non-compliance. 111 cases from a reduced sample of 354 arrears cases with annual balances outstanding in excess of £10,000, were examined in detail and it was found that £3.4m of the £6.3m total RCT liability on record in respect of these cases was collectible. £1.3m arrears were collected together with £0.5m relating to the current year.

On the basis of these results, the Task Force estimated that the amount collectible from the sample of 354 cases amounted to £13m. Based on this estimate, recorded arrears relating to a further sample of 460 similar cases were reduced from £43m to an estimated collectible £15m. An additional £8m was considered to be collectible in respect of assessments raised in a further 2,249 cases. Details are summarised in Table 14.

Table 14 - Collectible Arrears of Relevant Contracts Tax due by Principal Contractors

Description of Sample or Block of Cases	Number of Cases	Recorded Liability	Deemed Collectible
Reduced sample from original 1,000	354	£21m	£13m
Extrapolation to cases similar to 354	460	£43m	£15m
Cases where annual assessments issued	2,249	£8m	£8m
Total		£72m	£36m

The Task Force report concluded that there was a readily identifiable block of recent RCT arrears of the order of £30m - £35m, with perhaps half as much again in respect of other taxes, the bulk of which was concentrated in less than 1,000 cases. The amount collectible may be higher and further arrears would certainly have been identified if cases with an annual arrears balance of less than £10,000 had been included in the examination.

The audit findings in relation to this section are:

- The report recommended that resources be provided to carry out an intensive case by case review to finalise collection of the arrears of in excess of £30m. This has not been done due to continuing pressure on resources and an industrial relations dispute in relation to using the case working system for RCT collection. However, the industrial relations dispute has now been resolved and collection case working will henceforth include the pursuit of RCT.

Use of Revenue Mobile Service 2000

In recognition of the limitations of the current collection arrangements, the Collector General established a pilot project in 2000 under which certain non-compliant RCT cases were referred to the Revenue Mobile Service for investigation. The cases selected for referral are those where the monthly returns for the current year or the annual return for the previous year have not been submitted, and the objective was to obtain outstanding returns and collect outstanding tax. The initial referrals in February 2000 were to the Revenue Mobile Service units in Tullamore and Dublin. Units in Sligo, Letterkenny and Waterford commenced work in this area in October 2000.

In 2000, a total of 1,552 cases were sent to the Revenue Mobile Service. Work commenced on 1,086 of these before the year end and 756 were settled. Of the cases settled, 113 have paid £1.9m in outstanding taxes including RCT of £1.6m. The majority of the other cases were settled by submission of outstanding monthly returns, many of which were 'nil' returns.

The audit findings in relation to this section are:

- Due to concentration on other work, the units in Tulla more and Dublin ceased investigation of RCT cases in June 2000 and January 2001 respectively.
- Following a decision to establish the project on a permanent basis, lists of RCT cases were sent to other Revenue Mobile Service units in February 2001. However, due to industrial relations difficulties, these cases are not being worked at present.

Compliance Rates for Monthly Returns

Monthly RCT returns from principal contractors are due in the Office of the Collector General nine days after the end of each income tax month. From May 1999, it became obligatory to submit a return regardless of whether RCT had been deducted in the month. National monthly compliance rates for mid-2000 and for early 2001 are shown in Table 15.

Table 15 - National Compliance Rates for Monthly Returns of Tax within One Month of the Due Date

	RCT	PAYE / PRSI*	VAT*
July 2000	23%	52%	41%
Feb 2001	37%	53%	43%

*The monthly compliance rates for these taxes increases to 78% and 85%, respectively, 12 months after the due date.

The audit findings in relation to this section are:

- monthly compliance rates for RCT compare unfavourably with the rates for PAYE and VAT after one month. This may reflect the absence of a computerised collection system.

Annual Returns of Relevant Contracts Tax

Annual Returns of RCT are required to be sent to the principal contractor's local tax office within 46 days of the end of the tax year. The return shows the cumulative payments to all sub-contractors, the cumulative tax deducted, total payments to each sub-contractor (certified and uncertified) and the RCT deducted. In addition, the principal is required to provide each sub-contractor's tax reference number (whether certified or not), the number of the Relevant Payments Card issued by Revenue for each sub-contractor who was paid gross and the sub-contractor's date of birth, if uncertified and an individual.

The audit findings in relation to this section are:

- Long term levels of compliance would appear to be only of the order of 60% - 70%. The extent of returns in the Collector General's 1999 Task Force sample of 1,000 was 60%, while Galway District measured the 1999/2000 compliance rate at 62% in March 2001. Overall national rates are shown in Table 16. In comparison, overall rates of return for PAYE annual returns (P35s) are regularly in the region of 95% by seven months after the set deadline. However, as employment situations tend to be more permanent, Revenue would expect a higher rate of compliance as compared with RCT and also consider that the lower RCT rate may be due in part to principal contractors having no RCT activity in a particular year.

Table 16- Annual Relevant Contracts Tax Compliance Rates at March 2001

Year	1997/98	1998/99	1999/00
Number Issued	17,576	19,494	21,972
% received by 28-4-99	74%	Not available	-
% received by 30-4-00	78%	64%	Not available
% received by 2-2-01	Not available	69%	65%

- There is no formal compliance campaign for RCT annual returns as exists for P35s in the PAYE system. In Galway, a reminder letter is issued and a list of non-filers provided to the Inspector in charge of audit. In Dublin, a special six-week project was undertaken in respect of 1998/99 annual returns where non-filers were contacted by phone and letter. Records were updated as necessary and the final list of non-filers was transferred to audit. This was not repeated for subsequent years.
- It is not possible for districts to readily identify which principal contractors have not submitted annual returns. A special request is made to Computer Division to prepare a list.
- A limited level of checking is applied to annual returns received. My audit revealed that the level of checking varies considerably between Districts. Revenue have stated that the content of returns is checked by reference to the original records where a principal contractor is the subject of a Revenue Audit.
- Most of the information on the annual returns is not processed through the Revenue computer system. There is no programme in place to deal with underpaid returns and it is not possible to generate automatic demands in respect of balances due.

Further points noted from the audit samples were

- From my review of the Galway sample it was considered that tax should have been deducted from
 - o three sub-contractors who had a C2 Certificate but in respect of whom the principal contractor had not obtained a relevant payments card;
 - o three sub-contractors who did not hold a C2 Certificate;
 - o one sub-contractor who could not be identified;
- In the Dublin sample of Annual Returns, a Tax Serial Number was not quoted in the case of 271 (70%) sub-contractors without a payments card number and from whom RCT was deducted. The absence of this key reference number makes it very difficult to accurately trace any case through the records of Revenue or the DSCFA.
- Checks were not performed in either Tax District to establish whether any tax reference or payment card numbers quoted were valid.

In response to the points relating to the level of checking of annual returns, Revenue have indicated that the ability to carry out checks on annual returns, particularly in the Dublin area, has been severely limited by the growth in the numbers in RCT and in the building industry generally and by competing demands for staff. The growth in the numbers is illustrated by the increase in the numbers on Revenue records as self-employed individuals in the construction industry from 22,000 in 1995 to 47,000 in 1999. Over the same period the number of holders of C2 Certificates has increased from 17,000 to 28,000 with consequential increases in the numbers of payment cards to be issued (96,000 to 196,000). The numbers of uncertified sub-contractors to be serviced has also increased (repayments up from 33,000 to 55,000).

Repayment or Offset of Relevant Contracts Tax Deductions

Following deduction of RCT, the principal contractor issues a deduction certificate to the sub-contractor with each payment showing the gross amount of the payment and the tax deducted. Deduction certificates are pre-numbered and only issued by the tax office to registered principals. On the basis of the deduction certificate, a sub-contractor can claim for refund/credit of the RCT deducted after the end of the month in which the payment was made. RCT deducted can be credited against any tax owed or estimated, PAYE/PRSI owed for employees, and VAT or RCT deducted by the sub-contractor as a principal. Each refund claim is checked to ensure that no taxes or returns are outstanding from the sub-contractor. If there is any tax outstanding, the RCT withheld is offset against the liability prior to any refund being made.

The audit findings in relation to this section are

- When a claim is being processed, Revenue does not check that the principal contractor listed on the deduction certificate is valid, that his reference number is correct and that the certificate was issued to that principal. Revenue have stated that the sheer volume of repayment claims and the need to process such claims speedily make such checks very difficult to perform when the repayment is being processed. Districts have been advised to implement local security arrangements regarding deduction certificates.
- In processing a repayment claim by a sub-contractor, Revenue does not check that the principal is up to date with his RCT returns and payments. As monthly returns from principals do not detail the sub-contractors in respect of whom deductions were made, it is not possible for Revenue to establish if a principal had remitted the RCT in respect of which a sub-contractor is claiming a refund or offset. This, however, is in line with other fiduciary taxes. The fact that the principal may not have remitted the tax does not affect the sub-contractor's right to a refund, provided there is evidence that the deduction was suffered in a bona fide transaction.

- Of the sample of 19 claims for refund or offset examined during my audit, there was no evidence placed on file in 13 cases to show that all taxheads had been checked for outstanding liabilities when the claim was processed. Revenue have advised that it is standard procedure to check that other taxes were up to date, notwithstanding that such checks may not be recorded on the papers.
- RCT is in theory revenue neutral as the amounts deducted are taken into account when balancing the taxpayers' affairs. However many sub-contractors would appear to accept the liability rather than claim repayment or offset against other taxes. The total amount of RCT deducted but for which repayment or offset was not claimed over the four years 1997 - 2000 was £92m (or 12% of the RCT deducted in the period). The gross receipts, repayments and offsets on a cash basis for each of those years is shown in Table 17.
- As details of Annual Returns of RCT from principal contractors are not captured on the Revenue system, it is not possible to identify and investigate those sub-contractors who do not apply for refund/offset of RCT deducted. While failure to claim would not appear to be advantageous in many instances, it is also possible that some sub-contractors are avoiding tax at higher rates or may be claiming social welfare benefits. However, Revenue have stated that there is no evidence of working and signing in relation to non-claimants.

Table 17 - Relevant Contracts Tax cash collection, repayment and offset 1997-2000

	1997 £m	1998 £m	1999 £m	2000 £m	Total £m
Gross collected	154	175	196	267	792
Repaid	(45)	(55)	(61)	(80)	(241)
Offset against other tax liabilities	(84)	(110)	(118)	(147)	(459)
Not Allocated	25	10	17	40	92

Revenue consider that the reasons for the £92m difference shown between RCT collected and amounts repaid and offset include

- set off will tend to lag behind receipt as the principal contractor is obliged to pay over RCT monthly while claims and related tax returns of income may not be received from sub-contractors for a number of years;
- the size of the difference will be exacerbated in a time of growth in the industry;
- various other reasons, including, foreign sub-contractors who do not claim, evidence of deduction mislaid and repayment refused pending further action by the sub-contractor.

Revenue Audit Checks

Aspects of the RCT system may be examined during different types of Revenue audits:

- o comprehensive audits which examine all taxes including RCT;
- o employers' PAYE/PRSI audits which may include a review of whether workers should be classified as employees or sub-contractors;
- o combined fiduciary audits which examine VAT, RCT and PAYE/PRSI, and
- o audits which focus primarily on RCT.

Instructions, including risk indicators, are in place for Revenue auditors engaged in audits that include RCT. 352 single taxhead RCT audits were completed in 2000. Of these, 172 yielded no additional liability while the

remainder yielded £1.32m. No separate figure is available for the number of comprehensive and combined fiduciary audits that included RCT. However, a total of £860,000 in respect of RCT was included in the overall settlements for such audits. A further category of desk verification audits yielded £1.9m in PAYE and RCT (no breakdown is available).

In 1998, a special programme of 6,200 visits to principal contractors was undertaken by Revenue to check whether any persons registered and treated for RCT purposes as sub-contractors should be reclassified as employees. During the visits, the status of 63,000 sub-contract situations was examined and 12,000 were reclassified as employees. A similar campaign commenced in August 2001.

The audit findings in relation to this section are:

- files relating to 35 Revenue construction industry audits were examined. The absence from some files of a worksheet listing of tests completed made review difficult. However, while most Combined Fiduciary/RCT audits take place in one day, a substantial degree of checking is generally carried out;
- while the classification of employees is examined during every PAYE and RCT audit, figures are not available in relation to the number of reclassifications as a result of routine audit activity.

Revenue Liaison with Department of Social Community and Family Affairs

Since 1990 Revenue and the DSCFA have carried out joint investigations through Joint Investigation Units with staff from both departments. The units operate in all parts of the country and focus on cases where the claiming of unemployment benefit while working is likely to arise, or where there is evidence of non-operation of PAYE/PRSI by the employer. They operate in all industries including the construction industry. In dealing with construction industry cases, the operating practice of the units is to visit sites, interview all the persons on site, ascertain whether they are employees or subcontractors and holders of C2 Certificates and ascertain the wage levels. These details are subsequently checked to computer records to see for example, whether sub-contractors are set up for self-assessment. Officers from the DSCFA may check to see if any workers are claiming social welfare benefits. In some cases, a site may be placed under observation. As a result of visits by the Joint Investigation Unit, some businesses are selected for audit by Revenue. A list of visits is not maintained. Reports are only produced if the case subsequently becomes an audit case. The latest Galway JIU investigation into a construction industry case commenced in May 2000. The latest Revenue audit in Galway of a construction case, which was initiated as a result of a Joint Investigation Unit operation, took place in September 1998.

The audit findings in relation to this section are:

- Two Revenue officials are assigned to the Dublin Joint Investigation Unit on a full time basis as well as some 12 officials from the DSCFA. The Unit in Galway is staffed by four part time staff, of which one is from Revenue. In 2000, a total of 412 visits were undertaken in Dublin yielding £4.4m in taxes. There is no management information on the number of these that would have considered RCT issues. It is estimated that in Dublin 5-10% of visits relate to the construction industry.
- Apart from the Joint Investigation Units there is no interaction between Revenue and DSCFA in relation to RCT at an operational level. While a wide range of electronic data is exchanged, none relates specifically to RCT matters. Revenue obtains details of payments to all sub-contractors by means of the annual returns from each principal contractor. If all information was electronically captured, it could be compared with DSCFA records and assist in the identification of any instances of sub-contractors working while claiming social welfare payments.

- During my audit, 33 cases of a sample of 51 sub-contractors extracted from annual returns of RCT were identified on the DSCFA computer system from details on the completed RCT returns (serial number and/or date of birth). The records showed no claims for social welfare benefits in 30 of these cases, while 3 cases indicated drawings for short periods not incompatible with intermittent sub-contracting activity. The remaining 18 cases could not be identified due to incomplete information on the RCT annual return. Revenue have pointed out that every person in the construction industry who takes on either an employee or a sub-contractor is obliged to notify the DSCFA and that this is the primary method of detecting working and signing.

Sanction against Non-Compliance

The principal contractor is liable for breaches of RCT regulations and in general sanctions will be against the principal. RCT non-compliance is generally punished by the application of civil penalties and interest. These penalties are reflected in audit settlements. Since January 2000, there has been one case prosecuted in respect of an offence under RCT legislation. The taxpayer was charged with aiding and abetting the misuse of a C2 Certificate. The evidence for the prosecution was heard in the District Court in March 2001 and a bench warrant was issued for the defendant who had not appeared in court.

Conclusions

RCT has proved to be an effective means of obtaining tax from a recalcitrant category of taxpayers.

The significant increase in the number of sub-contractors operating in the construction industry has put a strain on the systems used for assessing and collecting RCT. The fact that RCT processing is not integrated into the main Revenue computer system is a considerable drawback to the efficient and effective collection of tax.

Revenue needs to prioritise the development of systems which will enable it to maximise the benefit from the information obtained from RCT activity.

The nature and extent of the checking of RCT returns needs to be reviewed to ensure that it is effective in detecting underpayments of RCT.

The 100% check of sub-contractors' tax affairs prior to the renewal of C2 Certificates lapsed in 1999/2000 due to resource constraints. Although instructions have since issued requiring all renewals be checked, it is important to reiterate that this fundamental control should operate at all times.

Some positive initiatives in collection arrangements were effected in the last two years

- an identifiable block of RCT arrears of £30m - £35m was pinpointed by a Debt Management Task Force in 1999
- in 2000, a pilot project was established under which certain non-compliant RCT cases were referred to the Revenue Mobile Service
- since 2000, large cases are monitored quarterly to ensure that payments and returns are up to date.

Revenue needs to capitalise on these initiatives by making sure that personnel and resources are deployed to collect the identified outstanding RCT.

The delay in following up the RCT arrears increases the risk of non-collection and sends an undesirable signal to non-compliant contractors.

The current programme of visits to principal contractors to check the employment status of workers on building sites is appropriate bearing in mind the increase in activity and changing employment patterns since 1998 when the last such programme was undertaken.

Vote 10 - Office of Public Works

17. Disabled Access Programme

Under existing legislation adequate provision must be made for access and facilities for disabled persons in new public buildings and in existing ones where substantial alterations or change of use are being made.

The Office of Public Works (OPW) has responsibility for managing about 4,000 properties throughout the country. Its duties include ensuring that buildings comply with statutory requirements regarding the provision of access and facilities for people with disabilities. These requirements cover two categories - in-house facilities for employees and external access for members of the public visiting the properties.

Out of the 4,000 properties controlled by OPW about 2,000 are owned by the State while the balance are rented for use by the State. The properties are used mainly for the provision of services by Government Departments and Offices.

For buildings, which are not new or are not being substantially altered OPW has a specific disabled access programme with an annual provision of approximately £1m to cover disabled access adaptation works for all Government Departments.

In the course of an audit of the programme being operated by OPW the following matters were noted:

- In 1992 OPW commenced carrying out a disabled access survey of all Government occupied buildings in the Dublin area to identify where facilities for the disabled were lacking or were inadequate and to establish what rectification works were required. The survey culminated in a report in January 1996, which identified 122 buildings needing disabled access. Of the buildings surveyed 15 could not be upgraded to provide for full public access and use, and 27 would fail to provide adequate provision for disabled staff on completion of the necessary adaptation work. The estimated cost of the necessary works excluding VAT and professional fees was put at £5.2m or £42,800 per building. Work commenced under the programme in 1996.
- Up to December 2000 adaptation work had been completed on 23 buildings, at a cost of £2.4m, (including VAT) which averaged £104,000 per building. The amount provided in OPW's estimates for expenditure under the programme in the years 1996 to 2000 was £5m, which indicates that only half of the budgeted figure was spent.

The Estimate provision and actual amounts spent for the five years up to 2000 are shown in Table 18.

Table 18 Estimated and actual Expenditure 1996-2000

Year	Estimate (£'000s)	Outturn (£'000s)	Percentage Spent
1996	500	110	22%
1997	1000	447	45%
1998	1000	522	52%
1999	1500	855	57%
2000	1000	511	51%
Total	5,000	2,445	49%

I asked the Accounting Officer why the expenditure had been consistently below the estimate provisions since the inception of the programme and what action, if any, was being taken to address the underspend. I also asked why the average cost of adaptation works was almost double the original 1996 estimates, and sought information on the quality of the information available for the prioritising and scheduling of adaptation works.

The Accounting Officer informed me that:

- The Estimate provision referred only to works, often minor, such as the provision of access ramps undertaken specifically and separately to provide disabled access. Design changes, adaptation works and new fit-outs incorporating disabled access requirements were of much more significance both in monetary terms and for improving facilities for the disabled, and for operational reasons were accounted for separately. This expenditure when combined with expenditure under the specific disabled access programme far exceeded the commitments given.
- The 2001 allocation (£0.75m) would be spent in full and total expenditure on the provision of facilities would be many times this amount.
- Regarding the significant increase in the cost of the works completed over the original estimates, he stated that the estimate given in 1996 had to be viewed in the context of tender inflation, which when compounded over the intervening years showed an average increase of 40%.
- The Commissioners, in the light of the implications for disabled access in recent equality legislation and the proposed Disabilities Bill, had initiated a nationwide property survey which should be available in early 2002 and would form the basis of future policy and action for the coming years.

18. Acquisition of the Battle of the Boyne Site

In August 2000 OPW acquired about 520 acres, which is thought to include a significant portion of the lands on which the Battle of the Boyne was fought. The purchase of the lands was effected through the purchase for £7.4m of the share capital of a company which owned 450 acres, and the direct purchase of 70 acres from another company for £0.45m.

The price paid for the property - £7.85m closely resembled the value which was put on the property by the vendor's agent - £8.5m. - when account is taken of 65 acres included in the vendor's valuation but which by mutual agreement was subsequently not included in the sale.

The mechanism of acquiring the lands through the purchase of the company was chosen at the behest of the company shareholders as it resulted in a tax saving of an estimated £920,000 to them relative to the tax which would have accrued to them if the lands had been purchased directly from the company by OPW.

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

- The option of purchasing the lands directly from the company as a separate transaction was never available to OPW and negotiations were carried out on the basis that the acquisition would be by way of purchase of the share capital of the company.
- OPW had the site valued by their in-house valuers who put a value on the property of between £4m to £7m. No reliance was placed on the vendors valuation and it was of no significance as far as OPW was concerned, who acted on its own in-house professional advice.
- Subsequent to the acquisition, as part of an internal audit review, outside consultants were asked to

provide an independent report and review of the valuation used at the time of purchase of the property. The consultant's draft report of July 2001 stated that the appropriate valuation would have been £6.5m with the specific assumption of a known special purchaser i.e. the State. This opinion of value reflected the maximum price which could reasonably have been expected from a special purchaser but does not reflect any additional value which the State may attribute to the acquisition of such a property in the particular circumstances.

- The amount paid reflected fairly the value to the State of acquiring the property in the particular circumstances of the North/South peace process, and no questions arose therefore as to the appropriateness of the amount paid.

I also sought the views of the Accounting Officer on the usefulness of OPW having legal powers to acquire property of historical or heritage significance by Compulsory Purchase Order, similar to the powers which exist in relation to National Monuments. The Accounting Officer stated that this was a matter for Government Policy and that it was by no means certain that even if such powers had been available in this case, that it would have yielded a different price to that paid.

Vote 20 - Garda Síochána

19. Analysis of the Cost and Usage of Air Support

Introduction

The Garda Air Support Unit (GASU) has been operational since September 1997. It operates a twin engine helicopter and a fixed wing aircraft out of Casement Aerodrome, Baldonnell. The unit is staffed by Gardaí who have responsibility for the operations of the unit, while the Air Corps are responsible for maintenance, hangarage, pilotage and flight safety which are governed by military regulations.

Audit Objectives and Scope

The purpose of the audit was to undertake an analysis of the cost and usage of the helicopter and fixed wing aircraft from September 1997 to December 2000. The key objectives of the audit were to:

- Examine the background to the purchase of both aircraft
- Establish and analyse the initial capital cost
- Establish and analyse the ongoing running costs of both the GASU and the Air Corps
- Establish and analyse the usage of the assets 1997 – 2000
- Compare actual costs and actual usage with the budgeted figures
- Identify the procedures employed to establish, analyse and maximize the effectiveness of the usage of the assets in support of Garda operations.

Background

Historically the Air Corps have provided air support to the Garda Síochána. From 1993 to 1995, the Air Corps flew an average of 680 hours per annum in support of Garda operations. This support was however limited to daylight hours and to favourable weather conditions due to the type of aircraft available. Tactical response by the Garda Síochána to serious crime was constrained by these limitations.

In May 1995, the Minister for Justice, Equality and Law Reform (the Minister) established an Inter-Departmental Working Group (“the Group”) to examine all aspects of air support for the Garda Síochána and to determine how best to provide the Force with the most effective air support. The Group comprised representatives of the Departments of Justice, Equality and Law Reform (Department of Justice), Defence and Finance, the Garda Síochána and two representatives from Aer Lingus (the latter to provide the necessary technical expertise).

In March 1996, the Group, in a report to the Minister entitled “Report on Air Support for the Garda Síochána” indicated that there were significant limitations in the existing arrangement with the Air Corps. These resulted from the lack of suitable aircraft to provide continuous airborne surveillance in all weather conditions and during the hours of darkness. The Group noted that 40% of indictable crimes and 48% of robbery, armed robbery and burglary occurred during the hours of darkness.

The Group concluded that:

- Air support was a vital resource for the Garda Síochána in implementing its strategies to combat crime particularly organised crime gangs, drug trafficking, paramilitary activity and serious mobile crime

- The capability to operate outside daylight hours and in unfavourable weather conditions was a crucial element of Garda tactical requirements and
- The most effective means of providing the Garda Síochána with such air support was to establish a dedicated air support unit with twenty-four hour capability.

Government Approval

The Group recommended the establishment of a dedicated Garda air support unit piloted by the Air Corps but with operational control and policing responsibility resting with the Garda Síochána. It concluded that the Unit should be set up with a helicopter and a fixed wing airplane. A single engine helicopter was recommended. The Group was undecided as to whether the fixed wing plane should be single or twin engine. It felt that decision could best be taken when determining the final tender specifications or possibly during the tender evaluation process.

The Group estimated the cost of operating the Unit from 1996 to 2000 at £3.79m *viz.* initial capital costs of acquisition for aircraft and mission equipment £2.62m with operating costs over five years of approximately £1.17m. The Group reported that the equivalent estimated cost of an independent unit operated by the Garda Síochána alone would be £5.69m *viz.* £3.62m for capital costs of acquisition, hangar and office accommodation and operating costs of approximately £2.07m.

The Air Corps had indicated it would be willing to provide air support with twenty-four hour capability if the appropriate aircraft were available and could provide back-up in terms of additional aircraft if operational needs so demanded.

The Minister, in a Memorandum to Government dated 17 April 1996, sought approval to establish a dedicated Garda Air Support Unit as recommended by the Group. The Minister for Defence fully supported the proposal and confirmed that the Air Corps would be available to operate the air support unit as recommended in the Report of the Inter-Departmental Group. The Minister for Finance had no objections in principle to the proposal, provided that the financial and staff resources of the Garda Síochána required to run the unit would be provided from existing agreed allocations for the Justice group of Votes.

On 23 April 1996, the Government approved the establishment of a dedicated Garda Air Support Unit as recommended by the Group. Approval was given for the purchase of two aircraft with twenty-four hour capability, namely one helicopter for observation/patrol duties at an estimated capital cost of £1.2m and one fixed-wing airplane for technical surveillance purposes at an estimated capital cost of £1.35m.

Purchase of Aircraft

A Technical Subgroup drawn from the Group and from the Air Corps prepared draft tender specifications for both aircraft. In light of these draft specifications, and previous consideration of Garda operational requirements, including the balance of safety and cost, the Group decided to seek tenders for both single and twin engine aircraft. The Group also took account of changed Garda operational requirements for increased offshore air support capability. The Garda authorities were advised, after tenders had been sought, that the Air Corps would not operate single engine aircraft at night, over urban areas or over water. It was also established that the majority of other Police Air Support Units in the U.K. and Europe were using twin engine aircraft and intended to phase out the use of single engine aircraft.

In view of the perceived requirement for sensitivity and secrecy regarding operations of the Garda Síochána

and the exacting nature of the technical specifications in the tender documentation, the Group decided that the proposed contracts fell within the ambit of the EU Supplies Directive 93/36/EEC permitting the use of a restricted tender procedure. On 18 July 1996 the Department of Justice invited tenders for both aircraft from a restricted list of manufacturers.

The tenders received for each aircraft were ranked according to tendered contract price. Five tenders were received for the fixed-wing airplane. The two lowest tenders were rejected because they were for a single engine airplane. The next lowest – a twin engine plane – was recommended at a contract price of £2, 382, 207 excluding VAT. Five of the tenders received for the supply and delivery of the helicopter were for a single engine design, with five others proposing twin engine craft. The lowest tender for a twin engine design (third lowest overall) was recommended at a contract price of £2, 025, 672 excluding VAT.

On 15 November 1996, the Department of Justice sought sanction from the Department of Finance to award the contracts to the recommended firms. The Department attributed the substantial increase in purchase price of each aircraft when compared to the original approved estimate to the

- subsequent decision to select twin engine aircraft
- reality of current market prices that emerged only on receipt of the tenders
- exclusion of any allowance for VAT in the original estimate of cost.

On 28 November 1996, the Department of Finance sanctioned expenditure of up to £5.56m including VAT for the establishment of a dedicated Garda Air Support Unit (GASU).

Separate contracts were entered into by the Minister in December 1996 for the supply of one equipped BN2T – 4S Defender 4000 Airplane at a cost of £2,882,470 including VAT and one equipped AS 355N Ecureuil Helicopter at a cost of £2,451,064 including VAT

The increase in the capital costs associated with the establishment of the Garda Air Support Unit are summarised in Table 19.

