

Accounts of sums received by Ministers and others from the National Loans Fund, and from various bodies in respect of interest and repayment of loans, etc., and of the disposal of those sums respectively, for the year ended 31 March 2004, together with the Report of the Comptroller and Auditor General thereon. (In continuation of House of Commons Paper No. 1571 of 2005-2006)

Presented pursuant to various Acts

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# Accounts relating to issues from the National Loans Fund 2003-2004

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Accounts of sums received by Ministers and others from the National Loans Fund, and from various bodies in respect of interest and repayment of loans, etc., and of the disposal of those sums respectively, for the year ended 31 March 2004, together with the Report of the Comptroller and Auditor General thereon. (In continuation of House of Commons Paper No. 1571 of 2005-2006)

Presented pursuant to various Acts

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# Accounts relating to issues from the National Loans Fund 2003-2004

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# Contents

This volume contains statutory accounts prepared to show the transactions of Ministers and others in 2003-2004 in connection with loans to various bodies out of issues from the National Loans Fund. Details of issues from the National Loans Fund in 2003-2004 are given in the relevant part of the National Loans Fund Account (see page 23 of HC 484 of 2004-2005). Certain issues and payments in respect of accounts not included herein are also notes to complete the reconciliation with that part on the National Loans Fund Accounts.

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## Notes for inclusion in the Summary to the Volume 'Accounts relating to issues from the National Loans Fund 2003-2004'

### Aircraft and Shipbuilding Industries Act 1977

Section 12(4) of the above Act requires the Secretary of State for Trade and Industry to prepare an account of any transactions with British Shipbuilders in respect of loans made from the National Loans Fund under Section 12(1) of the Act. As all outstanding loans made from the National Loans Fund were repaid in the financial year ended 31 March 1993 and there have been no subsequent transactions under the foregoing provisions, no account has been prepared for the year ended 31 March 2004.

Section 16 of the Act provides that the Secretary of State may, with the approval of the Treasury, pay to the Corporation out of money provided by Parliament public dividend capital within certain limits as he thinks fit. No payments were made in the 2003-2004 financial year and so the total paid to 31 March 2004 was the same as at 31 March 2003, £1,598.4m.

In consideration of the sums received under Section 16(1), Section 16(2) of the Act requires the Corporation to make payments to the Secretary of State (public dividends) in respect of each accounting year, unless the Corporation satisfies him that it is inappropriate to make a payment in any year. If the public dividend proposed by the Corporation in any year is not acceptable to the Secretary of State and the Treasury, the Secretary of State, with the approval of the Treasury, and after consultation with the Corporation, may determine the public dividend to be paid. The Government announced on 29 October 1979 that the Corporation would not pay dividends on its capital until it was profitable. No dividend therefore was paid in respect of the financial years up to 31 March 1988. The Government subsequently announced in May 1988 that dividends would no longer be expected to be proposed by or required of the Corporation in respect of further payments of public dividend capital. No dividends were therefore paid in respect of the financial year ended 31 March 2004.

### Atomic Energy Authority Act 1986

Section 4(6) of the above Act requires the Secretary of State for Trade and Industry to prepare accounts for any transactions with the United Kingdom Atomic Energy Authority in respect of loans made from the National Loans Fund under section 4(4) of the above Act. As all outstanding debt was extinguished by the UKAEA (Extinguishment of Liabilities) Order 1996 No. 2511, and there have been no subsequent transactions under the foregoing provisions, no account has been prepared for the year ended 31 March 2004.

### Atomic Energy Authority Act 1971

Section 12(4) of the above Act requires the Secretary of State for Trade and Industry to prepare accounts for any transactions with British Nuclear Fuels plc (BNFL) in respect of loans made from the National Loans Fund under Sections 12(2) and (3) of the 1971 Act. As the company has repaid all outstanding debts from the National Loans Fund in the financial year ended 31 March 1991 and there have been no subsequent transactions under the foregoing provisions, no account has been prepared for the year ended 31 March 2004.

### Limits on borrowing

The commitment of public finance to BNFL under Section 2(1) and (2) of the Nuclear Industry (Finance) Act 1977 as amended by the Nuclear Industry (Finance) Act 1981 and by the Atomic Energy Act 1989 is limited. At 31 March 2004 the limit specified was £2,000m and the relevant aggregates were

	<b>£m</b>
Payments made for shares	15
Loans made by the Secretary of State	–
Sums guaranteed by the Secretary of State	
Loans from the European Investment Bank	–
	<u>15</u>

During 2003-2004, BNFL took out no new loans and have repaid all outstanding loans.

## Coal Industry Acts 1946 to 1990

Section 35 of the Coal Industry Nationalisation Act 1946 requires the Secretary of State for Trade and Industry to prepare an account for any transactions with the British Coal Corporation in respect of loans made from the National Loans Fund under Section 1 of the Coal Industry Act 1965 as amended by Section 1 of the Coal Industry Act 1983. As the Corporation had repaid all outstanding debts from the National Loans Fund in the financial year ended 31 March 1994 and there have been no subsequent transactions under the foregoing provisions, no account has been prepared for the year ended 31 March 2004. The British Coal Corporation was dissolved on 27 March 2004.

### Limits on borrowing

Section 1(3) of the 1965 Act, as amended by Section 1(1) of the Coal Industry Act 1983, imposes a limit of £5,500m or such greater sum, not exceeding £6,000m, as the Secretary of State may by Order specify, on the aggregate borrowings outstanding of the Corporation, and any wholly-owned subsidiary of the Corporation, other than borrowings between one wholly-owned subsidiary and either the Corporation or another wholly-owned subsidiary. These borrowings may comprise Government advances, borrowings in foreign currency, borrowings in sterling from the Commission of the European Communities, borrowings in sterling by the wholly-owned subsidiaries and temporary borrowings from banks and other sources. At 31 March 2004 the limit specified was £5,500m and the aggregate borrowings outstanding were:

	£m
i Loans made by the Secretary of State	–
ii Loans made under Section 2(1) of the Coal Industry Act 1980	–
iii Foreign Loans	–
iv Sterling loans to wholly-owned subsidiaries	–
	—————
	–
	—————

Within the overall limit, the aggregate of the amounts outstanding in respect of sums borrowed temporarily by the Corporation under Section 1(1) and 1(2)(a)\* of the 1965 Act is limited by Section 1(4)\*\* of the 1965 Act, to such amounts as the Secretary of State may direct. The limit was £3,770m throughout 2002-2003. Within this limit the Corporation had the Secretary of State's consent to borrow up to £0.5m from the clearing banks.

### Notes

\* as amended by Section 4(1) of the Coal Industry Act 1971.

\*\* as amended by Section 1(1) of the Coal Industry Act 1977 and amended by Section 1(2) of the Coal Industry Act 1980.

The British Coal Corporation was dissolved on 27 March 2004.

## Electricity Act 1989

Section 78(5)(a) of the Electricity Act 1989 requires the Secretary of State for Trade and Industry to prepare an account of any transactions with the electricity supply industry successor companies, then wholly owned by the Crown, in respect of loans made to them from the National Loans Fund under Section 78(1) of the Act.

Magnox Electric plc is the only successor company in England and Wales which remains wholly owned by the Crown and thereby eligible to receive loans from the National Loans Fund. As the successor companies in England and Wales had repaid all outstanding debts from the National Loans Fund in the financial year ended 31 March 1991 and there have been no subsequent transactions under the foregoing provisions, no account has been prepared for the year ended 31 March 2004.

### Commonwealth Development Corporation Act 1999

Section 13(1) of the Commonwealth Development Corporation Act 1999 requires the Secretary of State to prepare for each financial year an account of sums (if there are any) issued or received by him in respect of loans from the National Loans Fund (NLF) to the Commonwealth Development Corporation (now renamed the CDC Group) under Section 9(2) of the Act. The CDC Group repaid all the then outstanding loans from the NLF in the financial year ended 31 March 1999. Provisions for CDC borrowing from the NLF remain in force. However there have been no sums issued or received under these provisions up to 31 March 2004; no account has therefore been prepared for the year to 31 March 2004.

### Transport Act

Section 44(a) of the above Act requires the Secretary of State for the Department for Transport to prepare accounts for any transactions with the British Railways Board in respect of loans made from the National Loans Fund under section 20(1) of the Transport Act 1962. As the British Railways Board has repaid all outstanding debts from the National Loans Fund in the financial year ended 31 March 2002, and as there have been no subsequent transactions under the foregoing provisions, no account has been prepared for the year ended 31 March 2004.

### Government of Wales Act 1998: Advances to the National Assembly for Wales

Section 82 of the Government of Wales Act 1998 allows for advances to be granted by the Secretary for Wales from the National Loans Fund. Section 83 directs the preparation of an account of sums paid and received by the Secretary of State. However, for the year ended 31 March 2004 no transactions have been processed in relation to this Act. No account has been produced for this period.

*Sir Robin Young, KCB*  
Accounting Officer

October 2004



# Accounts of Loans to Public Corporations



# Transport Act 1968

Advances to British Waterways Board (Secretary of State for Environment, Food and Rural Affairs)

Account presented pursuant to Act 1968, c.73, s.44(3)

## Foreword

### Scope of the Account

- 1 This Account is prepared in compliance with Section 44(1) of the Transport Act 1968, and is required to show
  - i the sums issued to the Secretary of State for Environment, Food and Rural Affairs out of the National Loans Fund under Section 20(3)\* to enable him to make loans under Section 20(1) to the British Waterways Board;
  - ii the loans so made by the Secretary of State;
  - iii the sums received by the Secretary of State in respect of interest on and repayment of
    - a loans under Section 20(2);
    - b commencing capital debt under Section 39(6);
  - iv the payment into the National Loans Fund of sums received under (iii);
  - v the sums received by the Secretary of State in respect of surpluses of the Board under Section 43(5) of the Transport Act 1968; and
  - vi the payment into the Consolidated Fund of the sums received under (v).

Grants made to the Board under the provisions of the Transport Act 1968 were accounted for in the Defra Resource Accounts 2003-2004.

### Secretary of State's power to make loans

- 2 Section 20 provides that the Secretary of State may, with the approval of the HM Treasury, lend to the Board any sums which it has power to borrow under Sections 19(1) and 19(2). Sums needed for such loans are issued by HM Treasury to the Secretary of State who is required to give directions for repayment on terms approved by the HM Treasury and to pay into the National Loans Fund sums received in respect of interest and repayment of principal.

### Limits on borrowing

- 3 Section 19(3) of the Act as amended by Section 1(1) of the Water Act 1981 and The British Waterways Board (Limit for Borrowing) Order 2001 (SI No 1054) imposes a limit of £35 million on the Board's aggregate outstanding borrowing and its commencing capital debt. The borrowings comprise government advances and temporary borrowings from approved sources. A limit on temporary borrowings has been set by the Secretary of State, in accordance with section 19(1) of the Act, at £3 million and HM Treasury has guaranteed this borrowing under Section 21(1). At 31 March 2004 the aggregate outstanding borrowings counting against these limits were

Loans made by the Secretary of State	£14,736,000
Temporary Loans Commencing Capital Debit	—
	<hr style="width: 100px; margin-left: auto; margin-right: 0;"/> £14,736,000

### **Loans made by Secretary of State, interest payable and repayment of principal**

In accordance with Section 5 of the National Loans Act 1968, HM Treasury prescribes the rate of interest applicable to each loan. The loans to the Board are repayable after 7 or 25 years, with interest payable half-yearly. No new loans were advanced to the Board during 2003-2004. No repayment of principal was made by the Board to the National Loans Fund in 2003-2004.

\* All references to sections relate to the Transport Act 1962 except where otherwise stated.

### **Statement of Accounting Officer's responsibilities**

Under Section 44(1) of the Transport Act 1968 the Secretary of State for Environment, Food and Rural Affairs is required to prepare an account for each financial year in the form and on the basis determined by HM Treasury. The Accounts are prepared on a cash basis and must properly present the receipts and payments for the financial year and the balances held at year end.

The Secretary of State has designated the Principal Accounting Officer for the Department for Environment, Food and Rural Affairs as Accounting Officer for the Fund. His relevant responsibilities as Accounting Officer, including his responsibility for the propriety and regularity of the public finances for which he is answerable, and for the keeping of proper records, are set out in the Accounting Officers' Memorandum issued by HM Treasury and published in Government Accounting (HMSO).

*Sir Brian Bender*  
Accounting Officer  
Department for Environment, Food and Rural Affairs

17 January 2005

## Transport Act 1968

Account, prepared under Section 44(1) of the Transport Act 1968, of the Receipts and Payments of the Secretary of State for the Environment, Food and Rural Affairs Sections 43 and 44(4) of that Act (and Sections 20 and 39 of the Transport Act 1962) for the year ended 31 March 2004.

### Receipts

	<b>2003-2004</b>	2002-2003
	£	£
Issues from the National Loans Fund [s.20(3)]	–	–
<i>Payments by the British Waterways Board [s.20(2)]</i>	–	–
Repayment of Loans	–	1,600,000
Interest on Loans*	<b>2,535,754</b>	1,891,003
	<b><u>2,535,754</u></b>	<b><u>3,491,003</u></b>

### Payments

Loans to the British Waterways Board [s.20(1)]	–	–
<i>Payments to the National Loans Fund [s.20(5)]</i>	–	–
Repayment of Loans	–	1,600,000
Interest on Loans	<b>1,690,503</b>	1,891,003
	<b><u>1,690,503</u></b>	<b><u>3,491,003</u></b>

### Notes

At 31 March 2004 the debt outstanding to the Secretary of State was £14,736,000.

\* The interest payment of £845,251 for April 2004 was received on 16 March 2004 and paid to the National Loans Fund in April 2004.

Sir Brian Bender  
Accounting Officer  
Department for Environment, Food and Rural Affairs

17 January 2005

## Statement on Internal Control

This statement is given in respect of the British Waterways Board National Loans Fund (NLF) Accounts. The Department for Environment, Food and Rural Affairs (Defra), since its inception on 8 June 2001, has managed waterways in England. Accordingly, I, as Accounting Officer for Defra, am responsible for signing the British Waterways Board National Loans Fund Accounts for 2003-2004.

As Principal Accounting Officer, I have responsibility for maintaining a sound system of internal control which supports the achievement of departmental policies, aims and objectives, set by the Department's Ministers, whilst safeguarding the public funds and departmental assets for which I am personally responsible, in accordance with the responsibilities assigned to me in Government Accounting.

The system of internal control is designed to manage risk to a reasonable level, rather than to eliminate all risk of failure to achieve policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of departmental policies, aim and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised and to manage them efficiently, effectively and economically. The system of internal control has continued to develop during the year, up to the date of approval of the annual report and accounts and accords with HM Treasury guidance.

As Accounting Officer, I have responsibility for reviewing the effectiveness of the system of internal control. My review of the effectiveness of the system of internal control is informed by the work of the internal auditors and the executive managers within the Department who have responsibility for the development and maintenance of the internal control framework and comments made by the external auditors in their management letter and other reports. I have been advised on the implications of the results of my review of the effectiveness of the system of internal control by the Management Board and the Audit and Risk Committee and a plan to address weaknesses and ensure continuous improvement of the system is in place.

The Department has applied the following processes in maintaining, reviewing and developing the effectiveness of the system of internal control

- the Management Board meets monthly and provides strategic leadership for the Department with emphasis on planning, performance, governance and the management of Defra's Top Threats;
- regular meetings of the Audit and Risk Committee, which is sub-committee of the Management Board, were held during the year. It considers the adequacy of audit arrangements (internal and external) and provides strategic oversight and challenge to assurances and reports from Internal Audit, the National Audit Office (NAO) and others, on the Department's risk management, control and governance processes;
- Defra Internal Audit reports to the Committee on an agreed programme of audits and the Head of Internal Audit provides an independent assurance to the Audit and Risk Committee and myself as Accounting Officer on the adequacy and effectiveness of the Department's risk management, control and governance processes, together with recommendations for improvement. Internal Audit operates to Government Internal Audit Standards and during the year was subject to an external quality assurance review. A plan of actions responding to the recommendations from the review have been agreed with the Committee;
- The Departmental Risk Co-ordinator reports to the Audit and Risk Committee and Board on the implementation of our Risk Management Strategy. As part of the annual assurances process, we have conducted a review of the maturity of our risk management (using the Risk Management Assessment Framework) in the Core Department. This has given us helpful information on the variation of maturity and allowed us to identify the following areas for continuing development: being more systematic about our engagement with Ministers; oversight of the change and delivery portfolios; the risk relationship with our delivery partners; and providing risk support in key business areas (particularly in the context of business planning).

