



## **Dáil Éireann**

### **An Coiste um Chuntais Phoiblí**

**An Séú Tuarascáil Eatramhach maidir le Tuarascáil  
2003 ón Ard-Reachtair Cuntas agus Ciste**

**(Éisteachtaí an Choiste, Deireadh Fómhair 2004 go  
dtí Iúil 2005)**

**Coimisiún na Státseirbhíse; Oifig an Ombudsman;  
An Roinn Airgeadais; agus an Roinn Comhshaoil,  
Oidhreacht agus Rialtais Áitiúil**

*Aibreán, 2006*

---

## **Dáil Éireann**

### **Committee of Public Accounts**

**Sixth Interim Report on the 2003 Report of the  
Comptroller and Auditor General**

**(Committee Hearings October 2004 to July 2005)**

**Civil Service Commission; Office of the Ombudsman;  
Department of Finance; and Department of the  
Environment, Heritage and Local Government**

*April, 2006*

(Prn. A6/0595)





## **Dáil Éireann**

### **An Coiste um Chuntais Phoiblí**

#### **An Séú Tuarascáil Eatramhach maidir le Tuarascáil 2003 ón Ard-Reachtair Cuntas agus Ciste**

**(Éisteachtaí an Choiste, Deireadh Fómhair 2004 go dtí Iúil  
2005)**

**Coimisiún na Státseirbhíse; Oifig an Ombudsman; An  
Roinn Airgeadais; agus an Roinn Comhshaoil,  
Oidhreachta agus Rialtais Áitiúil**

*Aibreán, 2006*

---

## **Dáil Éireann**

### **Committee of Public Accounts**

**Sixth Interim Report on the 2003 Report of the  
Comptroller and Auditor General**

**(Committee Hearings October 2004 to July 2005)**

**Civil Service Commission; Office of the Ombudsman;  
Department of Finance; and Department of the  
Environment, Heritage and Local Government**

*April, 2006*



# Contents

<i>Chairman’s Preface</i> .....	<i>i</i>
<i>Members of the Committee of Public Accounts</i> .....	<i>iii</i>
<i>Orders of Reference of the Committee of Public Accounts</i> .....	<i>v</i>
1. Civil Service Commission – Vote 16; and Chapter 5.1 .....	1
2. Office of the Ombudsman – Vote 17; and Chapter 6.1.....	5
3. Department of Finance – Votes 1, 6, 7, 12 and 44; Chapter 2.1; Contingency Fund Deposit Account; and Finance Accounts 2003 .....	9
4. Department of the Environment, Heritage and Local Government – Chapter 8.1 .....	15
5. Environment, Heritage and Local Government – Vote 25.....	21



## *Chairman's Preface*

This interim report of the Committee of Public Accounts continues the process of the Committee, which commenced last year, of reporting periodically on a thematic basis. The subject matter of this report details the Committee's meetings with the Civil Service Commission, the Office of the Ombudsman, the Department of Finance and the Department of the Environment, Heritage and Local Government. These meetings took place as part of the Committee's consideration of the Annual Report of the Comptroller and Auditor General.

This report examines specific accounting shortcomings that arose in certain agencies; the proposed introduction of electronic voting; and various other issues within the Votes of the bodies concerned.

The Committee will, during the course of 2006, publish further interim thematic reports on the Department of Education and Science; Department of Communications, Marine and Natural Resources, Office of Public Works, Department of Transport and the Department of Enterprise, Trade and Employment; and An Garda Síochána, Department of Defence and the Department of Foreign Affairs.

As Chairman, I want to thank the relevant State agencies for their co-operation in making the compilation of this report possible. I also want to compliment the members of the Committee for their diligent work throughout the year.

We recommend this report to the Houses of the Oireachtas.

A handwritten signature in black ink, appearing to read 'Michael Noonan', with a horizontal line extending to the right from the end of the signature.

Michael Noonan, T.D.,  
Chairman.

April, 2006





## ***Members of the Committee of Public Accounts***

### ***FIANNA FÁIL***

Seán Ardagh T.D.	Dublin South-Central
John Curran T.D.	Dublin Mid-West
John Dennehy T.D.	Cork South-Central
Seán Fleming T.D.	Laois-Offaly
John McGuinness T.D. ( <i>Vice-Chairman</i> )	Carlow-Kilkenny
Michael Smith T.D. <sup>4</sup>	Tipperary North

### ***FINE GAEL***

John Deasy T.D. <sup>2</sup>	Waterford
Tom Hayes T.D. <sup>3</sup>	Tipperary South
Michael Noonan T.D. <sup>1</sup> ( <i>Chairman</i> )	Limerick East

### ***LABOUR***

Joan Burton T.D. <sup>5</sup>	Dublin West
-------------------------------	-------------

### ***GREEN PARTY***

Dan Boyle T.D.	Cork South-Central
----------------	--------------------

### ***SOCIALIST PARTY***

Joe Higgins T.D.	Dublin West
------------------	-------------

<sup>1</sup> Deputy Michael Noonan replaced Deputy Padraic McCormack by order of the House on 18<sup>th</sup> June, 2003.

<sup>2</sup> Deputy John Deasy replaced Deputy Paul Connaughton by order of the House on 20<sup>th</sup> October, 2004.

<sup>3</sup> Deputy Tom Hayes replaced Deputy John Perry by order of the House on 20<sup>th</sup> October, 2004

Deputy Michael Noonan elected as new Chairman on 21<sup>st</sup> October 2004

<sup>4</sup> Deputy Michael Smith replaced Deputy Batt O’Keeffe by order of the House on 16<sup>th</sup> November, 2004.

<sup>5</sup> Deputy Joan Burton replaced Deputy Pat Rabbitte by order of the house on 29<sup>th</sup> November, 2005.