Table 19 Increase in costs of Garda Air Support Unit

	Fixed Wing £m	Helicopter £m	Ancillary £m	Total Cost £m
Government approved	1.35	1.20	.07	2.62
Department of Finance sanctioned				5.56
Final Contract Price	2.88	2.45	.33	5.66

Garda Air Support Unit

The stated purpose of the GASU according to its Mission Statement is to provide a patrol / response / surveillance capability, both overt and covert, in support of operational ground units of the Garda Síochána³.

The official operation of both aircraft commenced on 1 September 1997. A fully equipped building has been purpose-built at Casement Aerodrome and has been occupied by the Unit since 18 June 2000.

The GASU has a staff complement of four Sergeants and twelve Gardaí under the command of a Superintendent. Nine Air Corps pilots are assigned to the Unit: five pilots to the fixed-wing airplane and four

³An Garda Síochána (1997) HQ Directive 155/97

pilots to the helicopter.

Requests for the services of the GASU are made directly to the base at Baldonnell or via the Garda Communications Centre, Harcourt Square, Dublin. GASU staff monitor Garda Communications Channels and may deploy an aircraft to any incident that would benefit from GASU assistance. A purpose built computer system was installed in the GASU building to record and monitor all such operations carried out by the aircraft.

At present, the GASU operates an immediate response from 7am to 1am daily, with helicopter response times of 2 to 5 minutes to airborne and the fixed wing airplane 10 to 15 minutes to airborne. From 1am to 7 am, the Unit operates an on-call service with a 40-minute response time to airborne for both aircraft.

Garda Operational Costs

The Garda Síochána is responsible for the salaries and allowances, training and subsistence costs of the Gardai assigned to the GASU. These costs for the period September 1997 to December 2000 are shown in Table 20.

Table 20 Garda Staff Costs

Cost	1997⁴	1998	1999	2000
	£	£	£	£
Salaries	172,481	517,443	674,332	689,250
Training	-	6,000	9,800	2,790
Subsistence	10,175	9,037	13,721	9,789
Total	182,656	532,480	697,853	701,829

Air Corps Operational Costs

The Air Corps bear the costs of pilots, technical support, repairs and maintenance and fuel for both aircraft. These costs, for the period September 1997 to December 2000, provided by the Department of Defence, are shown in Table 21

Table 21 Air Corps Costs

Cost	1997	1998	1999	2000
	£	£	£	£
Pilots Salaries	141,121	244,523	303,347	310,793
Technical Support Salaries	119,898	505,320	622,933	542,467
Training	58,560	39,945	67,643	14,800
Repairs and Maintenance	61,230	679,101	510,210	559,089
Fuel	55,326	109,220	98,917	94,701
Total	434,135	1,538,164	1,603,050	1,521,850

It should be noted that there were significant variations between budgeted and actual expenditure in respect of the combined costs of repairs and maintenance and fuel over the years 1997-2000 as shown in Table 22.

⁴ From 1 September 1997 to 31 December 1997

Table 22 Total Air Corps Maintenance and Fuel Costs

Year	Budget⁵ £	Actual £
1997	125,000	116,556
1998	275,000	788,321
1999	275,000	609,127
2000	275,000	653,790
Total	1,100,000	2,167,794

Total Operational Costs

The operational costs of providing the Garda Air Support Unit over the years 1997-2000 are summarised in Table 23.

Table 23 Total Operational Expenditure

Cost	1997 £	1998 £	1999 £	2000 £	Total £
Garda Staff	182,656	532,480	697,853	701,829	2,114,818
Air Corps Staff	319,579	789,788	993,923	868,060	2,971,350
Maintenance	116,556	788,321	609,127	653,790	2,074,862
Total	618,791	2,110,589	2,300,903	2,223,679	7,253,962

GASU Operations

The unit supports Garda operations such as Crime Prevention Patrols, Intelligence Gathering, Anti-drug Operations and Traffic Management. A computer system installed in the GASU headquarters at Baldonnel records and monitors all GASU operations. Both flight details and task details are recorded. Information in respect of downtime, numbers of flights/tasks undertaken, hours flown and a breakdown of some outcomes are given in respect of each aircraft in Table 24 and Table 25.

Table 24 Airplane Flights, Tasks and Results

	1997	1998	1999	2000
Hours to be covered per annum ⁶	2,920	8,760	8,760	8,760
Downtime	513(18%)	1,681(19%)	2,688(31%)	3,202(37%)
Hours Available	2,407	7,079	6,072	5,558
Hours Flown	323(13%)	971(14%)	831(14%)	455(8%)
Average Hours Flown per Day	3.5	2.7	2.3	1.3
Flights/Tasks Undertaken	208	576	479	331
Direct Arrests	3	2	0	7
Assisted Arrests	2	16	10	0
Missing Persons Recovered	1	1	0	2
Vehicles Recovered	1	7	0	4
Property Recovered	£8,751,500	£4,936,200	£2,800,000	£9,500

⁵ Based on the estimate presented to Government on the basis of single engined aircraft and annual usage of approximately 1250 hours

⁶ Number of days per year by 24 hours.

Table 25 Helicopter Flights, Tasks and Results

	1997	1998	1999	2000
Hours to be covered per annum ⁷	2,920	8,760	8,760	8,760
Downtime	286(10%)	1,776(20%)	1,810(20%)	2,515(29%)
Hours Available	2,634	6,984	6,950	6,245
Hours Flown	376(14%)	930(13%)	884(13%)	763(12%)
Average Hours Flown per Day	4	2.5	2.4	2
Flights/Tasks Undertaken	512	1,277	1,295	1,163
Direct Arrests	8	79	114	134
Assisted Arrests	53	94	105	93
Missing Persons Recovered	3	5	4	8
Vehicles Recovered	45	90	62	52
Property Recovered	£221,000	£379,950	£1,333,750	£239,800

Down Time

The main reasons for downtime on both aircraft are Garda Equipment Failure, Mechanical Defect, Re-Fuelling, Servicing, Technical Equipment Failure, Weather Conditions and No Pilot available. The most significant downtime is caused by servicing needs of both aircraft, which has averaged 64 occurrences and 1220 hours for the airplane and 76 occurrences and 1479 hours for the Helicopter for the years 1999 and 2000.

Task Denials

Requests for assistance are reviewed by the Sergeant-in-charge of the GASU from an operations point of view and by the Air Corps from a safety point of view. It is not possible for the GASU to respond to all requests. A record is maintained of the number of task denials and the reasons for the denial. Table 26 gives details of the task denials for both Aircraft for each year.

Table 26 Task Denials

Reason	1997	1998	1999	2000	Totals
No Pilot	2	2	1	0	5
Servicing	4	5	14	15	38
Time Lapse	1	6	13	12	32
Task Inappropriate	5	23	24	19	71
On Standby	1	0	0	1	2
Weather Conditions	4	32	13	22	71
Area not Contained	1	2	8	9	20
Insufficient Information	2	3	12	10	27
Aircraft Mechanical Defect	0	4	5	6	15
Higher Priority Task	0	12	13	8	33
ATC ⁸ Refused Access	0	2	1	5	8
Incident Terminated	0	1	1	0	2
Garda Equipment Failure	0	1	1	2	4
Air Corps Directive 12/99 ⁹	0	0	14	18	32
Other	0	6	10	8	24
Total Tasks Denied	20	99	130	135	384
Total Tasks Undertaken	720	1853	1,774	1,494	5,841
Tasks Denied as % Tasks Undertaken	2.8%	5.3%	7.3%	9.0%	6.6%

⁷ Number of days per year by 24 hours.

⁸ Air Traffic Control

⁹ Directive on night flying pursuant to Air Accident Report.

Weather Conditions

The Department of Defence points out that all flying operations are subject to weather to some degree and, therefore, despite the Working Group's analysis of Garda requirements, the provision of continuous airborne surveillance in all weather conditions is not possible

Training and Safety

The Air Corps are responsible for the training of pilots assigned to the GASU while the Garda Síochána are responsible for the training of observers assigned to the Unit. Initial pilot and observer training took place prior to the official commencement of operations.

As a result of an air traffic incident over Co. Clare involving the helicopter on 12 May 1999, the Air Accident Investigation Unit of the Department of Public Enterprise carried out an investigation. Its report of the 26 August 1999 recommended *inter alia* that

- The Air Corps should suspend GASU helicopter night operations in rural areas with immediate effect until GASU pilots complete an effective programme of extra night flying. (SR 30 of 1999)
- The Air Corps should conduct an intensive course of night flying to achieve at least a minimum of 100 hours for each GASU helicopter pilot and those marked for GASU in 2000. This course should commence immediately, with a target date of completion by end of March 2000.

The need to provide adequate levels of training has given rise to disparate proposals

- The leasing of an AS355N helicopter recommended in the report of the Air Accident Investigation Unit of the Department of Public Enterprise
- Citation by the Minister for Justice of training of specialised Garda units as one of the arguments in favour of the purchase of a second Garda helicopter.
- An announcement by the Minister for Defence in February 2000 that an AS 355 helicopter was to be acquired for the Air Corps as soon as possible for the purpose of pilot training in connection with the operation of the GASU
- The Department of Justice raised the possibility of paying for Air Corps pilots to get night training abroad but this was not pursued because the Air Corps/Defence favoured purchasing or leasing a helicopter specifically for training.

In practice minimal use has been made of either existing aircraft for pilot or observer training. Only 104 flight hours have been recorded for pilot training. This represents less than 2% of hours flown and less than 0.3% of hours available. The hours used for observer training are less still totalling 17 over the 4-year period.

The Department of Justice has informed me that while the Gardai have offered to release the existing helicopter to the Air Corps for night training between 1 a.m. and 6 a.m., this offer has not been taken up because the hours were not suitable. The Air Corps advised the Department in June 2001 that neither the existing nor ordered helicopter could be used for night training as while both can be fitted with dual controls, they do not have dual instrumentation.

Second Helicopter

The Minister submitted a Memorandum to Government on 5 November 1998 seeking approval for the purchase of a second Helicopter for the GASU. Arguments advanced in favour of the proposal included

- making good downtime due to scheduled servicing of the first Helicopter estimated at up to 60 days a year.

- provision of air cover outside the Dublin Metropolitan Area
- provision of increased traffic control capability
- provision of training.

On 10 November 1998 the Government approved the acquisition of a second twin engine Helicopter with a 24 hour capability for the GASU at a total cost of approximately £2.54m. A tender competition under EU procurement regulations was held in January 1999. Four tenders were received from three companies including a tender for the supply of an AS 355 helicopter akin to that delivered in 1997. A Technical Committee that included a representative of the Air Corps and a Financial Committee reviewed the tenders. Both Committees recommended the purchase of an EC 135 Helicopter on the grounds that it was quieter and more versatile than the AS 355, cheaper to maintain and a more modern aircraft.

Department of Finance sanction and Government Contracts Committee approval was received in June 1999 for the purchase at a cost of £3.5m.

Air Corps and Garda representatives evaluated the proposed craft at the suppliers in August 1999 and following this evaluation the GASU Garda representatives assured the Department of Justice that there were no major difficulties with signing the contract.

A contract was signed on 6 August 1999 and a down payment of approximately £204,000 was made to the company. The contract stated that the Avionics and Mission Equipment were to be agreed by 6 September 1999 in order to assure delivery in March 2000.

This deadline was not met, as there was a difference of opinion between the Air Corps and the Garda Síochána on the need for the inclusion of certain features including an autopilot in the EC 135. The tender submitted had not included an autopilot although the specification document agreed at Technical Subcommittee in December 1998 provided for one. The company by letter in October 1999 stated that it had halted production work on the Garda EC 135 and that delivery would be in November 2000 if agreement could be reached on the avionics and the autopilot. The Report of the Air Accident Investigation Team had recommended that all future helicopters should be fitted with a Cockpit Voice Recorder (CVR) and a Flight Data Recorder (FDR). The Department of Justice informed the Department of Defence in November 1999 that the new Helicopter would be fitted for such equipment.

In December 1999 the Department of Defence wrote to the Department of Justice appending a document in which the General Officer Commanding (GOC) of the Air Corps set out his views on the purchase of the EC 135 in some detail. These included

- The EC 135 is not the most suitable aircraft for GASU operations on the basis of its single engine performance capability, the lack of flight evaluation, lower fuel endurance than other aircraft and it does not have the same range and radius of action as other aircraft in its class.
- The operation of two different Helicopters by the Garda Síochána poses difficulties in economy of scale from a maintenance and flying point of view.
- Training of pilots and maintenance staff will have to be duplicated.
- There will be inefficiencies and a need to hold two different sets of spare parts.
- Rostering of pilots and maintenance staff will be extremely difficult.

- It would duplicate the current difficulties being experienced of pilot ratings.
 - The purchase of the EC 135 should be discontinued in favour of a second AS 355.
- Notwithstanding these views the GOC concluded that the EC135 could complete the GASU mission. On this basis the Department of Defence accepted that it would be appropriate to proceed with the purchase of the EC135 fitted with an autopilot. A second payment for the helicopter of £2.096m was made in December 1999.

At a meeting in February 2000 most of the issues relating to the fitting of flight equipment to the Helicopter were resolved between the Garda Síochána and the Air Corps. The Department of Justice then sought a new delivery date from the supplier. The indications were that the Helicopter would be built by October 2000. It would then have to be fitted out with the Garda equipment. The Department confirmed to the company in March 2000 the specification of optional equipment, avionics and mission equipment to be fitted to the EC 135. The Department of Finance sanctioned an additional amount of £500,000 in May 2000 for the increased cost of the EC 135 due to the inclusion of an autopilot and digital avionics.

The EC 135 was delivered to a fitting out contractor in December 2000. It is expected that it will not now be delivered to the GASU before September 2001 at the earliest. The estimated cost to date of the EC 135 is £4m. The Garda Síochána and the Air Corps have not yet concluded an operation, servicing and hangaring agreement for the new craft.

Conclusions

- The decision to opt for twin engine craft was not taken until after tenders had been received which suggests that the requirement, arising from evolving safety concerns, may not have been properly researched before then. This decision led to a significant increase in costs over original estimates.
- Full coverage by helicopter has not been achieved since September 1999 due to failure to train for night flying. Overall, the integration of training and operational needs does not appear to have been managed effectively to-date.
- Operational costs, and, in particular, repairs, maintenance and fuel costs have been far in excess of what was envisaged.
- The Air Corps put forward serious cost and operational implications of having two different types of helicopter after the contract for the second helicopter was entered into.
- The second helicopter has not been delivered two years after a contract for its supply was signed. It is not possible to say if this delay was as a result of difficulties in agreeing the type of equipment to be fitted
- The Department of Justice and the Department of Defence have been unable to come to agreement on the role of the Air Corps in the operation of the new craft. The arrangements whereby the Air Corps would fly and maintain this craft are currently being reviewed by both Departments.
- Split responsibility for the operation of the unit has not been conducive to the effective and efficient delivery of the service and has impacted adversely on its financial management.

Vote 25 - Environment and Local Government

20. The Dublin Transportation Office Short Term Action Plan

Introduction

The Dublin Transportation Office (DTO) was established, as a corporate body, under the Local Government Services (Corporate Bodies) Act 1971 to co-ordinate and monitor the implementation of the Dublin Transportation Initiative strategy and to make recommendations for an implementation programme. The business of the Office is conducted by a Steering Committee which is representative of the land-use and transportation agencies in the Greater Dublin area and has a key role in overseeing the successful implementation of all aspects of the strategy. It does not have statutory powers to enforce delivery of programmes but depends on voluntary arrangements and consensus to pursue its mandate.

In September 1998, the DTO published a transportation review which concluded that, unless the imbalance between the use of private motor cars and alternative modes of transport¹⁰ in Dublin was addressed by immediate, short-term measures, the Greater Dublin area would experience a deterioration of travel conditions into the future.

The DTO estimated this imbalance to be of the order of 49,000 trips in the Greater Dublin Area, including 12,000 city centre trips, and set the target to transfer a significant proportion of this imbalance to alternative modes of transport.

In conjunction with this transportation review, and in association with the relevant agencies the DTO prepared a Short-Term Action Plan 1998-2000 ("the Plan") with the objective of addressing the deteriorating situation.

The Plan set out a series of co-ordinated actions required from several public sector agencies. The DTO's Steering Committee, in consultation with these agencies, set certain targets and set up an Action Plan Monitoring Committee ("the Monitoring Committee"), to monitor its implementation.

The role of co-ordinating/monitoring progress under the Plan vests in the DTO while direct responsibility for delivery of particular elements in the Plan vests in the various agencies – in particular, local authorities in the Dublin region and companies in the CIE group.

The Department of the Environment and Local Government ("Environment") provides the majority of traffic management funding for the DTO and 50% of its general administration budget¹¹. Local Authorities also contribute funds to traffic management in their own right.

The Plan proposed action in the following areas

- Bus
- Suburban Rail

¹⁰ Principally bus, train and cycling

¹¹ The balance of DTO administrative funding is provided by CIÉ and the local authorities (the four Dublin authorities –Dublin Corporation, South Dublin, Dún Laoghaire- Rathdown and Fingal County Councils and Kildare, Meath and Wicklow County Councils)

Environment and Local Government

- Cycling
- Parking
- Traffic Management

A campaign of Public Information was also envisaged

Although the Plan was launched in September 1998, the Monitoring Committee was not established until January 1999.

The primary costs of the Plan were borne on Voted and European Union (EU) funds. Disbursements in the period 1998 to May 2001 were sourced as shown in Table 27.

Table 27 Disbursements 1998 to May 2001

	£m
Environment and Local Government Vote via DTO ¹²	49.6
Environment and Local Government Vote via Local Authorities	6.8
Public Enterprise Vote	38.8
EU (Operational Programme for Transport 1994-1999)	36.2
CIE Group	3.1
Total	134.5

Certain other costs were met by the CIE Group and the four Dublin local authorities from internal sources.

Objectives and Scope of Audit

The objectives of the examination were to assess the success of the Plan in terms of the targets set by the DTO, particularly the objective of transferring a significant proportion of the excess of 49,000 predicted car trips to alternative modes. The examination included a review of

- Target costs to actual costs
- Target impacts to actual impacts
- Target achievement dates realised

The DTO furnished details of the outturn and impact of the Plan. My audit remit does not extend to local authorities or companies in the CIÉ group so reliance was placed on information provided by those implementing agencies to their sponsoring Departments. Meetings were held with the sponsoring Departments to clarify information received and to assess the quality of this information. The drawdown and payments procedures for Environment and Public Enterprise were also examined.

Audit Findings

Primary Objective of the Plan

The primary objective of the Plan was to effect a transfer of some 37,000 predicted person-trips by car to alternative modes to address the imbalance of peak hour trips which had been identified by the DTO. Accordingly, the impact targets under the Plan were set in terms of achieving shifts from car journeys to the alternative modes of transport.

¹² £6.1m spent by DTO on Action Plan Projects prior to 1998.

A key reporting methodology chosen to indicate progress under the Plan for the principal players, Dublin Bus and Iarnród Éireann, was to measure the increase in passenger trips per peak hour per day arising from measures taken under the Plan. Both companies have reported increases in capacity and the number of public transport trips being undertaken but the extent to which this increase is attributable to a switch from private car usage is difficult to establish.

The DTO used traffic modelling techniques to establish the imbalance between private car usage and the alternatives. In order to effectively evaluate the achievement of the Plan's objectives it would be useful if the impact made by the various measures undertaken could be factored into the model, including those achieved by CIE companies. However, the DTO states that while the overall target was established using the model the small scale impacts of the individual elements of the Plan cannot be modelled with sufficient precision to allow it to be used as a monitoring tool.

In the circumstances, it is not possible to determine the extent to which the primary objective of the Plan has been achieved.

The Action Plan Monitoring Committee

The Monitoring Committee comprises representatives of the major participants in the implementation and monitoring of the Plan. These are

- Dublin Transportation Office
- Department of the Environment and Local Government
- Department of Public Enterprise
- Córas Iompair Éireann
- South Dublin County Council
- Dún Laoghaire - Rathdown County Council
- Fingal County Council
- Dublin Corporation

The Monitoring Committee held nine meetings in 1999 and four in 2000. Since June 2000 any matters relating to the Plan were considered by the DTO Steering Committee which subsumed the Monitoring Committee because of the importance it attached to delivery of the Plan

Bus Project

The key objective of the Bus Project, to reduce the imbalance in passenger trips in favour of alternative modes of transport of 21,600 was to be achieved by increasing the capacity of the bus service in the Greater Dublin area during the morning and evening peak travel times. This was to be effected principally through the combined efforts of Dublin Bus and local authorities in

- The implementation of 12 Quality Bus Corridors (QBCs) (estimated impact 3,500)
- A scrapping, replacement and purchase policy which would involve the addition of 270 new buses to the fleet (combined estimated impact 11,900)
- Sub-contracting school bus services to the private sector that would free up 60 buses for the morning peak (estimated impact 4,200)

- Connect radial routes (estimated impact 2,000)

All of these measures were to be completed by the end of 2000.

The principal costs forecast for QBC implementation (£15.5m from DTO) and the capital cost for 150 new vehicles (£27.5m from Public Enterprise) were to be met from the Exchequer. CIE was to absorb the cost of scrapping and replacing an additional 120 buses within its own resources. It also undertook to connect radial routes in Dublin. An additional £9m per annum was to be provided by Public Enterprise towards the operational costs of the new buses. Public Enterprise provided additional funding of £4m in 1999 to meet the increased operating costs falling on Dublin Bus in that year and has increased its annual subvention in 2000 and 2001 to take account of ongoing additional operating costs associated with the Plan.

Table 28 shows the Outcome versus Targets for the two Bus Measures involving direct Exchequer funding.

Table 28 Bus Measures 1998-2000

Actions	Target		Outcome
Install 12 QBCs	Cost	£15.5m	£32.1m (includes cycle-lanes) ¹
	Timing	By End 2000	3 QBCs operating end 2000
	Impact	3,500	Not fully assessed
150 new buses ²	Cost	Capital £27.5m plus £9m p.a.	£27m plus unquantified additional operating costs
	Timing	By End 2000	Within Target
	Impact	9,450	Not fully assessed

¹ The four local authorities involved in creating 12 QBCs have reported this expenditure to the DTO as at May 2001. However, some proportion of this amount is attributable to the provision of cycle-lanes on the QBCs. The DTO has not separately identified these costs.

² The balance (120) of the original target of 270 buses to be purchased were acquired by Dublin Bus from its own resources

Implementation of QBCs

By the end of the Plan period, 3 of the anticipated 12 QBCs had been launched. These were Lucan, Malahide and Stillorgan. Progress on the other QBCs was as follows

- North Clondalkin: Opened in March 2001.
- Swords: One segment Whitehall to City Centre was opened in April 2001.
- Tallaght: Opened in April 2001.
- Rathfarnham: Opened in March 2001.
- Finglas: Opened in March 2001
- Blanchardstown: Opened in September 2001.

The following QBCs are not yet operational

- Ballymun
- South Clondalkin
- Orbital

Impact Indicators

DTO report that a Dublin Bus survey of those using the Stillorgan QBC after its launch indicated that 60% were previous car users. Dublin Bus intend to undertake similar surveys on more recently launched QBCs.

Dublin Bus has compiled weekly passenger figures on each QBC from its ticketing data, to compare patronage before and after QBC launch. However, the figures combine the effects of the new infrastructure with the revised schedules, new buses and increased frequency. Accordingly, while each QBC has recorded increased performance, it is difficult to disaggregate the contribution from each of the initiatives taken.

School Bus Sub-Contracting

After the Plan had commenced, CIE reported to the Committee that it would not be possible to achieve the Short Term Action Plan target for the bus sub-contracting measure. This was due to the fact that the original target did not take into account the need to scrap very old buses that had previously been used for schools services. While there was a moderate net gain in increased capacity from this measure, the target of 4,200 passenger trips set out in the Plan will not be met. DTO state that the condition of buses used for school services was not communicated to it when the target for this measure was agreed.

Radial Routes

This measure comprises the implementation by Dublin Bus of cross-city and Express routes into their timetables. At the end of 2000 more than 20 of these were introduced. Completion of the measure is delayed because QBCs have not been linked in the city centre, the O'Connell Street Millenium project which includes dedicating roadspace to public transport has been delayed and certain traffic calming measures to give priority to buses is behind schedule.

Suburban Rail (including DART) Project

The primary objective of the suburban rail project was to maximise the capacity of the rail network by the provision of additional rolling stock and line improvements to reduce the imbalance by 11,300. The principal features of the work included

- Upgrading the Maynooth to Clonsilla rail line
- Purchase of 20 diesel rail-cars for use on the Maynooth suburban route
- Purchase of 8 two-car sets of rolling stock for DART
- Lengthening of DART and other suburban stations' platforms to accommodate the operation of 8 car train sets

Iarnród Éireann was responsible for all measures in this aspect of the Plan. A delivery timetable ranging from end 1999 (platform lengthening) to end 2000 (upgrading Maynooth-Clonsilla line) was forecast. The capital cost of the measures was estimated at £65.5m, with an additional Public Service Contract payment to CIE amounting to £5m per annum (payable from Vote funds). Public Enterprise has confirmed that an increased subvention has been made available to Iarnród Éireann to cover additional operating costs arising under the Plan.

Table 29 outlines the measures to be taken and the outcomes for Suburban Rail.

Table 29 Suburban Rail Measures 1998-2000

Action		Target	Outcomes ¹
Upgrade Maynooth-Clonsilla line	Cost	£16.5m	£14m
	Timing	End 2000	Substantially Completed
	Impact	1,300	Additional service implemented in August 2001
Purchase 20 diesel rail cars	Cost	£20m	£21.5m (current cost)
	Timing	Mid 2000	Substantially Completed
	Impact	3,000	Additional service implemented in August 2001
Purchase 8 two-car sets for DART	Cost	£24m	£17.9m
	Timing	Mid 2000	Completed by end 2000
	Impact	7,000	Target reduced
Lengthen rail station platforms	Cost	£5m	£5m
	Timing	End 1999	All Platforms not yet completed July 2001
	Impact	None specified	Measure not effective yet

¹ The figures reported were provided by the CIE group to Public Enterprise.

Maynooth Suburban Line

The key objective was to double the track between Maynooth and Clonsilla and incorporate associated signalling works. The expenditure profile was expected to be £5m in 1999, £6.5m in 2000 and £5m in 2001. CIE reported in March 2001 that the doubling of the track had been completed. Major signalling commissioning had also been completed in December 2000 which would facilitate the upgraded service. However, the automation of a number of level crossings remained to be carried out.

Purchase of Diesel stock

Industrial relations difficulties in Iarnród Éireann delayed the deployment of the 20 new diesel rail cars for the Maynooth suburban line. A revised schedule for the line involving the new rail cars went into operation in August 2001.

Purchase of DART stock

In February 2000, Iarnród Éireann indicated to the monitoring committee that the estimated impact of the DART measures was overstated and should be reduced from 7,000 to 4,000. Although 8 two-car units were delivered in 2000, the last of these was not brought into service until June 2001.

In June 2000, Iarnród Éireann informed DTO that separate impact indicators would be required for the diesel and DART rail-car additions of the Plan. These have not yet been compiled.

Platform Lengthening

The plan for platform lengthening was to bring all outer-suburban platforms and DART platforms up to a standard 174 metres to facilitate the operation of longer train-sets. A total of £2m was planned for 1999, with a further £3m in 2000. The work was to be completed in time to accommodate the arrival of the additional rolling stock and the consequential longer trains.

In March 2001, CIE stated that 3 remaining stations, Drumcondra, Raheny and Lansdowne Road, would be

completed by October 2001. However, due to planning application and property issues arising with Tara Street and Blackrock, no dates were available for these stations.

Cycling Project

The main elements of the cycling project were targeted at reducing the transport imbalance by 4,000 passenger trips per peak hour per day. The measures were

- To provide 100 kilometres of cycle track in addition to the approximately 60 kilometres already in place, to substantially complete the agreed Dublin Transportation Initiative Cycle Route Network of 360 kilometres of track.
- To provide a minimum of 1,000 additional cycle parking spaces and encourage the provision of shower/changing facilities at the workplace

The local authorities had primary responsibility for implementing these measures. The cost was estimated at £15.5m.

The provision of the length of cycle track included in the Plan was a general objective and did not specify which parts of the DTO cycle network were to be completed. By end April 2001, some 320 kilometres of track had been completed, 230 kilometres of which were part of the original network. The cost of specific cycle tracks to end April 2001 was £9m. The cost of cycle tracks provided as part of the QBC network has not been separately identified.