*Sir Brian Bender*  
Accounting Officer  
Department for Environment, Food and Rural Affairs

17 January 2005

# The Certificate and Report of the Comptroller and Auditor General to the Houses of Parliament

I certify that I have audited the financial statements on page 9 under the Transport Act 1968. These financial statements have been prepared in the form and on the basis determined by Treasury.

## Respective responsibilities of the Accounting Officer and Auditor

As described on page 8 the Accounting Officer is responsible for the preparation of financial statements in accordance with the Transport Act 1968 and Treasury directions made thereunder and for ensuring the regularity of financial transactions. The Accounting Officer is also responsible for the preparation of the Foreword. My responsibilities, as independent auditor, are established by statute and I have regard to the standards and guidance issued by the Auditing Practices Board and the ethical guidance applicable to the auditing profession.

I report my opinion as to whether the financial statements properly present the receipts and payments and are properly prepared in accordance with the Transport Act 1968 and Treasury directions made thereunder, and whether in all material respects the receipts and payments have been applied to the purposes intended by Parliament and conform to the authorities which govern them. I also report if, in my opinion, the Foreword is not consistent with the financial statements, if the Accounting Officer has not kept proper accounting records, or if I have not received all the information and explanations I require for my audit.

I review whether the statement on page 10 reflects compliance with Treasury's guidance on the Statement on Internal Control. I report if it does not meet the requirements specified by Treasury, or if the statement is misleading or inconsistent with other information I am aware of from my audit of the financial statements. I am not required to consider, nor have I considered whether the Accounting Officer's Statement on Internal Control covers all risks and controls. I am also not required to form an opinion on the effectiveness of the Department's corporate governance procedures or its risk and control procedures.

## Basis of audit opinion

I conducted my audit in accordance with United Kingdom Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts, disclosures and regularity of financial transactions included in the financial statements. It also includes an assessment of the judgements made by the Accounting Officer in the preparation of the financial statements.

I planned and performed my audit so as to obtain all the information and explanations which I considered necessary in order to provide me with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by error, or by fraud or other irregularity and that, in all material respects, the receipts and payments have been applied to the purposes intended by Parliament and conform to the authorities which govern them. In forming my opinion I also evaluated the overall adequacy of the presentation of information in the financial statements.

## Opinion

In my opinion

- the account properly presents the receipts and payments of the Secretary of State for Environment, Food and Rural Affairs in respect of advances to the British Waterways Board for the year ended 31 March 2004 and the balance held at that date and has been properly prepared in accordance with the Transport Act 1968 and the directions made thereunder by the Treasury; and
- in all material respects the payments and receipts have been applied to the purposes intended by Parliament and conform to the authorities which govern them.

I have no observations to make on these financial statements.

*John Bourn*  
Comptroller and Auditor General

24 January 2005

National Audit Office  
157-197 Buckingham Palace Road  
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London SW1W 9SP

## Civil Aviation Act 1982

Advances to the Civil Aviation Authority (Secretary of State for Transport) Account presented pursuant to Act 1982, c.16, s.15(4)

### Foreword

#### Scope of the Account

- 1 This Account is prepared in compliance with section 15(4) of the Civil Aviation Act 1982 and is required to show
  - i the sums issued to the Secretary of State out of the National Loans Fund under section 12(4)<sup>1</sup> to enable him to make loans under section 12(2) to the Civil Aviation Authority;
  - ii the loans so made by the Secretary of State;
  - iii the sums received by the Secretary of State in respect of interest on and repayment of
    - loans under section 12(3);
  - iv the payment into the National Loans Fund of the sums received under (iii);
  - v the sums received by the Secretary of State directed to be paid to him by the Authority in respect of
    - a any excess revenues under section 13(1);
    - b any sums standing to the credit of reserves under section 13(2);
  - vi the payment into the Consolidated Fund of the sums received under (v).

#### Secretary of State's power to make loans

- 2 Section 12 of the Act provides that the Secretary of State may, with the approval of the Treasury, lend to the Civil Aviation Authority any sum which it has the power to borrow under section 10 (as amended) by the Civil Aviation Authority (Borrowing Powers) Act 1990. Sums needed for such loans are issued by the Treasury to the Secretary of State who is required to give directions for repayment on terms approved by the Treasury and to pay into the National Loans Fund sums received in respect of interest and repayment of principal.

#### Limits on borrowing

- 3 The Civil Aviation Authority (Borrowing Powers) Order 1995, made under the Civil Aviation Authority (Borrowing Powers) Act 1990, sets the limit on the Authority's aggregate outstanding borrowings and its initial debt at £550 million. These borrowings may comprise Government advances, temporary borrowings from banks and other sources, borrowings in foreign currency, borrowings from the Commission of the European Communities and from the European Investment Bank. At 31 March 2004, the aggregate outstanding borrowings counting against the limit of £550 million was

	£
Loans made by the Secretary of State	8,236,744
Foreign loans	—
	8,236,744

<sup>1</sup> All references to sections relate to the the Civil Aviation Act 1982 except where otherwise stated.



### **Loans made by the Secretary of State, interest payable and repayment of principal**

- 4 Up to the end of 1992, advances made to the Authority under section 12(2) were normally repayable at maturity. However from January 1993, advances made to the Authority under section 12(2) have been equal repayment loans. Advances at fixed interest rates are based on the rates prescribed by the Treasury for the period in which the dates of the loan fall. There are no outstanding variable rate loans. Interest on advances is paid half-yearly on 2 January and 2 July. The Authority pays interest to the Secretary of State without deductions for Income Tax. The Authority is also permitted to take up to 10 per cent of its non-temporary borrowing from the NLF in any one year on variable rate terms. Such loans are available for maturities of 1 to 10 years, with roll-over periods of 1, 3 or 6 months.

### **Initial debt**

- 5 The Authority's initial debt was repaid in full during the accounting year 1981-1982.

### **Excess revenues and sums standing to the credit of reserves**

- 6 Under sections 13(1) and (2) the Secretary of State may, with the approval of the Treasury and after consultation with the Authority, direct the Authority to pay him
- i the whole or any part of the excess of the revenues of the Authority in any accounting year over the sums properly chargeable by the Authority to revenue account;
  - ii the whole or part of the sums for the time being standing to the credit of any reserves of the Authority.

No such directions were issued in respect of the accounting year 2003-2004.

### **Statement of Secretary of State's and Accounting Officer's responsibilities**

- 7 Under Section 15(4) of the Civil Aviation Act 1982 the Secretary of State is required to prepare an account for each financial year in the form and on the basis determined by the Treasury. The accounts are prepared on a cash basis and must properly present the receipts and payments for the financial year.
- 8 The Treasury has appointed an Accounting Officer for the account. His relevant responsibilities as Accounting Officer, including his responsibility for the propriety and regularity of the public finances for which he is answerable and for the keeping of proper records, are set out in the Accounting Officer's Memorandum issued by the Treasury and published in 'Government Accounting' (TSO).

*David Rowlands*  
Accounting Officer  
Department for Transport

5 January 2005

## Civil Aviation Account 1982

Account, prepared under Section 15 of the Civil Aviation Act 1982, of the Receipts and Payments of the Secretary of State for Transport under Sections 9, 10, 12 and 13 of that Act for the year ended 31 March 2004.

### Receipts

	£	Previous year £
Balance as at 1 April 2003	-	-
From the National Loans Fund [s.12(4)]	-	-
<i>From the Civil Aviation Authority Loans [s.12(4)]</i>		
Repayment of Principal	<b>565,683</b>	959,242
Interest	<b>663,586</b>	767,225
Premium for early repayments of loans	-	-
Penalty for late repayments of loan	-	-
	<b><u>1,229,269</u></b>	<b><u>1,726,467</u></b>

### Payments

	£	Previous year £
<i>Loans to the Civil Aviation Authority [s.12(2)]</i>	-	-
Payments to the National Loans Fund [s.12(4)]		
Repayment of Principal	<b>565,683</b>	959,242
Interest	<b>663,586</b>	767,225
Premium for early repayments of loans	-	-
Penalty for late repayment of loan	-	-
Balance at 31 March 2004	-	-
	<b><u>1,229,269</u></b>	<b><u>1,726,467</u></b>

### Note

1 At 31 March 2004 the debt outstanding to the Secretary of State was: £8,236,744.

David Rowlands  
Accounting Officer  
Department for Transport

5 January 2005

## Statement on Internal Control

This statement is given in respect of the Civil Aviation Authority National Loans Fund (NLF) annual account and incorporates all the transactions pertinent to that account. In my role as Principal Accounting Officer for the Department for Transport (DfT), I have the responsibility of signing this account.

As Accounting Officer, I have responsibility for maintaining a sound system of internal control that supports the achievement of the Department for Transport's policies, aims and objectives, whilst safeguarding the public funds and departmental assets for which I am personally responsible, in accordance with the responsibilities assigned to me in Government Accounting.

Officials regularly consult Ministers on risk. Submissions to Ministers incorporate assessments of key risks, whether to the operation of the transport system, including public perceptions, or to the successful delivery of new policies. DfT Ministers also receive regular reports on key cross-government risks from the Domestic Horizon Scanning Committee.

The Department's Board includes one Agency Chief Executive. The membership of the Department's Audit Committee includes non-executive representatives of Agency Audit Committees.

Key internal control processes were established in the Department in the period between the creation of the Department in May 2002 and March 2003. This statement describes these and the further developments, particularly on risk management processes, which took place in the central Department in 2003-2004 to meet the standards set by HM Treasury.

### The purpose of the system of internal control

The system of internal control is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of departmental policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically. Subject to the developments during the year described in the following paragraphs, the system of internal control has been in place in the Department for Transport for the year ended 31 March 2004 and up to the date of approval of the annual report and accounts, and accords with Treasury guidance.

### Capacity to handle risk

The following structures have been put in place to lead risk management in the Department.

A Board, which sets the strategic direction of the Department and ensures delivery against its objectives. The Board identifies, monitors and manages high level corporate risks. It leads on strategy and delivery, in support of the policy objectives set by Ministers. It holds Group Directors and Agency Chief Executives accountable for performance against Public Service Agreements (PSAs) and other key targets, and for the proper use of resources in line with the Department's aims and objectives. The Board was supported in these functions for a limited period by a Performance, Delivery and Risk Committee; its responsibilities have now reverted to the Board.

An Executive Committee is responsible for the corporate management of the Department. The Committee seeks to ensure that the resources available to the Department are managed as effectively as possible to meet identified risks and corporate governance standards.

An Audit Committee, which met four times during the year to monitor and review the Department's processes for managing risk, control, governance and assurance, and once to review the Department's draft Resource Accounts. In line with best practice, the Committee is chaired by a non-executive member of the Board and includes the non-executive Chairs of the Highways Agency and the Driver, Vehicle and Operator Group Audit Committees.

The central Department has developed and improved its approach to risk identification, assessment and management. A working group, with membership comprising senior officials in key business areas, provided strategic direction to the risk strategy. A Risk Improvement Manager was appointed in March 2003 to oversee the embedding of risk management within the Department, and became responsible for the delivery of a number of work streams within the strategy. The Department also appointed external consultants with expertise in risk management to support the development of new systems and deliver a tailored programme of risk awareness training.

Good progress has been made in integrating risk management into the Department's business planning and performance reporting processes, which are the core management processes within the Department. The Department's 2003-2004 business plan identified critical milestones for delivery, along with the associated risks and the key performance indicators for each of the Department's priorities, which formed the basis for performance and risk reviews during the year. The Department's performance monitoring system was developed to enable the Board to track and manage progress against the risks to PSA targets and other priority objectives.

Guidance on managing risk was published on the Department's intranet in July 2003. The guidance provides practical advice to staff on identifying, assessing, addressing and monitoring risks, and contains risk register templates for recording and reporting risk. A programme of risk workshops has been run over the course of the year to take staff involved in the delivery of priority objectives through the stages of the risk management process and to help them to establish and use risk registers. The workshops are supported by a core presentation that outlines the benefits of risk management and explains the process for managing risk.

### The risk and control framework

All staff are required to manage risks to the achievement of their objectives in a systematic and consistent way. The Department's risk management strategy, published in June 2003, sets out the process that staff are required to follow. Risk assessments were carried out by the Board and in all Directorates during the course of the 2003-2004 business planning round, and in many parts of the Department these have now been carried out down to Divisional and team level. Risk reviews are carried out as part of monthly performance reviews, and information is recorded in risk registers.

A Board level workshop in April 2003 identified seven categories of 'unacceptable outcome' that form the basis of the Department's risk appetite, and these categories have been developed into the matrix used to assess risks as part of the reporting template. Further work is planned during 2004 to refine the measures used to improve consistency of risk assessments across the Department. A review of risks by the Performance, Delivery and Risk Committee in March 2004 identified the following risk priorities for the Department:

- inadequate financial resources;
- escalating costs;
- failure of delivery partners;
- industrial action affecting transport services;
- terrorism;
- inadequate skills and capabilities;
- failure to secure the legislative programme.

Improvements have been made to both the risk management and business planning processes to identify the Department's main dependencies on delivery partners, including its agencies and sponsored bodies, and to highlight the need for the risks relating to these relationships to be actively assessed and addressed.

The business planning and performance reporting processes, which form the core of the Department's management processes, have been the main means for embedding risk management within the Department during 2003-2004. The Departmental business plan provided the basis for performance and risk reporting during 2003-2004 and risks identified during the year were used to refresh the Department's corporate risk register in March 2004. A monthly performance reporting process, including reports on risks to Departmental objectives, was established in summer 2003 under the Performance, Delivery and Risk Committee (see paragraph 7) and is now the subject of direct scrutiny by the Board. Directors are required to ensure that robust arrangements are in place for reviewing and reporting risks within their areas, as part of wider governance and reporting arrangements.

A centre of excellence for programme and project management (PPM) was established in May 2003, and this has provided the focus for embedding good practice, including risk management practice, at programme and project levels. In September 2003, responsibilities for embedding PPM, risk management and business planning were brought together into a single Division, and these are now managed as part of a single programme. A risk network, involving the Department and its executive agencies, has been in operation throughout 2003-2004 to share information and promote more consistent management of risks within the Department and its agencies.

At the beginning of the year, the Department implemented a comprehensive 'Stewardship Pack', which included the framework of accountabilities, the roles and responsibilities of Heads of Unit (Directors) and the end of year reporting arrangements. These set out Directors' responsibilities for risk management. This pack was supported by new delegation arrangements at Head of Unit level to improve accountability and the management of resources. Delegations from the Treasury to the Department were reviewed comprehensively towards the end of the year, and delegations from the Accounting Officer to Directors were reissued in the 2004-2005 Stewardship Pack.

The Department's risk management strategy, published in June 2003, outlined responsibilities at all levels of the Department for managing risk. Directors' and Divisional Managers' responsibilities for managing risks are set out in the Department's risk strategy and in stewardship packs. Since March 2003, Directors have been required to submit a signed declaration that they comply with the requirements set out in the stewardship pack.

The Department and its agencies have a number of well-established programmes for involving the public in managing the risks associated with transport.

The Department identified, in a letter of 24 June 2003 to the Treasury, the main elements of the programme of work proposed in the central Department for 2003-2004 to comply with Treasury guidance on the requirements for reporting on risk management in the statement on internal control. This programme has been completed, except for two items that were superseded by additional guidance from the Treasury. I am therefore satisfied that the procedures necessary to implement Treasury guidance on risk management were fully in place in the central Department by 31 March 2004.

Further work, to improve implementation and embedding of risk management skills and processes, is planned for the remainder of 2004-2005. This will be delivered through the development of a new risk management framework to support the Department's existing risk strategy; through improvements to the stewardship reporting process to clarify and increase accountabilities for risk management; and through the provision of a targeted programme of interventions (part of a wider programme of improvements to business management within the Department) to improve risk management practice and increase knowledge and skills across the Department.