## **Orders of Reference of the Committee of Public Accounts**

156. (1) There shall stand established, following the reassembly of the Dáil subsequent to a General Election, a Standing Committee, to be known as the Committee of Public Accounts, to examine and report to the Dáil upon—
- (a) the accounts showing the appropriation of the sums granted by the Dáil to meet the public expenditure and such other accounts as they see fit (not being accounts of persons included in the Second Schedule of the Comptroller and Auditor General (Amendment) Act, 1993) which are audited by the Comptroller and Auditor General and presented to the Dáil, together with any reports by the Comptroller and Auditor General thereon:  

Provided that in relation to accounts other than Appropriation Accounts, only accounts for a financial year beginning not earlier than 1 January, 1994, shall be examined by the Committee;
  - (b) the Comptroller and Auditor General's reports on his or her examinations of economy, efficiency, effectiveness evaluation systems, procedures and practices; and
  - (c) other reports carried out by the Comptroller and Auditor General under the Act.
- (2) The Committee may suggest alterations and improvements in the form of the Estimates submitted to the Dáil.
- (3) The Committee may proceed with its examination of an account or a report of the Comptroller and Auditor General at any time after that account or report is presented to Dáil Éireann.
- (4) The Committee shall have the following powers:
- (a) power to send for persons, papers and records as defined in Standing Order 83;
  - (b) power to take oral and written evidence as defined in Standing Order 81(1);
  - (c) power to appoint sub-Committees as defined in Standing Order 81(3);
  - (d) power to engage consultants as defined in Standing Order 81(8); and
  - (e) power to travel as defined in Standing Order 81(9).
- (5) Every report which the Committee proposes to make shall, on adoption by the Committee, be laid before the Dáil forthwith whereupon the Committee shall

be empowered to print and publish such report together with such related documents as it thinks fit.

- (6) The Committee shall present an annual progress report to Dáil Éireann on its activities and plans.
- (7) The Committee shall refrain from—
  - (a) enquiring into in public session, or publishing, confidential information regarding the activities and plans of a Government Department or office, or of a body which is subject to audit, examination or inspection by the Comptroller and Auditor General, if so requested either by a member of the Government, or the body concerned; and
  - (b) enquiring into the merits of a policy or policies of the Government or a member of the Government or the merits of the objectives of such policies.
- (8) The Committee may, without prejudice to the independence of the Comptroller and Auditor General in determining the work to be carried out by his or her Office or the manner in which it is carried out, in private communication, make such suggestions to the Comptroller and Auditor General regarding that work as it sees fit.
- (9) The Committee shall consist of twelve members, none of whom shall be a member of the Government or a Minister of State, and four of whom shall constitute a quorum. The Committee and any sub-Committee which it may appoint shall be constituted so as to be impartially representative of the Dáil.

## **The Report**



# **1. Civil Service Commission – Vote 16; and Chapter 5.1**

## **1 Proceedings of the Committee**

1.1. The Committee heard evidence from Mr. Bryan Andrews, Chief Executive, Civil Service Commission; from officials of the Department of Finance; and from the Comptroller and Auditor General on 7 October 2004.

## **2 The Background**

2.1. In 2003, the Civil Service and Local Appointments Commission (CSLAC) spent €81,560, in gross terms, (€46,177, net) more than had been approved by Dáil Éireann. The Public Financial Procedures Manual underlines the seriousness of incurring an excess Vote by stating that a refusal to authorise its introduction would render the Accounting Officer personally liable for the extra expenditure. The CSLAC did not know it had an excess Vote when the Accounting Officer submitted the appropriation account for audit at the end of March 2004. Several bookkeeping and balancing errors came to light during the course of the audit of the account, the effect of which was to turn a reported surplus into an excess Vote. The Accounting Officer submitted a corrected account in July 2004.

2.2. The implementation of the MIF includes a new accounting system which aims to eliminate manual transactions and ensure that the vote ledger and the supporting schedules are maintained and proved as correct on a continuous basis. The CSLAC has also appointed an audit committee, comprised largely of external members. A professional internal auditor was also appointed on a contract basis in 2004 and a three year internal audit programme is in place.

## **3 The Accountability issues**

3.1. The accountability issues considered by the Committee were:

- The accounting errors
- Impact of the Public Service Management Recruitment and Appointments Bill 2003
- Modernisation of the recruitment process

## **4 Examination of the Issues**

### **The accounting errors**

4.1. In October 2003 the net salary payments, amounting to almost €500,000, were posted to the wrong account and a sum of €278,000 was shown as due from rather than due to the Exchequer. CSLAC had not encountered accounting problems before. It had recorded a budget surplus in the previous four years and the profile figures did not indicate any particular problems to management. Salary accounts are dealt with on a different basis from non-pay accounts. Generally, there is an automatic interface between the payroll system and the non-pay accounts system. In this instance, a new system was being installed in CSLAC and there was no automatic interface between the salaries, handled in the Department of Finance, and non-pay accounts. One of the figures was entered in the incorrect position and the outturn

from the overall ledger account did not give the true figure. The Committee found it surprising then the Department of Finance had not insisted on having the interface in place before it transferred responsibility for the maintenance of accounting records to CSLAC.

4.2. The CSLAC is a small organisation with a short history of maintaining its own accounts. It has a limited pool of people with experience in the accounting area which was further diluted by a general staff downsizing of 25% (from 202 to 155 staff) in 2003. The CSLAC was involved in a major transformation of the organization including a major e-government initiative, a move to new headquarters and a restructuring. There were also deadlines for the introduction of the Management Information Framework (MIF).

### **Impact of the Public Service Management Recruitment and Appointments Bill 2003**

4.3. Public organisations that wish to engage in their own recruitment may apply for a licence, which will be regulated by the OPSC and in respect of which there will be a code of practice. The head of the organisation is the holder of a licence and will be responsible for the probity, impartiality and fairness of the recruitment process. The work currently done through the Local Appointments Commission is likely to be done by the newly licensed bodies who may apply for these locally based appointments.

### **Modernisation of the recruitment process**

4.4. In the 2003 Vote, there was a saving of €87,000 in postal and telecommunications services due to the use of online recruitment facilities. The e-Government programme sets down certain deadlines for real-time transactions for people by 2005. CSLAC has invested heavily in this and the results are positive. Some 22,000 people who have logged their details are waiting to hear about jobs in certain areas. The brand, "*publicjobs.ie*" is very successful with at least 1,000 people per day visiting the site. Some large volume competitions have been successfully run exclusively through the Internet. Going on line has helped to get better connected to graduates, than in the past.

4.5. The Information Society Commission is driving the e-government agenda and it provides funds for the development of new initiatives within civil service organisations, which will progress this agenda. This is ring-fenced money which can only be used for the development of e-government initiatives. It is a separately managed fund. The new on-line recruitment facility is being built using these funds. There are many aspects and initiatives involved. The facility is developed to be almost a self-service system for client organisations, which will also be able to hook into it. The allocation of €11.5 million covers systems for recruitment, promotion and testing. The Civil Service Commission is a niche HR organisation in that it deals with job analysis and realignment exercises as well as training exercises for people who want to sit on interview boards or do their own recruitment.