£211,000 of the £500,000 provided in the Plan has been drawn down by local authorities for the provision of additional cycle parking spaces. The DTO states that Dublin Corporation alone has installed in excess of 2,000 such spaces under the Plan with the total number of spaces within the region now exceeding 2,500

Parking Project

Under this aspect of the Plan, the key elements, if effective, were to reduce the transport imbalance by 500. They were as follows

- To implement a Park and Ride facility at Finglas (target cost £1m plus an annual subvention of £0.5m)
- To further develop Park and Ride facilities adjacent to rail stations (target cost £1m)
- To implement measures which would restrict the availability of private non-residential parking

While Dublin Corporation was to be responsible for the Finglas Park and Ride project, and CIE for augmenting Park and Ride elsewhere, Environment, Finance and local authorities were charged with implementing fiscal and other changes to bring about shifts in private parking practice.

Implementation of Park and Ride

In 1999, the DTO revised its original estimated impact from this measure from 500 to 1,000. However, the Finglas Park and Ride facility has not yet commenced. The absence of this facility leaves a large deficit in the impact of this project.

The measure to develop Park and Ride facilities at rail stations has proceeded with the DTO paying £2.37m towards the costs, compared to a planned £1m. Property costs incurred by CIE and local authorities are not included in this figure.

Other Measures specified in the Plan for the Parking Project

Reducing Private Non-Residential Parking

The Plan proposed the development of fiscal measures aimed at reducing the level of private non-residential parking in the city centre by 5% per annum. There have been no significant developments in this area that would lead to achievement of the desired outcome.

Reduction of Parking Supply for New Developments

It was the intention to amend the parking standards attaching to planning permissions to reduce the amount of parking available to office and other developments along quality public transport corridors and in urban areas undergoing re-generation but which are well served by public transport. The DTO states that these changes are being progressed but that no effective changes have yet taken place.

Encouraging a Change of Use in Private Parking

There have been no significant actions taken to date on this measure other than the removal of 3,000 free city centre spaces, estimated to reduce peak hour car trips by 500.

Ending Tax Incentives for Multi-Storey Car Parks

Tax incentives for Multi-Storey Car Parks ended in 1999.

Traffic Management Measures

The primary purpose of the Traffic Management Project was to create the appropriate traffic environment for implementation and enforcement of the other Action Plan projects. These measures were intended to support public transport, cyclists and pedestrians, while improving traffic flows for all modes.

There were four aspects to the traffic management measures

- Enforcement
- Road Space Activities
- Orbital Routes
- Traffic Control

The DTO did not set impact targets for any of the measures in the Traffic Management area of the Plan.

Key elements of the Enforcement sub-measure were the introduction of on-the-spot fines, a penalty points system and camera surveillance of traffic designed to bring about changes in driving behaviour. There was also a plan to run Operation Freeflow, a coordinated approach to traffic management, on an all year round basis. There have been delays in bringing all these measures to fruition.

While Operation Freeflow could not be operated on a year round basis because it is difficult to justify the on-going deployment of 150 additional Gardaí, a scaled down enforcement measure – Operation Clearway - is in operation which the DTO claims is successful.

For Road Space Activities, a plan to complete the Strategic Routes Analysis by the end of 2000 was successful. However, a simultaneous plan to standardise the approach to road works carried out by public utilities and the local authorities, has been delayed.

The DTO, at the request of Department of the Environment and Local Government and Public Enterprise, formed a Utilities and Statutory Bodies Work Group in April 2001, to standardize the approach to roadworks through agreement between the industry players and the local authorities. Agreed codes of practice are expected on various issues before the end of 2001, based on work already begun by the local authorities in 2000.

The provision of Orbital Routes around Dublin City Centre was a key element of the strategy relating to Traffic Management. The so-called Canal Orbital Route and the Inner City Orbital Route have not been completed. Of a budget of £30 m in Exchequer funding provided for this sub-measure £6.8m has been spent. The lack of progress on this measure is attributed by DTO to the delays on Cork Street, North King Street and Macken Street which were largely procedural, including hearing appeals and oral hearings under the planning process. Macken Street Bridge is still delayed, but both Cork Street and North King Street / Blackhall Place Bridge are well under way.

Associated work in the city centre has proceeded without the completed Orbital schemes, with £2.8m in grants (excluding co-funds) between 1998 and 2000

A total of £3.1 m in Exchequer funding has been spent in respect of various measures aimed at Traffic Control. These include

- Traffic Counting measures
- Closed-Circuit Television installation
- Extension of Area Wide Traffic Control Systems

Conclusions

The overarching objective of the Plan was to correct the imbalance in commuting patterns, and to do this to a specified degree. However, the DTO did not focus on the effect of the actions in the Plan and there were no significant re-evaluations of the inputs to the Plan in the course of its implementation.

The DTO used computer modelling techniques in drawing up the Plan and the target impacts for correcting the transport imbalance. Consideration should have been given to the use of such techniques in the course of the Plan to determine whether and to what extent target impacts were being achieved.

While public transport capacity was increased by action taken under the Plan, the increases fell short of the targets set.

It is difficult to predict at this stage if the overall Plan will come within budget but it is likely that there will be some overruns.

There is evidence to suggest that elements of the Plan weren't soundly based *e.g.*

- The planned impact of sub-contracting school bus services was not based on the factual position
- Platform lengthening proposals did not take account of planning and property difficulties
- The risk of industrial relations problems wasn't factored into the Plan

Many key measures have not been completed within the planned timetable *e.g.*

- Only 10% of budget expended on orbital routes

Some complementary measures have not been undertaken *e.g.*

- Reducing parking supply for new developments

Co-ordination of different elements of the Plan and their interaction have not been well managed

Observations from the Dublin Transportation Office

The DTO is currently preparing a report on a review of the Plan and intends publishing it in the near future.

The underlying objectives of the Plan were to highlight the growing traffic problem in Dublin, to get Government support for immediate action and to initiate a co-ordinated response from the agencies involved.

In this regard, the Plan was successful in that it did achieve a prompt response and set in motion a renewed effort to solve Dublin's traffic problems. The fact that some of the targets were not achieved, within the short time scale of the Plan, is secondary to the fact that resources were mobilised and focused to address a growing problem.

The Plan also alerted the authorities to the need for more radical thinking about the future of transport in the Dublin area and prepared some of the ground for the measures that followed in the National Development Plan and DTO Strategy *A Platform for Change*.

The achievement of targets set out in the Plan should be viewed against the backdrop of the unexpected economic growth experienced since 1993. The emphasis in the Comptroller and Auditor General's report placed on targets is more than that intended when the targets were agreed in the first place. The purpose of the targets was to establish the scale of the actions required and to stimulate a sense of urgency in addressing the growing traffic problem. The delivery of the target figures would only make a small contribution to the solution of the ever-growing problem and were intended to be the first steps in a process of ongoing development and updating of transportation policy for Dublin.

The short term duration of the Plan and the need for immediate action eliminated from consideration projects that required lengthy lead times. The focus was therefore, mainly, on increasing existing public transport capacity.

The concept of measuring the Action Plan's success by means of modal shift is inappropriate in the context of constantly changing trip patterns, and within a period of unprecedented economic growth and consequential trip demand growth. The issue at the heart of the Action Plan is "provision of additional trip capacity" within the transportation systems.

The figures agreed for the main bus and rail aspects of the plan were targets to be aimed at rather than precise figures to be achieved. In retrospect a more convenient indicator would have been the actual physical capacity increases. The use of the DTO strategic transportation model would not be appropriate for the purposes set out.

DTO considers that while the targets were set to be achieved by end 2000 significant parts of those targets have been completed in early 2001. By April 2001 71% of targets had been achieved.

Observations of the Department of the Environment and Local Government

A dedicated Quality Bus Network Team with full responsibility for delivery of the quality bus network (including QBCs) and led by Dublin Corporation on behalf of the Dublin local authorities is being put in place. The team's costs will be funded by DTO and the projects will be assigned, funded and approved by DTO. This approach will facilitate a pooling of skills and experience, will facilitate consistency of appraisal and design, will attract professional staff and should ensure smoother delivery of the ongoing bus programme.

A consultation paper on new infrastructural arrangements for Land Use and Transport Planning for the Greater Dublin Area proposes a new body with enforcement powers to

- Prepare and review an integrated long term land use transport strategy
- Adopt a medium term transport implementation plan and a short term action plan
- Monitor implementation of the various strategies, programmes and plans using appropriate performance indicators
- Use its enforcement powers to ensure implementation agencies act in a way consistent with the strategy and delivery on the programmes and action plan targets.

A cross-departmental team has been established to progress the legislation required to establish the proposed new Authority.

The paper identifies the factors which give rise to an inadequate record of delivery in certain areas and proposes strengthening institutional arrangements.

Faced with the twin problems of increasing growth in traffic and resulting congestion, the fundamental thrust of the DTI strategy since its inception has been to secure a major transfer of trips from private transport to public transport and other more environmentally acceptable modes. The various policy documents published by DTO since its establishment (including Short Term Action Plan) have been consistent in trying to advance this agenda.

To achieve this result, it is necessary to expand public transport capacity very significantly, together with other non-car options, so that the necessary capacity is available. It is recognised, however, that side by side with transport infrastructure improvements, it is necessary also to adopt demand management measures which will ensure that the modal transfer is actually achieved. These measures are to be the subject of a further study with a view to a coherent package of measures being chosen and implemented. Pending the full implementation of the DTO strategy, including the demand management elements, there will not necessarily be a full take-up of the additional public and other transport facilities being provided. This is inevitable and is not, as such, an argument for not providing such facilities. There is simply no alternative that is capable of delivering the desired results in terms of modal shift.

21. 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 2000, Local Authorities received £812m from the Vote and an additional £640m from the Local Government Fund. Copies of the audit reports are made available to me in my capacity as auditor of the Department.

I have reviewed the LGA reports for 1999 and I noted the following critical references to issues which were common to many local authorities

- £105m in capital deficits were highlighted, with about £30m of this amount specifically referred to as “funded” but with the balance of £75m either classified as “unfunded” or otherwise bearing no indication as to how the deficits were to be cleared
- Adverse Revenue Balances in the 32 reports examined amounted to over £25m
- Lack of progress in implementing recommendations arising from reports by the Department’s Value for Money Audit Unit
- Inadequacies in the structure or functions of Internal Audit in local authorities continue to feature in many LGA reports
- 16 of 32 Prompt Payment reports were qualified by the auditor, principally on the basis that interest due had not been paid by the local authority
- Public and employer liability claims pending against six local authorities. The total amount involved was estimated at over £49m.

The Local Government Equalisation Fund

In my report on the Local Government Equalisation Fund¹³ accounts for the year 1998, I stated that I relied on the work of the LGAs for assurance that proper procedures for assessment, collection and bringing to account of motor tax revenues are being operated by the local authorities. In the course of that audit, it came to my attention that the LGA with responsibility for auditing the motor tax account of Carlow County Council was not in a position to certify the account for 1998 due to the conditions under which the financial records of the Council had been stored.

The LGA signed his audit report on 14 December 2000, but made it clear that he did not receive all the information and explanations that he considered necessary for the purpose of his audit. In correspondence with the Department in relation to the issue, the Department informed me that, following on from the auditor’s report and a visit by a departmental official to the Council’s offices, a dedicated room has been assigned by the Council for the storage of motor tax files. In addition, a number of alterations/improvements had been made in the manner in which the accounts were retained.

The Department also informed me that all work on the new facility was expected to be completed in June 2001, at which stage all of the 1999 motor tax batches would be available for re-inspection.

The Local Government Fund

I audit the accounts of the Local Government Fund. The Local Government Act, 1999 established this Fund and the various assets and liabilities of the Local Government Equalisation Fund, including cash balances, were transferred to the Local Government Fund with effect from 1 January 1999. The Department sent the first draft accounts of the Local Government Fund, for the year ending 31 December 1999, to me for audit on 29 June 2001.

¹³ A fund established under Section 4 of the Local Government (Financial Provisions) Act, 1997

Vote 28 - Second - Level and Further Education

22. Review of Certain VECs

I am responsible for the audit of the annual accounts of 33 Vocational Education Committees for which almost £380m was provided in 2000 from voted moneys.

Completion dates for the audits of the Committees' accounts for 1999 and earlier years were adversely affected by difficulties experienced in agreeing income reported in the accounts with corresponding grant expenditure recorded in the Department of Education and Science. In most cases the differences were significant. In one of the extreme examples, County of Dublin VEC, there were differences in 37 individual expenditure categories with £2.8m being included in the VEC account in excess of the grant figures notified to audit staff by the Department and £2.1m notified as paid by the Department but not included in the VEC accounts.

In response to my inquiry the Accounting Officer informed me that the difficulties arose due to the reporting mechanism that was employed within the Department for the purpose of gathering the information. This mechanism depended on the collation of reports by different sections in the Department thereby increasing the risk of incomplete and inaccurate data.

Arising from my concerns the Accounting Officer stated that the procedures governing the compilation of VEC grant expenditure details had been reviewed and upgraded. From now on all payments issued to VECs will be identified centrally through the Department's payment systems. Schedules have now been issued to VECs that contain details of all payments classified by date and activity made by the Department in 1999 and 2000 to VECs.

It is intended from a current date that a listing of Department payments will issue to VECs at the end of each four monthly period and thereafter on an ongoing basis. The revised arrangements should facilitate the reconciling of payments on a systematic basis in the future.

Vote 30 - Marine and Natural Resources

23. Jeanie Johnston Project

The Jeanie Johnston project involves the construction of a replica of a famine vessel, which transported Irish emigrants to North America in the middle of the 19th century. It was intended that the vessel would make a voyage to North America and have a permanent berth at Blennerville, Co Kerry, where it would have complemented the Blennerville Windmill Centre and the Tralee Steam Railway.

The promoters of the project are a broadly based committee whose members represent the community, business and voluntary sectors as well as local State agencies in Tralee. A company, Jeanie Johnston (Ireland) Company Ltd. (the company), was set up to deliver the project.

The project was to be financed by a combination of EU, Exchequer, local authority, semi-State and private funding together with a contribution from the International Fund for Ireland.

Work on laying out the shipyard to accommodate the building of the vessel began in April 1996 and during the remainder of 1996 and 1997 the shipyard buildings were constructed. Work on the ship itself began in January 1998.

When the project was first mooted in 1994, the cost was estimated to be in the region £2.75m to £3m but by 1998 the revised estimate was £4.5m. However, by June 2000 the projected cost to completion had risen to £8.25m and, following a request for financial support to avert a significant shortfall, the Department of Finance agreed to the provision of £2m from the Vote for the Marine and Natural Resources. On foot of this provision the Department of Marine and Natural Resources (the Department) issued advance payments, in July and August 2000, of £300,000 and £400,000 and also commissioned a due diligence report on the project. This report, which was finalised in September 2000, raised a number of issues regarding the project including the increased financial requirements to finish the vessel, the post-completion voyage to North America (which had been postponed with adverse effects on cash-flow projections) and the structure of the board of the promoting company. The report identified a potential deficit of £3m even after receipt of the £2m committed by the Department. In view of the report's findings the Department asked the promoters to submit a rescue plan which they did in December 2000. The Department's advisers considered that the plan was not viable and did not represent a sufficient basis for the release of further moneys by the Department. A revised rescue plan was submitted in March 2001, which sought additional funding of £2m. In the interim the Department had paid a further £408,000 to the company to enable it to continue to operate, which when account is taken of the Department's payments to its consultants of £17,000 brought its total payments on the project to £1,125,000 at the end of March 2001.

In April 2001 the Department sought and obtained Government approval to provide another £2m to supplement the £1.125m already paid bringing total Departmental funding committed to the project to £3.125m. The Government approval was subject to, inter alia, the putting in place of appropriate management arrangements to ensure that the vessel was completed on time and within budget, and that the 2001 voyage element of the project was properly managed. The Government also agreed to the convening of all stakeholders in order to agree a structure and terms of reference for an urgent review of the future use of the vessel, and that the Minister for the Marine and Natural Resources would bring proposals to Government for a structure and ongoing management of the project, which would maximise the value of US interest in the project with minimum ongoing State involvement.

All funds paid by the Department to the project were channelled through Kerry County Council.

In June 2001 the planned voyage to North America was cancelled by the promoters because they were unable to obtain the necessary marine certification of the vessel.

Observations of the Department of the Marine and Natural Resources

In response to my inquiries, the Accounting Officer of the Department of the Marine and Natural Resources pointed out that his Department had no role in the initiative taken by the promoters to build the Jeanie Johnston nor did the Department at any time seek to become involved in the project. The Department's role in rescuing the project followed directly from policy decisions taken by Ministers and the Government.

He informed me that the funding made available to July 2001 was £9,712,000. Details are shown in Table 30.

Table 30 Source of Funds for the Project

Source of Funds	£	Type of Funding
Department of Marine and Natural Resources	3,125,000	Exchequer Grant
Kerry County Council	2,000,000	Loan Guarantee
Kerry County Council	200,000	Deferred Creditors
Tralee UDC	400,000	Loan Guarantee
Tralee UDC	240,000	Deferred Creditors
Department of Arts Heritage Gaeltacht & the Islands	750,000	ERDF Grant
Department of Arts Heritage Gaeltacht & the Islands	50,000	Exchequer Grant
SFADCO	150,000	Convertible Loan
SFADCO	850,000	Exchequer Grant
Kerry Co. Enterprise Board	50,000	Grant
Tuatha Chiarrai (Leader Prog.)	100,000	Grant
Sub total/Public Funding	7,915,000	
International Fund for Ireland	427,000	
Private Funding	1,370,000	
Total	9,712,000	

FÁS incurred expenditure of £1.41m on allowances to participants in programmes run in conjunction with the project.

He also informed me that the expected final cost of the project (excluding FÁS input) is in the region of £11m, and it is hoped that the proceeds from the sale of the company's property in Blennerville will fund the shortfall in funding of approximately £1.3m. When the project is completed, it is expected that there will still be a deficit of approximately £2.9m in respect of the bank loan and deferred creditors.

He furnished me with the following information:

- The advance payments, totalling £700,000, made prior to the completion of the due diligence report were made to tide the company over serious cash flow problems which were threatening the survival

of the project.

- The statutory powers giving the Minister for the Marine and Natural Resources authority to make grants to the project are provided for in Section 46 of the Merchant Shipping (Investigation of Marine Casualties) Act, 2000, which was commenced on 6 August 2000. The initial payment of £300,000 in July 2000 was made from Subhead D.3 in advance of the commencement of Section 46 on foot of sanction from the Minister for Finance and in anticipation of the new legislation.
- Regarding the verification and monitoring procedures in place to ensure that Departmental moneys were expended effectively and efficiently and were properly accounted for, the Accounting Officer stated that all Departmental funding was paid through Kerry County Council which agreed to verify and certify that the moneys were expended on capital costs incurred on completion of the vessel. The £2m additional funding agreed in April 2001 was conditional on the Company putting in place appropriate management arrangements to ensure that the vessel was completed and on the appointment of consultants to deal with the requisitioning of moneys for the project. Audited Accounts had been received from the Company. Moneys were paid out by the Department on the basis of a requisitioning system designed and operated by a financial management consultant.
- The failure to complete the project in July 2001 as envisaged was due to ongoing problems with the electrical systems of the vessel which had meant that the vessel was not yet ready to undertake the necessary sea trials and testing required for certification purposes. Much of the electrical work already carried out would appear not to be of an appropriate standard for a vessel of this type and rectification work was required, which it was understood would take about six weeks, and so the vessel would not be completed until sometime near the end of September 2001.
- The Department has requested the Chief State Solicitor to draw up an appropriate Charge to be placed on the vessel to cover, at a minimum, the £2m funding put into the project by the Department on foot of the Government decision of 3 April 2001. The Company has agreed to the placing of this Charge in favour of the Minister.
- As to the co-ordination between the different State Agencies involved in the project, and the Government conditions regarding the future use and management of the vessel, the Accounting Officer stated that since the Government decision of 3 April 2001, the Department had been conducting a consultative process involving all stakeholders to facilitate the ship's completion. Following the announcement by the Company on 26 June 2001 that it had postponed planning for a voyage to North America in 2001, a Focus Group was set up under the auspices of the Department to identify the options for the future role of the project and to report to the Minister for the Marine and Natural Resources by mid-October 2001 on a long term strategy for the vessel. The Terms of Reference for the Focus Group require the Group to examine, in the light of the conditions attaching to the public investment to date, all possible uses and roles for the Jeanie Johnston project having regard to the
 - o need to maintain its heritage status and value
 - o need to recognise its north/south dimension
 - o need to ensure that it does not continue to be a burden on the Exchequer,
 - o proposal that the vessel undertake a transatlantic voyage.

The Focus Group has been asked to draw up ownership and management models, based on experience elsewhere, to deliver on the above, including cost minimisation. The Minister has informed the promoters that the future of the vessel, (including any possible voyage to North America next year) will be considered by him and the Government in the light of the Focus Group's report which is due by mid-October 2001. In the meantime the Board of the Company has been directed to concentrate on the completion of the vessel as its priority and to focus on the financial management of the project with a view to expediting completion and reducing costs to a minimum.

- A proportion of the Department of Arts, Heritage, Culture and the Gaeltacht ERDF grant is refundable to the EU in the event of the project not being completed in accordance with the terms attached to the grant, which is also the case with the SFADCO grant.
- Kerry County Council has provided guarantees in respect of
 - o the £2m bank loan
 - o the £750,000 ERDF Grant received through the Department of Arts, Heritage, Gaeltacht and the Islands
 - o the £850,000 Exchequer Grant paid by SFADCOThe Council has also agreed to underwrite the operating costs of the vessel for a certain amount of time after its completion.
- Tralee UDC has guaranteed a bridging facility of £400,000 which has been drawn down by the promoters from a second bank.
- These guarantees, when added to the moneys owed in relation to deferred creditors (£440,000), means there is a potential liability of the order of £3.6m to Kerry County Council and Tralee UDC. In addition, there is a potential liability to Kerry County Council, which is at this stage unquantifiable, in relation to its underwriting of the operating costs of the vessel.
- There is uncertainty regarding the status of certain private funds in the event that the vessel should fail to undertake a voyage to North America.

Observations of Shannon Free Airport Development Company(SFADCO)

SFADCO informed me that in October 1995 they agreed to support the Jeanie Johnston Famine Ship Project by the provision of £150,000 by way of a convertible loan secured over the assets of the company for the purpose of the acquisition of a site for the construction of the ship. In December 1998, the Independent Management Board for Tourism Product Development in the Shannon Region (the Tourism Product Board¹⁴), approved a capital grant for £850,000 towards the Jeanie Johnston Famine Ship Project. SFADCO acts in an executive capacity to the Board. The grant was approved following a review of possible alternative projects which were considered for support under a special £1.5m Exchequer Provision made available through the Department of Tourism, Sport and Recreation in 1998.

A key influence of the decision of the Tourism Product Board to support the project was its potential to perform a unique ambassadorial/promotional role in North America with consequential substantial benefit for Irish Tourism. This was recognised through special U.S. Presidential recognition, strong media interest, the North-South dimension and the network of Organising Support Committees established by the Promoter in the major North American port cities (e.g. Boston, Washington DC, Montreal etc.)

Other factors taken into consideration included:

- The previous successful track record of many of the Promoter's Board of Directors (Public and Private Sectors) in carrying out a range of substantial tourism projects in the Tralee area.
- The complementarity of the completed ship when operating as a tourism attraction with the recently developed cluster of tourism facilities in the Tralee region.
- Strong third party financial guarantees provided to the project by Kerry County Council which underpinned the project against any unanticipated shortfalls through the capital and/or subsequent operational phases for a ten year period.

¹⁴ The Tourism Product Board is appointed by the Minister for Tourism, Sport and Recreation in accordance with the provisions of the 1994-99 Operational Programme for Tourism

Since the initial £150,000 investment was made in 1995, SFADCO has continued to maintain its charge on the assets of Jeanie Johnston (Ireland) Company Limited, despite requests from the Department of Arts, Heritage, Gaeltacht and the Islands to release this security in favour of their investment. Following negotiations with the Department of Arts, Heritage, Gaeltacht and the Islands, SFADCO agreed to share its security with the Department on a parri passu basis in respect of the Department's payment of £750,000 to the project.

In respect of the subsequent grant payment of £850,000, standard monitoring procedures undertaken by SFADCO in relation to tourism related grants were applied (grants inspection, annual accounts, external auditor certification, project liaison, legal). As it became apparent, however, that the project was experiencing increasing financial and organisational difficulties, additional procedures were undertaken, including the engagement in early 1999, in association with Kerry County Council, of specialist project management consultants to monitor the project.

Throughout 1999/2000, the project management consultants reported twice monthly to both organisations and recommendations for corrective action were referred to the Promoter. During this period the increasing concerns of both organisations were conveyed at a number of meetings held with the Promoter's Chairman and Directors. Later in October 2000, when it was apparent that the financial and organisational management position within the project required strong external and emergency action, SFADCO pressed for and financed the engagement by the Promoter of an Insolvency and Company Restructuring specialist. The specialist was engaged by the Promoter in the capacity of Interim Chief Operating Officer. The intensive involvement by him in all aspects of the project, his preparation of a Rescue Plan in March 2001 and his subsequent engagement by the Department of the Marine and Natural Resources has been central to maintaining a degree of confidence amongst key stakeholders and creditors which has to-date enabled the troubled project to continue to be progressed towards the completion of its development phase, thereby holding open the opportunity of realising a worthwhile return for the substantial investment which has been put into it.

In addition to obtaining security on the initial investment of £150,000, SFADCO, in accordance with standard practice, obtained a Mortgage Debenture securing the £850,000 grant assistance. This represents a third charge over the assets of Jeanie Johnston (Ireland) Limited, ranking after SFADCO (for £150,000) and the Department of Arts, Heritage, Gaeltacht and the Islands (for £750,000) holding a first charge parri passu and a bank holding a second charge (for £500,000). The debenture agreement further provides;

- For the completion of the project as set out in its grant application and related information submitted to SFADCO
- For the operation of the facility as an Emigrant ship and tourist attraction for a 10 year period
- That the project cannot be sold or otherwise disposed of without the consent of SFADCO.

The Promoters attributed the difficulties encountered by the project to its unanticipated complexities, difficulties in sourcing raw material, the decision to sub-contract out certain elements and the longer time required to complete the ship.

Observations of Department of Arts Heritage Gaeltacht and the Islands

The Department of Arts Heritage Gaeltacht and the Islands informed me it had obtained a charge on the yard and ship, but consideration was being given by the Department and SFADCO to moving the Charge to the ship alone. The purpose of the Charge was to protect the Department's interest and to ensure that the facility was maintained for the purpose for which it received the grant.

The Department had also sought a Guarantee that all operating costs for the Jeanie Johnston Project, once completed, should be underwritten. It was standard practice for the Department to ask developers of projects being funded under the Cultural Development Incentives Scheme to secure a commitment from a public body that it would meet any operational costs that may be required to ensure the successful operation of the project. In the case of the Jeanie Johnston Project, Kerry County Council provided the commitment, for a period of 10 years.

Observations of Department of the Environment and Local Government

The Department of the Environment and Local Government informed me that it was currently gathering information from all Local Authorities in relation to their involvement in projects which are sponsored by Government Departments or State Agencies, which will be used to formulate future Departmental policy in this area.

24. The Dunbrody Project

The Dunbrody Project was an initiative taken by the John F Kennedy Trust (the Trust) to build a full-scale replica of the famine ship "Dunbrody". The Trust was established as a company, limited by guarantee, in 1988 whose objectives concerned the long-term economic, cultural and environmental development of New Ross. The concept was initially to restore old quayside buildings as an interpretative centre with a restored schooner alongside. Following the assessment of the initial grant application under the Operational Programme for Tourism 1994-1999, it was decided to build a replica ship, with an interpretative centre on board.

In December 1996, the ERDF Management Board for Product Development – Bord Fáilte Area approved a grant of £1,599,778 for the project under the Operational Programme for Tourism 1994-1999. The total cost of the project was to be not less than £2,525,000, matching funds of not less than £925,222 were to be provided, and New Ross Urban District Council was to underwrite any operational losses.

By November 1999 the company was in financial difficulty and construction work had ceased. The Minister for Tourism, Sport and Recreation brought the matter to cabinet, and sought Government approval to allocate additional funding to the project of £1.7m. The Government decided that the matter should be deferred pending the carrying out of a due diligence examination by the Minister for the Marine and Natural Resources.

In December 1999 the Department of the Marine and Natural Resources (the Department) appointed consultants to conduct the due diligence examination. They reported in February 2000 and stated that the Trust was insolvent and would require an additional £2.054m in State funding to complete the project.

In February 2000 the Department obtained Government approval to allocate a sum of £2.054m to the project.