## Review of effectiveness

As Accounting Officer, I have responsibility for reviewing the effectiveness of the system of internal control. My review of the effectiveness of the system of internal control is informed by the work of the internal auditors and the executive managers within the Department who have responsibility for the development and maintenance of the internal control framework, and comments made by the external auditors in their management letter and other reports. I have been advised on the implications of the results of my review of the effectiveness of the system of internal control by the Board and the Audit Committee, and a plan to address weaknesses and ensure continuous improvement is in place.

Since April 2003, the Department's Risk Improvement Manager has carried out six-monthly assessments of progress towards implementing the risk improvement programme to inform the Department's contribution to the report to the Chief Secretary. Since October 2003, assessments have been based on the risk management framework developed by the Treasury in 2003. The results of these assessments have been used to inform priorities for the Department's risk improvement programme.

The Audit Committee receives summaries of Internal Audit reports and considers the Head of Internal Audit's annual opinion on the effectiveness of risk management, control and governance. The Chair of the Audit Committee reports the Committee's views on the effectiveness of internal control to the Board regularly throughout the year.

The Department's Audit, Risk and Assurance Division (Internal Audit) operated to standards defined in the Government's Internal Audit Standard. It provided an independent opinion to the Accounting Officer on control and governance and the effectiveness of the Department's risk management systems. Regular reports were provided to the Department's management, as well as advice on risk and control issues. The Department's assessment of the control environment was also informed by the programme of external audits and value for money studies undertaken by the National Audit Office.

Directors produced end of year stewardship reports that confirmed they were substantially compliant with the Department's risk and resource management procedures, and explained any issues and problems arising. The Finance Director collated the results of these reports, together with his commentary, in a report on stewardship to the Accounting Officer.

A series of actions have been taken in the central Department to address the significant control problems identified in 2002-2003. A programme of work to improve financial management has been undertaken to address problems revealed in the production of the accounts for 2002-2003 and other control issues unresolved since the creation of the Department in the machinery of government changes in May 2002. Work on the 2003-2004 accounts has not revealed any significant problems. Actions to improve risk management, in line with wider government initiatives, are described in the preceding paragraphs.

The Group Head of Internal Audit has provided the following opinion for 2003-2004

- the risk management processes in the Department were introduced in 2003 after the machinery of government changes. Whilst these processes are working well at some levels, it is recognised that more work is required to apply these processes consistently across all levels of management;
- significant effort has been made to improve financial management and controls in the Department and management is working on a continuous programme to improve controls further; and
- improvements have been made to the Governance process across the Department during the year and these arrangements are working reasonably well.

*David Rowlands*  
Accounting Officer  
Department for Transport

5 January 2005

# The Certificate and Report of the Comptroller and Auditor General to the Houses of Parliament

I certify that I have audited the financial statements on page 14 under the Civil Aviation Act 1982. These financial statements have been prepared in the form and on the basis determined by the Treasury.

## Respective responsibilities of the Accounting Officer and Auditor

As described on page 13 the Accounting Officer is responsible for the preparation of financial statements in accordance with the Civil Aviation Act 1982 and Treasury directions made thereunder and for ensuring the regularity of financial transactions. The Accounting Officer is also responsible for the preparation of the Foreword. My responsibilities, as independent auditor, are established by statute and I have regard to the standards and guidance issued by the Auditing Practices Board and the ethical guidance applicable to the auditing profession.

I report my opinion as to whether the financial statements properly present the receipts and payments and are properly prepared in accordance with the Civil Aviation Act 1982 and Treasury directions made thereunder, and whether in all material respects the receipts and payments have been applied to the purposes intended by Parliament and conform to the authorities which govern them. I also report if, in my opinion, the Foreword is not consistent with the financial statements, if the Accounting Officer has not kept proper accounting records, or if I have not received all the information and explanations I require for my audit.

I review whether the statement on pages 15 to 18 reflects compliance with Treasury's guidance on the Statement on Internal Control. I report if it does not meet the requirements specified by Treasury, or if the statement is misleading or inconsistent with other information I am aware of from my audit of the financial statements. I am not required to consider, nor have I considered whether Accounting Officer's Statement on Internal Control covers all risks and controls. I am also not required to form an opinion on the effectiveness of the Department's corporate governance procedures or its risk and control procedures.

## Basis of opinion

I conducted my audit in accordance with United Kingdom Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts, disclosures and regularity of financial transactions included in the financial statements. It also includes an assessment of the judgements made by the Accounting Officer in the preparation of the financial statements.

I planned and performed my audit so as to obtain all the information and explanations which I considered necessary in order to provide me with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by error or by fraud or other irregularity and that, in all material respects, the receipts and payments have been applied to the purposes intended by Parliament and conform to the authorities which govern them. In forming my opinion I also evaluated the overall adequacy of the presentation of information in the financial statements.

## Opinion

In my opinion

- the account properly presents the receipts and payments of the Secretary of State for Transport in respect of advances made to the Civil Aviation Authority for the year ended 31 March 2004 and the balances held at that date and has been properly prepared in accordance with Section 15(4) of the Civil Aviation Act 1982 and the directions made thereunder by the Treasury; and
- in all material respects the receipts and the payments and have been applied to the purposes intended by Parliament and conform to the authorities which govern them.

I have no observations to make on these financial statements.

*John Bourn*  
Comptroller and Auditor General

31 January 2005

National Audit Office  
157-197 Buckingham Palace Road  
Victoria  
London SW1W 9SP

# Post Office Act 1969

Advances to the Post Office Corporation (Secretary of State for Trade and Industry)

Account presented pursuant to the Post Office Act 1969

## Foreword

### Scope of the Account

- 1 This account is prepared in compliance with section 39<sup>1</sup> of the Post Office Act 1969 and is required to show:
  - i sums received by the Secretary of State under section 37 (2);
  - ii sums issued to the Secretary of State under section 37 (3); and
  - iii the disposal of those sums.

### Secretary of State's power to make loans

- 2 Section 37 of the Post Office Act 1969<sup>2</sup> enabled the Secretary of State, with the approval of the Treasury, to lend to the Post Office any sums which it has power to borrow under section 73 of the British Telecommunications Act 1981. Sums needed for such loans were issued by the Treasury to the Secretary of State who could, with the approval of Treasury, give directions for repayment. Loans made to the Post Office corporation under section 37 before midnight on 25 March 2001 have been, since midnight on 25 March 2001, by virtue of a scheme made under section 60 of the British Telecommunications Act 1981, loans to Royal Mail Group plc (at the time of the scheme it was named Consignia plc). Ownership of Consignia plc was transferred on 26 March 2001 to the Post Office company by virtue of section 62 of the Postal Services Act 2000. The Secretary of State is required by section 37(4) of the 1969 Act to pay into the National Loans Fund sums received in respect of interest on and repayment of principal on those loans.

### Limits on borrowing

- 3 Under section 74(2) of the British Telecommunications Act 1981, which applied to loans made to the Post Office before 26 March 2001, the aggregate amount of loans outstanding by the Post Office was not at any time to exceed £1,200 million. Section 74 of the 1981 Act was amended by section 115(6) of the 2000 Act with effect from 28 September 2000 so that the aggregate amount of loans outstanding to the Post Office and its subsidiaries should not exceed £5,000 million.

Section 74 was subsequently repealed by Schedule 9 of the 2000 Act, and its repeal commenced by S.I.2000/2957 (C.88), with effect from 26 March 2001. Thereafter under section 71(1) of the 2000 Act the Crown's financial arrangements<sup>3</sup> with Consignia Holdings plc (company number 4074919, which was renamed Royal Mail Holdings plc on 4 November 2002) and any of its subsidiaries are not to exceed £5,000 million.

<sup>1</sup> Section 39 of the Post Office Act 1969 was amended by S.I. 1974/691 and by Section 5 of the Post Office (Banking Services) Act 1976. It was repealed by Schedule 9 to the Postal Services Act 2000 and its repeal was commenced by S.I. 2001/1148 (C.37) with effect from 26 March 2001. Paragraph 12 of S.I. 2001/1148 saves Section 39 insofar as it relates to a loan made before 26 March 2001 by the Secretary of State under Section 37 of the 1969 Act.

<sup>2</sup> Section 37 of the Post Office Act 1969 was amended by S.I. 1974/691, by paragraphs 51 (3) of the British Telecommunications Act 1981 and by Section 115 (2) of the Postal Services Act 2000 with effect from 28 September 2000 to permit loans to be made to any subsidiary of the Post Office. It was repealed by Schedule 9 to the Postal Services Act 2000 and its repeal was commenced by S.I. 2001/1148 (C.37) with effect from 26 March 2001. Paragraph 11 of S.I. 2001/1148 saves Section 37(2) to (4) in respect of a loan made before 26 March 2001 by the Secretary of State.

<sup>3</sup> Section 71(2) of the Postal Services Act 2000 provides that the Crown's financial arrangements with the Post Office company are the aggregate of

- a amounts outstanding in respect of the principal of loans made under Section 37 of the Post Office Act 1969;
- b amounts outstanding (otherwise than by way of interest) in respect of sums paid by the Treasury in fulfilment of guarantees given under Section 38 of that Act;
- c amounts outstanding in respect of the principal of loans made under Section 68 of the Postal Services Act 2000;
- d amounts outstanding (otherwise than by way of interest) in respect of sums paid by the Secretary of State in fulfilment of guarantees given under Section 39 of the Postal Services Act 2000;
- e amounts outstanding in respect of the principal of debt securities issued in pursuance of Section 63 of this Act; and
- f liabilities extinguished under Section 70 of the Postal Services Act 2000 so far as they are not replaced with corresponding liabilities.



**Loans made by the Secretary of State, interest payable and repayment of principal**

- 4 In accordance with section 5 of the National Loans Fund Act 1968, the Treasury prescribes the rate of interest applicable to each loan. Loans to the Post Office company are repayable after 20 to 25 years, with interest payable half-yearly. As at 31 March 2004, the amounts and terms of loans made to the Royal Mail Holdings plc and its subsidiaries were as follows

<b>Amount (£)</b>	<b>Rate of interest per cent</b>	<b>Principal to be paid off</b>
25,000,000	5.26	20 March 2021
25,000,000	5.56	20 March 2021
25,000,000	5.7	20 September 2021
25,000,000	5.7	20 September 2021
25,000,000	5.7	20 March 2022
25,000,000	5.7	20 March 2022
25,000,000	5.63	20 September 2022
25,000,000	5.98	20 September 2022
25,000,000	5.87	20 March 2023
25,000,000	6.05	20 March 2023
25,000,000	6.05	20 September 2023
25,000,000	6.03	20 September 2023
25,000,000	6.03	20 March 2024
25,000,000	6.03	20 March 2024
25,000,000	6.12	20 September 2024
25,000,000	5.94	20 September 2024
25,000,000	5.94	20 March 2025
25,000,000	5.94	20 March 2025
25,000,000	5.94	20 September 2025
25,000,000	5.51	20 September 2025

**Statement of the Secretary of State's and Accounting Officer's responsibilities**

Under Section 39 of the Post Office Act 1969 (see footnote 1 to this Foreword) the Secretary of State for Trade and Industry is required to prepare an account for each financial year in the form and on the basis determined by the Treasury of sums received by the Secretary of State under section 37(2) of the 1969 Act and of sums issued to the Secretary of State under section 37(3) and of the disposal by her of those sums respectively. The accounts are prepared on a cash basis and must properly present the receipts and payments for the financial year and the balances held at year end.

The Treasury has appointed an Accounting Officer for the account. His relevant responsibilities as Accounting Officer, including his responsibility for the propriety and regularity of the public finances for which he is answerable and for the keeping of proper records, are set out in the Accounting Officers' memorandum issued by the Treasury and published in 'Government Accounting'.

## Post Office Act 1969

Account, prepared under Section 39 of the Post Office Act 1969, of the Receipts and Payments by the Secretary of State for Trade and Industry under Section 37 of the Post Office Act 1969 for the year ended 31 March 2004.

### Receipts

	<b>2003-2004</b>	2002-2003
	£	£
Balance at 1 April	-	-
From National Loans Fund	-	-
<i>From the Royal Mail Group plc</i>		
Repayments of Loans	-	-
Interest on Loans	<b>29,170,000</b>	29,170,000
	<b><u>29,170,000</u></b>	<u>29,170,000</u>

### Payments

	<b>2003-2004</b>	2002-2003
	£	£
Advances to the Royal Mail Group plc	-	-
<i>To the National Loans Fund</i>		
Repayments of Loans	-	-
Interest on Loans	<b>29,170,000</b>	29,170,000
Balance at 31 March	-	-
	<b><u>29,170,000</u></b>	<u>29,170,000</u>

Sir Robin Young, KCB  
Accounting Officer  
Department of Trade and Industry

11 October 2004

## Statement of Internal Control

This statement is given in respect of the Post Office National Loans Fund Account for the year ending 31 March 2004. As Accounting Officer for this account, I acknowledge my responsibilities for ensuring that a sound system of internal control exists that supports the achievement of Department of Trade & Industry's policies, aims and objectives, whilst safeguarding the public funds and departmental assets for which I am personally responsible, in accordance with the responsibilities assigned to me in Government Accounting.

The Department's ambition is Prosperity for All, by raising productivity and competitiveness by supporting successful business, ensuring fair markets and promoting world-class science and innovation. I am advised by:

- The Department's Strategy Board. This is now chaired by the Secretary of State and includes all DTI Ministers, all Executive Board Members and three Independent Board Members. The Strategy Board advises on the strategic direction of the Department and meets three times a year.
- The Department's Executive Board which I chair and comprises the Department's Directors General; Chief Executive UKTI; Director of Strategy, Director of Finance & Resource Management and three Independent Board Members. The Board meets monthly and sets the Department's strategic aims, agrees the Business Plan, ensures resources are in place to deliver the Departments objectives and monitors performance and the management of risk against those objectives.
- The following five Committees whose governance work support the role of the Boards
  - Audit Committee;
  - Investment Committee;
  - Performance Monitoring Committee;
  - Resources Committee (established July 2004); and
  - Permanent Secretary's Committee.

I work with Ministers and DTI top management through the Strategy Board, Executive Board, other meetings and correspondence. I involve Ministers in the management of risks at a strategic level, considering major factors that could prevent DTI objectives being achieved.

### The purpose of the system of internal control

The system of internal control is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of departmental policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically. The system of internal control has been in place in the Department of Trade and Industry for the year ended 31 March 2004 and up to the date of approval of the annual report and accounts, and accords with Treasury guidance.

### Capacity to handle risk

Throughout 2003-2004, the Executive Board has continued to take a lead in embedding risk management in the organisation. The Audit Committee Chairman and I issued a risk management policy to all staff on 1 April 2003. This set out the Department's risk management framework and defined roles and responsibilities for managing risk throughout the organisation.

Risk Management has also been integrated into the Department's planning and reporting systems. For example, the Department's balanced scorecard includes reports on the risks associated with the delivery of the Department's operational objectives and PSA targets. The scorecard also provides for monitoring of progress toward PSA targets and, in cases where achievement is prejudiced, identification of whether shortfall is due to internal control issues or external factors. The Executive Board reviews the scorecard on a quarterly basis as well as the overall risk register for the Department. Outside of this regular reporting framework, mechanisms are in place which allow for escalation to the Executive Board of any new risks identified or of any risks that have changed materially in status since the last regular report.

Within the period of report, a risk workshop was held involving members of the Executive Board which identified key risks facing the DTI at a corporate level. The output from the workshop was discussed with the Secretary of State and all risks identified were incorporated within the Department's established risk management processes.

Throughout the year guidance has been available to all staff on risk management. In addition to a risk management policy, specific guidance has been available on undertaking risk self-assessment which includes guidance on applying risk management as an integral part of the Department's Business Planning process. Risk management workshops are available to all staff and Risk Management has been incorporated into a wide range of DTI training courses. These courses cover all ranges of staff in the Department and are tailored to be appropriate to their authority and duties.

### The risk and control framework

The risk management framework for the Department operates through the initial identification of risks that threaten achievement of the Department's objectives. These risks are then evaluated in terms of impact and probability. Consideration is then given to the actions required to effectively manage each risk. This process establishes the level of residual risk against which the Department is exposed which is monitored over time.