## **5 Adoption of Reports**

5.1. The Committee noted Vote 16 of the 2003 Appropriation Accounts and disposed of Chapter 5.1 of the 2003 Annual Report of the Comptroller and Auditor General.

5.2. The Committee was satisfied that there is no objection to the excess sum being sanctioned by Dáil Éireann by means of an excess Vote and reported accordingly in Interim Report number 1.



## **6 Findings and Recommendations**

### **The Committee of Public Accounts**

#### **Finds specifically that:**

1. Accounting errors for the recording of salaries in October 2003, led to a net overspend of €46,177 in excess of the Voted allocation for that year. The errors were due to a lapse in internal financial control brought about at a time when the Office was implementing a new financial management system.

#### **And recommends in general that:**

1. When moving to a more sophisticated accounting system, as most Departments are doing, it is important to have sufficient accounting expertise to oversee the changes.
2. New systems implementation arrangements should specifically cater for the maintenance of at least the existing standard of internal financial control, in particular for the timely reconciliation of accounts, while the transition is being made.
3. Special attention should be given to internal financial control procedures to compensate for situations where the interfacing of systems is not complete or fully signed off.



## **2. Office of the Ombudsman – Vote 17; and Chapter 6.1**

### **1 Proceedings of the Committee**

1.1. The Committee heard evidence from Mr. Pat Whelan, Director General, Office of the Ombudsman; from officials of the Department of Finance; and from the Comptroller and Auditor General on 7 October 2004.

### **2 The Background**

2.1. In 2003, the Office overspent its Vote allocation by €25,103. The total budget allocation for 2003 was €5,038,000. The excess arose because of a misunderstanding of the way in which a new accounting system treated the deduction of professional services withholding tax (PSWT) rather than for any fundamental problem with the financial management in the office. The Department of Finance, which operates the payments system on behalf of the Ombudsman's Office, failed to pay over the deducted tax of €61,814 to Revenue in a timely manner. The Office was unaware that the payments were not made until the first quarter of 2004 when the 2003 appropriation account was in preparation and the upshot was that the Appropriation Account presented for audit showed a slight surplus for surrender to the Exchequer, while the true position established by the audit was that the office had exceeded its Vote. A corrected account was submitted in July 2004.

### **3 The Accountability Issues**

3.1. The accountability issues considered by the Committee were:

- Accounting for PSWT
- Accounting arrangements
- Appeals against freedom of information decisions

### **4 Examination of the Issues**

#### **Accounting for PSWT**

4.1. Under Government accounting rules, the fee actually paid to the supplier plus the withholding tax deducted from it, should be charged to the Vote when the payment is made to the supplier, with the tax recorded in a suspense account pending pay-over. The new system in the Department does not record this in the same way. The new system is geared to accrual accounting which has been modified to cater for Government accounting rules which are essentially cash based. The accounting difficulty was compounded by the fact that the Department did not pay withholding tax to the Revenue Commissioners in a timely way. The Department accepts that this should not have happened and steps have been taken to ensure it does not happen again.

4.2. The reasons for this situation were that the Department installed a new financial management system that went live on 1 July, 2003. The new system meets the requirements of the management information framework. Throughout the second half of 2003 the staff of the office were familiarising themselves with its capabilities and developing new modules. In order to guard against a recurrence of the problem, the Office signed a service level

agreement with the Department which covers all of the accounting functions currently carried out by the Department on behalf of the office, including the timely pay-over of PSWT to the Revenue Commissioners.

4.3. As an interim measure, the Department manually updated the cash ledger daily in order that payments of withholding tax are treated in accordance with Government accounting rules. The systems will be modified in order that the gross amount, including tax, is automatically recorded against the Vote at the same time as the payment to the supplier.

4.4. The new financial management system in the Department went live on 1 July 2003. The Committee was concerned that despite the monitoring of accounts and the existence of PSWT payments in previous years, nobody noticed the accounting error. The C&AG was the first to discover this issue. The Revenue Commissioners subsequently contacted the Office in early 2004 to raise this issue. Technically, the Office was not tax compliant in 2003 but no penalty for late payment of tax was incurred. The Department has initiated written disciplinary procedures as part of its investigation of the matter.

### **Accounting arrangements**

4.5. When the Office was established in 1984, the accounts branch of the Department of Finance handled its accounting requirements. Salary cheques and other matters were administered by the Department on behalf of the Office. When the management information network was being planned, the Office decided it would be more efficient to join with a system that was already being developed by the Department of Finance. It allowed the Office to access the Department's expertise and resources in developing the system. It is a common system where certain functions are performed in the Office and others in the Department. The Office wanted to modernise its information systems in as cost-effective a manner as possible.

### **Appeals against Freedom of Information decisions**

4.6. The Office of the Information Commissioner (OIC) deals with appeals against Freedom of Information (FOI) decisions where information requests have been refused by public bodies. There was a backlog when the office was established in 1998 which was caused by an early surge in FOI requests. The backlog is decreasing partly because the number of requests has reduced due to the impact of the fees introduced under the Freedom of Information (Amendment) Act 2003. That has resulted in a big reduction in requests both to public bodies generally and to the OIC.

4.7. The OIC carried out an investigation and published a report in June 2004 on the effect of the introduction of fees for FOI requests. The report shows that overall usage of the Act had fallen by 50% and requests for non-personal information had fallen by 75%. The usage by journalists and others has declined. For the period covered by the sampling exercise it had reduced by over 83% and was continuing to fall. From an Information Commissioner's viewpoint, these are not welcome developments because the Act promotes increasing openness and enhanced decision making in the longer term within public bodies. Decreases in usage are not conducive to meeting the long-term aims of the Act.

4.8. The table below shows the numbers of applications received in last quarter prior to the introduction of fees compared with the current position.

Type of cases	Received April – June 2003	Received January – March 2006
<b>Personal</b>	<b>302</b>	<b>63</b>
<b>Non Personal</b>	<b>62</b>	<b>20</b>
<b>Mixed</b>	<b>34</b>	<b>15</b>
<b>Total</b>	<b>398</b>	<b>95</b>

## **5 Adoption of Reports**

5.1. The Committee noted Vote 17 of the 2003 Appropriation Accounts and disposed of Chapter 6.1 of the 2003 Annual Report of the Comptroller and Auditor General.