In March 2000 the Department entered into an agreement with the John F Kennedy Trust to loan the Trust £1.975m to finance the completion of the project. The loan is repayable on demand and interest may be charged at the discretion of the Minister for the Marine and Natural Resources.

The Department paid £1,267,699 to the project promoters in 2000 and a further £657,035 in 2001. In addition it also paid £62,734 to its consultants in 2000 and £31,685 in 2001. The amount of £50,000

provided for in the loan facility by way of bridging finance was not required by the Trust and was therefore not drawn down.

Observations of the Department of the Marine and Natural Resources

In response to my inquiries, the Accounting Officer at the Department of the Marine and Natural Resources pointed out that his Department had no role in the initiative taken by the promoters to build the Dunbrody nor did the Department at any time seek to become involved in the project. The Department's role in rescuing the project followed directly from policy decisions taken by Ministers and the Government.

He furnished me with the following information.

- £3.4m had been invested in the project at the time of the due diligence examination in January 2000. The total estimated cost of completing the project, including the onshore facilities, is £4.9m.

Table 31 Details of Funding received to July 2001

Organisation	£
Department of the Marine and Natural Resources	1,925,000
Bord Fáilte	1,600,000
Wexford County Council	200,000
American Ireland Fund	100,000
Private and Community Funding	1,075,000
Total	4,900,000

FÁS incurred expenditure of £1.04m on allowances to participants in programmes run in conjunction with the project.

- The Dunbrody has been completed as an Exhibition Ship with necessary onshore facilities to support her in that role. The project opened for business on 1 May 2001 and was officially opened on 20 July 2001. The Financial Controller has reported to the Minister that he is satisfied, based on the documentation received from the Company and visits to the project premises, that the project is, effectively, completed in line with the conditions set by the Department.
- In relation to the steps put in place by the Department to ensure that the project was well managed and that Departmental funds were properly expended and adequately accounted for, the Accounting Officer stated that funding had been allocated to the project by way of a Loan Facility which was to be used strictly to complete the vessel as a Floating Exhibition Ship to be permanently moored at New Ross. The loan was also conditional on an independent Financial Controller being appointed to liaise with the Trust and monitor the expenditure of the funds, and on the appointment of new nominees, acceptable to the Minister, to the Board of Directors of the Trust with appropriate expertise and experience. The loan was also secured by a fixed and floating debenture in favour of the Minister over all the assets of the Trust and subject to the Trust's compliance with the terms and conditions of the facility letter.
- The loan facility was made available on a phased basis on production of requisitions which were fully supported with the appropriate certificates and vouchers for expenditure and work done. This supporting documentation was presented by the Trust to the Financial Controller for review and certification, and payment by the Department was only made following certification by the Financial Controller. Audited Accounts were also submitted by the Trust.
- The statutory powers giving the Minister for the Marine and Natural Resources authority to make grants to this project are provided for in Section 46 of the Merchant Shipping (Investigation of Marine Casualties) Act, 2000, which was commenced on 6 August 2000. £700,000 was paid from

Subhead D.3 of the Department's Vote in advance of the commencement of the Section on foot of the Government decision in anticipation of the new legislation.

- In relation to the extent of potential liabilities to the State or its agents arising from guarantees, EU grant conditions, or ongoing commitments, the Accounting Officer stated that the project has now been completed largely due to the State funding received. The John F Kennedy Trust has undertaken to maintain the asset, subject to the charges in favour of the Minister for Marine and Natural Resources and Bord Fáilte, in good repair and condition, and to operate it as a Floating Exhibition Ship only.
- The Department understood that the New Ross Urban District Council had agreed to underwrite any operating losses for a period of 10 years. Apart from this guarantee, and assuming that the project operated satisfactorily into the future, there would be no outstanding liabilities to the State or its agencies. However, in the event of the project not proceeding as envisaged, the question of recoupment of certain EU grants could arise. The State's exposure would depend on the circumstances which then prevailed.
- In relation to the viability of the project as a tourist attraction, the Accounting Officer stated that the John F Kennedy Trust had prepared a Strategic Plan, which envisaged that 46,000 visitors were needed annually for the project to be sustained as a viable tourist attraction. While there may be minor operating losses in the start up years, the advice available was that the project had the potential to become viable and sustainable as a visitor centre and tourist attraction over the medium term. Preliminary results to date for the first year of operation showed visitor numbers running at 40% above projected estimates, which was encouraging.

Observations of Bord Fáilte Éireann

Bord Fáilte Éireann (BFE) informed me that:

- In the period December 1996 to December 1998, £1,540,560 was paid out. The balance of £59,912 was paid in July 2001. Payments were made on foot of accountants' certification of eligible expenditure and following site visits. Site visits were concerned with establishing that there was evidence on the ground of work completed. There was no evidence for any misgivings about making grant payments until after BFE found out about the project's cost overruns in 1998. The promoter's project managers were not required to be present for the site visits.
- The cost overrun was established by BFE in January 1999 to have been due to a number of construction factors related to an objective by the Trust of completing a vessel capable of re-enacting the transatlantic sailings of the original Dunbrody.
- The initial non-discovery of the cost overruns on the project, was attributed by BFE to the fact that site visits by staff were not specifically concerned with an audit of the financial plan, and the project manager was not present during the visits. Future protocols would call for the project manager always being present during such visits.

Observations of The Department of the Environment and Local Government

The Department of the Environment and Local Government informed me that it was currently gathering information from all local authorities in relation to their involvement in projects that are sponsored by Government Departments or State Agencies, which would be used to formulate future Departmental policy in this area.

25. Coastal Protection and Management

Background

The Irish coastline measures some 3,200km of which approximately 2,800km falls within the jurisdiction of the Republic of Ireland. Of this about 600 kms to 750 kms could be classified as sandy dune coast. It is this soft coastline, which is mainly located on the east coast that is most susceptible to erosion from natural causes or human usage. The bulk of the coastal protection effort is concentrated in this area.

The Irish coastline is considered to be one the most important sand dune systems in Europe, containing many unique habitats and areas of conservation. In addition, it is important for geology and geomorphological related activities as well as for cultural heritage, including marine and terrestrial archaeology. The coastal zone includes many of the State's largest towns and cities, with an estimated 80% of the State's population residing within 50km of the sea.

In general, coastal erosion occurs over a period of time as a result of exposure to everyday abrasive wave action. Although expensive coastal protection schemes will slow, and temporarily impede this erosion process, the risk of land loss remains. Research indicates that the erosion of Irish coastlines varies from about 0.5 to 2 metres per annum and causes an approximate loss of land area of between 160 and 300 hectares each year. About 300 localities are involved, mainly on the east coast.

There are three options for dealing with coastal erosion:

- Protect with "hard" works, such as sea walls, dykes or rock revetments
- Mitigate specific impacts through "soft" works, which consist of such measures as beach and dune nourishment, use of vegetation or fencing to encourage accretion, and alleviation of adverse factors such as human pressure and grazing
- Accept natural shoreline changes and accommodate the problems they cause.

It is generally accepted that soft solutions have a lower capital cost than the traditional hard defences, have fewer adverse effects on adjacent parts of the coast and are usually more environmentally friendly. However there is a need to maintain such defences on a more regular basis. Soft works is the option usually chosen by the Department of the Marine and Natural Resources (the Department).

Audit Objectives and Scope

The objectives of the audit were to ascertain and evaluate

- the systems in place for determining, planning, delivering and monitoring Coastal Protection and Management works
- the administrative, accounting and financial control procedures followed in carrying out such works
- the systems in place within the Department to measure the effectiveness and adequacy of the coastal protection programme.

The procedures followed by the Department in determining the objectives of the programme, the work to be carried out and the funding provided were reviewed. The monitoring of projects to ensure satisfactory completion was also reviewed. Visits were made to Bray, Co. Wicklow; Bundoran, Co. Donegal and Quilty, Co. Clare to review coastal protection projects completed in 2001. Files and records were examined to verify

- the existence of tendering documentation for contractors/consultants employed

- consultants'/engineers' reports
- payment requests submitted to the Department.

The systems in place to evaluate the effectiveness of works completed and to measure the usefulness of the programmes were also reviewed. Discussions were held with personnel from the Department and Local Authorities.

Audit Findings

Legislation

Statutory provision to undertake works to protect the coastline is made in the 1963 Coastal Protection Act. This Act assigned responsibility for carrying out coastal protection work to the Office of Public Works (OPW) and the Local Authorities. In 1990 the coastal protection functions being performed by OPW were transferred to the Department.

Because the provisions of the Act were found to have been impractical and unworkable, the legislation fell into disuse and has not been operated for many years. Schemes to protect coastal areas are now operated on a non-statutory basis in accordance with rules and procedures drawn up by OPW, (up to 1990) the Department (after 1990) and the Department of Finance.

The Foreshore Acts, 1933 and 1992 are also relevant to the programme. These Acts give the Minister for the Marine and Natural Resources comprehensive powers to combat damage, whether caused knowingly or unwittingly to beaches, sand dunes and seashore eco-systems. The Minister is also empowered to regulate use of the foreshore, including the granting of leases to allow exclusive use of the foreshore to individuals or groups (e.g. construction and operation of a marina) and licences to allow use of the foreshore for specific purposes or for specified periods (e.g. horse racing, sea-weed collection). Prohibitory Orders and Notices may be issued to prevent access to, or any specified activity on, the foreshore. The most common use of such Orders and Notices is to prevent the removal of sand and gravel.

Management and Administration

The Department is responsible at central Government level for managing coastal protection. Local Authorities also have significant responsibilities for the function. The procedures in place have been determined by OPW, the Department and the Department of Finance.

These procedures place primary responsibility for monitoring the coastline, and determining the coastal protection works which are necessary and which should be carried out, on the Local Authorities in whose jurisdictions the coastlines are located. Coastal Protection projects are submitted annually to the Department, which having assessed and evaluated them selects those that should be proceeded with.

It is the responsibility of the Local Authorities to carry out the works and to provide 25% of the funding. The balance of the funding is provided by the Department.

The respective roles and functions of the Local Authorities and the Department, funding to be provided by them, criteria to be applied in selecting coastal protection projects, rules on procuring services and contractors, and reporting requirements on programmes and their implementation have not been set down in writing.

Planning and Setting of Budgets

The funding committed to coastal protection was included in the Operational Programme for Environmental Services for the years 1994 to 1999, and in the Economic and Social Infrastructure Operational Programme for the years 2000 to 2006. The amounts provided were £8m and £41m respectively. These were determined by the Department and the Department of Finance without consultation with the Local Authorities. While documents were available detailing a number of projects which are intended to be proceeded with during the course of the 2000 to 2006 plan, no costings were available to show the basis for the amount of funding provided, which represents a major increase over previous years. The Department pointed out that managerial and administrative capacity would not exist within Local Authorities or the Department to increase expenditure at a faster rate, even if this was felt to be necessary. The amount sought was approved without amendment by the Department of Finance.

In relation to planning the focus is on the short term with little emphasis being given to the medium and long term. Local Authorities are required to submit, each year, details of projects which they would wish to carry out and to rank them in order of priority. The Department evaluates and reviews the projects submitted. They then notify the Local Authorities of the projects which may proceed, as well as the level of funding approved and the expenditure which may be incurred. It is a condition of the approval that the approved expenditure must be incurred within the calendar year. Any expenditure incurred in the following year on previously approved projects must be submitted for fresh approval and charged to the following year's budget. Local Authorities are not required to submit three or five year plans.

Evaluation of Projects

Because the level of expenditure in earlier years was so low, particularly prior to 1995, only work of an urgent nature was carried out where there was a serious risk to important public infrastructure. However with the increased level of resources being provided, there is likely to be an increasing number of projects competing for funding. As a consequence procedures for evaluating and selecting projects will assume greater importance. According to the Department the criteria used in evaluating projects are urgency and the perceived value of the work, in terms of protecting public safety and infrastructure, tourist amenities and areas of environmental or heritage significance, and the degree to which they support economic development and avert the need for costly remedial works at a later stage. Difficulties in proceeding with the work because of statutory constraints or possible objections from affected parties would also be taken into account. Projects are not scored on a points system but are ranked in order of priority as judged by Departmental officials.

Policies and Strategies

Prior to 1995 minimal coastal protection work was carried out, but since then there appears to be a recognition that more needs to be done as indicated by the increased level of funding provided. Heretofore there has been no national plan or strategy driving the programme and the level of work carried out has been largely dependent on the views and policies of individual Local Authorities in whose areas the coastlines are located. Since it is the case that works carried out in one area may impact on another area, it is important that an integrated approach is adopted in relation to the programme.

The Department has not carried out a national survey to determine the areas of the coastline under threat and the kinds of remedial action which might be necessary or appropriate. A survey carried out in 1992 by the National Coastal Erosion Committee of the County and City Engineers Association and the Institute of Engineers of Ireland, identified 1,500km of coastline at risk from erosion, of which 490km required immediate attention. The Committee estimated costs of £125m to protect some 287 sites at risk.

A research programme initiated by the Department in 2001 provides for the carrying out of a coastal survey and the setting up of a national coastal data bank from the information collected.

Local Authorities fund 25% of the cost of projects. Accordingly projects cannot proceed, even if considered worthwhile by the Department, without the agreement of the Local Authority to provide its share of the funding.

Lack of Integrated Coastal Management Programme

There are a wide variety of industries located in the coastal zones such as fishing, oil, gas and minerals, transport, recreation and tourism. The Irish coastal zone also contains many sensitive ecosystems and areas of interest to geologists and archaeologists.

The management of the coastal zone is rather fragmented at present with different functions falling within the jurisdiction of different Government agencies. Physical planning is the responsibility of Local Authorities, Department of the Environment and Local Government and Bord Pleanála. Ecology and heritage are the responsibility of Dúchas and the Department of Arts, Heritage, Gaeltacht and the Islands while coastal protection, fisheries management, and administration of the foreshore is the responsibility of the Department. At present a fully comprehensive system does not exist to ensure that these different agencies consult in relation to the possible adverse impacts of actions taken by one agency, on the functions of other agencies within the coastal zone.

In relation to coastal protection there would be varying degrees of interaction with some of these Government agencies, in particular Dúchas in relation to ecosystems and heritage.

Two Reports¹⁵ published in the 1990s recommended the establishment of a National Coastal Authority to oversee the management of all of the various functions in the Coastal Zone.

Monitoring of Programme

It is the responsibility of the Local Authorities to carry out all coastal protection work in the geographic area within which they have jurisdiction. Major projects are carried out on behalf of the Local Authorities by the Department as it has the greater technical expertise and experience. Smaller projects are carried out by the Local Authorities. The monitoring of projects seemed to be deficient insofar as there was no Departmental system in place in relation to inspection of projects, submission of progress and completion reports and evaluations as to whether or not projects were achieving their intended objectives.

Payments and Expenditure

Table 32 shows expenditure incurred by the Department under the programme in the years 1994 to 2000. The figures represent 75% of the gross expenditure with the Local Authorities providing the 25% balance. The Department attribute the under spend in 1999 and 2000 to a lack of capacity in the Department to manage and process a greater number of projects, and slower than expected progress by Local Authorities in completing projects due, inter alia, to planning delays.

¹⁵ National Coastal Erosion Committee - Coastal Management - A case for Action.

Brady Shipman Martin in association with HR Wallingford Natural Environmental Consultants Ltd, - Coastal Zone Management: A draft policy for Ireland – Main Report.

Table 32 Departmental Expenditure in £ million

Year	1994	1995	1996	1997	1998	1999	2000	Total
Budget	0.50	0.77	0.89	0.89	0.91	3.85	7.10	14.91
Actual	0.51	0.67	0.85	0.79	0.94	2.45	4.73	10.94

Local Authorities are fully responsible for the management and execution of projects which they carry out directly, including the hiring of contractors, procurement of services, design and supervision of work. The Department reimburses Local Authorities on the basis of claims confirming completion of the work. All claims must be submitted within the calendar year in which the project was approved. A selection of claims and payments to Local Authorities were examined during the audit with satisfactory results. A number of payments and contracts relating to projects carried out by the Department on behalf of Local Authorities were also examined and found to be satisfactory.

Research

Given the long term nature and complexity of a programme such as Coastal Protection, and the different approaches and options possible, knowledge in relation to both the scale of the problem and the corrective actions possible are essential if the programme is to be successful. Research is vital in this regard. While the Department has long recognised the need for research, the funding provided did not allow for any significant research to be undertaken. However, in the period 2000 – 2006, funding of £5.4m has been provided for research.

A sum of £2.4m has been provided to fund a National Coastal Database and Needs Study. This will provide, for each segment of the coast, current and historic information on the nature of the coast, details of its vulnerability to erosion and the nature of the hinterland in terms of economic and environmental assets. £2 m has been allocated to a number of technical studies related to broad coastal dynamics, and £1m has been allocated to basic research on fundamental topics such as the basic hydrodynamic processes of turbulence and wave breaking, and the process of sediment transport. Statistical work is also planned in relation to sea level rise and the probability of extreme events.

Conclusions

It would appear that up to recently the resources allocated to the function were not commensurate with its importance. However the increased level of funding provided in the current plan, the commissioning of research and the planned carrying out of a needs analysis indicate that a more serious and structured approach to the issue is now planned.

There has been insufficient emphasis in the past on determining an overall national policy in relation to coastal protection, determining long-term goals and formulating plans to achieve them. It is important if the plan is to be successful that the National Database and Needs Study as provided for in the current plan be implemented and plans drawn up as to the actions and strategies which need to be pursued in the long term. Local Authorities should be consulted to ensure a uniform approach.

The present requirement on Local Authorities to complete projects within the year in which they are approved may lead to projects being completed in too hurried a fashion and insufficient time being allowed to do the most cost effective job possible. Consideration should be given to providing more certainty on funding to Local Authorities so that they have the necessary time to plan and carry out their programmes in a more ordered and structured way.

The failure to spend a significant proportion of the funds provided for the programme in 1999 and 2000 is disappointing. The necessary administrative resources and planning systems should be put in place to ensure that all of the funding provided for the programme can be expended efficiently and effectively.

The 25% funding contribution required of Local Authorities may need to be reviewed, as there is the possibility that if Local Authorities are unwilling or unable to provide its share of the funding, important projects may be delayed or not proceeded with.

The respective roles and functions of the Local Authorities and the Department, including the funding to be provided by them, the criteria to be used in selecting coastal protection projects, the rules relating to the procurement of services, and reporting requirements on the implementation of the programme should be set out in writing, to ensure best practice is followed. A scoring system should be considered for use in selecting and ranking projects submitted for funding.

Projects should be inspected to ensure satisfactory completion, reviewed to evaluate the effectiveness of the work, and the results recorded.

The carrying out by the different Government agencies of their functions in the Coastal Zone in an integrated and co-ordinated way is important and serious consideration should be given to the issue as highlighted in the two studies referred to in the report.

The position in relation to the falling into disuse of the existing legislation on Coastal Protection, and the operation of the current programme outside of a legislative framework is unsatisfactory and should be regularised by the introduction of appropriate amending legislation, to provide a sound statutory basis for the programme.

Observations of the Department of the Marine and Natural Resources

- A procedures manual was being prepared which would set down criteria in relation to the selection of projects, as well as reporting requirements and rules on the procurement of services and the engagement of contractors.
- In relation to the monitoring of projects, new procedures were introduced in 2001 whereby quarterly progress reports are required from Local Authorities, and the Engineering Division of the Department prepares monthly progress reports on projects undertaken by it on behalf of Local Authorities. The Department intends to initiate comprehensive project monitoring and an inspection system of coastal protection works.
- In relation to its integrated coastal zone management, the Department's strategy statement notes that growing development pressures in the marine coastal zone underline the need for a comprehensive integrated framework for the sustainable management and development of this area. Accordingly, the Department is committed to developing, as a priority, in cooperation with other relevant Departments, an integrated coastal zone management strategy and legislative framework.

26. Grants to Coillte for the Promotion of Forestry

The Department of the Marine and Natural Resources is empowered by law to administer EU based aid schemes relating to the Forestry and Marine sectors. The EU contribution to such schemes are funded from the European Agricultural Guidance and Guarantee Fund (FEOGA).

European Council Regulation 2080/92, relates to the afforestation of agricultural land. Article 2(1)(c) of the Regulation provides for the payment of afforestation premia to compensate for the loss of income arising from the transfer of land from agriculture to forestry use, which may be paid to farmers and “any other private-law, natural or legal person”. The Department commenced operating the scheme in Ireland in 1993.

Following the passing of the Forestry Act 1988, Coillte was registered under the Companies Acts as a private limited company, and was regarded by the Department as being a “private-law, natural or legal person” and entitled to receive premia when it applied for them in 1993.

In August 1999 the European Commission, following an audit which it had carried out of FEOGA expenditure administered by the Department, informed the Department that in its opinion Coillte was not eligible to receive the premia, as it did not consider that Coillte was a “private-law, natural or legal person” as defined in the Regulation. The proposal to disallow such payments was approved by the Commission in July 2000. The disallowance decision applied to EU funded expenditure of £3.8m in respect of the two FEOGA financial years October 1996 – October 1998.

The Department decided to suspend further payment of the grants to Coillte in September 1999 and in September 2000 lodged an appeal against the Commission disallowance decision in the European Court of Justice. The case is expected to be heard sometime in 2002. The Department also refunded the £3.8m to the Commission in October 2000.

Under its planned plantation programme Coillte had expected to receive further grants of approximately £33m in the years 2000 to 2013 which it will not now receive if the Commission decision is upheld by the Court of Justice.

In response to my enquiries the Accounting Officer informed me that

- Legal advice had not been obtained at the time the decision was first made to pay the grants in question to Coillte, as there was no reason to believe that Coillte were ineligible for such payments. In 1992, there had been discussions with the Commission at which it was indicated that the Commission took a positive attitude in relation to the eligibility of Coillte under Regulation 2080/92. At the Commission’s request, written clarification of the legal status of Coillte was provided in January 1993. No response to the written clarification was made by the Commission, which subsequently approved the afforestation programme under which the payments in question were made. The Commission was aware that payments were made to Coillte in the following years but did not raise any questions on them until the discussions leading up to the disallowance proposal of August 1999. It appears that the Commission raised the issue then arising from a decision by the European Court of Justice (C-306/97) on a separate case in 1997 which declared that Coillte was a Public Authority for the purposes of the EU Procurement Directives.
- The Commission’s view, as indicated as late as June 1998 in reply to a question in the European Parliament, was that payment of premia associated with afforestation by semi-state companies was not in breach of the provision of EC Regulation 2080/92.
- The Department’s position is that Coillte is eligible to receive the premia and that the Commission was incorrect in disallowing the expenditure but that it is the European Court of Justice which will decide the issue.
- The September 1999 decision to suspend payments to Coillte was based on legal advice. At that time, grants totalling £2.8m had been made to Coillte in respect of the FEOGA financial year which

commenced in October 1998. The Department has been notified of the Commission's intention to disallow such payments but, as of 6 September 2001, no formal decision had been received from the Commission.

- At the time of the July 2000 disallowance decision, the FEOGA accounts for the years prior to 1996 had been closed and payments made prior to 1996 were therefore excluded from the scope of the decision. Premium payments to Coillte in the period prior to October 1996 totalled £2.54m.

Vote 31 - Agriculture, Food and Rural Development

27. Bovine Tuberculosis and Brucellosis Eradication

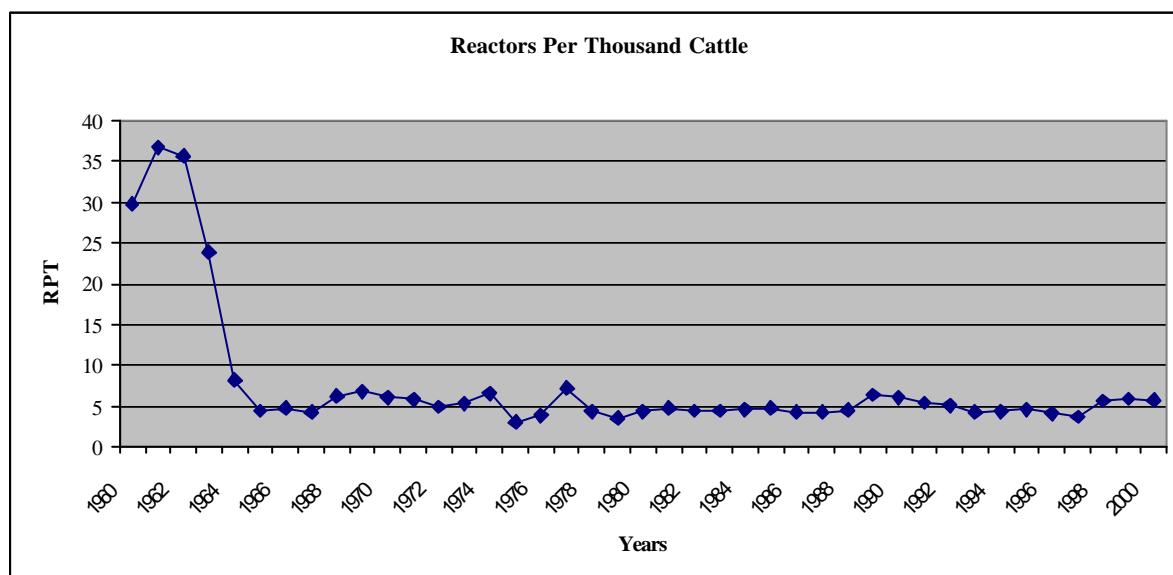
Introduction

Bovine Tuberculosis (TB) is a chronic disease in cattle. The disease may be passed on to humans who consume meat or milk products from infected animals. Brucellosis in cattle is a highly contagious disease, which can result in abortion, infertility, morbidity, and reduced milk yields. There is also a much higher risk of humans catching the disease than for TB through drinking unpasteurised milk from infected cows, by inhalation, cuts and abrasions, or by droplet infection.

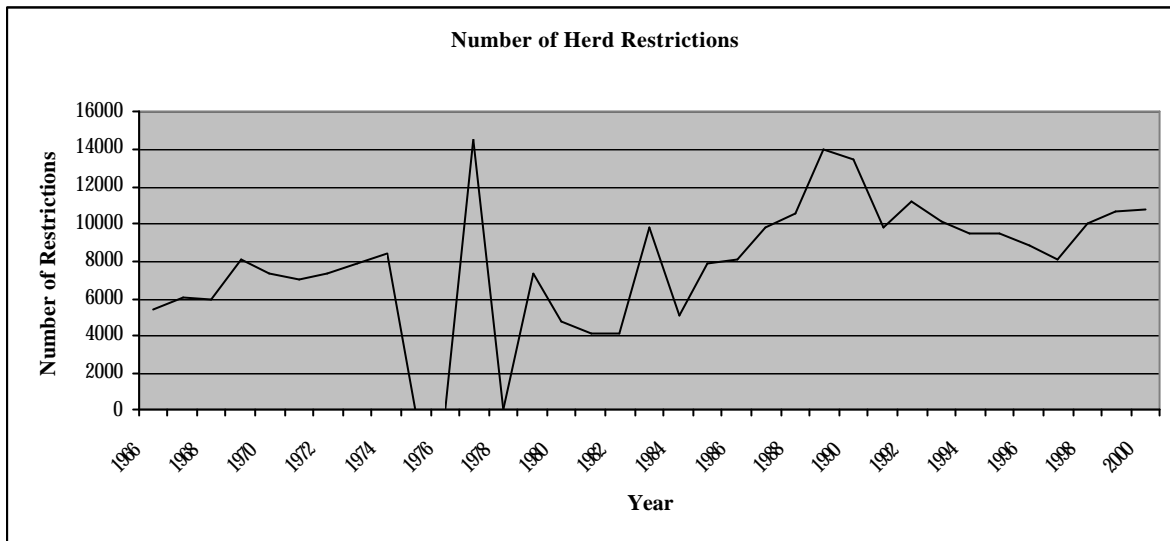
It has long been official policy to control and/or eradicate TB and Brucellosis in cattle both because of the risks the diseases pose to human health and because of their adverse impact on markets in agricultural products, in particular export markets. The food chain is further protected by the pasteurisation of milk and through the meat inspection procedures in place.