Ownership for each risk is assigned to a named individual. Assurance that risk mitigation activities are appropriate is obtained through regular management reviews and Internal Audits of the key activities undertaken in the Department. In order to further embed best practice in risk handling and to ensure a consistent interpretation of the acceptable extent of residual risk, the Department is exploring actively ways in which it might quantify and communicate its risk appetite across the organisation.

Throughout 2003-2004 the Department's Risk Support Team has worked with colleagues to embed risk management into key business processes such as Business Planning and Performance Management, policy-making and project management. Various approaches have been applied such as the development of guidance on the Department's 'Better Policy-Making' website and a seminar on risk management in policy-making which I personally chaired.

### Review of effectiveness

As Accounting Officer, I have responsibility for reviewing the effectiveness of the system of internal control. My review of the effectiveness of the system of internal control is informed by the work of the internal auditors and the executive managers within the Department who have responsibility for the development and maintenance of the internal control framework, and comments made by the external auditors in their management letter and other reports. I have been advised on the implications of the results of my review of the effectiveness of internal control by the Executive Board, the Audit Committee and a plan to address weaknesses and ensure continuous improvement of the system is in place.

The effectiveness of the system of internal control is reviewed by my Directors General who each provides me with a Statement on Risk Management and Internal Control and Corporate Governance Representation for their Group based on the returns they received from their Heads of Management Units. The Chairman of the Audit Committee and the Director of Internal Audit reviews each Statement and Representation with the relevant Director General.

The Department's Agencies and consolidated NDPBs also conduct a review of the effectiveness of internal control in preparing a Statement on Internal Control for their Resource Accounts. A similar process is applied to that in the Department and the signed statements from each Chief Executive form part of the Department's overall assurance on internal control.

The Department also has arrangements, tailored to each particular situation, for monitoring those sponsored bodies which are not consolidated into the Departmental Resource Accounts but where these bodies participate in the delivery of DTI objectives. Monitoring arrangements are in place as needed for other bodies where the DTI has lead policy within Government, such as Royal Mail Holdings. In addition, as part of its support for the solvent re-structuring of British Energy, the Department has put in place revised monitoring arrangements and draft agreements which will be activated on restructuring to protect Government's financial exposure to BE, in particular in relation to the nuclear liabilities which the Government is underwriting.

The Audit Committee provides independent advice on internal control issues. It also serves as a risk committee and advises the Board on embedding risk management within the organisation. The Audit Committee advises on the Internal Audit work programme and considers key recommendations from Internal Audit Reports. I receive progress reports from the Chairman after each Audit Committee. The Chairman also sits as an Independent Board Member on the Executive Board.

Internal Audit operates to standards defined in the Government Internal Audit Manual. Their audit programme is focused around the Department's key risks and they submit regular reports on the adequacy and effectiveness of internal control together with recommendations for improvement. The Director of Internal Audit provides me with an Annual Report, which contains an independent opinion on the adequacy and effectiveness of internal control.

There were no significant internal control issues during the course of 2003-2004. Where weaknesses in the control environment were identified, action to strengthen control has been taken or is planned.

Improved awareness and application of risk management continues across the Department. Departmental and Operational Objective risk registers were in place from the start of the year and were reviewed on a quarterly basis. Our review of the effectiveness of internal control did highlight a number of areas where further improvement is required during 2004-2005. These are as follows

- the need to ensure that the Department has the capability to manage the aggregate level of risk it faces particularly in light of the reform agenda;
- the need for the Department to actively explore ways in which risk appetite is quantified and communicated throughout the organisation;
- the need to identify and implement good practice in managing risks with our partners;
- the need to integrate and embed risk management with individual performance management and personal development processes;
- the need to ensure effective matrix working is applied when delivery objectives are dependent upon the actions of more than one group in the DTI;
- the need to address difficulties and potential inefficiencies that have arisen from managing and reporting on administrative budgets by group and programme budgets by objective; and
- the need to continue to improve the quality of management; and information provided by corporate information systems.

*Sir Robin Young, KCB*  
Accounting Officer

11 October 2004

# The Certificate and Report of the Comptroller and Auditor General to the Houses of Parliament

I certify that I have audited the financial statements on page 22 under Section 39 of the Post Office Act 1969. These financial statements have been prepared in the form and on the basis determined by Treasury.

## Respective responsibilities of the Accounting Officer and Auditor

As described on page 21 the Accounting Officer is responsible for the preparation of financial statements in accordance with the Post Office Act 1969 and Treasury directions made thereunder and for ensuring the regularity of financial transactions. The Accounting Officer is also responsible for the preparation of the Foreword. My responsibilities, as independent auditor, are established by statute and I have regard to the standards and guidance issued by the Auditing Practices Board and the ethical guidance applicable to the auditing profession.

I report my opinion as to whether the financial statements properly present the receipts and payments and are properly prepared in accordance with the Post Office Act 1969 and Treasury directions made thereunder and whether in all material respects the receipts and payments have been applied to the purposes intended by Parliament and conform to the authorities which govern them. I also report if in my opinion the Foreword is not consistent with the financial statements, if the Accounting Officer has not kept proper accounting records or if I have not received all the information and explanations I require for my audit.

I review whether the statement on pages 23 to 25 reflects compliance with Treasury's guidance on the statement on internal control. I report if it does not meet the requirements specified by Treasury or if the statement is misleading or inconsistent with other information I am aware of from my audit of the financial statements. I am not required to consider nor have I considered whether the Accounting Officer's Statement on Internal Control covers all risks and controls. I am not also required to form an opinion on the effectiveness of the Department's corporate governance procedures or its risks and control procedures.

## Basis of audit opinion

I conducted my audit in accordance with United Kingdom Auditing Standards issued by the Auditing Practices Board. An audit includes examination on a test basis of evidence relevant to the amounts, disclosures and regularity of financial transactions included in the financial statements. It also includes an assessment of the judgements made by the Accounting Officer in the preparation of the financial statements.

I planned and performed my audit so as to obtain all the information and explanations which I considered necessary in order to provide me with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement whether caused by error or by fraud or other irregularity and that in all material respects the receipts and payments have been applied to the purposes intended by Parliament and conform to the authorities which govern them. In forming my opinion I also evaluated the overall adequacy of the presentation of information in the financial statements.

## Opinion

In my opinion

- the account properly presents the receipts and payments of the Secretary of State for Trade and Industry in respect of advances to the Post Office for the year ended 31 March 2004 and has been properly prepared in accordance with Section 39 of the Post Office Act 1969 and the directions made thereunder by the Treasury; and
- in all material respects the payments and receipts have been applied to the purposes intended by Parliament and conform to the authorities which govern them.

I have no observations to make on these financial statements.

*John Bourn*  
Comptroller and Auditor General

14 October 2004

National Audit Office  
157-197 Buckingham Palace Road  
Victoria  
London SW1W 9SP

# Postal Services Act 2000

Advances to the Royal Mail Holdings plc and its subsidiaries (Secretary of State for Trade and Industry)

Account presented pursuant to the Postal Services Act 2000

## Foreword

### Scope of the Account

- 1 This account is prepared in compliance with section 68(6) and 68(8) of the Postal Services Act 2000 and is required to show
  - i sums issued to the Secretary of State under section 68(6);
  - ii sums received by the Secretary of State under section 68(8); and
  - iii the disposal of those sums.

### Secretary of State's power to make loans

- 2 Section 68 of the Postal Services Act 2000 enabled the Secretary of State, with the approval of the Treasury, to make loans to Royal Mail Holdings plc or any of its subsidiaries any sums which it has power to borrow. Sums needed for such loans are issued by the Treasury to the Secretary of State. The interest on loans is at such rates as the Secretary of State, with the approval of the Treasury, may direct. Subject to this, loans are on such terms as may be agreed between the Secretary of State and the borrower and are approved by the Treasury. The Secretary of State is required to pay into the National Loans Fund sums received in respect of interest on and repayment of principal on those loans.

### Limits on borrowing

- 3 Under section 71(1) of the Postal Services Act 2000, the Crown's financial arrangements with the Post Office company and any of its subsidiaries are not to exceed £5,000 million or any such greater sum as the Secretary of State may by order specify.
- 4 Under section 71(2), the Crown's financial arrangements with the Post Office company and any of its subsidiaries are the aggregate of amounts outstanding in respect of
  - i the principal of loans made under section 37 of the Post Office Act 1969;
  - ii sums paid by the Treasury in fulfilment of guarantees and outstanding principal of loans given under section 38 of that Act (otherwise than by way of interest);
  - iii the principal of loans made under section 68 of that Act;
  - iv amounts outstanding (otherwise than by way of interest) in respect of sums paid by the Secretary of State in fulfilment of guarantees given under section 69 of that Act (otherwise than by way of interest);
  - v amounts outstanding in respect of the principal of debt securities issued in pursuance of section 63 of that Act; and
  - vi liabilities extinguished under section 70 of that Act so far as they are not replaced with corresponding liabilities.

**Loans made by the Secretary of State, interest payable and repayment of principal**

- 5 In accordance with section 5 of the National Loans Fund Act 1968, the Treasury prescribes the rate of interest applicable to each loan. Loans to the Royal Mail Holdings plc or any of its subsidiaries are repayable within the times and methods of payment of the principal and interest agreed between the Secretary of State and the company to which the loan is made. During 2003-04, there were no amounts loaned under the terms of loans made to the Royal Mail Holdings plc or any of its subsidiaries under the Postal Services Act 2000.

**Statement of the Secretary of State's and Accounting Officer's responsibilities**

Under Section 76 of the Postal Services Act 2000, the Secretary of State for Trade and Industry is required to prepare an account for each financial year in the form and on the basis determined by the Treasury of sums received by the Secretary of State under section 68(8) of the 2000 Act and of sums issued by the Secretary of State under section 68(6) and of the disposal of those sums respectively. The accounts are prepared on a cash basis and must properly present the receipts and payments for the financial year and the balances held at year end.

The Treasury has appointed an Accounting Officer for the account. His relevant responsibilities as Accounting Officer, including his responsibility for the propriety and regularity of the public finances for which he is answerable and for the keeping of proper records, are set out in the Accounting Officers' memorandum issued by the Treasury and published in 'Government Accounting'.

*Sir Robin Young, KCB*  
Principal Accounting Officer and Permanent Secretary

11 October 2004



## Postal Services Act 2000

Account, prepared under Section 76 of the Postal Services Act 2000, of the Receipts and Payments by the Secretary of State for Trade and Industry under Section 68 of the Postal Services Act 2000 for the year ended 31 March 2004.

### Receipts

	<b>2003-2004</b>	2002-2003
	<b>£</b>	£
Balance at 1 April	–	–
From National Loans Fund	–	50,000,000
<i>From Royal Mail Group plc</i>		
Repayments of Loans	<b>50,000,000</b>	–
Interest on Loans	<b>38,938</b>	–
	<b>50,038,938</b>	50,000,000

### Payments

	<b>2003-2004</b>	2002-2003
	<b>£</b>	£
Advances to Royal Mail Group plc	–	50,000,000
<i>To the National Loans Fund</i>		
Repayments of Loans	<b>50,000,000</b>	–
Interest on Loans	<b>38,938</b>	–
Balance at 31 March	–	–
	<b>50,038,938</b>	50,000,000

*Sir Robin Young, KCB*  
Accounting Officer

11 October 2004

## Statement of Internal Control

This statement is given in respect of the Post Office National Loans Fund Account for the year ending 31 March 2004. As Accounting Officer for this account, I acknowledge my responsibilities for ensuring that a sound system of internal control exists that supports the achievement of Department of Trade & Industry's policies, aims and objectives, whilst safeguarding the public funds and departmental assets for which I am personally responsible, in accordance with the responsibilities assigned to me in Government Accounting.

The Department's ambition is Prosperity for All, by raising productivity and competitiveness by supporting successful business, ensuring fair markets and promoting world-class science and innovation. I am advised by

- the Department's Strategy Board. This is now chaired by the Secretary of State and includes all DTI Ministers, all Executive Board Members and three Independent Board Members. The Strategy Board advises on the strategic direction of the Department and meets three times a year;
- the Department's Executive Board which chair and comprises the Department's Directors General; Chief Executive UKTI; Director of Strategy, Director of Finance & Resource Management and three Independent Board Members. The Board meets monthly and sets the Department's strategic aims, agrees the Business Plan, ensures resources are in place to deliver the Departments objectives and monitors performance and the management of risk against those objectives; and
- the following five Committees whose governance work support the role of the Boards
  - Audit Committee;
  - Investment Committee;
  - Performance Monitoring Committee;
  - Resources Committee (established July 2004); and
  - Permanent Secretary's Committee.

I work with Ministers and DTI top management through the Strategy Board, Executive Board, other meetings and correspondence. I involve Ministers in the management of risks at a strategic level, considering major factors that could prevent DTI objectives being achieved.

### The purpose of the system of internal control

The system of internal control is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of departmental policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically. The system of internal control has been in place in the Department of Trade and Industry for the year ended 31 March 2004 and up to the date of approval of the annual report and accounts, and accords with Treasury guidance.

## Capacity to handle risk

Throughout 2003-2004, the Executive Board has continued to take a lead in embedding risk management in the organisation. The Audit Committee Chairman and I issued a risk management policy to all staff on 1 April 2003. This set out the Department's risk management framework and defined roles and responsibilities for managing risk throughout the organisation.

Risk Management has also been integrated into the Department's planning and reporting systems. For example, the Department's balanced scorecard includes reports on the risks associated with the delivery of the Department's operational objectives and PSA targets. The scorecard also provides for monitoring of progress toward PSA targets and, in cases where achievement is prejudiced, identification of whether shortfall is due to internal control issues or external factors. The Executive Board reviews the scorecard on a quarterly basis as well as the overall risk register for the Department. Outside of this regular reporting framework, mechanisms are in place which allow for escalation to the Executive Board of any new risks identified or of any risks that have changed materially in status since the last regular report.

Within the period of report, a risk workshop was held involving members of the Executive Board which identified key risks facing the DTI at a corporate level. The output from the workshop was discussed with the Secretary of State and all risks identified were incorporated within the Department's established risk management processes.

Throughout the year guidance has been available to all staff on risk management. In addition to a risk management policy, specific guidance has been available on undertaking risk self-assessment which includes guidance on applying risk management as an integral part of the Department's Business Planning process. Risk management workshops are available to all staff and Risk Management has been incorporated into a wide range of DTI training courses. These courses cover all ranges of staff in the Department and are tailored to be appropriate to their authority and duties.

## The risk and control framework

The risk management framework for the Department operates through the initial identification of risks that threaten achievement of the Department's objectives. These risks are then evaluated in terms of impact and probability. Consideration is then given to the actions required to effectively manage each risk. This process establishes the level of residual risk against which the Department is exposed which is monitored over time.

Ownership for each risk is assigned to a named individual. Assurance that risk mitigation activities are appropriate is obtained through regular management reviews and Internal Audits of the key activities undertaken in the Department. In order to further embed best practice in risk handling and to ensure a consistent interpretation of the acceptable extent of residual risk, the Department is exploring actively ways in which it might quantify and communicate its risk appetite across the organisation.

Throughout 2003-2004 the Department's Risk Support Team has worked with colleagues to embed risk management into key business processes such as Business Planning and Performance Management, policy-making and project management. Various approaches have been applied such as the development of guidance on the Department's 'Better Policy-Making' website and a seminar on risk management in policy-making which I personally chaired.

## Review of effectiveness

As Accounting Officer, I have responsibility for reviewing the effectiveness of the system of internal control. My review of the effectiveness of the system of internal control is informed by the work of the internal auditors and the executive managers within the Department who have responsibility for the development and maintenance of the internal control framework, and comments made by the external auditors in their management letter and other reports. I have been advised on the implications of the results of my review of the effectiveness of internal control by the Executive Board, the Audit Committee and a plan to address weaknesses and ensure continuous improvement of the system is in place.

The effectiveness of the system of internal control is reviewed by my Directors General who each provides me with a Statement on Risk Management and Internal Control and Corporate Governance Representation for their Group based on the returns they received from their Heads of Management Units. The Chairman of the Audit Committee and the Director of Internal Audit reviews each Statement and Representation with the relevant Director General.

The Department's Agencies and consolidated NDPBs also conduct a review of the effectiveness of internal control in preparing a Statement on Internal Control for their Resource Accounts. A similar process is applied to that in the Department and the signed statements from each Chief Executive form part of the Department's overall assurance on internal control.