5.2. The Committee was satisfied that there is no objection to the excess sum being sanctioned by Dáil Éireann by means of an excess Vote and reported accordingly in Interim Report number 2.

## **6 Findings and recommendations**

### **The Committee of Public Accounts**

#### **Finds specifically that:**

1. The Office incurred a net overspend of €25,103 in excess of the Voted allocation for 2003. The overspend occurred because the Department of Finance had not paid-over professional services withholding taxes for the second half of 2003 and there was an error in recording this liability at the end of the year.
2. The error arose in the course of the introduction of new financial management systems.
3. Neither the Office nor the Department were subject to late payment interest or other penalties by the Revenue Commissioners as a result of this.

#### **And recommends in general that:**

1. All Departments and Offices should settle their tax liabilities on time and should be subject to the normal penalties for late payment.
2. Proper procedures for the maintenance of adequate internal financial control should be built in while new financial systems are being introduced.



### **3. Department of Finance – Votes 1, 6, 7, 12 and 44; Chapter 2.1; Contingency Fund Deposit Account; and Finance Accounts 2003**

#### **1 Proceedings of the Committee**

1.1. The Committee heard evidence from Mr Tom Considine, Secretary General, Department of Finance; from officials of the Department of the Environment, Heritage and Local Government; and from the Comptroller and Auditor General on 10 February 2005.

#### **2 The Background**

##### *Returning Officers' expenses*

2.1. The C&AG drew attention to weaknesses in the system of accounting for the expenses incurred by returning officers in the course of conducting elections.

##### *Finance Accounts*

2.2. The finance accounts show the payments into or out of the Central Fund during the year and such other accounts and statements as the Minister considers appropriate and specifies to the C&AG. The accounts comprise the Exchequer account, financial statements of Exchequer receipts and issues, and the extent of guarantees given by the State. Schedule 1 to the accounts is a further breakdown of payments charged to the Central Fund in respect of salaries, allowances and pensions. The 2003 finance accounts received an unqualified audit opinion.

##### *The Contingency Fund*

2.3. Following consideration by the Committee in its 2003/04 hearings of the operation of the Contingency Fund, the Department conducted a review. The main recommendation of the review is that the fund should be increased to €1.2 million to bring its current value into line with the £20,000 with which it was established in 1923. The adjustment was arrived at by adjusting the figure of £20,000 by reference to changes since 1923 in the consumer price index as advised by the CSO.

##### *Remaining Votes*

2.4. The remaining Votes under the stewardship of the Accounting Officer for the Department of Finance include the President's Establishment, the Office of the Minister for Finance, the secret service Vote and superannuation and retired allowances.

#### **3 The Accountability Issues**

3.1. The accountability issues examined by the Committee were:

- Returning Officer Expenses
- Procurement rules
- Secret Service

- Charitable Lotteries
- Northern Ireland
- Vote 44 – Remuneration and Pensions

## **4 Examination of the issues**

### **Returning Officer Expenses**

4.1. There were serious delays in the full examination of the accounts submitted by returning officers. This was highlighted by a series of internal audits dating back to the late 1990s and in spite of some action taken the situation that the C&AG found at the end of 2003 was far from satisfactory. In the second half of 2004 the staff numbers devoted to checking the accounts increased from two to a total of eight, five of whom were full-time, and the backlog of work was cleared.

4.2. There were 35 accounts overdue from returning officers at the end of 2003. It is the responsibility of returning officers to submit their accounts but the Department accepts it should have been more proactive in following them up. All 35 accounts have been submitted, fully examined and cleared. Of the approximately €13.2 million advanced to these returning officers, more than 98% was used. The balance was returned and lodged immediately to the Exchequer.

4.3. A new provision was inserted into the charges order for the June 2004 elections that enabled returning officers to pay for any support necessary to facilitate the timely submission of their accounts. The Department also sent several reminders of the legal deadline for submitting accounts. These efforts did not prove as effective as was hoped. The Committee found the situation extraordinary that statutory officers failed to make returns on time for public funds to the amount of €13 million. Some €7.3 million was given to the returning officers for the general election of 2002. In one case going back to 1997, the sum outstanding for accounting is €679,000. The Committee noted that the Department does not intend to provide for a sanction on returning officers who do not make their returns on time.

4.4. The Committee noted that there is a move towards a position in which returning officers will have a significant financial function on a year to year basis by virtue of the fact that they will be responsible for the storage of voting machines. The Department has legal authority to make advances ahead of a charges order being in place. In relation to the 2004 election the amounts allocated for electronic voting was not just for buying machines but it was also intended to cover the associated costs including acquisition, storage, insurance, training, staffing and related costs. The returning officers can claim the storage costs incurred under the charges order for 2004. The Department has legal authority to make advances between elections.

4.5. The Committee observed that it is financially advantageous to a local authority to have a national poll on the same day as a local election as the only significant cost incurred by the local authority is the cost of the separate count centres for the local election.

### **Procurement rules**

4.6. The issue of the storage and insurance of voting machines has significantly increased the amount of costs that are administered by returning officers. The Department prepares and



circulates to all Departments the appropriate procurement guidelines to be followed. The Committee noted, however, that the covering letter that accompanied the charges order associated with the 2004 elections did not remind returning officers of or refer to public procurement procedures. The Department of the Environment, Heritage and Local Government sent out a letter on the arrangements for storage but it did not contain any specific reference to public procurement. The Department of Finance issued a letter to all returning officers that did refer to the requirements of the public financial procedures as regards the procurement of goods and services. This, however, issued three weeks after the elections at which time storage arrangements might already have been made.

### **Secret Service**

4.7. The procedures governing the secret service Vote go back to its establishment in the early days of the State. Any minister may seek funds if they are “to obtain information which is necessary for the security of the country”. It is the only Vote for which no detail is provided. In 2003, the outturn was €392,000 against a provision of €831,000. There is a principle of providing a considerable margin. A Minister who requires an amount to be paid from the secret service Vote sends a request to the Minister for Finance. When cleared by the Minister for Finance, the Secretary General and another authorised signatory sign the cheque that for confidentiality goes through a separate bank account outside the Paymaster General system. The C&AG relies on the certificates from the relevant Ministers stating the moneys were expended for the purposes of the Vote.