Incidence of Diseases

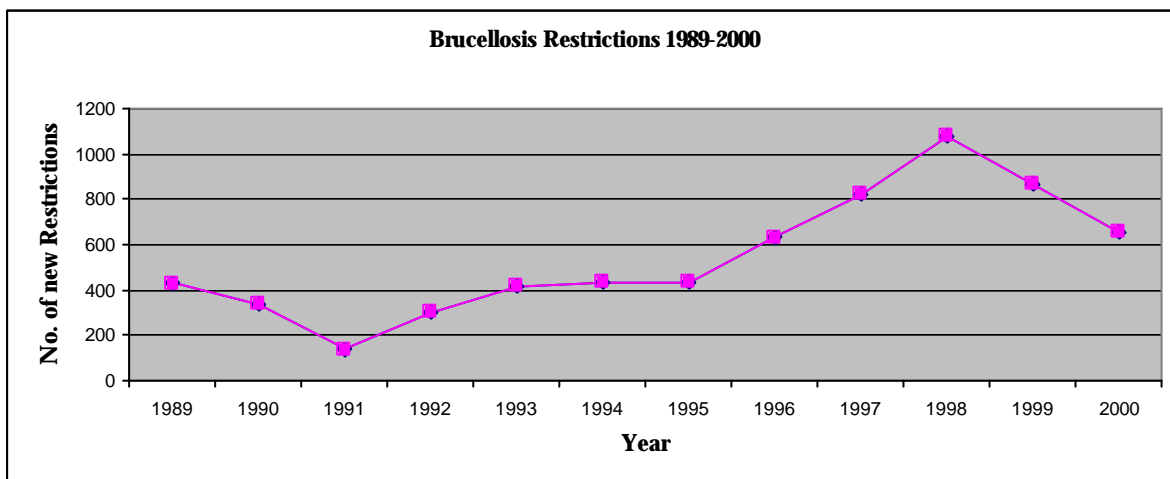
Prior to the launch of the TB eradication scheme in 1954 Bovine TB was widespread with an estimated 80% of herds, and 17% of animals being infected. Rapid progress was achieved in reducing the incidence of disease in the first 10 years so that by 1965 the level of infection was reduced to 0.5% of animals. However, since then progress in further reducing the levels of disease has been slow and somewhat erratic so that more than 30 years on disease levels still remain stubbornly high at 2.9% of herds and 0.3% of animals.



The figures portrayed in the graph above do not include animals with disease detected by inspection of carcasses at Meat Plants.



Note 1975/1976 –No testing due to dispute with Irish Veterinary Union



The campaign to eradicate brucellosis commenced in 1966, when the incidence of disease was estimated to have been 12% of herds. Good progress was made in reducing the incidence of the disease, which by 1986 had been reduced to 0.19% or 100 herds, and the country was declared to be “officially Brucellosis free”. However in subsequent years the incidence of the disease again increased, reaching a peak in 1998. In 1999 and 2000 the incidence reduced and that downward trend is continuing in 2001, as illustrated in the graph below.

There were 236 herds restricted as at May 2001.

Objectives and Scope of Audit

The objectives of the audit were to:

- Review and evaluate the procedures put in place by the Department of Agriculture, Food and Rural Development (the Department) over the years to manage and operate the programmes
- To review the degree to which the programmes have achieved their objectives

- To review issues and concerns raised in the past on the operation of the programmes and the steps taken to address them
- To ascertain policy in relation to the contribution to costs made by farmers and to review procedures for the collection of such contributions.

The policies, strategies and practices adopted by the Department in operating the programme were ascertained and their implementation reviewed, including the objectives of the schemes and the extent to which they were achieved. A number of reports of investigations into the operation of the schemes over the years were examined and the response of the Department to their findings reviewed. The procedures in relation to the collection of the farmer levy were also reviewed.

Audit Findings

Policies and Strategies

Tuberculosis

The initial policy when the scheme was introduced in 1954 was to eradicate Bovine TB from cattle herds and officially this remains the objective. However, given the experience in the past thirty years when there has been little improvement in reducing the incidence of the disease despite the expenditure of substantial sums, there is a recognition that the best to be hoped for in the short to medium term is to contain the incidence of the disease to an acceptable minimum so that markets, in particular export markets, are not jeopardised and so that there is no serious threat to human health.

The main strategies pursued since the scheme's inception has been the annual testing of all animals in the national herd, and the slaughter of all animals tested positive for the disease (reactors), as well as other animals in the herd. The main variations in the policy pursued are additional mandatory testing in certain circumstances such as when cattle are sold or are located in designated "black spots" or in contiguous herds, and the technical standard applied in judging whether animals have the disease or not.

Slaughtered animals are physically inspected by Veterinary personnel at Meat Factories for signs of the disease and the results of these checks are also taken into account in estimating and pinpointing the incidence of the disease. Also, in infected herds blood testing for TB may be conducted in addition to the routine tuberculin test. In addition, research into the persistent levels of tuberculosis is a significant aspect of the programme.

Of the total of 42,354 reactor animals removed in 2000, 39,847 were detected as a result of testing live animals on farms, and 2,507 were detected through inspection of carcasses at Meat Factories.

The EU have set down Regulations in relation to measures to be taken in Member States to combat TB and Brucellosis, which vary depending on the incidence of the disease. In Ireland, in addition to these measures, strategic testing of contiguous herds, herds in blackspot areas and follow-up test checks of derestricted herds six months after derestriction are also carried out. Other measures over and above EU requirements include a reactor collection service, a requirement to disinfect the holding and an epidemiological investigation into infective type breakdowns.

A separate executive agency, known as ERAD was set up within the Department in 1988 to eradicate Bovine TB, with an initial objective of halving the prevailing bovine TB levels within four years. Authority to determine policy and strategy and to manage the programme within an allocated budget was devolved by the

Minister to a Board comprising a chief executive and representatives from the Department, farmers, and the Veterinary profession. The core strategy pursued by ERAD was to intensify the level of testing so that more reactors were detected and removed from the national herd, which it was hoped would in time lower the incidence of the disease. In 1989 and 1990, 11million and 13million tests, respectively, were carried out. This resulted in the removal of 43,500 reactors in 1989 and 41,500 reactors in 1990 compared to an average of 30,000 reactors per annum over the previous 20 years. The testing programme was curtailed in 1991 due to a lack of Exchequer funding but a further 36,527 reactors were identified in 1992 from 10.9 million tests.

There was increased emphasis put by ERAD on scientific method in operating the programme, through acquiring and analysing information and data on the disease, and using this knowledge in planning and deciding the operational measures to be put in place. A research programme was initiated, and there was increased contact with some other leading agricultural nations in relation to research into the disease and the measures put in place to combat it. ERAD also proposed the establishment of TB clearance zones by setting up different regions within the country based on disease levels with varying disease eradication enforcement measures, but the measure was not proceeded with due to opposition from farmers.

It was concluded that there was little evidence that the exhaustive testing programme pursued by ERAD was having the expected impact on the prevailing bovine TB levels, and in 1992 the level of testing was cut back to pre 1988 levels. It was also concluded that the target set for ERAD of halving the prevailing bovine TB levels was unrealistic, and that further progress in reducing or eradicating the disease would only come from additional measures based on research, knowledge and insights gained on the epidemiology of the disease. ERAD was disbanded in 1992 and authority for determining policy and strategy and for managing the programme was again assumed by the Minister and his Department.

In 1996 an Animal Health Forum was set up comprising representatives from farmers, the Veterinary profession and Department, whose functions were to advise the Minister on policy, strategy and operational matters. Pre-movement tests, which had been introduced in 1988, were discontinued in conjunction with revised arrangements whereby farmers undertook greater responsibility for ensuring the health status of their herds including payment for the first test of their herd each year. A computerised cattle movement monitoring system was introduced to provide a system to record animal movements.

In 2000 the Department were keen to reintroduce a pre-movement test but this was opposed by the farming bodies and negotiations are still continuing on the matter.

While the Department's objectives included, inter alia, a moderation in costs to the Exchequer and farmers, and a reduction in disease levels in the period 1996 to 1999, in fact disease levels significantly increased, and costs to the Exchequer also substantially increased. The increase in disease levels is attributed by the Department to the cyclical nature of the disease, higher cattle numbers, and possibly an increase in the irregular movement of animals.

The Department pointed out that disease levels also increased in Great Britain and Northern Ireland for reasons that have not been definitively established.

The Department's objectives for the planning period 2000 to 2003 are similar to those of the previous four years, and targets for reduction in the incidence of TB have been included in the Programme for Prosperity and Fairness (PPF). However, agreement has not yet been reached on the measures necessary to achieve these targets.

Brucellosis

Good progress was made in eradicating Brucellosis in the initial 20 years of the programme up to 1986, but there were setbacks in the programme over the next decade. This was attributed to a relaxation of the measures to combat the disease including the discontinuance of a pre-movement test, a dispute with Veterinary practitioners in 1991 over fees, and the introduction of a suckler cow scheme which resulted in a retention of old beef cows in herds in an effort by farmers to establish quotas. The programme to combat the disease was stepped up in 1997 and the PPF commits all parties involved to making significant progress towards eradicating Brucellosis within four years. Current arrangements provide for a statutory pre-movement, one sale, test, a voluntary post-movement test, a comprehensive contiguous herd testing programme, restriction of positive herds until a full calving cycle has elapsed and a slurry treatment programme.

Cost of Schemes

Up to the end of 2000 expenditure on TB and Brucellosis Eradication Schemes totalled £954m excluding administration costs of £391m. Some £340m has been collected from farmers through disease levies, and further amounts of £56m and £33m, respectively, have been received from the sale of reactors and from the EU. Expressed at current money values cumulative expenditure is estimated at £2.5 billion with receipts totalling £500m. The costs (excluding administration) incurred in 2000 on the schemes were £78m of which £29m was borne by farmers.

Funding of Schemes

Up to 1979 the Department assumed full responsibility for the funding of the schemes. However since 1979 farmers have been contributing towards the programme costs by way of a levy on milk sales to creameries, on cattle slaughtered at meat plants and on bovine animals exported live from the State.

In 1996 the rates of the levies were reduced in return for which responsibility for arranging and paying for annual herd tests, estimated to cost £14m, was devolved to farmers. It was intended that the amended rate of levy would produce a reduced annual Exchequer receipt equivalent to the greater of £10m per annum or 50% of the cost of compensation payments. This target was not achieved due to the almost doubling of compensation payments since 1996. Notwithstanding the failure to achieve the financial target the levy rates were further reduced with effect from July 1998 to take account of the cost to farmers of an additional test for Brucellosis. The costs of the revised arrangements are shown in Table 33. While the cost to farmers has remained stable, the overall cost to the Exchequer has increased steadily from £36.1m in 1995 to £70.6m in 2000. Excluding administration costs, the cost to the Exchequer has increased from £15.1m to £47m over the period. The significant increase in compensation amounts paid since 1996 resulted from the significant increase in the levels of disease and the number of animals removed as reactors

A cost/benefit analysis of the Bovine Tuberculosis Eradication Scheme undertaken in the early 1990s concluded that the benefits of the eradication scheme substantially outweighed costs.

Table 33 Cost of Schemes (£millions)

Departmental Costs	1995	1996	1997	1998	1999	2000
Reactor Compensation ¹	20.9	21.7	26.1	32.0	41.6	36.8
Testing Fees ²	19.4	11.8	5.9	9.2	12.8	11.0
Other Payments ³	6.6	6.8	6.8	8.8	9.9	10.8
Administration Costs ⁴	21.0	21.5	22.3	22.3	22.8	23.6
Gross Departmental Costs	67.9	61.8	61.1	72.3	87.1	82.2
Farmer Costs						
Disease Levies ⁵	28.7	15.9	10.6	9.2	9.8	9.2
Testing Fees ⁶	-	14.0	18.0	18.5	19.0	19.4
Total Farmer Costs	28.7	29.9	28.6	27.7	28.8	28.6
EU Funding ⁷	3.1	2.7	8.5	2.6	0.8	2.4
Net Departmental Costs⁸	36.1	43.2	42.0	60.5	76.5	70.6

Employment of Veterinary Inspectors

There was concern in the past that since Private Veterinary Practitioners (PVPs) were testing cattle mostly belonging to their own clients, their independence was compromised and there might be some reluctance to find that cattle had reacted, and as a consequence animals infected with TB would be left in herds. A PAC Report¹⁶ completed in 1994 recommended that the Department should nominate the PVPs to carry out the tests.

Under arrangements agreed in 1996 responsibility for paying PVPs for the annual test was devolved from the Department to farmers. The arrangements that subsequently emerged during that year and which were implemented in 1996 were intended to give farmers and their practitioners greater responsibility for eradicating TB from herds. However, arguably this also had the effect of diluting the independence of the PVPs further.

The Department keeps detailed computerised records of TB tests conducted by PVPs for quality assurance purposes. These are analysed and aberrant cases isolated for follow up action. As a result about two PVPs per annum are struck off the Department's panel of authorised testers. Departmental personnel inspect PVPs who perform tests annually to ensure that they are competent and carry out the procedures correctly. Wholtime Temporary Veterinary Inspectors who carry out tests are inspected twice yearly.

The method of testing for Brucellosis is by analysis of blood samples in the Department's laboratory. Since the PVP's only task is to extract a blood sample from the animal being tested, conflict of interest concerns do

¹ This represents the compensation paid to farmers arising from the detection of TB and Brucellosis in their herds.

² This represents the fees paid by the Department to Private Veterinary Practitioners for carrying out tests on its behalf.

³ This represents expenditure on supplies, equipment, services and research.

⁴ This is an estimated figure and represents the expenditure on payroll and other administration overheads incurred by the Department in operating the schemes.

⁵ This represents the levies collected by the Department from farmers to defray the costs of operating the schemes.

⁶ This represents the estimated costs incurred by farmers in respect of the annual herd tests, responsibility for which was devolved to them in 1996.

⁷ This represents amounts contributed by the EU towards the costs of operating the schemes.

⁸ This represents the net costs to the Department and Exchequer of operating the schemes when account is taken of the contributions received from farmers and the EU.

¹⁶ Dáil Eireann Committee of Public Accounts – Special Report on Bovine Tuberculosis Eradication 1994

not arise for Brucellosis testing.

International Co-Operation and Comparisons

According to the Department there is a high degree of co-operation and sharing of information among Veterinarians and Academic personnel carrying out research on the epidemiology of the diseases, the search for a TB vaccine, and measures to combat the diseases. In the late 1980s ERAD undertook a study tour of countries which had similar programmes to Ireland, and the contacts then made facilitated the setting up of an international research forum which comprises representatives from Ireland, New Zealand, UK, USA and Australia. The forum, which meets once every five years, includes both programme managers and research scientists, and discusses general programme strategies and determines the direction and support for the various scientific research areas. All data at both the scientific and programme management levels is shared.

The Department were also instrumental in getting the EU Commission to set up working sub-committees of the Standing Veterinary Committees to review the programmes being operated in the different countries. These groups visit the member countries and examine the programmes with a view to recommending best practice and ensuring that lessons are learned and mistakes are not repeated by other states.

The Department indicated that these international contacts are extremely valuable and provide very useful insights into the varying levels of TB in different countries and how best to manage the bovine TB disease eradication programme. However the audit findings suggested that lessons learned and insights gained from these contacts were not well documented or recorded within the Department, which could mean that valuable knowledge might be lost to the Department in the event of key veterinary personnel leaving. Better documentation of the information would also make it more accessible to a wider number of people within the Department, and provide evidence and assurance as to its value.

Research

Research has a key role to play in the effort to eliminate bovine TB. Prior to 1989 little research on the incidence of TB was carried out by the Department. However in May 1989 a programme of research was commenced by ERAD. Expenditure on research has ranged from about £0.5m per annum in the early 1990s to an estimated £1m annually at present.

A Tuberculosis Investigation Unit was established by ERAD in co-operation with Teagasc in May 1989, as part of the National Strategic Plan for the Eradication of TB in cattle. Its purpose is to investigate the factors, which militate against the eradication of TB in cattle at national or regional levels, and to identify means of improving the rate of eradication. The Unit is located in the Veterinary College in Ballsbridge, Dublin. A Tuberculosis laboratory has also been expanded in the Central Veterinary Laboratory in Abbotstown.

The main focus of the Research Programme is on the development of a badger vaccine, genetic resistance and badger removal programmes in designated areas.

Collaboration between universities is a major part of the research programme. Significant initiatives include zoological consultancy on a permanent basis from UCG, development of DNA probes and ancillary tests with UCG, and development of a novel probe with UCD to further delineate TB strain types.

Influence of Badgers on Disease Incidence

A badger removal programme has operated in East Offaly from 1989, and the number of reactors in the area

declined from 326 in 1988 to 30 in 1995 representing a reduction from 3.9% to 0.46% in the number of reactors detected per 1,000 animals tested. This project indicated that a reservoir of infection in badgers was a significant constraint to eradication and that a wildlife element was an essential component of the programme.

Similar programmes commenced in four other areas in 1997. It is understood that results to date are broadly similar to those obtained in the East Offaly Project. The removal programmes are operated under licence from Duchas and are carried out by Farm Relief Service Operatives employed under strict supervision by Departmental staff. The Department, under the PPF is committed to carrying out further investigative work into the issue with a view to removing all sources of infection in the 20% of the country, which currently yields some 50% of TB reactors. Additional staff are being recruited to progress these objectives.

A feasibility study carried out by the Department in collaboration with the Department of Agriculture in Northern Ireland in 1994 indicated that vaccination of wildlife against tuberculosis was a viable strategy. This finding was supported by a subsequent international meeting in Geneva.

In 1998 experts in microbacteriology, immunology, zoology and pathology were engaged by the Department and the Universities in Dublin and Cork to advance a badger vaccine development project. International experts were also consulted.

The wildlife research programme has also provided useful knowledge about badger ecology. Details of their preferred environment and the interactions within and between groups have contributed to the development of strategies to minimise contact between the infectious badger and the susceptible bovine.

Collection of Levies

In accordance with Section 4(2) of the Bovine Diseases (Levies) Act, 1979 meat plants, small abattoirs, creameries, and direct sellers are required to furnish to the Department each month an accurate return, on the prescribed form, of the amount of the levies payable, and the appropriate remittances. The current rates of levies in operation are:

- 0.4p per gallon of milk.
- £2.00 per bovine animal slaughtered or exported.

The audit findings indicated that the majority of clients, particularly the larger ones submitted their Returns and paid their levies on time. However, there were a small number of clients who were in arrears and have been for prolonged periods. In the event of clients in arrears failing to respond to requests for payment, the Department usually agree instalment arrangements. Legal action is taken for persistent non-payment over a prolonged period, and court judgments obtained.

Listings of legal actions in train and outstanding court judgments were not maintained which would facilitate monitoring.

The level of arrears owing to the Department at 31 December 2000 was £737,903. No aged analysis was available on the arrears which go back as far as 1986.

The audit also disclosed a case in which a company was dissolved on 3 May 1996 which owed levies totalling £247,508 dating from November 1994 to May 1996. The Chief State Solicitor's Office (CSSO) informed the

Department in May 1997 that the company was liquidated. In July 1997 the Liquidator's solicitor informed the CSSO that the Minister's claim would be adjudicated upon by the Examiner of the High Court, and that in accordance with company law an application would have to be made to the High Court. The CSSO was uncertain as to the correct procedure and chose to obtain the advice of the Attorney General's Office regarding this application.

Despite reminders by the Department to the CSSO in 1997, 1998 and more recently in 2000 and 2001, the Department has not received confirmation from the CSSO as to the advice of the Attorney General's Office or if the Department's liquidation claim was or can be processed.

Conclusions

As is evidenced by the expenditure, substantial resources have been applied to combating Bovine TB and Brucellosis over the past forty years or so. While the Department are reasonably optimistic about the chances of eradicating Brucellosis, the objective of eradicating TB has not been achieved, and is unlikely to be in the foreseeable future. However the incidence of both diseases has been kept to sufficiently low levels so as not to be perceived as a significant threat to human health. Consumer confidence has been maintained, and markets, in particular export markets, preserved.

It would seem unlikely that there will be any appreciable reduction in TB costs within the next 10 years. However the Department is hopeful that the expenditure on Brucellosis eradication will decrease particularly in the longer term if the objective of eradicating the disease within five years is successful.

In the longer run there would appear to be grounds for cautious optimism in relation to TB eradication in that research, on a badger vaccine and gene resistance, may yield fruitful results. In addition the measures being put in place to control the badger population should enable TB disease levels within the cattle population to be further lowered.

The competencies and procedures developed and put in place to combat TB and Brucellosis, and the development of a more sophisticated cattle movement monitoring system, should also be of significant benefit to the Department in combating other diseases, and in providing assurance to consumers, and food suppliers and processors, in relation to the sources and quality of meat and dairy products, at a time when there is increasing concern about these issues.

It is accepted that the participation of Departmental personnel in the International forum and EU working subcommittee, as well as other international contacts makes an extremely valuable contribution as to how best to manage the disease eradication programmes. However it is important that the results of research and comparative studies are comprehensively documented and disseminated.

Given that the TB eradication programme has existed for such a protracted period of time there is a real danger that the problem will be perceived as being insoluble and a permanent feature of Irish Agriculture. This in turn could result in the programme drifting and lacking focus. Accordingly it is vital that the objectives set for the programme, both medium and short term, are realistic, well thought out and vigorously pursued. There is some evidence that this has not always been the case. For instance the objectives set for the 1996 to 1999 programme of both reducing disease levels and at the same time moderating the costs to farmers and the Exchequer, would seem to have been inconsistent and unrealistic, and perhaps not surprisingly were not achieved. Even though the Department is now almost half way into the 2000 to 2003 programme, specific measures to achieve these targets have not yet been agreed with the farming bodies. A

more focussed approach to setting and achieving objectives is warranted.

Arguments and compromises over the years about funding and levels of testing would appear to have been somewhat of a distraction from the substantive task of eliminating or reducing the incidence of the diseases. Discussions between the Department and the farming bodies seem to have given rise to compromises on the operation of the TB scheme contrary to what a strictly scientific approach would have suggested. These compromises may well have impacted adversely on the effectiveness of the programmes. Efforts should be made to devise long-term agreement between farmers and the Department on these and other issues. Such agreement should contribute to better teamwork between farmers and the Department, and more consistency and coherence in the operation of the programme as a whole. Structures to determine and resolve policy and strategic issues, and to address operational procedures and funding, were radically changed with the setting up of ERAD. These decisions were subsequently reversed but it may well be that the issues should be revisited.

Research into bovine TB which did not commence in any coherent way until the late 1980s, would appear to be yielding some promising results. The possibility of developing an effective badger vaccine, gene technology, and the information provided on the effect of badgers carrying the disease are the prime examples. The level of investment in research, which would appear to be running at about £1m per annum or about 1% of gross costs, might usefully be reviewed to ascertain if further investment would be likely to yield significantly greater benefits.

The procedures in place in relation to the collection of farmer levies appeared to be generally satisfactory and effective. However firmer action would appear to be warranted in relation to clients who are persistently late in paying the levy, not least in the interest of fairness and equity to the majority of clients who pay on time. In the specific case referred to in the report the evidence suggests a lack of diligence in following up legal measures for recovery. Listings of outstanding court actions should be maintained to facilitate monitoring and review. Old arrears should be reviewed and written off if considered to be uncollectible.

28. 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 2000, , 1,316m was incurred on FEOGA expenditure as shown in Table 34.

Table 34 FEOGA Expenditure in 2000

	, m
Export Refunds	381
Intervention Costs	(38)
Production Aid	85
Premia Schemes	573
Other support measures	315
Total	1,316

Disallowances by the EU in 2000 totalled £10.7m. 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.

Vote 32 - Public Enterprise

29. International Telecommunications Connectivity

Background

In July 1999, the State, represented by the Department of Public Enterprise (the Department) and IDA Ireland, entered into a 25 year contract with Global Crossing Ireland Ltd. (Global Crossing) for the provision of large capacity bandwidth with global connectivity. The availability of such high capacity bandwidth at competitive rates was one of the recommendations of the Advisory Committee on Communications, which had been established by the Minister for Public Enterprise to advise on a strategy to position Ireland as a key global centre in advanced telecommunications, the Internet and electronic commerce.

Following a call for proposals to suppliers and a subsequent negotiated process, Global Crossing was selected as connectivity supplier on the recommendation of an Inter-Departmental/Agency Task Force, led by the Department and advised by a multi-disciplinary team of consultants. The contract with Global Crossing provided for the connecting of Ireland to European and American networks through two submarine telecommunications cables landed in Wexford and terminating at an international high-speed bandwidth exchange (telehouse) at CityWest Digital Park in Dublin.

The capacity acquired, 160 STM-1s¹⁷, costing £60,752,875, represented a fifteen fold increase in existing levels of international capacity out of Ireland. It was considered that this new level would greatly enhance Ireland's position as a preferred location for new digital industries serving the European electronic commerce market of over 300 million consumers. The contract also provided options for the State to purchase further capacity.

The Government Decision approving the project, provided, in principle, for the State to transfer to third parties its rights and obligations under the agreement with Global Crossing on an investment-recoupment basis. The Department invited bids from telecommunications operators to ensure compliance with the policy that the increased capacity should be made available to the Irish market at a competitive rate. As a result of this process, contracts were agreed with 6 companies for the sale of 154 STM-1s. Payment was to be made in stages up to December 2002.

The Government also agreed that a proportion of the available bandwidth could be made available for public interest and strategic initiatives in areas such as education and research. One proposal was for the transfer of 7 units of capacity and options on a further 9 units to HEAnet¹⁸ to facilitate the upgrading of the national broadband research network.

Objectives and Scope of Audit

The objectives of the audit were to assess:

- The systems and procedures in operation for the managing and monitoring of the interconnectivity project
- Total costs and revenues, both actual and projected, and to consider the State's exposure on the project

¹⁷ STM (Synchronous Transport Module). STM-1 is a unit of capacity equivalent to the transfer of data at 155 Megabits per second.

¹⁸ The network operated by the Higher Education Authority.

- Whether contracts entered into were adequate to protect the State's interest
- The procedures adopted in the selection of the interconnectivity supplier and the telehouse provider
- The procedures employed for the onward sale of capacity to telecommunications operators
- What action has been taken in relation to options acquired by the State for the purchase of further capacity

The procedures adopted in the management of the project were reviewed. The Department's files relating to the selection of a connectivity supplier, the sell-on of capacity to telecommunications operators and the appointment of professional advisers were reviewed. Minutes of Task Force and Steering Group meetings, correspondence with other Government Departments and Agencies, Government Decisions and Memoranda, and legal agreements were also examined.

Audit Findings

Management and Administration of Project

The Department has primary responsibility for the project. Following the publication of the Report of the Advisory Committee on Communications, it established and led an inter-Departmental/Agency Task Force representative of the Department of Enterprise, Trade and Employment, the Department of Finance, IDA Ireland and Forfás. The Task Force met regularly and proceedings and decisions were recorded. It appointed a team of professional advisers to assist in the project assessment and to negotiate with interested connectivity suppliers. The Task Force and its advisers selected the connectivity supplier. Completion of a contract with Global Crossing was recommended to Government in June 1999. The necessary funding was channelled through the Vote for Enterprise, Trade and Employment and IDA Ireland. The Task Force also oversaw the process leading to the sale of capacity by the State to telecommunications operators. IDA Ireland is responsible for making payments under the supply contract to Global Crossing and for the collection of revenues due in respect of the onward sale of capacity. These transactions, together with the asset acquired by the State, are accounted for in the financial statements of IDA Ireland.

Selection of Connectivity Supplier

Based on the advice received from its consultants, the Task Force issued a call for supply proposals in early 1999. Thirteen suppliers pre-qualified and were invited to submit detailed commercial bids. Four suppliers submitted bids which were evaluated. The Department then entered negotiations with two companies. Global Crossing made a signed final offer in mid-June 1999 and this was recommended for acceptance. Key factors in the selection were cost and the short timescale within which completion was guaranteed. The ready for commercial supply (RFCS) date outlined in the agreement was 30 June 2000. Because of some difficulty in finalising and testing the system, however, it did not go fully live until 26 August 2000. The Department indicated that unit costs negotiated were between 10% and 15% of existing market rates, depending on the route in question.

At about the time of the approval of the Global Crossing contract, another company announced plans to link Ireland, the United Kingdom, Canada and the United States by transatlantic cable. This company opted not to submit a formal tender in respect of the project under review as it wished to have commercial freedom to operate in the Irish market. Details of the cost, funding and timescale envisaged were unclear. The Department considered that the two projects were not mutually exclusive but that the terms of the Global Crossing proposal were known, manageable and best suited to the objectives of the initiative. The Government was aware of this alternative project in making its decision.

Contractual Arrangements with Supplier

Key elements of the proposed contract with Global Crossing formed part of the Memorandum considered by Government at its meeting of 22 June 1999. The agreement covers the provision by Global Crossing of seamless access to a high capacity telecommunications network spanning Ireland, 24 European cities and New York. Two submarine cables linking Ireland and Great Britain were constructed and the network was completed in August 2000. The cost of the contract was £60,752,875, payable on a phased basis to the end of 2002. At 31 July 2001, £42,412,383 had been paid.