The Department also has arrangements, tailored to each particular situation, for monitoring those sponsored bodies which are not consolidated into the Departmental Resource Accounts but where these bodies participate in the delivery of DTI objectives. Monitoring arrangements are in place as needed for other bodies where the DTI has lead policy within Government, such as Royal Mail Holdings. In addition, as part of its support for the solvent re-structuring of British Energy (BE), the Department has put in place revised monitoring arrangements and draft agreements which will be activated on restructuring to protect Government's financial exposure to BE, in particular in relation to the nuclear liabilities which the Government is underwriting.

The Audit Committee provides independent advice on internal control issues. It also serves as a risk committee and advises the Board on embedding risk management within the organisation. The Audit Committee advises on the Internal Audit work programme and considers key recommendations from Internal Audit Reports. I receive progress reports from the Chairman after each Audit Committee. The Chairman also sits as an Independent Board Member on the Executive Board.

Internal Audit operates to standards defined in the Government Internal Audit Manual. Their audit programme is focused around the Department's key risks and they submit regular reports on the adequacy and effectiveness of internal control together with recommendations for improvement. The Director of Internal Audit provides me with an Annual Report, which contains an independent opinion on the adequacy and effectiveness of internal control.

There were no significant internal control issues during the course of 2003-2004. Where weaknesses in the control environment were identified, action to strengthen control has been taken or is planned.

Improved awareness and application of risk management continues across the Department. Departmental and Operational Objective risk registers were in place from the start of the year and were reviewed on a quarterly basis. Our review of the effectiveness of internal control did highlight a number of areas where further improvement is required during 2004-2005. These are as follows

- the need to ensure that the Department has the capability to manage the aggregate level of risk it faces particularly in light of the reform agenda;
- the need for the Department to actively explore ways in which risk appetite is quantified and communicated throughout the organisation;
- the need to identify and implement good practice in managing risks with our partners;
- the need to integrate and embed risk management with individual performance management and personal development processes;
- the need to ensure effective matrix working is applied when delivery objectives are dependent upon the actions of more than one group in the DTI;
- the need to address difficulties and potential inefficiencies that have arisen from managing and reporting on administrative budgets by group and programme budgets by objective; and
- the need to continue to improve the quality of management; and information provided by corporate information systems.

*Sir Robin Young, KCB*  
Principal Accounting Officer and Permanent Secretary

11 October 2004

# The Certificate and Report of the Comptroller and Auditor General to the Houses of Parliament

I certify that I have audited the financial statements on page 29 under Section 76 of the Postal Services Act 2000. These financial statements have been prepared in the form and on the basis determined by Treasury.

## Respective responsibilities of the Accounting Officer and Auditor

As described on page 28 the Accounting Officer is responsible for the preparation of financial statements in accordance with the Postal Services Act 2000 and Treasury directions made thereunder and for ensuring the regularity of financial transactions. The Accounting Officer is also responsible for the preparation of the Foreword. My responsibilities as independent auditor are established by statute and I have regard to the Standards and guidance issued by the Auditing Practices Board and the ethical guidance applicable to auditing profession.

I report my opinion as to whether the financial statements properly present the receipts and payments and are properly prepared in accordance with the Post Office Act 1969 and Treasury directions made thereunder and whether in all material respects the receipts and payments have been applied to the purposes intended by Parliament and conform to the authorities which govern them. I also report if in my opinion the Foreword is not consistent with the financial statements, if the Accounting Officer has not kept proper accounting records or if I have not received all the information and explanations I require for my audit.

I review whether the statement on page 30 to 32 reflects compliance with Treasury's guidance on the Statement on Internal Control. I report if it does not meet the requirements specified by Treasury or if the statement is misleading or inconsistent with other information I am aware of from my audit of the financial statements. I am not required to consider, nor have I considered whether the Accounting Officer's Statement on Internal Control covers all risks and controls. I am also not required to form an opinion on the effectiveness of the Department's corporate governance procedures or its risk and control procedures.

## Basis of audit opinion

I conducted my audit in accordance with United Kingdom Auditing Standards issued by the Auditing Practices Board. An audit includes examination on a test basis of evidence relevant to the amounts, disclosures and regularity of financial transactions included in the financial statements. It also includes an assessment of the judgements made by the Accounting Officer in the preparation of the financial statements.

I planned and performed my audit so as to obtain all the information and explanations which I considered necessary in order to provide me with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement whether caused by error or by fraud or other irregularity and that in all material respects the receipts and payments have been applied to the purposes intended by Parliament and conform to the authorities which govern them. In forming my opinion I also evaluated the overall adequacy of the presentation of information in the financial statements.

## Opinion

In my opinion

- the account properly presents the receipts and payments of the Secretary of State for Trade and Industry in respect of advances to the Post Office for the year ended 31 March 2004 and has been properly prepared in accordance with Section 76 of the Postal Services Act 2000 and the directions made thereunder by the Treasury; and
- in all material respects the payments and receipts have been applied to the purposes intended by Parliament and conform to the authorities which govern them.

I have no observations to make on these financial statements.

*John Bourn*  
Comptroller and Auditor General

14 October 2004

National Audit Office  
157-197 Buckingham Palace Road  
Victoria  
London SW1W 9SP

# Scotland Act 1998

Advances to Scottish Homes, Water Authorities, and Registers of Scotland

## Foreword

### Scope of the Account

- i this account is prepared in compliance with section 72(a) of the Scotland Act 1998 and is required to show
- ii the sums issued to the Secretary of State for Scotland out of the National Loans Fund under section 67 of the Scotland Act 1998 to enable him to make loans to the Scottish Ministers under section 66 of the Act;
- iii the loans so made by the Secretary of State;
- iv the sums received by the Secretary of State in respect of interest on and repayment of loans under section 66 of the Scotland Act 1998;
- v the payments into the National Loans Fund of the sums received under section 66.

### Secretary of State's power to make loans

Under section 66 of the Scotland Act 1998, the Secretary of State has the power to lend to the Scottish Ministers sums required for the purpose of (a) meeting a temporary excess of sums paid out of the Scottish Consolidated Fund over sums paid into that fund, or (b) providing a working balance in the Fund. Under section 67 of The Act, the Treasury may issue to the Secretary of State out of the National Loans Fund such sums as are required under section 66.

### Limits of borrowing

The aggregate at any time outstanding in respect of the principal of sums borrowed under section 66 shall not exceed £500 million.

### Outstanding capital balances

At 1 April 2003, total capital balances outstanding were £1,033,531,314, and after repayments during the year of £57,544,117, capital balances outstanding at 31 March 2004 were £975,987,197.

### History of accounts

The advances outstanding at 31 March 2004 were made prior to 1 July 1999, under the terms of the Housing (Scotland) Act 1988 (Scottish Homes), the Local Government etc. (Scotland) Act 1994 (Water Authorities), and the Scottish Development Agency Act 1975 (Scottish Enterprise).

Prior to 1 July 1999, responsibility for the preparation of this account fell to the Scottish Office. Upon devolution, the responsibility transferred to the Scotland Office. The Scotland Office first prepared accounts for the year 1 April 2000 – 31 March 2001. Accounts were prepared prior to 1 July 1999 under the terms of the Housing (Scotland) Act 1988 (Scottish Homes) and the Local Government etc. (Scotland) Act 1994 (Water Authorities). No accounts were prepared for Registers of Scotland prior to 2000-2001.

### Statement of Secretary of State for Scotland's responsibilities

Under Section 72(a) of the Scotland Act 1998, the Secretary of State for Scotland is required to prepare, for each financial year, in such form and manner as the Treasury may direct, an account of sums paid and received by him under sections 66, 67 and 71 of the Scotland Act 1998. The accounts will be prepared on a cash basis. The Treasury has appointed an Accounting Officer for the account. His relevant responsibilities as Accounting Officer, including his responsibility for the propriety and regularity of the public finances and for the keeping of proper records, are set out in the Accounting Officers' Memorandum issued by the Treasury and published in Government Accounting.

## Scotland Act 1998

Account prepared under section 72(a) of the Scotland Act 1998 of the Receipts and Payments of the Secretary of State for Scotland under sections 66, 67 and 71 of the Scotland Act 1998 for the period 1 April 2003 to 31 March 2004.

### Receipts

	<b>2003-2004</b>	2002-2003
	£	£
<i>Received from Scottish Homes by way of</i>		
Interest on advances	<b>76,062,329</b>	29,329,518
Repayment of advance	<b>37,437,867</b>	11,623,576
<i>Received from Water Authorities by way of</i>		
Interest on advances	<b>57,819,907</b>	59,723,177
Repayment of advance	<b>20,000,000</b>	15,000,000
<i>Received from Registers of Scotland</i>		
Interest on advances	<b>295,873</b>	304,771
Repayment of advance	<b>106,250</b>	106,250
Total of interest payments	<b>134,178,109</b>	89,357,466
Total of repayments of advance	<b>57,544,117</b>	26,729,826
Total receipts	<b>191,722,226</b>	116,087,292

### Payments

	<b>2003-2004</b>	2002-2003
	£	£
<i>Payments to National Loans Fund of sums received</i>		
Interest on advances	<b>76,062,329</b>	29,329,518
Repayment of advance	<b>37,437,867</b>	11,623,576
<i>Payments to National Loans Fund of sums received</i>		
Interest on advances	<b>57,819,907</b>	59,723,177
Repayment of advance	<b>20,000,000</b>	15,000,000
<i>Payments to National Loans Fund of sums received</i>		
Interest on advances	<b>295,873</b>	304,771
Repayment of advance	<b>106,250</b>	106,250
Total of interest payments	<b>134,178,109</b>	89,357,466
Total of repayments of advance	<b>57,544,117</b>	26,729,826
Total payments	<b>191,722,226</b>	116,087,292

Note: Statement of balances at 31 March 2004

	Advances at 1 April 2003	Advances during 2003-2004	Advances repaid during 2003-2004	<b>Advances outstanding at 31 March 2004</b>
	£	£	£	£
Scottish Homes	138,081,938	0	37,437,867	<b>100,644,071</b>
Water Authorities	891,890,000	0	20,000,000	<b>871,890,000</b>
Registers of Scotland	3,559,376	0	106,250	<b>3,453,126</b>
Total	<u>1,033,531,314</u>	<u>0</u>	<u>57,544,117</u>	<b><u>975,987,197</u></b>

*JR Wildgoose*  
Accounting Officer

16 November 2005



# Statement on Internal Control

## Scope of responsibility

The Scotland Office became part of the Department for Constitutional Affairs (DCA) on 12 June 2003. As Head of the Scotland Office I have been appointed by HM Treasury as Additional Accounting Officer for Request for Resources 2 in the Estimates for the DCA. Details of my role and responsibilities have been set out in a Memorandum of Understanding agreed with the Principal Accounting Officer for the Department.

As Accounting Officer, I have responsibility for maintaining a sound system of internal control that supports the achievement of the Scotland Office's policies, aims and objectives, whilst safeguarding the public funds and assets for which I am personally responsible, in accordance with the responsibilities assigned to me in Government Accounting.

In discharging my responsibilities, I am assisted by an Office Management Group, which includes the heads of the Office's functional divisions, the Head of Finance, the Head of the Office of the Advocate General and the Principal Private Secretary to the Secretary of State. They provide me with key reporting lines from the Office and to Ministers and they are responsible for the analysis and assessment of risk in their respective areas.

## The purpose of the system of internal control

The system of internal control is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve policies, aims and objectives; it can, therefore, only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of policies, aims and objectives, to evaluate the likelihood of these risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically. The system of internal control has been in place in the Scotland Office for the year ended 31 March 2004 and up to the date of approval of the annual report and accounts, and accords with the key elements of Treasury guidance, namely

- a risk management strategy is in place and the context for risk management established, to allow the identification and evaluation of risk in a structured way; and
- risk control mechanisms are in place and these are subject to review by the Office Management Group.

## Capacity to handle risk

The Office has carried out a review of its objectives and the risks associated with them; and the control strategy for each significant risk. The monitoring of risks is largely devolved to the heads of the functional divisions who report through the Management Group on any significant changes.

The Scotland Office has an Audit Committee that supports me as Accounting Officer by offering objective advice on issues concerning risk, control and governance of the Office. Its key role is to consider whether the management and governance arrangements in place are sufficient to support the Accounting Officer's responsibilities

The Scottish Executive's Audit Services Unit provided an internal audit service for the Scotland Office up to 31 March 2004. They worked in collaboration with the DCA's Internal Assurance Division to provide assurance in respect of the 2003-2004 accounts. Both bodies operate to standards defined in the Government Internal Audit Manual. They submit regular reports, which include an independent opinion by the Head of Internal Audit on the adequacy and effectiveness of the Department's system of internal control together with recommendations for improvement. The Office's external auditors also provide observations and recommendations in their management letter and other reports.

## Review of effectiveness

As Accounting Officer, I have responsibility for reviewing the effectiveness of the system of internal control. My review is informed by the work of the internal auditors and the executive managers within the Scotland Office, who have responsibility for the development and maintenance of the internal control framework, and by comments made by the external auditors in their management letter and other reports. I have been advised on the implications of the result of my review of the effectiveness of the system of internal control by the Audit Committee and the Office Management Group. A plan to address weaknesses and ensure continuous improvement of the system is in place. The Office's principal risks have been reviewed and the risk register has been updated to reflect current risks and the actions taken to mitigate them.

The development of internal control processes, including increasing the awareness of risk management, will continue in 2004-2005. This is to ensure that the internal controls within the Scotland Office are sound and compatible with those for the Department for Constitutional Affairs as a whole.

*JR Wildgoose*  
Accounting Officer

16 November 2005

# The Certificate and Report of the Comptroller and Auditor General to the Houses of Parliament

I certify that I have audited the financial statements on page 35 and 36 under the Scotland Act 1998. These financial statements have been prepared in the form and on the basis determined by Treasury.

## Respective responsibilities of the Accounting Officer and Auditor

As described on page 34 the Accounting Officer is responsible for the preparation of financial statements in accordance with the Scotland Act 1998 and Treasury directions made thereunder and for ensuring the regularity of financial transactions. The Accounting Officer is also responsible for the preparation of the Foreword. My responsibilities as independent auditor are established by statute and I have regard to the standards and guidance issued by the Auditing Practices Board and the ethical guidance applicable to the auditing profession.

I report my opinion as to whether the financial statements properly present the receipts and payments and are properly prepared in accordance with the Scotland Act 1998 and Treasury directions made thereunder, and whether in all material respects the receipts and payments have been applied to the purposes intended by Parliament and conform to the authorities which govern them. I also report if, in my opinion the Foreword is not consistent with the financial statements, if the Accounting Officer has not kept proper accounting records or if I have not received all the information and explanations I require for my audit.

I review whether the statement on page 37 and 38 reflects compliance with Treasury's guidance on the Statement on Internal Control. I report if it does not meet the requirements specified by Treasury, or if the statement is misleading or inconsistent with other information I am aware of from my audit of the financial statements. I am not required to consider, nor have I considered whether the Accounting Officer's Statement on Internal Control covers all risks and controls. I am also not required to form an opinion on the effectiveness of the Department's corporate governance procedures or its risk and control procedures.

## Basis of audit opinion

I conducted my audit in accordance with United Kingdom Auditing Standards issued by the Auditing Practices Board. An audit includes examination on a test basis of evidence relevant to the amounts, disclosures and regularity of financial transactions included in the financial statements. It also includes an assessment of the judgements made by the Accounting Officer in the preparation of the financial statements.

I planned and performed my audit so as to obtain all the information and explanations which I considered necessary in order to provide me with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement whether caused by error or by fraud or other irregularity and that in all material respects the receipts and payments have been applied to the purposes intended by Parliament and conform to the authorities which govern them. In forming my opinion I also evaluated the overall adequacy of the presentation of information in the financial statements.

## Opinion

In my opinion

- the account properly presents the receipts and payments of the Secretary of State for Scotland in respect of advances to the Scottish Homes, Water Authorities and Registers of Scotland for the year ended 31 March 2004 and has been properly prepared in accordance with the Scotland Act 1998 and the directions made thereunder by the Treasury; and
- in all material respects the payments and receipts have been applied to the purposes intended by Parliament and conform to the authorities which govern them.