### **Charitable Lotteries**

4.8. Vote 6 and the compensatory payments relating to charitable lotteries amounts to approximately €7 million. The Government decided in June 1997 to make available from the proceeds of the national lottery a fund of £5 million per annum for three years to supplement the income of the promoters of private charitable lotteries competing directly with national lottery products. In August 1997 the Minister for Finance established an interdepartmental advisory committee to advise on the eligibility criteria and methodology for the calculation of grant levels. The scheme provides that the fund is divided in proportion to the average of eligible lottery turnover as certified by auditors over the three most recent years of account. The main qualifying criterion recommended by the committee and approved by the Minister for Finance is that the lottery products must be comparable to national lottery products, for example, scratch cards, comparable to the national lottery instant games or lines or other draws with weekly or higher frequency comparable to lotto.

### **Northern Ireland**

4.9. Subhead N.2 for the Office of the Minister for Finance refers to Northern Ireland. In 2003 there was provision of €3.6 million and the expenditure was €662,000. The purpose of this allocation was to address the economic and social disadvantage that can result from the existence of a border. It covers most of Northern Ireland and the six Southern bordering counties. All projects must be cross-Border and funding is split 60:40 with 60% going to the North. The special EU programmes body is both the paying and the managing authority for the programme. The programme body receives 75% of funding from the EU and 25% from the member states. The measures in the programme are delivered through three cross-Border local authority partnerships, namely, the Irish Central Border Area Network, the East Border Region and the North-West Region Cross-Border Group.

4.10. The Committee was concerned that the failure to spend almost €3 million may mean the loss of another €9 million from the European Union as the drawdown from the European Union is contingent on the contribution from the member states. The programme was agreed by the European Commission in March 2002. The only spending that occurred in 2003 was on technical assistance. Funds only began to be committed in 2002, and under the “n+2” rule there are two years in which to spend committed funds. Therefore, failure to spend in 2003 did not have negative implications because sufficient spending occurred in 2004.

#### **Vote 44 – Remuneration and Pensions**

4.11. In Vote 44, an additional €36 million was provided to meet the cost of an agreed settlement to the equal pay claim which covered approximately 6,800 people. The case originated in claims made in 1991 and 1997 by female clerical assistants, who sought equal pay with paper keepers, a predominantly male grade. Both grades had ceased to exist in late 1997 and were amalgamated and absorbed into the clerical officer grade as part of the restructuring of the clerical grades in the Civil Service. The Labour Court found in favour of the claim on behalf of the original 26 claimants. While the finding was appealed to the High Court, discussions between the Department and the CPSU produced a settlement of the claims.

### **5 Adoption of Reports**

5.1. The Committee noted votes 1, 6, 7, 12, 44 of the 2003 Appropriation Accounts and disposed of Chapter 2.1 of the 2003 Annual Report of the Comptroller and Auditor General. The Committee noted the Finance Accounts for 2003 and the Contingency Fund Deposit Account for 2003.

### **6 Findings and recommendations**

#### **The Committee of Public Accounts**

##### **Finds specifically that:**

1. There were serious delays, dating in some cases back to 1997, in returning officers submitting accounts for sums advanced for the organisation of elections, in spite of the fact that there is a time limit stipulated in the regulations.
2. Amounts administered by returning officers have increased due to the storage and insurance costs for equipment, principally voting machines. Neither the Department of Finance nor the Department of the Environment, Heritage and Local Government issued adequate reminders to returning officers of the need to strictly apply public sector procurement rules.
3. The 2003 expenditure on interreg north-south projects in the border counties was significantly below target but no European Union funds are expected to be lost due to application of the “n+2” disbursement rules.

**And recommends in general that:**

1. The letter accompanying the charges order should be strengthened in line with the increased sums of money involved. Returning officers need to be reminded of their responsibilities in regard to adhering to public procurement rules, internal financial control and proper accounting record keeping.
2. Consideration should be given to the introduction of a sanction against those returning officers who do not make their returns in an accurate and timely manner.
3. Steps should be taken to ensure that receipt of EU funding is not jeopardised due to the presence of avoidable delays in the administration of national schemes.



## **4. Department of the Environment, Heritage and Local Government – Chapter 8.1**

### **1 Proceedings of the Committee**

1.1. The Committee heard evidence from Mr. Niall Callan, Secretary General, Department of the Environment, Heritage and Local Government; from officials of the Department of Finance; and from the Comptroller and Auditor General on 3 February 2005. The Committee also heard evidence from Mr Tom Considine, Secretary General, Department of Finance on 10 February 2005.

### **2 The Background**

2.1. In February 2000, the Government approved in principle the introduction of direct vote recording with a view to its use in the 2004 European and local elections. Following a competition held under EU procurement rules, the successful tenderer supplied six voting machines with all necessary hardware and software to the Department for testing at a cost of just over €500,000. The hardware and software were found fit for purpose and a covering statutory authority for electronic voting was conferred by the passing of the Electoral (Amendment) Act 2001 in November of that year. Six hundred voting machines and ancillary hardware and software were purchased for use in three constituencies in the 2002 general election with generally satisfactory results. A further 400 machines were purchased for use at the second Nice treaty referendum and some 6,000 voting machines were ordered in March 2003 for use nationwide in the European and local elections in 2004.

2.2. Towards the end of 2003 concerns began to surface about the security of the electronic system, ultimately giving rise to the establishment of the Commission on Electronic Voting (the Commission) in March 2004 to report on the secrecy and accuracy of the chosen system for use in the June 2004 elections. The Commission's interim report advised against its use and consequently the Government decided not to go ahead with the system pending further testing.

2.3. The C&AG considered the electronic voting project from four perspectives — administrative planning, the testing and pilot schemes undertaken, management of the procurement and the cost. There appeared to be a lack of rigour in the arrangements for costing the system and, by extension, it was difficult to come up with a clear picture of the likely cost benefit of electronic voting.

### **3 The Accountability Issues**

3.1. The accountability questions examined by the Committee were:

- Costs and cost benefit
- Hardware and Software issues
- Storage of the voting machines and insurance arrangements
- Current position

## **4 Examination of the Issues**

### **Costs and cost benefit**

#### *Costs to February 2005 and procurement issues*

4.1. The Committee noted that the cost of the electronic voting project up to February 2005 was €52,118,184.72. The ongoing annual cost of the storage of the hardware, the voting machines, and the insurance costs involved is in the region of €658,229. The contracts signed with the voting machines provider include a maintenance element that concludes in 2007. From that date onwards there will be an additional cost to the State of maintaining the voting machines. No amount for maintenance beyond 2007 has been factored into the cost estimates.