The Department has since re-negotiated elements of the contract which has resulted in a number of enhancements at no extra cost. It now covers connectivity to 40 European cities, 7 in the US and 2 in Asia. Operation and maintenance charges have also been significantly reduced.

In addition, the State acquired an open-ended option to purchase a further 80 STM-1s and an option to purchase or lease the use of a number of “dark fibre” pairs on each of the submarine cables. The Department considers “dark fibre” to be extremely valuable due to the high speeds at which it can transmit large amounts of data.

Sale of capacity

Eight of the larger telecommunications companies were invited, at a cost of £50,000 each, to pre-qualify as bidders for capacity on the inter-connector. The Department also circulated a bid package outlining sale terms to another 67 companies. Initially the offer was over-subscribed. Bids were received for 179 STM-1s, but this was reduced to 154 STM-1s through the withdrawal of 2 bids. The Department fixed the unit sale price on an investment-recoupment basis.

Contracts to a total value of £63,622,668 were agreed with six companies for the 154 STM-1s. However, there have been difficulties in relation to three of the companies with the result that, at the end of July 2001, contracts were only active in respect of 73 STM-1s to a value of £30,270,354.

In relation to the unallocated capacity arising from the difficulties, the Department informed me that it is currently in negotiation with a number of companies who had previously sought to acquire capacity.

In regard to HEAnet, 5 STM-1s have been transferred, 2 STM-1s have been reserved and an option has been granted on the use of a further 9 STM-1s.

Payments under the sale of capacity contracts were to be made in instalments in accordance with an agreed schedule of payments. At the end of July 2001, £8,898,193 had been received on foot of these contracts but the December 2000 and April 2001 instalments to a total value of £7,764,036 are overdue.

Telehousing

Under the terms of the contract with Global Crossing, the Government Agent was obliged to provide the physical location for the two points of interconnection to the Global Crossing network in Ireland. The Department advertised a competition, under which the successful bidder would take on the commercial risk of building and fitting out a world-class telehouse facility in return for being designated as the first connection point. Government funding was not to be made available in respect of the contract. The Department and IDA Ireland are currently in discussion with Global Crossing regarding the second point of interconnection.

Eleven companies responded to the advertisement and a short list of four was drawn up. Detailed negotiations were entered into with TeleCity and another company. One of the deciding issues in awarding the contract to TeleCity was their ability to meet the deadline of June 2000. The contract was signed in Spring 2000. It stipulated that TeleCity make available 2000 square feet to Global Crossing to locate their bandwidth manager and electronic equipment.

The telehouse, located at CityWest Digital Park and with an area of 60,000 square feet, was completed on time. Differences between the landlords of the digital park and the telecommunications companies over access pricing on the local ducting delayed full implementation until they were resolved in March 2001.

Appointment of Professional Advisers

Following the issue of a notice in the Official Journal of the European Communities by the Department, a multi-disciplinary team of advisers and consultants was appointed. None of the original tenders received constituted the full set of skills and expertise required by the Task Force to implement the project. Contracts were awarded by way of negotiated procedure to entities that were deemed to have presented the most economically advantageous tenders in the fields of technical, legal, regulatory, project management, financial and market expertise.

The Department received sanction from the Department of Finance and the Government Contracts Committee to cover contracts valued at £632,337. However, costs incurred totalled £1,230,271, as a result of overruns on project management and legal services. The Department contend that it made every effort to maintain costs at a reasonable level and cite unforeseen circumstances such as amendments to the original contract with Global Crossing and the conclusion of further contracts in relation to maintenance and operation of dark fibre, access to and co-location at 4 cable stations, a telehouse agreement and a re-sale process. In that context, the Department maintain that, in a very specialised market, it was prudent to retain the advisers to ensure there was no loss of continuity and expertise. The Department of Finance, in giving retrospective sanction, pointed out that an overrun of this magnitude was unacceptable.

The costs of services provided from 1998 to 2001 are shown in Table 35.

Table 35 Costs of Services 1998-2001

	£
Legal	542,523
Project Management	466,000
Market Intelligence and Analysis	106,055
Financial	71,057
Technical	28,984
Other	15,652
Total	1,230,271

Conclusions

The project was recommended to and approved by Government on the basis that it was essential to increase, as a matter of urgency, the bandwidth available for international telecommunications between Ireland and the rest of the world. While projects of this kind have long time horizons and are difficult to assess in the short term, the following early observations can be made:

- The primary objective of providing large capacity bandwidth with low cost connectivity was achieved.
- Structures put in place were adequate to enable the project to be monitored by the Task Force in a

satisfactory manner.

- The choice of Global Crossing as connectivity supplier and TeleCity as telehouse provider were made after fair and thorough selection processes.
- While the arrangements for obtaining the supply of bandwidth were satisfactory, the contractual arrangements as implemented for on-selling the capacity were less successful.
- Specific performance of contractual obligations on the purchasers of capacity, particularly in regard to bonding and guarantees, should have been required.
- Outstanding instalments from purchasers should be vigorously pursued.
- The delay in resolving the access pricing issue resulted in the purchasers not drawing down STM-1s and consequently may have been a factor in the lack of timeliness of payments due from the purchasers under the contracts.
- Any reduction in the demand by telecommunications operators for services provided or further difficulties in the execution of contracts would have serious adverse implications for the State recouping its £60m investment.
- While the Department's explanation for the overrun on the costs of advisers is accepted, the necessity for such an increase in the level of project management and legal services should have been anticipated.

Observations of the Department of Public Enterprise

- The project has a 25 year life span and its economic and commercial value to the country must be viewed over that time-scale
- The relative success of the project and the difficulties of late in recouping investment from the market should be viewed against the backdrop of the very considerable downturn in the technology and telecommunications markets globally. The scale and depth of the downturn could not have been foreseen at the time of contract conclusion.
- The project was managed very tightly from start to finish. The contracts were negotiated in an extremely narrow window of opportunity and the project went live within 14 months of those contracts being signed.
- The project has been instrumental in attracting and retaining a number of prestigious international investment opportunities in Ireland.
- The access pricing issue at City West Digital Park was outside the control of the Department and the Steering Committee.
- The Department will shortly undertake a value for money review of the project to date.

Vote 34 - Enterprise, Trade and Employment

30. Participation in World Exposition in Hanover- EXPO 2000

In 1995, the German Chancellor invited all world Governments to participate in a World Exposition to be held in the year 2000 in Hanover, Germany. This Exposition became known as EXPO 2000. Countries participating at such expositions are expected to fund the cost of construction and running a national Pavilion or exhibition site. The participants are also expected to provide funding for staffing its Pavilion and exhibits, and in due course, the restoration of their sites to their original states, unless otherwise agreed with the host authorities.

Consideration of the case for Irish participation in EXPO 2000 in terms of direct economic return for trade, tourism publicity and investment had been given by the state promotional agencies in the framework of the Foreign Earnings Committee¹⁹ (FEC). FEC was asked four specific questions on Ireland's participation in EXPO 2000:

- Does FEC consider that Irish participation would be justified from a foreign earnings perspective?
- Would the promotional agencies represented on FEC be prepared to contribute to the cost of Ireland's participation in Hanover, and at what level?
- Given the importance of the German market for Ireland, would any of the agencies wish to take a lead in the organisation of any Irish involvement?
- What was FEC's view on the likelihood of securing private sector sponsorship for Irish participation?

The response from the agencies represented on FEC was that representation at Hanover would not be justified on trade/ investment promotion grounds. None of them were willing to allocate any budgetary resources to it. Neither did they hold out much hope of substantial private sponsorship. However, FEC was also of the view that failure to participate in Hanover, against a background of participation by all other Member States, could be damaging to our overall relations with Germany.

It was the view of the Tánaiste that the Department of Arts, Heritage, Gaeltacht and the Islands or the Department of Foreign Affairs would be best equipped to take the lead role in the co-ordination of arrangements for EXPO 2000. However, neither Department was willing to accept this role and the Tánaiste reluctantly accepted that it fell, by default, to her Department.

In February 1998 the Government approved a proposal by the Tánaiste to participate in EXPO 2000 at an indicative cost of £5-6m. In the Memorandum for the Government putting forward the proposal, the Department noted that the FEC were of the opinion that representation at Hanover would not be justified on trade or investment promotion grounds. The Department also did not hold out much hope of attracting substantial private sponsorship for the event, a view that was supported by the Department of Arts, Heritage, Gaeltacht and the Islands at the time of the proposal.

¹⁹ The Foreign Earnings Committee monitors the combined Irish promotional effort abroad, ensures coordination of that effort to best effect, and advises on the trade and investment implications for the conduct of bilateral relations.

The Department of Finance concurred with the assessment that Ireland's participation would not be justified from a foreign trade or investment promotion perspective. It also expressed strong opposition to the use of National Lottery funding for the project but indicated it would not oppose affording other Departments or Agencies the opportunity of making a case for participation in the project provided the costs were accommodated within the medium terms financial parameters agreed by Government.

In the pre-EXPO period, in April 1999 a cost overrun of some £500,000 was predicted. The expected overrun was largely due to an increase in the construction budget, brought about by exceptionally high costs associated with building in Hanover, together with expected high levels of inflation in the period up to EXPO 2000. The Department sought to have increases in the budget met from private sector contributions.

By August 1999 the estimated cost of participation had risen to an estimated £9.1m. Revisions to estimates were made across three headings as shown in Table 36.

Table 36 EXPO Revised Estimates of cost of participation

	Preliminary Estimate	Revised Estimate	Variation
	£	£	
Irish Pavilion Construction Costs	1,900,000	3,022,815	+59%
Irish Pavilion Fitting-out Costs	1,100,000	1,816,424	+65%
Running Costs/ Administration/ Contingency	2,000,000- 3,000,000	4,280,000	+114% (max) +43% (min)
Total	5,000,000- 6,000,000	9,119,239	+62% (max) +52% (min)

An overall target for all types of sponsorship, including cash contributions, of £250,000- £500,000 was set for EXPO 2000. However, in a review of sponsorship efforts following the exhibition, the Pavilion Director noted that £10,000 had been received in cash contributions with quantified estimates of other sponsorship efforts put at £34,000- £45,000.

As a condition of participation Ireland was obliged to dismantle the pavilion and re-instate the site by the end of February 2001. The Department requested the Office of Public Works (OPW) in June 2000 to examine the options available for disposal or otherwise of the pavilion giving a deadline to OPW of 12 December 2000 for receipt of their report and recommendations. This deadline was subsequently extended to 2 February 2001. OPW submitted their report on 15 February 2001, but this was too late to enable the Department to take the necessary steps to comply with the conditions of participation. In order to prevent the EXPO authorities taking action in their own right on the Irish site, the Department was obliged to enter into a bond with the German authorities in the amount of DM 226,200, equivalent to approximately £91,000, undertaking that the site would be restored by 30 June 2001.

In its report of 15 February 2001 to the Department on the matter of disposal of the Pavilion, OPW noted the results of its actions in obtaining expressions of interest in acquiring the Pavilion. No Government Department or Office had expressed such an interest. However, five expressions of interest had been received as a result of newspaper advertisements. Three of these were from public sector bodies and two from the private sector. One bid had also been received for £80,000 from a German firm to buy the Pavilion.

In finally concluding on the disposal of the Pavilion, the Department accepted an offer from the Dún Laoghaire Institute of Art, Design and Technology (one of the public sector bodies which had responded to the newspaper advertisements) to dismantle the Pavilion and have it re-erected at the Institute's site. The Department of Education and Science undertook to meet the cost, up to a sum of £2m.

In February 2001 independent evaluators, appointed by the Department to review Ireland's participation in EXPO2000, produced a preliminary report in which they concluded, that

- There was minimal impact on foreign investment or trade
- Some of the State Agencies involved in EXPO were uncertain whether the benefits exceeded the costs
- Bord Fáilte's view was that the expenditure may have been more effectively spent from a tourism perspective on other promotional initiatives
- There may be an over-estimation of the tourism benefits from EXPO due to the need to discount the revenues over time and the use of other resources which would reduce the benefits
- Ireland should decide well in advance of its intention to participate in future EXPOs, so as to ensure proper planning and facilitate commercial involvement

Notwithstanding these conclusions the evaluators stated that their analysis suggested that, on balance, Ireland's participation was likely to have provided a return on taxpayers funds, given the estimated tourism benefits, the national prestige/diplomatic issues and the other benefits in terms of the attraction of skills and cultural issues.

As I was concerned about the value for money of the expenditure I sought the views of the Accounting Officer.

In his reply, the Accounting Officer informed me that his Department had been involved in the organization of Irish participation at Seville 1992, a previous EXPO, but it did not have the lead role, the responsibility at that time being assigned to a Minister for State at the Department of the Taoiseach. He pointed out that, while the original invitation to participate in EXPO was made to the Taoiseach in 1995, and the Department of Tourism and Trade had furnished views to the Office of the Taoiseach, he was not aware of further action in relation to this matter until Autumn 1997 when the organizers of EXPO and the German Government began to lobby the Irish Government on the issue. In the light of contacts made between the German Ambassador and the Tánaiste in December 1997, the Taoiseach and Tánaiste agreed that she should submit a memorandum to the Government seeking a decision in principle on Ireland's participation in the EXPO 2000.

The Accounting Officer also stated that the costing included in the Memorandum for the Government in the amount of £5-6million, was based on participation in the 1992 Seville EXPO, with an adjustment for general inflation in the interim. The estimated cost of participation increased by £3.1million after detailed consultations with OPW.

The need for the revised estimate arose in essence from higher than originally estimated costs in respect of construction and fitting out of the Pavilion (amounting to almost two-thirds of the original allocation). This was due principally to hyper-inflation in the Hanover area, various unforeseen mandatory fees and charges introduced by the German organisers and increased operational costs.

As regards to the targeted level of private sponsorship for EXPO, the Accounting Officer stated that, with hindsight, the target was overly ambitious in the light of the failure to raise any significant sponsorship in respect of EXPO 92 in Seville. While strong efforts were made to secure sponsorship, the Pavilion Director was forced to the conclusion that the companies approached saw little commercial benefit in providing sponsorship. They saw it as the responsibility of the State to fund Ireland's presence at major international fora such as World Expositions.

The final cost of Ireland's participation in EXPO 2000 is not expected to exceed the approved amount of £9.1million. The ultimate net cost is estimated in the range £7.4-£8.1million, the spread being due to some uncertainty with regard to the final re-imburement of German VAT, which may not be finalised until 2002.

In commenting on the preliminary findings of the independent evaluators of EXPO, the Accounting Officer stated that most of these were unsurprising and very much in line with the views expressed by the FEC when it was consulted prior to the Government decision to participate. However, he reiterated that that decision was based on considerations that were far broader than the potential for foreign earnings enhancement.

As to overall value-for-money, the Accounting Officer stated that, while it was difficult to make definitive judgments about tangible benefits accruing from the project, the Department believe that the manner in which it was undertaken and the high degree of success achieved in measurable outputs maximised the prospects of such benefits accruing to the Irish taxpayer in the longer term.

In support of this view, he pointed to, among other things, the cost of Irish participation being lower than other EU Member States and to the higher than anticipated number of visitors to the Irish pavilion.

31. Fees paid for Trade Mark searches

Article 39(3) of Council Regulation No 40/94 of 20 December 1993 on the Community Trade Mark provides that National Patents Offices may opt to carry out searches, on behalf of the Office for Harmonisation in the Internal Market (OHIM), of its own register of trade marks in respect of applications for Community Trade Marks (CTMAs).

The Patents Office opted to carry out such searches and commenced that work in 1996. Search requests must be responded to within three months. A minimum fee of €25 is paid by OHIM for each search carried out within the three month period..

During the course of audit in the Patents Office it was noted that less than 40% of requests received from OHIM in the years 1996 to 2000 inclusive were processed and returned to OHIM within the specified time-limit. In particular, less than 1% of over 92,000 requests received in the years 1999 and 2000 were processed.

The estimated fees forgone for the period 1996-2000 amounted to over £2m as shown in Table 37.

Table 37 OHIM Search Request Processing by the Patents Office 1996-2000

Year	Requests Received	Requests Processed	Unprocessed Requests	Estimated Fees Forgone £
1996	2,860	1,124	1,736	34,200
1997	49,247	37,643	11,604	228,400
1998	32,204	28,853	3,351	75,900
1999	44,109	610	43,499	984,7000
2000	48,099	NIL	48,099	1,088,800
Totals	176,519	68,230	108,289	2,412,000

As the failure to process the search requests resulted in an apparent loss of substantial income for the Exchequer (even allowing for any cost that would have been incurred in carrying out those searches) I sought the views of the Accounting Officer.

He informed me that since early 1997, the Patents Office had experienced difficulties processing and returning all the CTMAs received due to the substantial increase in volumes of search requests from OHIM. A factor in this was that the Patents Office, as with all other national Patents Offices, when opting to carry out this searching procedure, had been given no indication that the volume of applications would be so substantial. The IT system then in place was inadequate to deal effectively with the nature of the applications received.

The problem was compounded by a significant backlog in the processing of trademark applications under national law which the Office was trying to reduce. Moreover, the relocation of the Patents Office to Kilkenny in 1998 caused disruption and diverted resources from other tasks.

During the period 1996-1998 the Department had taken steps to ensure that the searching process could continue including dropping all other search work in favour of CTMA searches, utilisation of overtime and adjustment of the search procedures to improve productivity. However, these measures offered only a temporary solution to the difficulties since it was not possible to continue to indefinitely ignore other duties in favour of CTMA searches.

Consequently, in 1999, the Patents Office made a decision to suspend CTMA searching in order to give priority to the work involved in searching and examining national trade mark applications and the OHIM was notified accordingly.

Until the installation of a new IT system in the Office in 2001, the procedures for carrying out the searches for OHIM were dependent on outdated IT systems and manual practices that were highly labour-intensive. A Business Process Re-engineering exercise undertaken in 1998 recommended new processes and structures which envisaged that a reduced staffing complement would be adequate to deal with the Office's workload, including CTMA searching. The new processes and structures were to be supported by new computer systems, including a completely new search system. It was originally expected that the new systems would be in place by end 1998. However, the schedule for the delivery of the new computer systems was delayed. The main system did not go live until late 1999 and the new computerised search system was not received by the Office until December 2000.

The new IT system has enabled the Patents Office to resume CTMA searching in April 2001.

Vote 35 - Tourism, Sport and Recreation

32. Drugs Initiative

Background

In October 1996, the Government accepted the recommendations of a Ministerial Task Force on Measures to Reduce the Demand for Drugs. These included the establishment of a *Cabinet Committee on Drugs* to give overall political leadership, A *National Drugs Strategy Team (NDST)* to ensure effective co-ordination between the Departments and Agencies, and *Local Drugs Task Forces* to develop co-ordinated local responses to the drug problem. The Government also approved an allocation of £10m to support the initiative. Funds were initially provided in the Vote for the Department of the Taoiseach but following the change of Government in July 1997 responsibility for the NDST passed to the Department of Tourism, Sport and Recreation. The NDST is representative of the principal parties concerned with the problem of drug misuse. These include Government Departments, health boards, the Garda Síochána, State Agencies and voluntary and community bodies. The NDST was initially required to ensure effective co-ordination between the Departments and Agencies involved in responding to the problem and to oversee the setting up and operation of the local drugs task forces (LDTFs).

Thirteen LDTFs were established between October 1996 and May 1997. Their remit includes contributing to the formation of national policy on drugs and the development of local strategies to tackle the problem, through a partnership approach involving the statutory, voluntary and community sectors. With regard to the Initiative, their primary role is to

- assess the extent and nature of the drug problem
- receive, review and recommend drugs related projects for funding as part of the process of preparing local strategies to address the problem
- oversee and monitor the implementation of projects approved.

Drugs Initiative funds are paid from the Department of Tourism, Sport and Recreation to other Departments and agencies; principally the Departments of Education and Science; Health and Children; Environment and Local Government; Justice, Equality and Law Reform; The Eastern Regional Health Authority (ERHA); The Southern Health Board; Area Development Management Ltd (ADM) and FÁS. Table 38 shows the distribution of funds by programme type between October 1997 and April 2001. An additional £281,000 was made available to LDTFs to meet administration costs. This is channelled through the local partnership network of ADM.

Table 38 Analysis of Allocations by Programme type October 1997 to December 2000

Programme Type	No. of Projects	£
Education and Prevention	124	8,605,804
Treatment and Rehabilitation	61	7,022,922
Combination Projects ²⁰	13	2,043,180
Supply and Control	9	390,550
Research and Information	11	209,904
Other	13	715,917
Total	231	18,988,277

²⁰ Projects combining elements of Education, Prevention, Treatment and Rehabilitation Source: NDST

Table 39 shows the number of projects sponsored by each of the 13 LDTFs and the amounts of money allocated in both the original and subsequent allocations.

Table 39 Analysis of Funding of LDTFs October 1997 to December 2000

Task Force	No. of Projects	Original Allocation £	Additional Funding £	Total Funding £
Ballyfermot	33	902,000	203,717	1,105,717
Ballymun	14	625,000	828,324	1,453,324
Blanchardstown	11	732,990	1,019,647	1,752,637
Canal Communities	14	800,000	1,134,779	1,934,779
Clondalkin	16	923,000	684,932	1,607,932
Cork	21	546,700	431,703	978,403
Dublin North East	8	707,200	637,583	1,344,783
Dublin 12	12	616,000	278,000	894,000
Dun Laoghaire- Rathdown	19	582,865	555,738	1,138,603
Finglas/ Cabra	15	696,500	769,904	1,466,404
North Inner City	26	749,730	1,258,861	2,008,591
South Inner City	23	966,220	779,125	1,745,345
Tallaght	19	675,700	882,059	1,557,759
Totals	231	9,523,905	9,464,372	18,988,277

Objectives and Scope of Audit

The primary objectives of the audit were

- to review overall management and control of the Initiative
- to review effectiveness in the context of projects funded

Departmental files relating to the Initiative were reviewed. Discussions took place with the Department's representative on the NDST. Meetings were also held with the Departments of the Environment and Local Government and Education and Science, City of Dublin Youth Service Board, the ERHA and the Chairmen and Project Co-ordinators of two LDTFs. A number of drugs projects that received funding were visited and a sample of project expenditure was examined. The NDST also provided information and responses.

Audit Findings

Management of the Initiative

While representatives of six Departments, the Garda Síochána, the ERHA and FÁS were seconded on up to a half-time basis to the NDST no administrative support was provided to the NDST initially. A secretary was made available in July 1997 and in July 1998 an Administrative Officer was seconded to the NDST from the Department of the Taoiseach. Requests by the NDST for additional administrative support from the participating Departments and Agencies have been unsuccessful. The Department of Tourism, Sport and Recreation point out that consultants who evaluated the Drugs Initiative in October 1998, while confirming the initial resource problems, were of the opinion that the NDST subsequently had adequate administrative support.

The NDST did not set formal deadlines for receipt of project plans. LDTFs were expected to identify suitable projects, find persons to undertake them and ensure that plans were submitted as soon as possible to the NDST. Following initial vetting by LDTFs between March and November 1997 the NDST considered these plans in two phases, between May and December 1997. The initial vetting and screening procedures used by LDTFs ensured that few projects were rejected for funding.

It was intended that projects would be funded for one year and then independently evaluated. Subsequently the NDST would recommend successful projects for direct funding by the appropriate state agency (a procedure known as "mainstreaming"). However, projects did not get off the ground to the extent necessary for proper evaluation, as quickly as was hoped, and the Government approved continued funding. Project evaluations took place towards the end of the year 2000 some 3 years after the effective commencement of operation of projects funded under the Initiative.

Overall Costs

Not all allocations have been drawn down, as the timing of drawdown is dependent on the cash flows of individual projects and the administrative arrangements of the implementing agencies. Table 40 shows the position at 31 December 2000.

Table 40 Calculation of Amounts not yet paid to Projects at 31 December 2000

	£	£	£
Allocations Approved by NDST			19,241,000 ¹
Allocations Drawn Down	17,787,000		
Advances by Implementing Agencies to Projects ²	546,000		
Balances on hands in Implementing Agencies	(604,000)		
Net Allocations drawn down		17,729,000	
Allocations not paid to Projects at 31 December 2000			<u>1,512,000</u>

¹ Development funds amounting to £253,000 which were not included in LDTF action plans, are included in this figure to assist comparison of amounts shown.

² Certain agencies advanced funds to projects in anticipation of drawing down from the Vote for Tourism, Sport and Recreation

When account is taken of the balances with implementing agencies at 31 December 2000, the remaining funds not yet drawn down from the Vote for Tourism, Sport and Recreation represent in the main projects that did not start or which had not yet developed to the extent necessary for full draw down.

In addition to the £17,787,000 drawn down from the Department, an additional £1,120,000 was paid in respect of once-off allocations for specific drugs projects. These projects are outside the action plans of the LDTFs which are the subject matter of this report.

The NDST estimates that 70 % of total funding is used to meet the payroll costs of projects.

Associated Costs of the Initiative

The value of services provided to projects, apart from the amounts charged to the Vote, is significant. The ERHA estimates its contribution in respect of accommodation and administrative support at £1.3m over the 4-year period. FÁS estimates its contribution at about £4.8m per annum. It has allocated 1,000 places under its Community Employment Scheme to recovering drug addicts. Services provided voluntarily by individuals and groups throughout the LDTF areas are also significant. These have been quantified in some cases *e.g.*

volunteer time for Internet learning activities in City Quay (£52,500), provision of accommodation by Dublin Corporation for the Urrús and Springboard projects (£9,360) and services for the Springboard project (£9,000).

Accounting and Control

Funding guidelines were prepared by the NDST and issued to the Chairpersons of LDTFs and the relevant statutory agencies in August/ September 1997. However, the NDST has identified the need for updated funding guidelines which are now being developed. At the time of audit the NDST financial records of funding to individual LDTFs and projects were written up only to 30 June 1999. The NDST attributed this to a lack of staff resources in its office. The records were subsequently written up to 6 April 2001 before the audit ended. All projects are required to provide a copy of their latest externally audited project accounts to the relevant funding agency annually. No matters have been brought to the attention of the NDST arising from review of those audited accounts.

Formal contracts were not concluded between the funding agencies and those undertaking projects due to the perceived fear at NDST level that such arrangements would detract from the effectiveness of the projects by over-formalising an already difficult process. It is intended that such contracts will be a feature where funding is incorporated into the annual budgets of implementing agencies in respect of projects which have been mainstreamed.

While rigorous internal control structures could have adverse cost impacts and may be difficult for very small organisations, some deficiencies were noted which should be considered by the NDST as soon as practicable. They include: a general lack of segregation of duties, particularly as regards approving invoices, signing cheques and reconciling bank statements to the financial records; lack of evidence of bank reconciliation, and the retention of cheque books and accounting records in individuals' homes. There is a general absence of contracts of employment for project employees. In a small number of instances expenditure was not properly supported by relevant documentation. Some evidence of project employees transferring to other projects offering higher rates of pay was noted.

LDTF Co-ordinators

Each LTDF in the Greater Dublin Area has been assigned a co-ordinator recruited by the ERHA. These co-ordinators are full-time, permanent employees of the ERHA and cost £300,000 annually which is not recouped from Initiative funds. The fact that they are simultaneously permanent employees of the Health Authority and serving the interests of their Task Force may give rise to some difficulties. For example co-ordinators may be involved in both the preparation and approval of draw down requests which are being funded through the Health Authorities to which they belong. While this may restrict their scope to act in an independent or critical manner there was no evidence that this conflict had manifested itself in any way. No evidence was noted of systematic financial checks or inspections of projects, carried out independently, by the funding agencies or by project co-ordinators.

The Role of Agencies and other Departments

The NDST and the Department of Tourism, Sport and Recreation expressed the view that responsibility for exercising financial control over the projects rested with the funding agencies. However, many of the funding agencies in turn used other agencies within their remit to channel funding to projects. This has led to a distancing of accountability for Initiative funding from the responsible Department.

The funding received under the Initiative by the Department of the Environment and Local Government was drawn down by Dublin Corporation, as is required for projects under the Department's aegis. The Department did not routinely ask for, nor did Dublin Corporation provide, evidence that the funding was required at the time requested. The Department has not carried out on-the-spot checks or inspections of the projects for which it is the funding agency. It has not received or requested reports from Dublin Corporation regarding the efficiency and effectiveness of the projects themselves.