I have no observations to make on these financial statements.

*John Bourn*  
Comptroller and Auditor General

28 November 2005

National Audit Office  
157-197 Buckingham Palace Road  
Victoria  
London SW1W 9SP

# Government of Wales Act 1998

Advances to the Welsh Development Agency (Secretary of State for Wales)

Accounts presented pursuant to Act 1998, c.38, s.88

## Foreword

### Scope of the Account

- 1 This Account is prepared in compliance with Section 88 of the Government of Wales Act 1998 and is required to show
  - i the amounts issued to the Secretary of State out of the National Loans Fund and passed to the National Assembly for Wales (the Assembly) for onward transmission to the Welsh Development Agency (the Agency) under paragraph 4 (1) of Schedule 3 to the Welsh Development Agency Act 1975; and
  - ii the amounts received by the Secretary of State from the Assembly which are repayments of, or payments of interest on, loans made out of the National Loans Fund.
- 2 It also includes repayments of, and payments of interest on, loans originally vested in the former Development Board for Rural Wales and Mid Wales Development Corporation, which were transferred to the Agency on 1 October 1998 under Sections 130 and 136 of the Government of Wales Act 1998.
- 3 Specific grants made to the Agency under the provisions of the Welsh Development Agency Act 1975 are not accounted for in this Account, but in the accounts of the National Assembly for Wales for 2003-2004.

### Financial limits

- 4 Section 18 of the Welsh Development Agency Act 1975, as amended by the Industry Acts for 1979, 1980 and 1981, the Welsh Development Agency Acts 1988, 1991 and 1998, and Statutory Instrument 1147 (W 82), limits to £2 billion the aggregate of the amount outstanding other than by way of interest in respect of
  - i the general external borrowing of the Agency and its subsidiaries, as defined in Section 18 (5) of the 1975 Act;
  - ii sums issued by the Treasury in fulfilment of guarantees under paragraph 6 of Schedule 3 to the 1975 Act and not repaid to the Treasury;
  - iii sums of Public Dividend Capital paid to the Agency less repayments by the Agency (other than payments made by virtue of paragraph 1 (3) of Schedule 3 to the 1975 Act) and less such sums paid in respect of the administrative expenses of the Agency; and
  - iv loans guaranteed by the Agency.
- 5 At 31 March 2004 the aggregate of amounts outstanding against the limit was

	£
Borrowing outstanding	11,955,151
Sums issued by the Treasury	0
Payments by the Secretary of State	1,898,485,985
Agency guarantees	0
<b>Total</b>	<b><u>1,910,441,136</u></b>

### **Public Dividend Capital**

- 6 Paragraph 1 (1) of Schedule 3 to the 1975 Act provides that the Secretary of State (now the Assembly) may, with the consent of Treasury, pay to the Agency out of money provided by Parliament such sums as he thinks fit (Public Dividend Capital). This amounted to £264,500 in 2003-2004. No such capital was repaid during the year. The Agency recycled Public Dividend Capital income in line with the agreed arrangements. Public Dividend Capital outstanding at 31 March 2004 amounted to £12,922,416.

### **2003-2004 Transactions**

- 7 Section 87 of the Government of Wales Act 1998 provides for advances from the National Loans Fund to the Welsh Development Agency to be issued to the Secretary of State and routed through the National Assembly for Wales. Repayments of outstanding advances and interest thereon by the Agency are made to the Assembly, which passes these remittances to the Secretary of State for payment into the National Loans Fund.
- 8 These arrangements took effect from 1 July 1999 when the relevant functions of the Secretary of State for Wales were transferred to the Assembly. Section 88 of the 1998 Act provides that the Secretary of State shall prepare an account of the amounts issued from the National Loans Fund and passed to the Assembly for onward transmission to the Agency. The account must also show the interest and principal repayments received from the Assembly and paid in to the National Loans Fund.
- 9 As part of the machinery of government changes announced by the Prime Minister on 12 June 2003 provision for resource and capital were transferred from the Wales Office to the Department for Constitutional Affairs. This transfer of provision took effect from Winter Supplementary Estimate stage, 2003-2004.

Repayment of outstanding National Loans Fund advances continued to be received from the Assembly and paid into the National Loans Fund.

### **Statement of Secretary of State's and Accounting Officer's responsibilities**

Under Section 88 of the Government of Wales Act 1998, the Secretary of State for Wales is required to prepare accounts for each financial year in the form and on the basis determined by the Treasury. The accounts are prepared on a cash basis and must properly present the receipts and payments for the financial year and the balances held at year-end.

The Treasury has appointed an Accounting Officer for the account. Her relevant responsibilities as Accounting Officer, including her responsibility for the propriety and regularity of the public finances and for the keeping of proper records, are set out in the Accounting Officers' Memorandum issued by the Treasury and published in 'Government Accounting'.

*Alison Jackson*  
Accounting Officer for the Wales Office

24 November 2004

## Government of Wales Act 1998

Account, prepared under Section 88 of the Government of Wales Act 1998 of the Receipts and Payments of the Secretary of State for Wales under the legislation shown for the year ended 31 March 2004.

### Receipts

	<b>2003-2004</b>	2002-2003
	£	£
Issues from the National Loans Fund under Schedule 3, paragraph 4(1) to the Welsh Development Agency Act 1975	-	-
<i>Sums received from the Welsh Development Agency under paragraph 4(2) of Schedule 3 to the Welsh Development Agency Act 1975</i>		
Repayment of Principal	<b>28,050</b>	69,875
Interest	<b>5,799</b>	9,617
<i>Sums received from the Welsh Development Agency in respect of advances made to the former Development Board for Rural Wales</i>		
Repayment of Principal	<b>3,031</b>	2,638
Interest	<b>570,570</b>	570,963
<i>Sums received from the Welsh Development Agency in respect of advances made to the former Mid Wales Development Corporation</i>		
Repayment of Principal	<b>11,677</b>	10,156
Interest	<b>1,159,914</b>	1,161,436
<b>Total Receipts</b>	<b><u>1,779,041</u></b>	<b><u>1,824,685</u></b>

### Payments

	<b>2003-2004</b>	2002-2003
	£	£
Advances to the Welsh Development Agency via the National Assembly for Wales	-	-
<i>Payments to the National Loans Fund</i>		
Repayment of Principal	<b>42,758</b>	82,669
Interest	<b>1,736,283</b>	1,742,016
<b>Total Payments</b>	<b><u>1,779,041</u></b>	<b><u>1,824,685</u></b>

### Notes

1 Movements in loans issued to or inherited by the Welsh Development Agency are as follows

	<b>Welsh Development Agency</b>	<b>Former Development Board for Rural Wales</b>	<b>Former Mid Wales Development Corporation</b>	<b>Total</b>
	£	£	£	£
Outstanding at 1 April 2003	86,522	3,960,621	7,950,766	11,997,909
Repaid	(28,050)	(3,031)	(11,677)	(42,758)
<b>Outstanding at 31 March 2004</b>	<b><u>58,472</u></b>	<b><u>3,957,590</u></b>	<b><u>7,939,089</u></b>	<b><u>11,955,151</u></b>

2 See also the National Assembly for Wales Resource Account for 2003-2004.

Alison Jackson  
Accounting Officer for the Wales Office

24 November 2004

## Statement on Internal Control

This statement is given in respect of the account of National Loans Fund advances to the Welsh Development Agency.

As Accounting Officer, I have the responsibility for maintaining a sound system of internal controls that supports the achievement of the Wales Office's policies, aims and objectives set by the Secretary of State, whilst safeguarding the public funds and assets for which I am personally responsible, in accordance with the responsibilities assigned to me in my appointment letter and as set out in *Government Accounting*.

The system of internal control is designed to manage rather than eliminate the risk of failure to achieve policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness.

The system of internal control is based on an ongoing process designed to identify the risks to the achievement of the Wales Office's policies, aims and objectives, to evaluate the nature and extent of those risks being realised (especially in the unique Wales Office context) and their likely impact should they be realised, and to manage them efficiently, effectively and economically. This process has been in place for the year ended 31 March 2004 and up to the date of approval of the annual report and accounts and accords with Treasury guidance.

As Accounting Officer I acknowledge my overall responsibility for the effective management of risk throughout the Department.

A risk register identifying risks linked to Wales Office business objectives and setting out mitigating actions to significant risks was produced in March 2003, with built-in review dates.

The Assembly undertook much of the Wales Office's administration work on an agency basis under a series of service level agreements up to 31 March 2004. The risk associated with undertaking these tasks were incorporated within the Assembly risk policy, with an annual report to the Wales Office Accounting Officer on compliance control within those functions.

The Wales Office has an Audit Committee that supports me as Accounting Officer by offering objective advice on issues concerning the risk, control and governance of the Department. Its role is to consider whether the management and governance arrangements are sufficient to support the Accounting Officer's responsibilities. I am also advised by Internal Audit who operate to Government Internal Audit Standards. During the year responsibility for internal audit moved from the National Assembly for Wales to the Department for Constitutional Affairs (DCA).

As Accounting Officer, I also have responsibility for the reviewing the effectiveness of the system of internal control. My review is informed by the work of the internal auditors, and by the executive managers within the Department who have responsibility for the development and maintenance of the internal control framework, as well as comments made by the external auditors in their management letter and other reports. I have been advised on the implications of the result of my review of the effectiveness of the system of internal control by the Board and the Audit Committee, and plans to address weaknesses and ensure continuous improvement of the system are in place.

The risk register is agreed and reviewed at Management Board meetings with Heads of Departments taking ownership for actions and review periods within their specific areas of Business.

Internal control processes, including developing awareness of risk management, will continue to be developed through 2004-2005, taking account of the transfer of services to the DCA. This is to ensure that the internal controls within the Wales Office are sound and compatible with those of the DCA who will be responsible for producing these accounts from April 2004.

*Alison Jackson*  
Accounting Officer for the Wales Office

24 November 2004

# The Certificate and Report of the Comptroller and Auditor General to the Houses of Parliament

I certify that I have audited the financial statements on page 42 under Section 88 of the Government Wales Act 1998. These financial statements have been prepared in the form and on the basis determined by the Treasury.

## Respective responsibilities of the Accounting Officer and Auditors

As described on page 41, the Accounting Officer is responsible for the preparation of the financial statements in accordance with the Government of Wales Act 1998 and Treasury directions made thereunder and for ensuring the regularity of financial transactions. The Accounting Officer is also responsible for the preparation of the Foreword. My responsibilities, as independent auditor, are established by statute and I have regard to the standards and guidance issued by the Auditing Practices Board and the ethical guidance applicable to the auditing profession.

I report my opinion as whether the financial statements properly present the receipts and payments and are properly prepared in accordance with the Government of Wales Act 1998 and Treasury directions made thereunder, and whether in all material respects the receipts and payments have been applied to the purposes intended by Parliament and conform to the authorities which govern them. I also report if, in my opinion, the Foreword is not consistent with the financial statements, if the Accounting Officer has not kept proper accounting records have not been kept, or if I have not received all the information and explanations I require for my audit.

I review whether the statement on page 43 reflects compliance with Treasury's guidance on the Statement on Internal Control. I report if it does not meet the requirements specified by Treasury, or if the statement is misleading or inconsistent with other information I am aware of from my audit of the financial statements. I am not required to consider, nor have I considered, whether the Accounting Officer's Statement on Internal Control covers all risks and controls. I am also not required to form an opinion on the effectiveness of the Department's corporate governance procedures or its risk and control procedures.

## Basis of opinion

I conducted my audit in accordance with United Kingdom Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts, disclosures and regularity of financial transactions included in the financial statements. It also includes an assessment of the judgements made by the Accounting Officer in the preparation of the financial statements.

I planned and performed my audit so as to obtain all the information and explanations which I considered necessary in order to provide me with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by error or by fraud or other irregularity and that, in all material respects, the payments and receipts have been applied to the purposes intended by Parliament and conform to the authorities which govern them. In forming my opinion I also evaluated the overall adequacy of the presentation of information in the financial statements.

## Opinion

In my opinion

- the account properly presents the receipts and payments of the Secretary of State for Wales in respect of advances made to the Welsh Development Agency for the year ended 31 March 2004 and has been properly prepared in accordance with Section 88 of the Government of Wales Act 1998 and the directions made thereunder by the Treasury; and
- in all material respects the payments and receipts have been applied to the purposes intended by Parliament and conform to the authorities which govern them.

I have no observations to make on these financial statements.

*John Bourn*  
Comptroller and Auditor General

6 December 2004

National Audit Office  
3/4 Park Place  
Cardiff  
CF10 3DP



# Accounts of Loans to Local Authorities



## Foreword

### Brief history and background of Public Works Loan Board (PWLB)

PWLB is an independent statutory body that originated in 1793 and became established on a permanent basis in 1817. Since 1946 it has consisted of twelve Commissioners appointed by the Crown to hold office for four years; three Commissioners retire each year on 1 April but are eligible for re-appointment.

The functions of the Commissioners, derived chiefly from the Public Works Loans Act 1875 and the National Loans Act 1968, are to consider loan applications from local authorities and other prescribed bodies and, where loans are made, to collect the repayments. At present nearly all borrowers are local authorities requiring loans for capital purposes. The Commissioners are legally required, before making a loan, to satisfy themselves that a borrower is able to service and repay the loan.

Moneys are provided by Act of Parliament, drawn from the National Loans Fund. The Treasury determines the rates of interest and the maximum maturity for loans.

PWLB's lending policy and operational arrangements are set out in Circulars issued with the Commissioners' approval and displayed on the PWLB's website, [www.pwlb.gov.uk](http://www.pwlb.gov.uk).

### Management and organisation

In July 2002 responsibility for the administration of PWLB activity was transferred from National Investments and Loans Office (NILO) to the UK Debt Management Office (DMO). Since then, PWLB has retained its statutory identity but otherwise operated as a business unit of the DMO from shared office accommodation.

PWLB's fee income and administrative expenditure are accounted for within the DMO's overall budget agreed with HM Treasury. In 2003-2004, the DMO received fees and charges of £1.278 million (2002-2003: £1.361 million) from PWLB customers in respect of new loans issued.

### The role of the Commissioners

The Commissioners' main role is to determine the general lending policy of the Board and to deal with related matters. They are not paid for their services.

### The loans

Section 3 (11) and Schedule 4 of the 1968 Act authorise the Commissioners to make loans to any local authority in Great Britain for any purpose for which the authority has power to borrow and to certain other authorities and persons for limited purposes.

The amount which the Commissioners may lend, or undertake to lend, is provided by Section 4 of the 1968 Act, which permits the Commissioners to make loans up to a limit of the aggregate of

- any commitments of the Commissioners outstanding in respect of undertakings entered into by them to grant local loans; and
- any amount outstanding in respect of the principal of any loans.

The current limit of the aggregate, set by Finance Act 1990, is £55,000 million.

In accordance with Sections 3 (2) and 5 of the 1968 Act, interest on loans made by the Commissioners is payable at such rates as the Treasury determines.

Loans made by the Commissioners are repayable with a period not exceeding that authorised by the Act authorising the local authority to borrow, or if no period is so authorised, they are repayable within 50 years (Section 11 of the Public Works Loan Act 1875 and Section 2 (2) of the Local Authorities Loans Act 1945). In practice, the maximum period for which the Commissioners may advance new loans is the same as longest period for which the Treasury has set a rate.

Section 5 (3) of the 1875 Act requires the Commissioners to prepare for each financial year a report of their transactions during the year, including a statement of loans approved and advanced. These reports are presented to Parliament and subsequently published.

### Preparation of the accounts

Under Section 3 (6) of the 1968 Act the Commissioners are required to prepare an account for each financial year in the form and on the basis determined by the Treasury. For 2003-2004, the Treasury has directed that the PWLB accounts should be prepared on an accruals basis.

### Statement of responsibilities

The Secretary to PWLB is officially responsible for preparing the account. In doing so he has regard to the Commissioners' statutory duties and to Government Accounting. The post of Secretary carries with it personal responsibility; to ensure that appropriate advice is given to the Board on all matters relating to financial propriety and regularity; for the keeping of proper accounts and; for the efficient and effective use of resources.