4.2. The Department made a contract for advertising, information and public credibility regarding electronic voting to the value of €4.5 million. That money did not principally go to the consultants but to radio, television and other media. The communications budget was not wholly spent.

#### *Weakness of the Business Plan*

4.3. In December 1999, the Department submitted a business plan for the project to the Department of Finance. The business plan did not adequately address a number of issues, in particular, security or reliability of the system. The Department of Finance also pointed out that no overall costs of the project, or contingency arrangements, were included in the business plan. The Department of Finance continued to request that the security element be in place and that there should be back-up facilities. One of the main recommendations of the Commission was that more testing should be carried out on the security and accuracy aspects of the system.

4.4. The Department did not produce a document which built up the expected savings from electronic voting in a proper manner. Some material costings were provided in a memorandum for Government of 14 February 2002. The Department of Finance would have preferred more detailed estimates and to have got costings on the application of the system for by-elections.

4.5. The Committee noted that in December 2001, after the tender, the estimated project cost was €31.7 million. It appears that no estimate of cost was provided to the Department of Finance until the tender was completed. However, the cost estimate at that stage did not impact on the project as the decision to proceed had already been made. In June and in October 2002 the Department again made submissions pointing out that there would be savings, but no financial data on savings was included. The Committee felt this was a situation where savings were claimed but were not specified or built up in any kind of analytical fashion. The cost only came in after the tender process and there were doubts about the reliability and security of the system, doubts that still exist. The Committee considered that this project was treated differently to normal as the overall parameters for the procurement framework were established with the purchase of the first six machines for testing. By December 2003 the Department had committed to the bulk purchase of extra machines which would bring the number owned to more than 7,000 machines.

### *Expected financial benefits*

4.6. In aggregate terms, the Department believes the introduction of electronic voting and counting nationally would mean a saving of approximately 1,200 staff dealing with the count. There is no staff saving in the polling stations during the actual vote. Costs for running the traditional system increased by 71% between 1997 and 2002. Inflation was 20% in that period. The costs are not pay costs in the conventional sense and are negotiated under a certain amount of duress having regard to the proximity of elections. Weekend work is a factor as staff will demand more pay to work on Saturdays.

4.7. In 2000, the Department estimated a saving of €13 million over 20 years, based on a conservative view of 12 elections being held in that period. If more elections are held, the saving will be greater. The Committee noted that the potential savings in the new system over the rising cost of the manual counting process had not been analysed to the extent that it should have been, bearing in mind the amount of money that was committed to the new system.

### **Hardware and Software issues**

4.8. The system's hardware is currently serving more than 11 million citizens in the Netherlands, parts of Germany and some municipalities in France. In the Netherlands, the Nedap Powervote system has been in operation for more than ten years, dealing with that country's PR list system. It has penetration in that country of about 80%. The track record was valuable in recommending it for adoption in the Irish situation.

### *Modification of software design*

4.9. There was a need to modify the software design to apply the indigenous Irish form of PR. The Committee considered the financial implications involved. Only about €620,000 worth of investment was committed to that work, compared to €40 million investment in the hardware. A contract, through tender, was awarded to Nathean Technologies Company, an Irish firm to make a full architecture and code review of the system and to judge it fit for its purpose. Other external organisations involved in the project such as the Electoral Reform Society from the UK were appointed through the single-tender route as they had a unique reputation. PTB is the German science institute that tested the voting machine software, and TNO, the Dutch electronic products and services specialist, tested the voting machines and supporting equipment for compliance with international standards for environmental conditions. These bodies were also appointed on a single-tender basis.

4.10. The decision to add a referendum to the set of polls conducted in June 2004 was taken in early April 2004. There was a referendum profile already in existence in the software application but there were some interconnections to be made with the local and European election profiles. The Commission determined that there was not enough time for it to sign off on the suitability of the software package.

4.11. The Department holds the view that this does not mean that durable and adequately perfected software cannot be put in place for a relatively modest investment to allow this system to work to high standards in Irish conditions.

### *Software testing*

4.12. The reports of the Commission state quite clearly that when a new version of software is established by modification of an old system of software, it is not sufficient to test the modification; the whole system needs to be tested. Several experts have stated that one of the big flaws in the testing methodology was that while the Department had required testing of modifications of the software, computer experts agreed it was necessary to test holistically because modifications could kick back into existing parts of the programme already tested and cause unforeseen errors.

### *Voter Verifiable Audit Trail (VVAT)*

4.13. The Committee observed that from the second half of 2002, the main point being put up against the system was that electronic voting should not be implemented without a voter verifiable audit trail (VVAT). The Department accepts that this is a legitimate argument but does not agree with it. The Department informed the Committee that the experience of electronic voting is that more than 90% of electoral administrations use electronic voting systems without deploying a VVAT.

### *Security of the hardware*

4.14. The Department of Finance was concerned about the security of the system. The Department, however, does not accept that the system constitutes a fundamental security risk. It accepts that it can and should work to improve the system's security dimensions in line with the Commission's recommendations.

4.15. Experts reporting to the Commission highlighted two issues with the hardware, resulting from the fact that it is based on 1980s technology. The great advantage of electronic technology is that it is totally predictable and, therefore, very hard to randomise. While the storage system for votes on the voting cartridges or modules purports to be random, it is not. The first vote is stored on a random basis but every other vote is directly related to the position of the first. If one can establish where the first vote is stored, the secrecy of the ballot for that voting module ceases. The current machines are unable to give completely random positions but modern technology on the market is able to do so. A disadvantage in using 1980s technology is that the system is not truly random. The Department has claimed in the documents it presented to the Committee that random placement of the votes in the voter module is a feature of the system.

4.16. A second problem with the technology being used is that it does not provide for encryption which is available in modern machines that use more up-to-date technology.

### *Criticisms made by the Commission*

4.17. The fact that the final integrated software package for all of the four potential polls being run in June 2004 was not fully ready for the Commission was a difficulty. At a certain point, the Department and the software developers discovered a fairly minor flaw in the counting software which was fixed by changing from decimals to fractions. The Commission commented that this error in the accounting software could have affected the distribution of votes.