The Department of Education and Science transfers Initiative moneys to four Vocational Education Committees- City of Dublin VEC (CDVEC), County Dublin VEC, Dún Laoghaire VEC and City of Cork VEC. In the case of CDVEC, the moneys are transferred on foot of requests received by it from the City of Dublin Youth Service Board (CDYSB) which is a statutory sub-committee of the CDVEC. The CDYSB makes the requests following receipt of LDTF drawdown forms. However, the CDYSB has never inspected Initiative projects for which it is responsible. Likewise the Department of Education and Science has not undertaken on-the-spot checks nor has it sought or received reports from the CDYSB regarding the activities of Initiative funded projects. The CDYSB has indicated that it is not in a position to operate to the standards that it applies to the administration of other funds because of staffing levels. No allocation of funding was made available for the appointment of staff to administer the Initiative.

The Department of Health and Children was represented on the NDST and was expected to be one of the funding agencies for the Initiative. However this Department only accepted one tranche of funds from the Department of Tourism and Sport in November 1997. It returned a later payable order because it was unable to take responsibility as the agent of the Department of Tourism, Sport and Recreation. The financial procedures operated by the Department of Health preclude acting as an agent. Accordingly the Department forwarded the first tranche to the Eastern Health Board (now the ERHA) which thereafter performed the agency function.

The Department of Justice, Equality and Law Reform channels payments through the Garda Síochána and the Probation and Welfare Service representatives on LTDFs. It does not request reports from its local representatives as to the progress of the projects funded. The Department has indicated that both agencies have clear procedures in place for monitoring all payments made to community based projects so it has not directed them to exercise any form of financial inspection or control over funds utilised by projects.

None of the agencies sampled has ever formally requested quarterly returns from either the projects themselves or from the LDTFs. It was a condition of grant to projects that quarterly accounting returns would be submitted to funding agencies.

Assessing Effectiveness in the context of Project Evaluations

No specified objectives or targets were set for the Initiative. The NDST did not set targets for reductions in the levels of drug abuse. In particular, no performance measures for effectiveness of projects were established. The NDST believed that a speedy and appropriate response was required to counter the hostility and suspicion that existed in communities in LDTF areas at the time. Measurement of the reduction or otherwise of opiates use in the areas covered by the LDTFs would have been a key indicator of the success of the Initiative. However, neither the NDST nor the LDTFs considered it appropriate to delay the introduction of programmes and services in order to devise performance indicators. In any event, the NDST expressed the opinion that there are no generally agreed studies or statistics against which to measure success.

Although the Initiative received Government approval in October 1996, the first projects started in October 1997. By end-1997, 43 projects were underway and by end-1998, 143 projects were established. In 1999, 18 projects started and a further 26 projects got off the ground in 2000. The NDST attributes these delays to

- local opposition to the introduction of drugs related projects
- difficulties in recruiting and retaining suitably skilled personnel
- a lack of suitable premises from which projects could operate.
- the difficulty in identifying and organising local groups to manage projects in areas where community structures were underdeveloped

The Department of Tourism, Sport and Recreation has advised me that £10m has been allocated towards a premises Initiative to provide suitable accommodation in local areas for Task Force operations and that as part of a new drugs strategy, by 2002 all Health Boards, in considering the location and establishment of treatment and rehabilitation facilities, must develop a management plan with local communities.

The ERHA believes that the Initiative supported the introduction of drug treatment facilities into areas which would otherwise have been virtually inaccessible. The ERHA also believes that these facilities would not have been made available but for the Initiative.

Evaluation of Projects

Consultants evaluated 140 of the 231 projects approved for funding although a number of the approved projects were subsequently merged. The evaluation process resulted in 129 being mainstreamed. The NDST records showed that a further 42 projects were not evaluated because they were:

- one-off projects which did not warrant evaluation (23)
- delayed projects which had not advanced to a stage suitable for evaluation (10)
- planned projects which never started, or, once started, never progressed (6)
- projects which had been discontinued (2)
- one project which, though ongoing, is funded on a needs basis (1).

A recommendation for a project to be incorporated into the annual budget of an implementing agency is an indicator of the long-term benefit of a project to the community in which it is established. The cost of such projects is estimated at £8,688,000 per annum.

Table 41 shows the number of projects mainstreamed by LDTF area.

Table 41 Number of NDST Approved Projects Mainstreamed

Local Drugs Task Force	No. of Projects	Mainstreamed²¹
Ballyfermot	33	12
Ballymun	14	10
Blanchardstown	11	9
Canal Communities	14	8

²¹ Note: Some further projects are currently being evaluated. The number incorporated into the budgets of implementing agencies is likely to increase as a result.

Clondalkin	16	12
Cork	21	13
Dublin North East	8	8
Dublin 12	12	6
Dún Laoghaire- Rathdown	19	14
Finglas/ Cabra	15	8
North Inner City	26	5
South Inner City	23	11
Tallaght	19	13
Totals	231	129

Of the 140 projects evaluated by consultants, five were merged into other projects, while six were not recommended for mainstreaming. The total cost of these was £53,940. Among other reasons, projects were not mainstreamed because of:

- Inability to attract staff with the necessary skills and experience due to the relatively low remuneration and the lack of continuity of funding ("Mediation Support Service" - South Inner City Task Force)
- Classification as a discrete, one-off training activity ("Community and Teachers, Leaders in Drug Prevention" - Ballyfermot Task Force area)
- Organisational difficulties including significant staff turnover and difficulties in obtaining copyrights to course materials ("Coolmine Community Support Group" - Blanchardstown Task Force)

An independent evaluation of the Drugs Initiative by consultants, published in October 1998, found weaknesses and deficiencies in the supporting structures and in control over projects. A key weakness was the absence from the LDTFs of Department of Education and Science representatives. This gap hampers LDTFs when discussing drugs matters in relation to local schools. According to the NDST this deficiency will be addressed in the context of a recent Government approval for structural reform of the Department of Education and Science with the establishment of a framework of local Offices. That Department is committed to providing representatives to sit on LDTFs by the end of 2001.

The funding agencies sampled in this audit were not formally consulted prior to the evaluation process. Neither were they asked for their opinions on those projects recommended or rejected for mainstream funding.

The total amount paid or committed for evaluation of the Initiative itself, or of projects funded under it, is £262,724, of which £239,244 had been expended in the period 1997 to end 2000. Most of this expenditure, £167,240, was paid to evaluators and consultants for the evaluation of specific projects. Consultants were paid £88,930 for evaluating the LDTFs and the Initiative as a whole. Miscellaneous evaluation expenditure amounted to £6,554.

Specific Projects

The audit team visited 7 projects that had been evaluated for mainstreaming and one that had not. While each project was established with differing objectives, a number of general observations regarding the operations and effectiveness of activities funded under the Initiative may be made.

- Projects are not following up the progress of past participants in the community, to the extent

desirable, to produce meaningful feedback for fine-tuning the Initiative in future. Contact with such participants tended to be informal and unfunded by the Initiative.

- The level of potential participation in projects was either unknown, or not established, in a number of cases. In the absence of targets against which to measure performance, it is not possible to indicate the overall success of projects.
- A number of projects complained of inability to recruit and retain suitably qualified staff. This presented difficulties for projects in achieving their objectives.

The following is a short summary of observations on the specific drugs projects visited

Aisling (Ballymun LDTF)

The objectives of the project were to provide a school based support for children of the area who are or may be at risk due to their family involvement with drugs. Over £97,000 was provided under the Initiative, with £114,000 being provided under an EU scheme and from other sources.

With a school year capacity of 52 children, ranging in ages 8 to 12 year old, almost all of the places available have been taken up. The project evaluator indicated that a further 50 children were on the waiting list for places.

The evaluator listed a number of positive outcomes of the project including prevention of school drop-out, and increases in self-esteem for the children concerned.

Community Response (South Inner City LDTF)

The project aimed to train local people to participate in the development and delivery of local drugs services. The project drew down £92,000 under the Initiative. However, due to substantial delays reported by the project in drawing down funds, it was subsidised by its parent body for about 3 months in 1998. During this time, the project was unable to recruit employees for approximately 5 months. Sixteen people successfully completed the first training course.

City Quay and Westland Row Youth (South Inner City LDTF)

This project drew down almost £81,000 in the period concerned to provide a youth worker and support services to educate young people in the area on the drugs issue.

As the project is a sub-activity of the overall St. Andrew's Resource Centre in the area, there was no separate evaluation of the work of the employee recruited.

Gateway (South Inner City)

The project is integrated into the Merchant's Quay Project. It received £208,000 in Initiative funding with an objective of allowing chaotic drug users to access treatment. Each programme in the project runs for 12 weeks.

Set up to cater for 15 participants, at its commencement in 1998 the project has reported a high participation rate of 14 at the end of 1999 with a low of 9 at the end of 2000. The project was set up to service the South Inner City area and this has had an adverse impact on client numbers attending. Also, an average attendance, initially recorded as 45 days, had fallen to 13 days per client a year later.

Promotional Campaign (Ballymun LDTF)

The overall objective of the project was to inform people in the area about the drugs issue. The project drew down £30,000 from the Initiative. At the time of examination, the project had not been evaluated.

Ringsend and District Response to Drugs (South Inner City LDTF)

The aim of the project was to provide a drug-free rehabilitation centre. It drew down £192,000 up to the end of 2000. The funding supports one project co-ordinator and one project worker, together with associated administration costs. Of 52 participants in total, 18 have succeeded in gaining full-time employment.

The evaluator of the project noted that there has been a history of internal conflict and local opposition which constrained development. The evaluator also recommended that the LDTF should provide more effective support to the project.

Springboard (Ballymun LDTF)

£217,000 was drawn down by this project to the end of 2000. It was established to support drug-users who had not yet presented for treatment and ERHA waiting list clients. However, due to lack of support from the ERHA, the objectives were re-evaluated to provide a community support to individuals who were linked to existing services.

The project promoters did not know the size of the potential client base, being able to record only those contacted. Statistics were only available for 1999 which showed 95 males and 187 females contacted by the project workers.

Urrus Addiction Training for Adults (Ballymun LDTF)

Through drugs training courses, the project teaches skills to area residents closest to people affected by drugs. A target participation rate was not set by the project, however, although a benchmark for success was stated to be the number of participants and applicants for the courses.

Since funding commenced, 1256 participants have been served by the project, including 822 parents, 32 young people and 402 community professionals. The evaluator noted that there was a shortage of quality and continuously available staff.

Conclusions

The Drugs Initiative was conceived by Government as an innovative response to a major social problem requiring a co-ordinated response from several Government Departments and Agencies and the Social Partners. It has been in operation for a relatively short period of time and this inevitably presents difficulties in assessing its impact. Nonetheless some general comments on its operation to-date can be made.

- The high number of projects which were recommended for incorporation into the annual budgets of implementing agencies is indicative of the overall success of the Initiative
- Inadequate consideration was given as to how the effectiveness of the Initiative would be measured.
- Lead in times for many projects were long due to local community resistance, a shortage of skilled staff and a shortage of suitable accommodation for projects.
- Administrative and financial control arrangements were inadequately considered prior to funding.
- Funding agencies did not exercise sufficient financial management and control over projects.
- The channels used to fund projects appear to be excessively complex and should be reviewed with a view to simplification.
- This complexity has distanced the Department from its accountability for funding of the Initiative.

Observations of the National Drugs Strategy Team

It is the NDST view that many of the accounting and control deficiencies highlighted in the report arise primarily from a lack of clarity between the NDST, Department of Tourism, Sport and Recreation and the

funding agencies in relation to their respective roles in administering the funding under the Drugs Initiative.

Many of these deficiencies had been identified prior to the Comptroller and Auditor General's examination and appropriate steps are being taken to address them. In addition, the roles of the various players in administering the funding under the initiative are being reviewed in a detailed review of the operation of the Local Drugs Task Forces, which has now commenced, as well as a joint review of the NDST and the Drugs Strategy Unit of the Department of Tourism, Sport and Recreation, which is about to get underway.

The NDST point out that the arrangement whereby funding is channelled to projects through relevant State Agencies was designed to facilitate the subsequent "mainstreaming" of the projects. This arrangement ensures that the projects and the State Agencies, which will eventually take over responsibility for their funding, establish a relationship from the outset. It was the NDST's understanding that the funding agencies should take a "hands on" role in assisting the setting up and running of projects during their pilot phase, so that when they are "mainstreamed" the relationship is well established. However, the NDST acknowledge that there was some confusion as to how this role should be carried out.

Apart from the reasons outlined in the report as to why targets were not set when the Initiative was being established, the NDST re-emphasises the difficulties involved in setting such targets.

Drug misuse is a complex phenomenon. At European level each Government is working on developing indicators of problem drug use. When these indicators are fine tuned and applied it will be easier to set targets to measure effectiveness.

Furthermore, research consistently shows a direct correlation between opiate abuse and social and economic disadvantage. The majority of drug misusers left school early, are unemployed, come from dysfunctional backgrounds and have a criminal record. The Drugs Initiative is just one part of a wider response to address these issues and its success, in terms of drug reduction, is dependent on the successful implementation of a range of related initiatives.

Notwithstanding this, arising from the evaluation of the Local Drugs Task Force projects, a manual has now been developed for community groups on the planning, implementation and evaluation of drug related projects. The manual, which advises on the systems which should be put in place to eventually measure the effectiveness of the projects will be disseminated to all projects developed under the original and new Local Drugs Task Force plans.

The NDST acknowledge that the individual projects examined in the report are a representative sample from two Local Drugs Task Force areas. The NDST point out that the overall report on the 140 projects that were evaluated found "the projects were providing a very wide range of activities and were reaching large numbers of people. Despite difficulties related to premises, staffing and funding, two thirds of the projects appear to have delivered what they set out to do and half of them said they were providing additional services/activities not included in the original plan".

Observations of the Department of Tourism, Sport and Recreation

The Department takes the view that its role is to monitor the NDST's progress against stated Government Policy objectives for the Initiative, and to manage the issue of funds voted by the Oireachtas for the Initiative, as approved by Government and having regard to advices from the NDST.

The Department points out that each statutory agency should be responsible for complying with normal accountancy procedures in relation to the funds allocated to it and the Local Drugs Task Force handbook identifies the role of the agency as to see that the conditions under which the funding has been approved are complied with, prepare aggregate monthly profiles of expenditure for submission to the NDST and provide the NDST with periodic reports of income and expenditure as appropriate.

This clearly delineates the role of the various bodies and establishes that primary responsibility for ensuring compliance with the relevant regulations rests with the funding agency. The Department proposes raising the issues highlighted in my report in relation to financial management with the relevant funding agencies and the Team, in the context of the issue of future funds for the Initiative.

Vote 40 - Social, Community and Family Affairs

33. 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 £2.70bn and £2.36bn respectively in 2000.

Table 42, Table 43 and Table 44 outline overall expenditure on various schemes over the period 1996 to 2000, 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 1996.

Table 42 Scheme Expenditure

	1996	1997	1998	1999	2000
	£m	£m	£m	£m	£m
Social Insurance	1,794	1,842	1,983	2,111	2,357
Social Assistance	2,399	2,491	2,567	2,614	2,698
Total	4,193	4,333	4,550	4,725	5,055

Table 43 Number and Amount of overpayments recorded for recovery (Numbers shown in brackets)

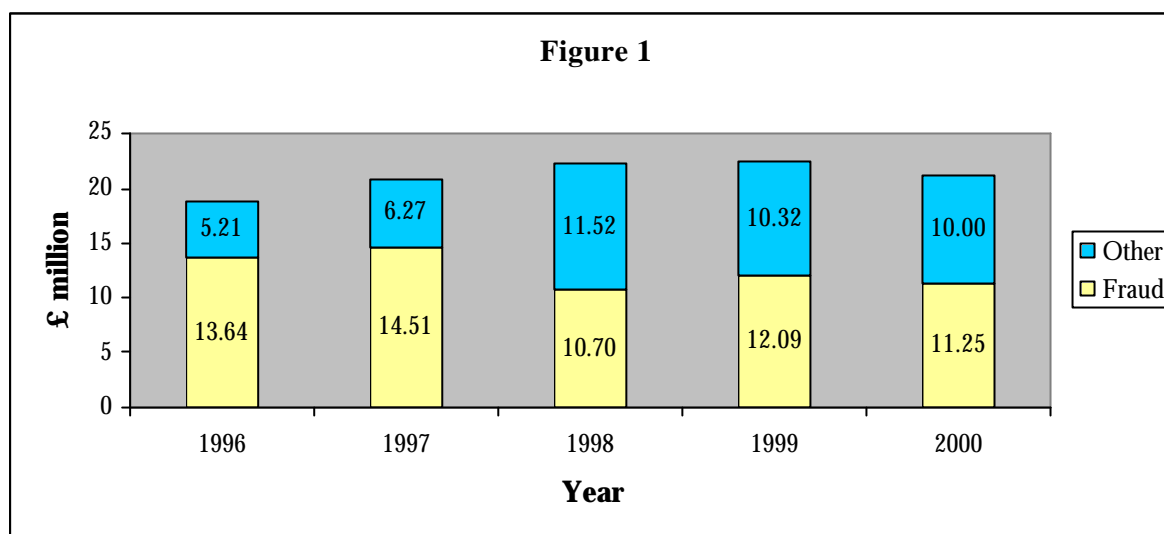
	1996	1997	1998	1999	2000
	£m	£m	£m	£m	£m
Social Insurance	4.12 (12,366)	4.48 (12,925)	4.14 (13,897)	6.03 (18,080)	5.03 (15,252)
Social Assistance	14.73 (20,243)	16.30 (21,759)	18.08 (22,054)	16.38 (21,346)	16.22 (18,110)
Total	18.85 (32,609)	20.78 (34,684)	22.22 (35,951)	22.41 (39,426)	21.25 (33,362)

Table 44 Number and Amount of overpayments attributed to fraud or suspected fraud (Numbers shown in brackets)

	1996	1997	1998	1999	2000
	£m	£m	£m	£m	£m
Social Insurance	2.23 (3,074)	2.01 (3,271)	2.16 (4,810)	2.53 (5,821)	2.67 (5,159)
Social Assistance	11.41 (7,486)	12.50 (7,914)	8.54 ²² (9,383)	9.56 (9,273)	8.58 (7,466)
Total	13.64 (10,560)	14.51 (11,185)	10.70 (14,193)	12.09 (15,094)	11.25 (12,625)

The amount of overpayments attributed to fraud or suspected fraud compared to total overpayments since 1996 is summarised in Figure 1

²² 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 Departments record of recovery of overpayments during the period 1996 –2000 is shown in Table 45.

Table 45 Departments record of recovery of overpayments 1996 to 2000

	1996 £'000	1997 £'000	1998 £'000	1999 £'000	2000 £'000
Overpayments not disposed of at 1 January	31,423	35,082	37,579	42,229	47,712
Overpayments recorded for recovery	18,853	20,781	22,221	22,405	21,250
less					
over payments recorded in prior years cancelled	(430)	(301)	(378)	(230)	(352)
sums recovered in cash	(4,399)	(4,638)	(5,335)	(4,059)	(5,878)
sums withheld from current entitlements	(3,311)	(4,274)	(3,880)	(3,307)	(3,937)
net amounts written off as irrecoverable	7,054	(9,071)	(7,978)	(9,326)	(8,077)
Overpayments not disposed of at 31 December	35,082	37,579	42,229	47,712	50,718

34. 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 2000, 263 criminal cases (1999- 329 cases) and 6 civil cases (1999 - 9 cases) were forwarded to the Chief State Solicitor's Office for prosecution as shown in Table 46.

Table 46 Criminal cases forwarded to the Chief State Solicitor

	1999	2000
Unemployment Assistance	171	164
Unemployment Benefit	77	56
Disability Benefit	27	8
Invalidity Pension	1	1
One Parent Family Payments	10	8
Other Schemes	3	4
Offences Committed by Employers	40	22
Total	329	263

A total of 185 prosecutions (1999 - 107 prosecutions) involving social welfare recipients were finalised in court in 2000. The total amount of overpayments assessed in cases of persons who attempted to or obtained benefits/assistance fraudulently was £666,759 (1999 £426,078). The results of these 185 court cases and the penalties imposed are given in Table 47.

Table 47 Results of Court Cases involving Social Welfare Recipients

	Fines Imposed ²³	Community Service	Imprisoned ²⁴	Probation Act	Proven No Penalty
Unemployment Assistance	51	4	22	26	7
Unemployment Benefit	33	1	4	8	4
Disability Benefit	10	1	2	1	-
Invalidity Pension	1	-	-	-	-
One Parent Family Payments	5	-	2	1	-
Other Schemes	-	-	1	1	-
Total	100	6	31	37	11

The prosecution of 28 cases involving employers (1999 - 37 employers) were also finalised. The results of these court cases and the penalties imposed are given in Table 48.

Table 48 Results of Court Cases involving Employers

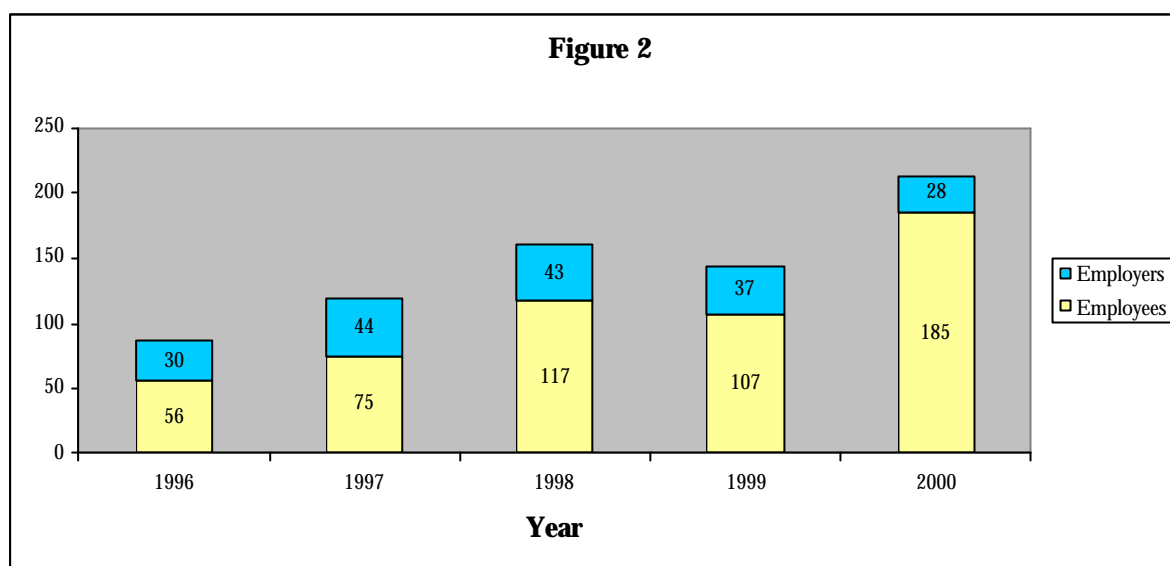
	2000
Cases Fined ²⁵	22
Prison Sentence	1
Probation Act	2
Proven/No Penalty	3
Total	28

There were no civil cases finalised in 2000 (1999 -zero cases). The number of prosecutions finalised in the courts since 1996 is summarised in Figure 2.

²³ Fines to a value of £27,269 were imposed by the courts (£9,728 in 1999 in 41 cases)

²⁴ 23 subsequently suspended

²⁵ Fines to the value of £7,910 were imposed by the courts (1999: £10,006 in 37 cases)



35. Scheme of Community Support for Older People

Introduction

Extended media coverage in 1995 of violent random attacks on elderly people in their own homes focused attention on the need for official action. This resulted in two initiatives.

- The introduction, in the 1996 Budget, of income tax relief in respect of the cost of installing security alarms in their own homes for persons aged 65 and over living alone. The work had to be undertaken between 23 January and 5 April 1996 and the maximum relief available was £800.
- The establishment by the Minister for Social, Community and Family Affairs of a Task Force to make recommendations to him by the end of February 1996 as to how the security needs of elderly people, who would not benefit from an income tax relief scheme, might be urgently and effectively addressed.

The Minister's Task Force comprised representatives of five government departments (Finance, Environment and Local Government, Health and Children, Justice, Equality and Law Reform and Social Community and Family Affairs), the Garda Síochána, the Irish Farmers' Association, SIPTU, Muintir na Tíre, the Irish Security Industry Association and the National Council for the Elderly.

Submissions to the Task Force highlighted the need for active community involvement in providing security for the elderly. The Task Force accepted the value of community based efforts in solving the problem and wished to see such efforts encouraged in every way possible.

The Task Force concluded that:

- There was a need for some mechanism to provide assistance for elderly people who could not benefit from the tax relief measures.
- A scheme on similar lines to the scheme for the Support of Voluntary and Community Groups administered by the Department of Social, Community and Family Affairs through its regional

structure was a viable option.

- Resources should be made available to voluntary groups to subsidise small scale security work and the installation of alarm monitoring devices in the homes of elderly people who were identified as being particularly at risk.

The Government accepted the Task Force's recommendations and in March 1996 approved the introduction of a Scheme of Community Support for Older People including the provision of £2m to fund security measures.

Administration of the Scheme

The purpose of the scheme is to provide funding for initiatives to improve security and social support for vulnerable older people. Vulnerability is defined in terms of advanced age, disability, isolation (social or otherwise) or having been previously the victim of crime.

The Department's Voluntary Community Services Section has overall responsibility for the scheme. They advise on policy and advertise the scheme nationally. They also agree an overall budget with the Department of Finance and allocate it to the Department's ten regions in proportion to each region's share of the over 65 population as determined by the 1996 census as shown in Table 49.

Table 49 Basis for Allocation to Regions

Region	Population 65 and over	Percentage
Eastern ²⁶	125,271	30
Midland	33,582	8
Mid West	37,480	9
North East	34,812	9
North West	29,395	7
South East	46,590	11
Southern	66,127	16
Western	40,625	10
Total	413,882	100

Applications, which are invited annually, are processed in the Department's regional offices where decisions are made as to which groups will be supported and the amount of grant to be given. At the year-end each regional office provides statistics on numbers of applications received, numbers and amounts of grants made and the number of individuals assisted.

Details of the Scheme

The scheme is project based and applications are only accepted through voluntary or community based organizations working with or providing support for vulnerable older people. Grants are not paid to individuals. This approach is intended to encourage the pooling of resources and to emphasize community involvement in protecting the elderly. End beneficiaries must be aged 65 or over, living alone or living in households made up exclusively of older people or of older and other people who are dependent and

²⁶ Dublin North, Dublin South and Dublin West

vulnerable. They must also be unable to install or purchase the necessary equipment themselves to benefit from the scheme. The following projects may be funded

- Small scale security work such as strengthening of doors and windows, and the fitting of window and door locks, door chains and security lighting
- The once-off cost of installing Socially Monitored Alarm Systems (SMAS). These are systems where an alarm is activated by pressing a button normally held on a pendent around a person's neck. This sends a signal to a monitoring station or to a family member or neighbour. Annual monitoring or maintenance fees for such systems are not covered by the scheme and must be borne by the individual beneficiary.

The scheme does not apply to the provision of conventional intruder alarms.

In general, grants to voluntary organizations should cover 50% of total costs but grants up to 90% may be made. Furthermore, grants must be spent and accounted for within three months of receipt and recipients must provide a list of beneficiaries. Grant recipients must also provide

- an Income & Expenditure Account showing clearly the receipt of the Department's grant
- receipts and vouchers to the total value of the grant
- a statement signed by the Chairperson and Treasurer to the effect that the grant was used for the purposes for which it was made
- an auditor's certificate confirming that the terms of the grant were met in respect of grants over £10,000.

Key Statistics

Almost £19m has been expended on the scheme in the five years 1996 to 2000. The Department considers that demand for the scheme may now be levelling out. Table 50 shows that some 82,000 individuals were assisted under the scheme to end 2000 while Table 51 gives details by region of applications and actual expenditure for the year 2000.

Table 50 Total Expenditure on Scheme

Year	Amount £	Groups	Individuals
1996	2,562,680	528	14,944
1997	4,824,159	839	21,783
1998	4,992,631	1,020	21,000
1999	2,963,124	619	12,444
2000	3,175,989	571	12,038
Total	18,518,730	3,577	82,209

Table 51 Expenditure by Region 2000

Region	Total Allocation £	Applications Received	Number of Grants Paid	Amount Approved £	Amount Paid £
Dublin North ²⁷	1,513,000	12	10	69,114	342,194
Dublin South ²⁸		27	26	203,831	257,440
Dublin West		30	28	213,407	213,407
Midlands	405,500	63	59	291,706	291,706
Midwest	453,000	72	72	465,297	465,297
North East	420,500	79	77	305,099	305,099
North West	355,000	70	70	297,894	280,344
Southern	799,000	96	84	434,393	434,393
South East	563,000	71	52	151,735	151,735
Western ²⁹	491,000	101	93	409,309	434,374
Total	5,000,000	621	571	2,841,785	3,175,989

Audit Objective and Scope

The audit objective was to assess the performance of the Department's Voluntary and Community Services Unit and the Department's ten Regional Offices in administering the scheme. The quality of grant decisions and the subsequent steps taken to ensure that grant recipients were complying with all conditions of the scheme were of particular interest. The question of whether or not the scheme was equally accessible to qualifying persons in different parts of the country was also addressed.