I was appointed as Secretary and Accounting Officer to the PWLB in 2002 upon the retirement of the previous Secretary. I am a senior manager of the DMO and the Commissioners selected me as Secretary to the PWLB upon the recommendation of the then Chief Executive of the DMO. My relevant responsibilities as Accounting Officer, including the responsibility for the propriety and regularity of the public finances for which I am answerable and for the keeping of proper records, are set out in the Accounting Officer Memorandum issued by the Treasury and published in 'Government Accounting'.

### Results for 2003-2004

The account shows PWLB's income and expenditure, assets and liabilities and net cash flow. In 2003-2004 PWLB's operating income from interest receivable on loans and premiums payable on early redemption was £3,942 million. At 31 March 2004 the fund's total assets stood at £42,120 million, a decrease of £3,215 million over the year. The liability on the Board to the National Loans Fund was £42,120, and predominantly represented by loan principal of £41,469 million with outstanding loan interest and early redemption premiums accounting for £651 million.

### Audit arrangements

The accounts are audited by the Comptroller and Auditor General in accordance with Section 3 (6) of the 1968 Act.

*HD Watson*  
Secretary, Public Works Loan Board

3 March 2005

# Statement on Internal Control

## Scope of responsibility

The Public Works Loan Commissioners form an independent and unpaid statutory body, now described as a non-ministerial government department. They are empowered by the Public Works Loans Act 1875 as a body for 'the purpose of (making) loans'. Under Section 3 (6) of the National Loans Act 1968 the Public Works Loan Commissioners are required to prepare an account for each financial year in the form and on the basis determined by the Treasury. Commissioners are required by statute to report annually to Parliament on their transactions in respect of moneys issued to and loans granted by them and the execution of their duties as Commissioners.

The Commissioners have appointed me as Secretary to the Board and I am responsible for ensuring that appropriate advice is given to the Commissioners on all matters relating to financial propriety and regularity, for keeping accounts and submitting them for external audit by the National Audit Office, and for the efficient and effective use of resources and ensuring that the business is managed within the appropriate control framework. In determining the appropriate control measures I take assurance from the DMO's own Statement of Internal Control, which describes the wider control framework of the DMO of which the PWLB is a part. I understand that such assurances on controlling risks are relative and not absolute.

## The purpose of the system of internal control

The system of internal control is designed to reduce risk to an acceptable minimum and is based on an ongoing process to identify and prioritise risks, which may jeopardise the efficient discharge of the PWLB's functions taking account of the impact of the risks. As the PWLB is a very small organisation conducting a long-established and narrowly focussed process the identification of risks is fairly streamlined.

Since July 2002 certain elements of the DMO's system of internal control have been incorporated into PWLB processes including loans being confirmed by a separate team and payments also being verified and released by non PWLB staff. In addition the DMO's Business Continuity Plan takes full account of PWLB's needs and is subject to continual review and update.

The system of internal control has been in place for the year ended 31 March 2004 and up to the date of approval of this account, and accords with Treasury guidance. Not all components of the current system of internal control have been in place throughout the whole of the financial year 2003-2004 because substantial additions have been made to the system of internal control over the course of the year. Furthermore the DMO's corporate governance structure was reviewed during the year, resulting in some changes being instituted from 1 March 2004 aimed at improving its effectiveness.

## The risk and control framework and capacity to handle risk

The DMO has various formal mechanisms for managing its risks including those relating to PWLB. Whilst the DMO includes risk management considerations as part of its normal business requirement, effort to further embed a strong risk management culture in every part of the organisation is being taken forward via a number of initiatives.

Heads of business units assess regularly whether risks to their operations are being managed effectively. Risk workshops are held with all business units each year to ensure that key operational risks have been identified, together with an assessment of the adequacy of controls in place to manage these risks. Senior managers have reviewed during the year the high level risks that the organisation faces, and the adequacy of the relevant controls. New risks, and risks where there is an increased likelihood of occurrence, are highlighted and actions identified to ensure all will be effectively managed. This process is supported by the maintenance of exception logs, which identify control weaknesses, and resultant actions to improve controls.

All teams have documented procedures for their main activities. The DMO has policies on anti-fraud and whistleblowing that cover PWLB activities. Seminars have been held to raise staff awareness of these issues. In establishing controls to deter money laundering the DMO has followed best practice, guidance in the Financial Services Authority's handbook and the joint money laundering steering group. Commissioners have regard for the relevant principles of the 'Code of Best Practice for Board Members of Public Bodies' issued by HM Treasury.

## Review of effectiveness

As Secretary, I have responsibility for reviewing the effectiveness of the system of internal control. My review of the effectiveness of the system of internal control is a continuous process. It is informed by the work of the managers who have responsibility for the development and maintenance of the internal control framework, work of the internal auditors and comments made by the external auditors in their management letter and other reports. I have been advised on the implications of the result of my review of the effectiveness of the system of internal control by Managing Board, the Audit Committee, the Risk Committee and the controls team and a process to address weaknesses and ensure continuous improvement of the system is in place. I also inform the Commissioners of details of Internal Audit reports and my response to any recommendations.

- a controls team was formally established at the beginning of the financial year to assess actions to maintain and improve the DMO's system of internal control including PWLB. The team comprises the Head of the DMO's Risk Management Unit, the Controls and Compliance Manager, the Head of Internal Audit and the Finance Manager. The team has met regularly to identify weaknesses in the control environment, recommend actions to management and to lead the implementation of changes where appropriate;
- the DMO's Audit Committee reviews the adequacy and effectiveness of the DMO's management of risk and internal controls, including those covering PWLB;
- the DMO's Risk Management Unit provides control advice on risks throughout the DMO. In the DMO's management reporting structure the risk management unit is separate and independent of the DMO's trading operations. The risk management function also conducts risk analysis and provides an operational, market and credit risk capability for the DMO; and
- the DMO's Internal Audit team evaluates the effectiveness of the DMO's processes for risk management, control and governance in order to provide an independent and objective opinion to the DMO's Accounting Officer. This evaluation also encompasses PWLB processes. Compliance testing is a component of each operational review undertaken by Internal Audit.

*HD Watson*  
Secretary, Public Works Loan Board

3 March 2005

# The Certificate and Report of the Comptroller and Auditor General to the Houses of Parliament

I certify that I have audited the financial statements on pages 53 to 55 under the National Loans Act 1968. These financial statements have been prepared under the historical cost convention as modified by the revaluation of certain investments and the accounting policies set out on page 56.

## Respective responsibilities of the Loan Commissioners, the Secretary to the Public Works Loan Board and the Auditor

As described in the Foreword the Loan Commissioners have a statutory duty to prepare accounts in respect of their transactions. They have appointed the Secretary to the Public Works Loan Board to discharge their responsibilities for the preparation of financial statements in accordance with Section 3 (6) of the National Loans Act 1968 and Treasury directions made thereunder and for ensuring the regularity of financial transactions. The Secretary is also responsible for preparation of the Foreword. My responsibilities, as independent auditor, are established by statute and I have regard to the standards and guidance issued by the Auditing Practices Board and the ethical guidance applicable to the auditing profession.

I report my opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with Section 3 (6) of the National Loans Act 1968 and Treasury directions made thereunder, and whether in all material respects the transactions conform to the authorities which govern them. I also report, if in my opinion, the Foreword is not consistent with the financial statements, if the Public Works Loan Board has not kept proper accounting records, or if I have not received all the information and explanations I require for my audit.

I review whether the statement on pages 49 and 50 reflects the Public Works Loan Board's compliance with the Treasury's guidance on the Statement on Internal Control. I report if it does not meet the requirements specified by the Treasury, or if the statement is misleading or inconsistent with other information I am aware of from my audit of the financial statements. I am not required to consider, nor have I considered whether the Secretary's Statement on Internal Control covers all risks and controls. I am also not required to form an opinion on the effectiveness of the Public Works Loan Board's corporate governance procedures or its risk and control procedures.

## Basis of audit opinion

I conducted my audit in accordance with United Kingdom Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts, disclosures and regularity of the transactions with investors included in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Secretary in the preparation of the financial statements, and of whether the accounting policies are appropriate, consistently applied and adequately disclosed.

I planned and performed my audit so as to obtain all the information and explanations which I considered necessary in order to provide me with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by error, or by fraud or other irregularity and that, in all material respects, the transactions conform to the authorities which govern them. In forming my opinion I also evaluated the overall adequacy of the presentation of information in the financial statements.

## Opinion

In my opinion

- the financial statements give a true and fair view of the state of affairs of the Public Works Loan Board as at 31 March 2004 and of the surplus and cash flows for the year then ended; and have been properly prepared in accordance with Section 3 (6) of the National Loans Act 1968 and directions made thereunder by Treasury; and
- in all material respects the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

I have no observations to make on these financial statements.

*John Bourn*  
Comptroller and Auditor General

7 March 2005

National Audit Office  
157-197 Buckingham Palace Road  
Victoria  
London SW1W 9SP



## Income and Expenditure Account for the year ended 31 March 2004

	Notes	2003-2004 £m	2002-2003 £m
Interest receivable	2	<b>2,981</b>	3,289
Premiums/(discounts) receivable for early redemption	3	<b>961</b>	559
<b>Operating income</b>		<b>3,942</b>	3,848
Interest and premiums payable to National Loans Fund		<b>3,942</b>	3,848
<b>Operating surplus retained</b>		<b>0</b>	0

*The notes on pages 56 to 60 form part of these accounts.*

## Balance Sheet as at 31 March 2004

	Notes	2004 £m	2003 £m
<b>Assets</b>			
Cash and balances at Bank of England	9d	223	79
Loans outstanding to PWLB borrowers	6	41,307	44,589
Accrued income	5	590	667
<b>Total assets</b>		<b>42,120</b>	<b>45,335</b>
<b>Liabilities</b>			
Amounts owed to the NLF			
Loan principal	8	(41,469)	(44,640)
Loan Interest		(601)	(689)
Discount/premium on loan early redemption		(50)	(6)
<b>Total amounts due to the NLF</b>		<b>(42,120)</b>	<b>(45,335)</b>
<b>Total liabilities</b>		<b>(42,120)</b>	<b>(45,335)</b>

*The notes on pages 56 to 60 form part of these accounts.*

HD Watson  
Secretary, Public Works Loan Board

3 March 2005

## Cash Flow Statement for the year ended 31 March 2004

	Notes	2004 £m	2003 £m
Net cash flow from operating activities	9a	<b>7,089</b>	6,467
Returns on investments and servicing of finance	9b	<b>(3,942)</b>	(3,848)
Net cash flow before financing		<b>3,147</b>	2,619
Financing	9c	<b>(3,003)</b>	(2,610)
Increase/(decrease) in cash		<b>144</b>	9

*The notes on pages 56 to 60 form part of these accounts.*

## Notes to the Accounts for the year ended 31 March 2004

### 1 Accounting policies

#### *i Accounting convention*

The accounts have been prepared in accordance with a direction given by the Treasury and in accordance with UK GAAP in so far as they are appropriate to PWLB. Accounting policies have been applied consistently throughout the year.

#### *ii Valuation of loans*

The principal amount of loans outstanding is shown in the balance sheet. The market value of loans outstanding is disclosed in Note 6 to the accounts, and is calculated as the aggregate net present value of all future cash flows.

#### *iii Recognition of assets and liabilities*

Where a new loan has been confirmed with a counterparty, but as at the balance sheet date the funds have not yet been advanced, the loan asset is not recognised on the balance sheet. Where a counterparty has confirmed an intention to repay a loan, but as at the balance sheet date the funds have not yet been received, the repayment is not recognised in the accounts.

#### *iv Income recognition*

Interest income is recognised in the accounts in the period in which it has been earned. Fee income received from PWLB customers is recorded in the DMO Agency (Administrative) Accounts.

### 2 Interest receivable

	<b>2004</b>	2003
	<b>£m</b>	£m
Fixed rate loans	<b>2,916</b>	3,219
Variable rate loans	<b>65</b>	70
	<b>2,981</b>	3,289

### 3 Premiums/(discounts) payable on early redemption

	<b>2004</b>	2003
	<b>£m</b>	£m
Premiums payable	<b>1,005</b>	658
Discounts payable	<b>(44)</b>	(99)
	<b>961</b>	559

#### 4 Segmental analysis of gross interest receivable

##### 4a Segmental analysis by type of borrower 2004

	2004 Local Authority	2004 Parish Council	2004 Harbour and Drainage Board	<b>2004 Total</b>
	£m	£m	£m	£m
Fixed rate loans	2,911	4	1	<b>2,916</b>
Variable rate loans	65	0	0	<b>65</b>
	<u>2,976</u>	<u>4</u>	<u>1</u>	<u>2,981</u>

##### Segmental analysis by type of borrower 2003

	2003 Local Authority	2003 Parish Council	2003 Harbour and Drainage Board	2003 Total
	£m	£m	£m	£m
Fixed rate loans	3,213	4	2	3,219
Variable rate loans	70	0	0	70
	<u>3,283</u>	<u>4</u>	<u>2</u>	<u>3,289</u>

##### 4b Segmental analysis by country 2004

	England £m	Wales £m	Scotland £m	<b>Total £m</b>
Fixed rate loans	2,214	198	504	<b>2,916</b>
Variable rate loans	50	7	8	<b>65</b>
	<u>2,264</u>	<u>205</u>	<u>512</u>	<u>2,981</u>

##### Segmental analysis by country 2003

	England £m	Wales £m	Scotland £m	Total £m
Fixed rate loans	2,394	210	615	3,219
Variable rate loans	59	5	6	70
	<u>2,453</u>	<u>215</u>	<u>621</u>	<u>3,289</u>

#### 5 Accrued income

	<b>2004 £m</b>	2003 £m
Accrued interest on fixed rate loans	<b>583</b>	659
Accrued interest on variable rate loans	<b>7</b>	8
	<u>590</u>	<u>667</u>

**6 Loans outstanding to PWLB borrowers***6a Loans outstanding - market valuation*

	<b>2004 Principal</b>	<b>2004 Market value</b>	2003 Principal	2003 Market value
	<b>£m</b>	<b>£m</b>	£m	£m
Fixed rate loans	<b>39,492</b>	<b>47,506</b>	42,862	53,011
Variable rate loans	<b>1,815</b>	<b>1,822</b>	1,727	1,735
	<b><u>41,307</u></b>	<b><u>49,328</u></b>	<u>44,589</u>	<u>54,746</u>

Balance of outstanding loans includes £25 million of Loans (2002-2003: £8 million) which borrowers had confirmed their intention to repay but as at the balance sheet date had not yet been received.

At 31 March 2004, £182 million of loans (2002-2003: £14 million) had been confirmed but not yet advanced. These loans are not included in the balance sheet.

**6b Loans outstanding – country analysis**

	<b>2004 £m</b>	2003 £m
England	<b>31,130</b>	33,379
Wales	<b>3,122</b>	3,294
Scotland	<b>7,055</b>	7,916
Total	<b><u>41,307</u></b>	<u>44,589</u>

**6c Loans outstanding – maturity analysis**

	<b>2004 £m</b>	2003 £m
In not more than 3 months	<b>283</b>	750
In more than 3 months but not more than 1 year	<b>1,729</b>	1,252
In more than 1 year but not more than 2 years	<b>803</b>	744
In more than 2 years but not more than 3 years	<b>826</b>	744
In more than 3 years but not more than 4 years	<b>846</b>	736
In more than 4 years but not more than 5 years	<b>912</b>	809
In more than 5 years but not more than 6 years	<b>901</b>	999
In more than 6 years but not more than 10 years	<b>4,875</b>	5,329
In more than 10 years but not more than 15 years	<b>6,758</b>	7,887
More than 15 years	<b><u>23,374</u></b>	<u>25,339</u>
	<b><u>41,307</u></b>	<u>44,589</u>

**6d Loans outstanding – interest rate profile**

	<b>2004</b>	<b>2004</b>	2003
	<b>Principal</b>	<b>Average</b>	Average
	<b>outstanding</b>	<b>rate</b>	rate
	<b>£m</b>	<b>%</b>	%
<b>Loan type</b>			
Fixed rate (principal at maturity loans)	<b>37,425</b>	<b>6.84</b>	7.10
Fixed rate (equal instalments of principal loans)	<b>951</b>	<b>6.65</b>	7.17
Fixed annuity	<b>1,116</b>	<b>8.72</b>	9.18
<b>Total - fixed rate loans</b>	<b>39,492</b>	<b>6.89</b>	7.17
One month variable (principal at maturity loans)	<b>745</b>	<b>4.19</b>	3.74
One month variable (principal at maturity loans)	<b>696</b>	<b>4.19</b>	3.81
Six month variable (principal at maturity loans)	<b>342</b>	<b>4.30</b>	3.84
One month variable (equal instalments of principal loans)	<b>17</b>	<b>4.18</b>	3.73
Three month variable (equal instalments of principal loans)	<b>4</b>	<b>4.24</b>	3.87
Six month variable (equal instalments of principal loans)	<b>11</b>	<b>4.14</b>	3.88
<b>Total - variable rate loans</b>	<b>1,815</b>	<b>4.21</b>	3.80
Total - all loan types	<b>41,307</b>	<b>6.77</b>	7.04

The weighted average period for which rates are fixed is 20.2 years (2002-2003: 21.2 years) for fixed rate loans.