4.18. The Commission and its experts were cautious about the security protocols that extract the data from the modules and produce the final results. It felt that those security protocols could benefit from considerable strengthening. The Department fully accepted the Commission's concern.

### **Storage of the voting machines and insurance arrangements**

4.19. Returning officers had expressed concern that the machines should be available to them for some time in advance of an election to ensure the orderly conduct of elections and the adequate training of new staff. For this reason there was a need to have machines stored in the area in which they were likely to be deployed. This need underpinned the decision by the Department to have the storage of machines undertaken at constituency or county level in the same way as equipment for paper-based elections is stored. The advice to local authorities issued in early 2003 was to source suitable storage locally and as cheaply as possible. There was some hope, at that stage, that a good number of returning officers might be able to find free accommodation in public buildings, including local authority buildings or courthouses, as they had been doing in respect of other equipment. In the event they had difficulty in getting free storage accommodation. Only four of the 28 returning officers involved were able to source accommodation in the traditional way (courthouses or local authority offices).

4.20. The costs are borne by the central fund. There was a significant variation in the costs. (from €28,000 in Carlow-Kilkenny to €298 in Louth). In most cases the arrangement was made directly by the returning officer. The Committee specifically noted that while it was possible to store 408 machines in Clonmel for €42,700, it cost €52,800 to store 195 machines in neighbouring Waterford city. In Ennis, 200 machines were stored for €10,800. The Committee felt there was a need to exercise much better control over storage costs and to ensure proper procurement procedures were followed.

### *Insurance*

4.21. The Minister for Environment, Heritage and Local Government owns the machines on behalf of the people. The insurance arrangements are made by the returning officers. The Committee noted the variation in insurance costs between different constituencies, for example, in Tipperary North and South the insurance cost was €8,500 while in Waterford it was €1,061.

4.22. The Committee felt that given the overall value of the machines (€50 million) there should be a policy with regard to the physical security and economical insurance arrangements. Insurance cover and costs for these machines should be standardised.

### **Current position**

4.23. The Department has a mandate from legislation, enacted in July 2004, to proceed with this system subject to validation by the Commission. The Department believes validation reassurance in the capabilities of this system can be proven and it wants to vindicate the system and the public investment made in it. The Committee considered that any salvage of the €52 million investment to date depends on whether the electronic voting system can be made usable to the satisfaction of the public and public representatives in the years ahead.

## **5 Adoption of Reports**

5.1. The Committee disposed of Chapter 8.1 of the 2003 Annual Report of the Comptroller and Auditor General on 3 February, 2005.

## **6 Findings and recommendations**

### **The Committee of Public Accounts**

#### **Finds specifically that:**

1. The electronic voting project has cost more than €52 million and is incurring annual storage and insurance costs in excess of €650,000.
2. The bulk of the cost was for the purchase of more than 7,000 voting machines.
3. The cost benefit for the project was not done as rigorously as it should have been. There is some doubt attached to the expected cost savings of €1 million per election up to 2020.
4. The software was modified from a system working successfully elsewhere in Europe. The software does not include a voter verifiable audit trail.
5. The storage and insurance arrangements have been characterised by ad hoc arrangements leading to unacceptable variations in costs. There was inadequate co-ordination of the arrangements for storage and insurance by the Department, which has led to some excess costs.
6. There was a problem with the timescale for full introduction of electronic voting which precluded matters such as a full systems test and security testing.

#### **And recommends in general that:**

1. Proper cost benefit analysis should be undertaken on proposed new systems prior to committing major levels of funding to their introduction.
2. The hardware and software systems involved should be properly tested and signed off on; and the electoral and administrative procedures thoroughly checked by the Commission before the system is introduced.
3. The Department should intervene to ensure that there is better cost control for the storage and insurance of the voting machines. Returning officers should be asked to certify that they have complied with the necessary regulations or standard procedures (including procurement procedures) that apply in the State sector.

## **5. Environment, Heritage and Local Government – Vote 25**

### **1 Proceedings of the Committee**

1.1. The Committee heard evidence from Mr. Niall Callan, Secretary General, Department of the Environment, Heritage and Local Government (the Department) and his officials; from officials of the Department of Finance; and from the Comptroller and Auditor General on 24 March 2005.

### **2 The Background**

2.1. The Vote covers a wide range of services which are mostly delivered through local authorities and other agencies. The bulk of the annual expenditure of €2.3 billion comprises approximately €1 billion in grants for housing, almost €500 million for water and sewerage schemes and another €500 million in payments to the local government fund. For 2003, gross expenditure was €2.341 billion and this matched the Estimate without recourse to Supplementary Estimates. This is a natural consequence of the standard way adopted for public bodies funded by way of grant rather than grant-in-aid. The grant is matched to the outturn for the accounting period.

2.2. By 2003 the Department had absorbed its new responsibilities for heritage affairs. It was necessary to reorganise the Department to deal with the influx of more than 1,500 new staff. More recently this number was reduced because some of the new functions have been shared with the Office of Public Works (OPW).

### **3 The Accountability Issues**

3.1. The accountability issues considered by the Committee were:

- Housing issues
- Water and Sewage Programme
- Measuring the performance of local authorities
- National Heritage
- Mahon Tribunal Costs

### **4 Examination of the Issues**

#### **Housing issues**

##### *Housing regeneration and remedial works*

4.1. The Committee inquired about an underspend under subhead B.1.2 — regeneration and remedial works. This programme covers the major programme of regeneration at Ballymun, Dublin, a number of inner city locations in Dublin, Cork, Limerick and a small number of other locations. The reasons for the underspend were that a number of planning permissions were appealed to An Bord Pleanála and judicial review proceedings were initiated in the High Court in a particular instance by third parties.

### *Socially affordable housing Programme*

4.2. The Committee inquired about the number of houses completed by the end of 2003 under the Part V programme of the Planning and Development Act 2000. The percentage of a development to be set aside for social affordable or voluntary houses can be up to 20% in some local authority areas and a great deal less in others. According to the statistics available, only 46 houses accrued through Part V in 2002, 163 in 2003 and approximately 600 for 2004. The projection for 2005 was for 1,500 houses. The increase is due to more planning permissions under Part V coming on stream. When one combines Part V housing with that coming forward through the affordable housing initiative, it is possible to project a target of 10,000 to 11,000 houses during the three years to 2007.