Departmental papers such as the minutes of the Advisory Committee for the scheme, a Consultancy Report of April 1999 commissioned by the Department and various statistics on grant payments were reviewed. The Department's procedures and systems for implementing and monitoring the scheme were documented and tested. This latter involved an audit of the central Voluntary and Community Services Unit in Dublin and four of the Department's ten regional offices (Dublin North, Southern, North Western and Midland). A sample of files for payments in 1999 was examined in these four regions to ascertain if grant recipients had complied fully with the terms and conditions of the grant.

Inspections under powers granted to me under Section 8 of the Comptroller and Auditor General (Amendment) Act, 1993 were carried out in respect of the largest recipients of grants in the North West and Midland regions. These were St Vincent de Paul, Mohill and Helplink South, Athlone.

Audit Findings

Overview

The main strengths of the scheme are the committed voluntary effort of community groups who administer the scheme at local level and the non-bureaucratic approach of the Department. In general, local groups have acted diligently in the discharge of their functions under the scheme and the audit confirmed that funds were properly disbursed.

²⁷ £273,080 was approved in 1999 and paid in 2000

²⁸ £53,609 was approved in 1999 and paid in 2000

²⁹ £25,065 was approved in 1999 and paid in 2000

Targeting of Funding

The scheme was intended to target elderly people who were identified as being particularly at risk -- those who are vulnerable in terms of advanced age, disability and isolation whether social or otherwise. However, in practice anyone aged 65 or over who is living alone or in a household made up exclusively of older people, generally benefits from the scheme. The availability of surplus funds arising from underspends across the regions in 1999 and 2000 (as shown in Table 52) may be a contributory factor to the unofficial widening of the scope of the scheme.

Table 52 Percentage of allocation expended by region 1998 - 2000

Region	2000 % Spent	1999 % Spent	1998 % Spent
Eastern	54	26	100
Midlands	72	80	100
Midwest	103	131	100
North East	73	84	100
North West	79	59	99
South East	27	31	100
Southern	54	63	100
Western	88	82	100
Total	64	59	100

Grant Levels

Payments towards the cost of installing security were intended to cover 50% - 90% of total costs, depending on circumstances. In practice, the maximum grant of 90% is invariably paid. Again, this appears to be an unintended effect of the scheme arising from the surplus funds available.

Monitoring Committees

The spread of benefits of the scheme depends to a large extent on the existence of active voluntary and community groups which are willing to participate in the scheme. Partly because of the attendant risk that the scheme would apply unevenly in regions, the National Advisory Committee recommended the establishment of regional monitoring committees to consider how best to achieve coverage in all areas of a region and to assist in assessing grant applications. It was also envisaged that the committees would provide a forum in which practical issues that arise locally could be dealt with. In two of the regions visited on audit, there was no monitoring committee.

Administrative Controls

The Department's administrative controls did not provide reasonable assurance that

- eligibility criteria are being correctly applied by groups
- grant aided equipment had been installed as claimed
- groups apply fair and best value procedures in their choice of suppliers and installers
- grants are only paid when groups have properly accounted for prior year grants
- expenditure under the scheme was being systematically monitored.

Major Supplier of SMAS

It was estimated in 1999 that approximately 50% of expenditure under the scheme was incurred on the supply and installation of SMAS equipment. During 2000, a Dublin based registered charity emerged as the dominant vehicle for channelling SMAS services to the elderly under the scheme. Applications for £930,162 were received in 2000 through this charity.

By 31 December 2000 £407,981 had been paid in respect of these applications and this figure had increased to £480,464 by 30 May 2001. Table 53 shows changes in the amounts of assistance to the elderly being channelled through this charity in the years 1998-2000 and the growth in such expenditure over time.

Table 53 Claims made by the registered charity 1998 – 2000

Region	2000 £	1999 £	1998 £
Dublin North *	449,100	273,080	0
Dublin South	0	0	264,476
Dublin West	0	0	0
Midland	62,154	13,838	7,195
Midwest	34,095	14,147	7,067
North East	70,641	9,862	6,300
North West	45,486	4,312	0
South East	73,081	28,568	14,581
Southern	113,622	5,513	3,028
Western	81,983	3,884	8,200
Total	930,162	353,204	310,847
Total scheme expenditure	3,175,989	2,963,124	4,992,631
% of total expenditure	29	12	6

The following points were noted in respect of the charity concerned.

- Audited financial statements, or a certificate from their auditor certifying that grants were spent for the purpose they were given, had not been requested or received by the Department at the time of audit.
- Department staff in several regional offices delayed payments to the charity because of defective applications and difficulties in the provision of equipment.
- The nature of the scheme is such that ownership of equipment installed vests in the entity through which the grants are paid, in this case the charity in question.
- Much of the equipment installed by the charity is subject to an ongoing service charge, which must be paid by or on behalf of the elderly person.

Conclusions

82,209 individuals have availed of the scheme since 1996. The continued success of the scheme depends on it being easily and equally available to all eligible elderly people. The need to continue to operate the scheme on the present scale should be evaluated in the light of substantial underspends in 1999 and 2000.

Clear guidance should be issued by the Department to local groups to ensure that the scheme benefits are directed to those in most need.

The Department should ensure that regional monitoring committees operate in all regions.

The Department should adopt risk assessment techniques to help in drawing up a programme of inspections to test check the books and records of local groups for regularity and compliance with scheme conditions.

The Department should ensure that local groups have arrangements in place for reallocating SMAS equipment as circumstances dictate e.g. in the event of death of a beneficiary.

The Dublin based charity, through which an increasing number of applications are received, advertises its services nationally and, in particular, to tie in with the Department's annual announcement of the scheme in the national press. While the charity's forthright approach helps to publicise the availability of the scheme to the elderly and subsequent take up by using the charity's services, there is a danger that the local voluntary element, which is such a strength of the scheme, will be diminished. The scheme should be reviewed to determine if the effect of this unexpected development is in keeping with the objectives of the scheme.

Given the scale of the charity's involvement, the Department should insist that the principles underlying public procurement are applied to the supply and installation of SMAS equipment by the charity.

Observations of the Accounting Officer

The Accounting Officer states that the Department's regional and local management receive a lot of positive feedback both in regard to the way the scheme is administered and the value which is placed upon it by individual beneficiaries, other statutory agencies (Gardaí, Health Boards, etc.) and the funded organizations themselves.

The Accounting Officer informed me that in his view there had been no unofficial widening of the scheme and that the nature of the scheme and the conditions applying to it have remained constant. The 50% grant level is a specified minimum and, because of the availability of resources, the Department has generally been able to offer grants at a 90% level in recent years.

The scheme and resources required are reviewed each year in the light of feedback on the operation of the scheme and in the context of the overall estimates process and where necessary adjustments are made as appropriate. The issue of providing clearer guidelines to groups will be examined by the Department.

The Accounting Officer informed me that while the regional monitoring committees were, *de facto*, advisory committees and were particularly useful in setting the scheme in motion they had proved not to be necessary in the ongoing operation of the scheme in a number of areas. The Department has very close links with communities and representative groups through its activities at regional and local level and is satisfied that these contacts enable it to keep in touch with the views and opinions of its customer base and to deal with practical local issues. The Department will keep this matter under review.

With regard to administrative controls the Accounting Officer offered the following observations

- As the scheme involves assessing the needs of older people, handling of the scheme requires great sensitivity on the part of the voluntary organizations, particularly in determining whether the individual is in a position to pay for the equipment. The Department is, in general, satisfied that the voluntary organizations apply the criteria for the scheme in a consistent and fair manner having regard the individual circumstances.

- In addition to accounting requirements the Department has in place a number of checks to ensure that the scheme is delivering effectively on its objectives. For example, spot checks are carried out in regions to ensure that individuals have received the equipment applied for on their behalf by community organizations. In some instances groups have experienced difficulties in acquiring equipment and having it installed but it was found these issues were being addressed.
- Public procurement procedures do not apply to voluntary and community organizations funded under this scheme or other similar schemes. However, groups are advised to observe fair and best value procedures. In addition, groups are advised to contact reputable suppliers and to liaise with local Gardaí as necessary. Where substantial amounts of money are involved groups are advised to seek a number of quotations for the supply of the equipment.
- In general grant applications are not processed for groups who have not properly accounted for previous year's grants and groups are so advised. From time to time the Department introduces such additional requirements as are deemed necessary to ensure the effective administration and monitoring of the scheme.
- Expenditure under the scheme is monitored at regional level.

The voluntary organizations involved in the scheme are advised by the Department to have arrangements in place to ensure that equipment is reallocated in the event of the original beneficiary no longer requiring it. As such situations inevitably arise on the death or permanent hospitalisation of a beneficiary the situation must be handled sensitively so as not to distress or offend the individuals or families concerned. The Department considers that voluntary organizations, familiar with local situations and individuals are best placed to handle such reallocations and do so insofar as practical.

Applications totalling over £767,000 have been received in the current year from the group supplying SMAS nationally with about half in respect of the Dublin regions. No funding has been allocated to date in respect of these applications.

In the year 2000, applications totalling just under £450,000 were received in the Department's Dublin North region. These have not been processed because of lack of appropriate documentation. Some funding was issued to the group by other regions who were satisfied that the previous grants had been satisfactorily accounted for. However in view of the sizeable amount of money involved and to ensure greater consistency in the allocation of funding for such organizations the Department decided that for the future all moneys nationally must be accounted for before a grant is processed by any of its regional offices.

Audited accounts were requested from the group in question and have recently been received and together with other documentation are currently being examined by the Department. Funding for the current year will be processed when the appropriate documentation has been examined and found in order.

36. Irregularity at Branch Office

Unemployment payments are administered through a network consisting of 58 Social Welfare Local Offices and 69 Branch Offices. The Branch Offices are under the control of Branch Managers who are employed under contract to the Department. In accordance with the conditions of their appointment they are required to provide suitable premises and such clerical assistance as may be necessary for the satisfactory performance of the work of the Department.

Up to the end of 2000 the Department required Branch Managers to provide a fidelity bond with an insurance company requiring the company to reimburse the Minister up to an agreed amount for losses arising from fraud, dishonesty or negligence on the part of the Branch Manager. This requirement has since been dropped due to the fact that no cash is held or dispensed in Branch Offices and also because some Branch Managers encountered serious difficulties in obtaining the necessary insurance cover.

An apparent irregularity came to light after a social welfare client of a Branch Office, who had recently returned to employment and was receiving a payment under the Back-to-Work scheme, had his case reviewed by the Social Welfare Local Office to which the Branch Office in question reported. On the face of it, the recipient had been substantially overpaid Unemployment Assistance and, when notified of this, contacted the Local Office. On 6 May 1999 he made a statement to Department officials that the records of the Branch Office showed a payment as having been made to him whereas in fact no such payment had been made. Department staff identified three payments made on the same date as the payment to that recipient which they regarded as being potentially suspect.

The Department established a team to investigate the Branch Office. The investigation concentrated on cash Unemployment Assistance payments made in the period up to the introduction of the computerised Integrated Short Term Schemes (ISTS) system to the Branch Office on 23 February 1999. The introduction of the system abolished cash payments in the Branch Office. The team undertook a partial audit as a full audit of all cash payments was beyond its capacity because of resource implications. The team was hampered in its work because a fire in the Branch Office on 25 April 1999 destroyed what was purported to be practically all local documentation supporting payments and a significant number of lapsed files

The team's report revealed that

- The average payment per recipient before ISTS was introduced to the Branch Office was 15% higher per week compared to an average payment per recipient after the introduction of ISTS. It was estimated that this highlighted a difference of approximately £99,000 in the preceding twelve-month period.
- A comparison of Unemployment Assistance cash payments in the 14 weeks before ISTS was introduced with two similar sized Branch Offices in the region showed that payments at the Branch Office under investigation were 25% and 18% higher than the other two.
- Forty six recipients were prepared to give evidence that of £66,538 recorded as having been paid to them only £9,622 had in fact been paid
- The team identified several irregularity patterns including the addition of days to casual claimants, once off payments to clients in receipt of normal payments, non-refund of Supplementary Welfare Allowance to the Health Board after an Unemployment Assistance claim was awarded, apparent forging of signatures and closing claims late after a client had signed off.
- Irregularities went back to the earliest month that the team examined after the Branch Manager's appointment and that there was evidence that there were some questionable payments made during his period as Deputy Branch Manager
- The full extent of the apparent fraud could not be established from the limited investigation but based on the work to date it was estimated that the full figure could be in excess of £200,000.

In response to my enquiries the Accounting Officer informed me that

- the payments in question were made in a pre-computerisation or "cash" environment and did not come to light until after the Branch Office went live on the ISTS system at the end of February 1999.

- Cash payments are no longer made in the Department's offices and unemployed persons generally receive their payments at post offices on foot of information provided electronically by the Department.

At the conclusion of the investigations in the Branch Office, details of 50 cases including full supporting documentation were given to the Gardaí to pursue the summary/criminal aspects of the alleged fraud. The sum involved in those cases was just over £80,000. Following completion of the Garda investigation, the cases were sent to the Director of Public Prosecutions for instruction. The matter is now before the courts. The Department is currently awaiting legal advice on the options available to pursue recovery of the moneys. Any amounts due under the fidelity bond will be pursued.

The Accounting Officer pointed out that the team which carried out the investigation comprised Department staff from the Regional office under the leadership of the local Area Manager and was not an Internal Audit team as such. The team carried out some exercises to try to get a feel for the level of irregularity which might have been involved but acknowledged the difficulty of doing so. The estimate they did come up with was very tentative and was acknowledged by them to be so and any conclusions based on it can only be regarded as speculative. The Department does not consider it practical to carry out further investigations of cash payments because of

- Non-availability of certain records which would have been destroyed,
- Use prior to the introduction of ISTS of Qualification Certificate numbers as against PRSI/PPS numbers, making it more difficult to link Unemployment Assistance payments to customers,
- Problems of recall given the passage of time bearing in mind that it would be necessary to interview claimants for their recollection of events.

The Accounting Officer stated that revised procedures for local office staff who conduct inspections at Branch Offices were issued in October 1997 and strengthened existing control procedures. Control practices and procedures are regularly monitored and in this regard the inspection format is, at present, being revised to keep pace with the changing environment in Branch Offices. It is considered that the type of irregularity arising in this case could not now occur and that it was of such a nature that it was extremely difficult to detect. Previous internal audits in the period 1996-1998 found nothing amiss.

The Accounting Officer also stated that the conversion to ISTS exercise afforded a proofing of claimload and a very good base for the present data regime. The features of the new computer system and the considerable range of activation, control and inspection measures in place provide a better control environment than previously.

37. Carers Allowance

Carers Allowance (CA) is a means tested payment for people who provide full time care and attention to a relevant person under the terms of the Social Welfare Acts, i.e. over 16 years of age and who requires full time care and attention or under 16 and requiring full time care and attention and in respect of whom a Domiciliary Care Allowance is being paid by a health board. The person cared for has to be so incapacitated as to require full time care and attention and be likely to require this full time care and attention for at least 12 months.

CA was introduced on 1 November 1990 in place of the Prescribed Relatives Allowance. The scheme provides for a personal allowance to be paid directly to the carer on a means tested basis. It is a payment for carers on low incomes who live with and look after certain people who need full time care and attention. Additional payments are made for any children dependent on the carer but no payment is made in respect of adult dependants. Only one person can be paid a CA in respect of a person requiring full time care and attention. If a person is giving full time care and attention to more than one person the rate of CA is increased by 50%. An allowance is payable where the carer is over 66. Carers can avail of free schemes i.e. free travel, free electricity allowance, free television licence, free telephone rental allowance and fuel allowance. Other benefits (medical card, rent subsidy and exceptional needs payments) are available from the health board subject to means test.

Expenditure on the scheme in 2000 was £78.41m (1999 - £57.41m).

During the audit of the scheme it was noted that the Department has not yet introduced regulations to obtain a contribution from persons being cared for as it is entitled to under the Social Welfare (Consolidation) Act, 1993 which makes provision for such a person to make a contribution towards the support of a carer. No account would be taken of income from any benefit or assistance payment being made by the Department to the person in calculating the contribution.

It was also noted that qualification for the scheme is based on medical and means assessment but the Department's computer system had no record of medical review dates and very few records of means review dates. At the time of audit there were 16,405 cases in payment. An analysis of the CA computer payments file using audit software established that the system does not record a means review date for 15,337 cases and no medical review date

The scheme has evolved and changed considerably since its introduction. Following a major review of the scheme in 1998 a range of significant improvements have been introduced to the scheme and there has been a notable increase in the number of recipients receiving the allowance. Specifically, the Social Welfare Act 1999 provided for a £75 weekly means disregard of income for a single Carer and £150 per week to the joint income of a married couple. This was further modified in the Social Welfare Act 2001 to increase these disregards from £75 to £125 and from £150 to £250 per week.

In response to my enquiries the Accounting Officer stated that this scheme had exhibited the largest relative growth of any primary income support payment within the Social Welfare system with the number of recipients growing from 8,300 in 1996 to 17,300. Priority has had to be given to claim processing and implementing budget changes.

He informed me that while existing legislative provisions do make provision for a person being cared for to contribute towards that care a review of the scheme concluded that this was not feasible and was against the underlying objective of the scheme. It was considered that the overall numbers and amounts of income involved would not be sufficient to justify the administrative effort and costs involved. This view is confirmed by the experiences of the Health Boards in regard to the provision of home help services. The legislative provision is currently being reviewed.

He also informed me that since the audit additional resources of 10 permanent and 10 temporary staff have been assigned to the CA section. Initially the new staff will be assigned to complete the means review of all existing CA cases in respect of the Social Welfare Act 2001 changes and then a dedicated Control Unit for the

scheme will be established.

The Department considers that the non-recording of review dates should be distinguished from the absence of reviews being undertaken. Reviews are completed where the Department becomes aware of changes in the personal circumstances of recipients and some general reviews are undertaken. Currently 3,000 means cases are being reviewed and the Department has other control initiatives planned. The Department recognises the need to review cases systematically and is satisfied that all CA recipients who have means have been adequately reviewed since 1999.

The Department is addressing the issue of the absence of medical review dates. Resource considerations are one reason for the non-recording of medical reviews but the Department believes there are other important factors that merit consideration in the overall context of CA medical reviews. These are

- The primary medical conditions are quite restrictive and that the full time care and attention condition is very strictly examined on application and this is shown by the fact that 45% of all CA applications are unsuccessful
- Where the care recipient is in receipt of Disability Allowance or Invalidity Pension the medical evidence submitted in claiming entitlement to those schemes is taken into consideration
- The majority of care recipients have severe disabilities or long term illnesses and over 60% are over 60 years of age and the general prognosis and the opinion of the Department's Chief Medical Advisor is that the medical condition will last indefinitely and is not amenable to improvement or rehabilitation
- The duration of claims is on average three years

He assured me that since the audit additional measures have been introduced into work processes, whereby a review status is accorded to all new cases where medical or means reviews are required. However, because of the high level of applications being received this will take time to fully implement. Internal procedures have also been revised to facilitate a systematic means review policy, including non-means cases. In response to the audit findings, medical review policy has also been reviewed and the Department has recently begun a process of systematic medical reviewing.

38. Disability Allowance

Disability Allowance (DA) is a means tested payment for people with a specified disability whose income falls below certain limits and who are aged between 16 and 66. The rate of payment is the same as the long term Unemployment Assistance rate with increases paid for qualified adults and child dependants. Recipients of DA are entitled to free travel, are usually entitled to medical cards and may also be entitled to free electricity allowance, free television licence, free telephone rental allowance and fuel allowance.

To qualify a claimant must be substantially handicapped from undertaking suitable employment arising from a medical assessment or examination. The medical condition has to have continued or may reasonably be expected to continue for a period of at least one year and the persons capacity to undertake or carry out work should be substantially less than that of a person without the specified disability

The scheme was introduced on 2 October 1996 and replaced the Disabled Persons Maintenance Allowance (DPMA) scheme administered by the health boards.

Expenditure on the scheme in 2000 was £219.8m (1999 - £193.0m).

An analysis of the DA computer payments file using audit software revealed that of the 54,126 cases in payment in January 2001 47,513 had nil means of which 18,032 cases had no means review date recorded. Of the 6,613 cases with means 2,306 cases had a lapsed means review date. I was informed on audit that the 18,032 cases were DPMA cases taken over from the health boards in 1996 with nil means at that stage and had never been reviewed by the Department.

As compliance with the means limit is one of the core qualifying condition for the payment of DA, I sought the Accounting Officer's views on the adequacy of the Department's means review activities.

In response to my enquiries the Accounting Officer stated that there were some 34,500 persons in receipt of DPMA who transferred to DA in 1996. The scheme has exhibited significant growth due to legislative improvements since then and there are now 56,849 persons in receipt of DA. The first priority of the transfer process was to ensure the continued payment of income support without disruption to the recipients concerned and since then the Department has tried to strike a balance between claims processing and control activities, increased maintenance work due to the growth of the scheme and the implementation of various improvements in the scheme.

He informed me that following the transfer of all 34,500 DPMA cases to DA the files were reviewed by medical assessors and 80% (27,600 cases) were given a status where no further medical review was required. This status indicates severe disability and the recipients' potential to earn income or amass means is limited. He felt that the risk in not reviewing such cases is not as pronounced as with other social welfare payments.

He added that while review dates have lapsed in 2,306 cases that is not to say they have not been subject to review in other general review activities or in the context of implementing improvements to the scheme

He considers the current control approach as adequately balanced with reference to all competing demands that include resources, value for money, cost effectiveness, good customer service and the sensitivities in dealing with people with severe disabilities. The activities in any one aspect of control activity must be viewed in the wider context of a whole range of controls that the Department is satisfied are adequate to ensure that the conditions of the scheme are applied. These other control measures include

- Rigorous examination of eligibility at the initial claim application stage where 35% of claims received are refused
- A dedicated Control Unit within the scheme's administration
- All means cases which transferred from the DPMA scheme are systematically reviewed as resources and other priorities allow
- All new cases are accorded a means review status so that cases can be extracted and reviewed

The implementation of legislative improvements has meant that DA recipients with means have been subject to review quite apart from the systematic review procedures that are normally operated. These review procedures include matching Revenue Commissioners and FÁS computerised details of those starting employment with the DA file, Control Unit activities, investigative staff activities and annual mailshots.

He assured me that as a matter of priority means cases with lapsed review dates will be examined and, where not separately reviewed will be reviewed as soon as possible. With regard to nil means cases without specific review dates some progress has already been made. The number of cases without review dates has been

reduced to 17,608 at the end of June 2000 through routine control and review activities. The cases will also continue to form part of the ongoing review of the customer base and review dates will duly be accorded. A review sample of 500 such cases is being immediately undertaken and the outcome will be measured to monitor the results and establish what further refinements are required in the overall review of these cases.

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39. Appropriation Account

Accounting Officers are required to sign and present Appropriation Accounts for their Votes to me before 1 April of the year following that to which the account relates. The Appropriation Account for Vote 42 for the year ended 31 December 2000 submitted for audit had not been signed by the Accounting Officer, because of his absence from the office at the time due to illness. The Account therefore did not conform to the statutory requirements and was regarded as a draft account for audit purposes.

While audit work commenced on the draft Account, preliminary audit tests disclosed that

- The Department had been unable to reconcile its accounting records with those records maintained on its behalf by the Paymaster General (PMG) – effectively the Department's banking records. In addition, discrepancies which had come to light during attempted reconciliation exercises in respect of this accounting period had not been resolved.
- The Department did not have a fixed asset register. The maintenance of an asset register is a requirement under Department of Finance rules issued in 1995. As a result the statement of capital assets presented by the Department in its draft account was based on accounting records only. Difficulties in maintaining these records resulted in their being unreliable.
- Assets and Stock, transferred to Waterways Ireland with effect from 1 April 2000, were recorded in the accounts of the Department at 31 December 2000
- Receipts collected by Waterways Ireland were incorrectly accounted for by the Department
- Certain suspense balances used in the reconciliation of the Vote's liability to the Exchequer had not been included in the account submitted
- Information on accruals and prepayments by the Department which are required to be disclosed in the accounts were incomplete
- A receipt of £6million had been omitted from the account.

After being made aware of the difficulties arising on audit the Accounting Officer declined to formally sign a revised account until certain additional accounting and reconciliation work had been carried out

Similar issues had arisen in the preceding year's account and were the subject of correspondence between my Office and the Department's Finance Division. These issues resulted in a material change to that account and in a significant increase in the Vote surrender to the Exchequer and necessitated the Accounting Officer re-signing the Account.

Following the suspension of the audit in June 2001, the Department undertook to rectify the errors and omissions, to reconcile the Department's records with those of the PMG and to present a signed Appropriation Account.

The Appropriation Account for the Vote for 2000 was signed by the Accounting Officer on 27 July 2001 and re-presented for audit.

As the audit findings and the late presentation of a signed Appropriation Account raised serious questions about the quality of the underlying accounting records and financial control framework of the Department I asked the Accounting Officer what remedial action was being taken.

The Accounting Officer informed me that on being made aware of the difficulties which had arisen, he took steps to ensure that action to resolve these was given absolute priority. He has also initiated a root and branch review of structure, staffing, expertise and experience in the Accounts Branch and assured me that necessary changes arising therefrom would be implemented as a matter of urgency.

The Accounting Officer stated that the difficulties that were experienced during the preparation of the 2000 Appropriation Account had reinforced the need for detailed procedure manuals to be drafted by the Finance Branch. These manuals would document established procedures and outline the steps that would have to be carried out on a daily, monthly or annual basis, with particular emphasis on recording receipts and reconciling monthly with the PMG.

He also stated that the Department intended to provide any staff training necessary with regard to monthly reconciliation with the PMG. Responsibilities would be delegated for tasks, and these would be subject to monthly review by management. In this respect, external consultants would advise the Department on the most effective way of achieving this in the short to medium term.

The Accounting Officer indicated that the fixed asset recording system was being updated so that all additions for 2000 and 2001 would be in electronic format. Fixed asset management software would be installed by the Department in the near future to ensure that adequate systems of control were maintained over all assets. He also said that the possibility of appointing additional staff in this area was being examined.

The Department is also seeking to make improvements in its present accounts system ahead of the introduction of the Management Information Framework. However, he suggested that because of the age of the existing system, – it was ‘inherited’ from OPW and is over sixteen years old - opportunities for significant improvement could be limited.

The Accounting Officer stated that a full review of the issues raised by my Office during the 2000 audit was being carried out with each issue being identified and the necessary steps being taken to ensure that the errors would not recur. Additional staff resources had been allocated to Accounts Branch and the Department was seeking the approval of the Department of Finance for further appointments.

Finally, the Accounting Officer stated that a detailed review of the procedures involved in preparing the annual Appropriation Account was being undertaken so that a framework could be established within the timeframe necessary to present a signed Appropriation Account to my Office before the statutory deadline. He also said that the Department’s efforts to complete the Appropriation Account process continued to be hindered by the late receipt of information on receipts from the PMG. This was a particular problem at year-end, but the Department was seeking to resolve it.

National Treasury Management Agency

40. 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 , 6.3m on administration in 2000 (, 6.2m in 1999).

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 2000 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 2000 and its balances at year end.

Table 54 shows the outturn for the National Debt in the five year period 1996-2000.

Table 54 National Debt 1996-2000

Year	National Debt Outstanding , m	Debt Service Cost , m
1996	29,912	2,475
1997	30,689	2,755
1998	29,541	2,410
1999	31,384	2,205
2000	28,755	2,028

The composition of the National Debt³⁰ at 31 December 2000 is shown in Table 55.

Table 55 Composition of National Debt as at 31 December 2000

	, m
Medium/Long term Debt	21,986
Short term Debt	5,088
National Savings Schemes	3,642
Less: Domestic Liquid Assets	(1,961)
National Debt	28,755

³⁰ 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 , 23.3m.

41. 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 2001 they reported to me on their audit of the 2000 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 is shown in Table 56.

Table 56 Post Office Savings Fund

	2000	1999
	, m	, m
Liability in respect of funds due to depositors and creditors	545	502
Value of related investments held by Post Office Savings Bank Fund (at cost prices) ³¹	552	512
Surplus at 31 December	7	10

³¹ The market value of the investments held by the Fund was , 3.1m more than their cost price.