### *Rent subsidies*

4.3. Responsibility for rent subsidies was transferred from local health authorities to local authorities in 2005 in respect of seven pilot areas. To finance the transfer of responsibilities and allow the initiative to proceed, almost €20 million was transferred from the Vote of the Department of Social and Family Affairs to the Department's Vote. In the pilot areas, the local authority will assume responsibility for the rents of approximately 19,000 recipients of housing benefit through the SWA system who have been identified as needing the benefit on a long-term basis. The individuals in question will no longer be paid supplementary welfare by the Department of Social and Family Affairs and, instead, the local authority will enter into a direct relationship with their landlord. The experience of how the system progresses this year will inform how quickly a national roll out can be implemented.

4.4. When the health authorities allocated rent allowance, the perception locally was that it was a temporary mechanism. This meant that a person in receipt of rent supplement would live in private rented accommodation for a period but remain on the housing list of the appropriate local authority. A national assessment for social housing purposes was taking place in 2005. If the housing allocated was considered satisfactory, it may be open to the local authority to conclude that it had fulfilled its obligation to meet the housing need of an individual or a family. Similar experiences and developments have occurred in other developed countries.

### *Traveller accommodation*

4.5. The Committee noted that in some local authority areas there is a significant improvement in reducing illegal Traveller encampments at the roadside and asked for a briefing on the national performance. A census taken at the end of 2004 showed that there were almost 7,000 Traveller families in the State, an increase of more than 1,400 since 2000-01. Despite that, the number of families living at the roadside has fallen by well over 300 since 2001. In 2003 the overall figure was down to 788. Between the years 2001 and 2003 the number of housing units available to Travellers increased from 4,734 to 5,688. The national development plan targets were to provide or refurbish nearly 1,200 Traveller-specific units, and remove 500 families from the roadside. The national Traveller accommodation consultative committee is monitoring the programme.

## *Building Standards*

4.6. Modernising and improving building standards is a concern of responsible central government administrations in all developed countries. The County and City Managers Association established a benchmark that a minimum of 12% to 13% of new buildings should be inspected. In the main that is now being done.

4.7. The Department, in conjunction with the ESRI, carried out a survey of the housing stock and published findings in 2003. That revealed a mixed picture of housing conditions in Ireland. Much of the housing stock is of relatively recent origin and is less than 40 years old. In the survey, An Irish National Survey of Housing Quality, 96% of people said they were either satisfied or very satisfied with the general condition of their accommodation.

## **Water and Sewage Programme**

4.8. The Estimate for the water and sewerage programme was €471 million and the outturn was €450 million, leaving €21 million unspent. By 2003, almost all the very large wastewater treatment schemes which had been the mainstays of the programme for four to five years were reaching completion stage. The tempo and complexion of the programme changed in favour of a portfolio of smaller, rural schemes. Approximately 70% of funding had been used to implement the urban wastewater directive prior to 2003. Since 2003, the focus has been to increase the quality of rural water supplies and to build momentum in the group scheme sector. While there is difficulty, by definition, in dealing with a greater number of projects, the rural water sector was expanded considerably in 2004 and 2005.

4.9. The Committee noted that in the five years prior to 2003, Ireland received the second highest number of environmental complaints to the European Commission and was the subject of the highest number of *per capita* complaints in the European Union. By June 2004 there were 60 infringements being investigated by the Commission, a threefold increase in 18 months. In January 2005 the Commission decided to take eight legal actions against the Government. These actions could result in fines of up to €10,000 per day for each day there is non-compliance with environmental directives. The Department is working towards solutions that will satisfy the European Commission.

## **Measuring the performance of local authorities**

4.10. The Department is trying to bring greater transparency to the issue of performance. In 2004 the Minister launched an initiative where a total of 42 performance indicators were identified, against which local authorities will be measured. They will submit statements through a central assessment committee which will then be sent to the Minister and published starting by mid-2005. The indicators extend across the range of local authority operations.

## **National Heritage**

4.11. There are approximately 750 monuments and built heritage properties in State care. Following an organisational review of the former Dúchas, it was deemed more effective to have care and maintenance of these properties and visitor centres carried out by the OPW. Experience of other countries, has shown that trusts or a number of such organisations could manage built heritage properties in a more cost-effective manner. This could reduce the cost

to the public purse. The capital Vote which is for new acquisitions, stayed with the Department.

### **Mahon Tribunal Costs**

4.12. The cumulative costs, since the establishment of the Mahon tribunal in 1997, were approximately €38 million at the beginning of 2005. The Department has set aside specific sums in its budget for the last couple of years, which proved somewhat inflated. The tribunal has not yet made any orders on costs. It made a ruling in 2004 that is likely to reduce significantly the costs of awards to third parties. The 2005 Revised Estimate for the planning tribunal is €12.3 million. That contains a significant element of estimation of possible awards of costs to third parties. The Dáil agreed amended terms in late 2004 designed to speed up and terminate the work of the tribunal by 2007 and to permit its refusal to consider further issues. The employment of additional staff was sanctioned to aid this increased work rate.

## **5 Adoption of Reports**

5.1. The Committee noted Vote 25 of the 2003 Appropriation Accounts.

## **6 Findings and recommendations**

### **The Committee of Public Accounts**

#### **Finds specifically that:**

1. There has been underspending on major regeneration and remedial projects, including Ballymun, due in part to appeals in the planning process and a referral to judicial review.
2. The number of socially affordable houses delivered between 2002 and 2004 under the Part V rules was 809. 1,371 units were provided in 2005.
3. The rental accommodation scheme being piloted in eight local authority areas has the potential to meet long term housing needs in an economic way.
4. Progress has been made on the provision of permanent housing for Traveller families. 300 families were accommodated in 2004 and a further 275 in 2005.
5. Ireland had the highest number per capita of environmental complaints in the EU in 2003 and the European Commission was taking eight legal actions against Ireland. No fines have been imposed on Ireland for non compliance with EU environmental directives.

#### **And recommends in general that:**

1. The Department should review the effectiveness of the provisions of the Part V scheme for social and affordable housing.

2. The results of the pilot scheme should be used to compare the effectiveness of the rental accommodation scheme with that of social housing provision in order to inform future policy formation.
3. The Department should make every effort to reduce the causes of environmental complaints brought at EU level.