**7 New issue, maturity and early redemption of loans**

	<b>2004</b>	2003
	<b>£m</b>	£m
New agreed loans to PWLB borrowers	<b>4,772</b>	4,943
Loans maturing	<b>(2,199)</b>	(2,010)
Loans redeemed early	<b>(5,687)</b>	(5,545)
Net increase/(decrease) in loans	<b>(3,114)</b>	(2,612)

**8 Loan principal owed to National Loans Fund**

	<b>2004</b>	2003
	<b>£m</b>	£m
Loan principal outstanding to borrowers	<b>41,307</b>	44,589
Loan principal repaid but not yet surrendered to NLF	<b>162</b>	51
Total loan principal owed to National Loans Fund	<b>41,469</b>	44,640

## 9 Analysis of cash flow

### 9a Reconciliation of operating income to net cashflow from operating activities

	<b>2003-2004</b>	2002-2003
	<b>£m</b>	£m
<b>Operating income</b>	<b>3,942</b>	3,848
(Increase)/decrease in loans outstanding to PWLB borrowers	<b>3,282</b>	2,456
(Increase)/decrease in accrued income due from PWLB borrowers	<b>77</b>	299
(Increase)/decrease in items in the course of transmission	<b>(168)</b>	156
Increase/(decrease) in loan interest payable to NLF	<b>(88)</b>	(292)
Increase/(decrease) in net early redemption discounts and premiums due to NLF	<b>44</b>	0
<b>Net cash flow from operating activities</b>	<b><u>7,089</u></b>	<u>6,467</u>

### 9b Return on investments and servicing of finance

Interest and premiums payable to National Loans Fund	<b>(3,942)</b>	(3,848)
Total returns on investments and servicing of finance	<b>(3,942)</b>	(3,848)

### 9c Financing

Increase/(decrease) in loans principal outstanding to NLF	<b>(3,003)</b>	(2,610)
Total financing	<b>(3,003)</b>	(2,610)

### 9d Analysis of cash balances

	<b>2004</b>	Movement	2003
	<b>£m</b>	£m	£m
Cash and balances at Bank of England	<b>223</b>	144	79



## Accounts Direction Given by the Treasury in accordance with Section 3 (6) of National Loans Act 1968

- 1 The Public Works Loans Board shall prepare accounts for the financial year ended 31 March 2004 and subsequent financial years comprising
  - a a Foreword;
  - b a Statement of Internal Control;
  - c an Income and Expenditure Account;
  - d a Balance Sheet; and
  - e a Cash Flow Statement.including such notes as may be necessary for the purposes referred to in the following paragraphs.
- 2 The accounts shall give a true and fair view of the income and expenditure, and cash flows for the financial year, and the state of affairs as at the end of the financial year.
- 3 Subject to this requirement, the accounts shall be prepared in accordance with
  - a Generally Accepted Accounting Practice in the United Kingdom (UK GAAP) to the extent that it is relevant. Any departure from UK GAAP is only permissible in the context of providing a true and fair view for this public sector account;
  - b any other relevant guidance which the Treasury may issue from time to time in respect of accounts which are required to give a true and fair view.
- 4 This direction shall be reproduced as an appendix to the accounts.

*David A Cruden, FCA*  
Head of Central Accountancy Team, Her Majesty's Treasury

25 February 2005

## Accounts of Loans to the Private Sector



# Harbours Act 1964

Advances to Statutory Harbour Authorities (Secretary of State for Transport)

Account presented pursuant to the Harbours Act 1964 (C40) s43(5)

## Foreword

### Background

- 1 The Secretary of State has powers to provide loans to statutory harbour authorities under section 11(1) of the Harbours Act 1964, as amended by section 40 of the Docks and Harbours Act 1966. Under section 43(5) of the 1964 Act the Secretary of State is required to prepare an account of receipts and payments in respect of loans under that Act.

### Scope of the Account

- 2 Accounts prepared in compliance with these provisions are required to show
  - i the sums issued to the Secretary of State out of the National Loans Fund;
  - ii the loans so made by the Secretary of State;
  - iii sums received by the Secretary of State in respect of interest on, and repayment of principal of, the loans made by him at ii above; and
  - iv the disposal of the sums received under iii.

### Secretary of State's powers to make loans

- 3 Loans may be made to statutory harbour authorities under section 11(1)(a) of the Harbours Act 1964 (as amended), with the approval of the Treasury, in order to help the authorities to meet expenses of a capital nature incurred in constructing, improving, maintaining, or equipping a harbour. Loans may also be made under section 11(1)(b) of that Act to enable statutory harbour authorities to pay sums due, by way of interest or repayment of principal, on loans made under section 11(1)(a).

### Limits on borrowing

- 4 Limits are usually placed on the total borrowings of individual harbour authorities by private Acts. Steps would be taken before any advances were made by the Secretary of State to ensure that these would not cause the borrowing authority to exceed any statutory limit applying.
- 5 There is a statutory limit of £75m on loans made under S11(1) of the Harbours Act 1964 to harbour authorities. This limit is set out in S1(1) of the Harbours (Amendment) Act 1970.

### Loans made by the Secretary of State, interest payable and repayment of principal

- 6 Loans made under section 11(1)(a) and (b) of the Harbours Act 1964 (as amended) are subject to interest at the rate prescribed by the Treasury at the date of issue. No such loans were made in 2003-2004.

**Statement of Secretary of State's and Accounting Officer's responsibilities**

- 7 Under Section 43 of the Harbours Act 1964 the Secretary of State for the Department of Transport is required to prepare an account for each financial year in the form and on the basis determined by the Treasury. The accounts are prepared on a cash basis and must properly present the receipts and payments for the financial year and the balances held at year end.
- 8 The Treasury has appointed an Accounting Officer for the account. His relevant responsibilities as Accounting Officer, including his responsibility for the propriety and regularity of the public finances for which he is answerable and for the keeping of proper records, are set out in the Accounting Officer's Memorandum issued by the Treasury and published in 'Government Accounting' (TSO).

*David Rowlands*  
Accounting Officer  
Department for Transport

5 January 2005

## Harbours Act 1964

Account, prepared under Section 43 of the Harbours Act 1964, of the Receipts and Payments of the Secretary of State for Transport, Local Government and the Regions under Section 11 of the 1964 Act for the year ended 31 March 2004

### Receipts

	£	Previous year £
Balance as at 1 April 2003	-	-
<i>Payments by the Harbour Authorities [s.43(1)]</i>		
Repayment of Loans	<b>2,808</b>	2,622
Interest on Loans	<b>4,424</b>	4,610
Less (discount) or plus premium on premature redemption	-	-
	<u><b>7,232</b></u>	<u>7,232</u>

### Payments

	£	Previous year £
Payments to the National Loans Fund [s.43(4)]	-	-
Repayment of Loans	<b>2,808</b>	2,622
Interest on Loans	<b>4,424</b>	4,610
Less (discount) or plus premium on premature redemption	-	-
Balance at 31 March 2004	<u>-</u>	<u>-</u>
	<u><b>7,232</b></u>	<u>7,232</u>

### Note

The aggregate amount of principal outstanding in respect of advances to Harbour Authorities under the Harbours Act 1964 at 31 March 2004 was £61,075.

David Rowlands  
Accounting Officer  
Department of the Transport

5 January 2005

## Statement on Internal Control

This statement is given in respect of the Harbours Authorities National Loans Fund (NLF) annual account and incorporates all the transactions pertinent to that account. In my role as Principal Accounting Officer for the Department for Transport (DfT), I have the responsibility of signing this account.

As Accounting Officer, I have responsibility for maintaining a sound system of internal control that supports the achievement of the Department for Transport's policies, aims and objectives, whilst safeguarding the public funds and departmental assets for which I am personally responsible, in accordance with the responsibilities assigned to me in Government Accounting.

Officials regularly consult Ministers on risk. Submissions to Ministers incorporate assessments of key risks, whether to the operation of the transport system, including public perceptions, or to the successful delivery of new policies. DfT Ministers also receive regular reports on key cross-government risks from the Domestic Horizon Scanning Committee.

The Department's Board includes one Agency Chief Executive. The membership of the Department's Audit Committee includes non-executive representatives of Agency Audit Committees.

Key internal control processes were established in the Department in the period between the creation of the Department in May 2002 and March 2003. This statement describes these and the further developments, particularly on risk management processes, which took place in the central Department in 2003-2004 to meet the standards set by HM Treasury.

### The purpose of the system of internal control

The system of internal control is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of departmental policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically. Subject to the developments during the year described in the following paragraphs, the system of internal control has been in place in the Department for Transport for the year ended 31 March 2004 and up to the date of approval of the annual report and accounts, and accords with Treasury guidance.

### Capacity to handle risk

The following structures have been put in place to lead risk management in the Department.

A Board, which sets the strategic direction of the Department and ensures delivery against its objectives. The Board identifies, monitors and manages high level corporate risks. It leads on strategy and delivery, in support of the policy objectives set by Ministers. It holds Group Directors and Agency Chief Executives accountable for performance against Public Service Agreements (PSAs) and other key targets, and for the proper use of resources in line with the Department's aims and objectives. The Board was supported in these functions for a limited period by a Performance, Delivery and Risk Committee; its responsibilities have now reverted to the Board.

An Executive Committee is responsible for the corporate management of the Department. The Committee seeks to ensure that the resources available to the Department are managed as effectively as possible to meet identified risks and corporate governance standards.

An Audit Committee, which met four times during the year to monitor and review the Department's processes for managing risk, control, governance and assurance, and once to review the Department's draft Resource Accounts. In line with best practice, the Committee is chaired by a non-executive member of the Board and includes the non-executive Chairs of the Highways Agency and the Driver, Vehicle and Operator Group Audit Committees.

The central Department has developed and improved its approach to risk identification, assessment and management. A working group, with membership comprising senior officials in key business areas, provided strategic direction to the risk strategy. A Risk Improvement Manager was appointed in March 2003 to oversee the embedding of risk management within the Department, and became responsible for the delivery of a number of work streams within the strategy. The Department also appointed external consultants with expertise in risk management to support the development of new systems and deliver a tailored programme of risk awareness training.

Good progress has been made in integrating risk management into the Department's business planning and performance reporting processes, which are the core management processes within the Department. The Department's 2003-2004 business plan identified critical milestones for delivery, along with the associated risks and the key performance indicators for each of the Department's priorities, which formed the basis for performance and risk reviews during the year. The Department's performance monitoring system was developed to enable the Board to track and manage progress against the risks to PSA targets and other priority objectives.

Guidance on managing risk was published on the Department's intranet in July 2003. The guidance provides practical advice to staff on identifying, assessing, addressing and monitoring risks, and contains risk register templates for recording and reporting risk. A programme of risk workshops has been run over the course of the year to take staff involved in the delivery of priority objectives through the stages of the risk management process and to help them to establish and use risk registers. The workshops are supported by a core presentation that outlines the benefits of risk management and explains the process for managing risk.

### The risk and control framework

All staff are required to manage risks to the achievement of their objectives in a systematic and consistent way. The Department's risk management strategy, published in June 2003, sets out the process that staff are required to follow. Risk assessments were carried out by the Board and in all Directorates during the course of the 2003-2004 business planning round, and in many parts of the Department these have now been carried out down to Divisional and team level. Risk reviews are carried out as part of monthly performance reviews, and information is recorded in risk registers.

A Board level workshop in April 2003 identified seven categories of 'unacceptable outcome' that form the basis of the Department's risk appetite, and these categories have been developed into the matrix used to assess risks as part of the reporting template. Further work is planned during 2004 to refine the measures used and to improve consistency of risk assessments across the Department. A review of risks by the Performance, Delivery and Risk Committee in March 2004 identified the following risk priorities for the Department

- inadequate financial resources;
- escalating costs;
- failure of delivery partners;
- industrial action affecting transport services;
- terrorism;
- inadequate skills and capabilities; and
- failure to secure the legislative programme.

Improvements have been made to both the risk management and business planning processes to identify the Department's main dependencies on delivery partners, including its agencies and sponsored bodies, and to highlight the need for the risks relating to these relationships to be actively assessed and addressed.



The business planning and performance reporting processes, which form the core of the Department's management processes, have been the main means for embedding risk management within the Department during 2003-2004. The Departmental business plan provided the basis for performance and risk reporting during 2003-2004 and risks identified during the year were used to refresh the Department's corporate risk register in March 2004. A monthly performance reporting process, including reports on risks to Departmental objectives, was established in summer 2003 under the Performance, Delivery and Risk Committee (see page 69) and is now the subject of direct scrutiny by the Board. Directors are required to ensure that robust arrangements are in place for reviewing and reporting risks within their areas, as part of wider governance and reporting arrangements.

A centre of excellence for programme and project management (PPM) was established in May 2003, and this has provided the focus for embedding good practice, including risk management practice, at programme and project levels. In September 2003, responsibilities for embedding PPM, risk management and business planning were brought together into a single Division, and these are now managed as part of a single programme. A risk network, involving the Department and its executive agencies, has been in operation throughout 2003-2004 to share information and promote more consistent management of risks within the Department and its agencies.

At the beginning of the year, the Department implemented a comprehensive 'Stewardship Pack', which included the framework of accountabilities, the roles and responsibilities of Heads of Unit (Directors) and the end of year reporting arrangements. These set out Directors' responsibilities for risk management. This pack was supported by new delegation arrangements at Head of Unit level to improve accountability and the management of resources. Delegations from the Treasury to the Department were reviewed comprehensively towards the end of the year, and delegations from the Accounting Officer to Directors were reissued in the 2004-2005 Stewardship Pack.

The Department's risk management strategy, published in June 2003, outlined responsibilities at all levels of the Department for managing risk. Directors' and Divisional Managers' responsibilities for managing risks are set out in the Department's risk strategy and in stewardship packs. Since March 2003, Directors have been required to submit a signed declaration that they comply with the requirements set out in the stewardship pack.

The Department and its agencies have a number of well-established programmes for involving the public in managing the risks associated with transport.

The Department identified, in a letter of 24 June 2003 to the Treasury, the main elements of the programme of work proposed in the central Department for 2003-2004 to comply with Treasury guidance on the requirements for reporting on risk management in the statement on internal control. This programme has been completed, except for two items that were superseded by additional guidance from the Treasury. I am therefore satisfied that the procedures necessary to implement Treasury guidance on risk management were fully in place in the central Department by 31 March 2004.

Further work, to improve implementation and embedding of risk management skills and processes, is planned for the remainder of 2004-2005. This will be delivered through the development of a new risk management framework to support the Department's existing risk strategy; through improvements to the stewardship reporting process to clarify and increase accountabilities for risk management; and through the provision of a targeted programme of interventions (part of a wider programme of improvements to business management within the Department) to improve risk management practice and increase knowledge and skills across the Department.

## Review of effectiveness

As Accounting Officer, I have responsibility for reviewing the effectiveness of the system of internal control. My review of the effectiveness of the system of internal control is informed by the work of the internal auditors and the executive managers within the Department who have responsibility for the development and maintenance of the internal control framework, and comments made by the external auditors in their management letter and other reports. I have been advised on the implications of the results of my review of the effectiveness of the system of internal control by the Board and the Audit Committee, and a plan to address weaknesses and ensure continuous improvement is in place.

Since April 2003, the Department's Risk Improvement Manager has carried out six-monthly assessments of progress towards implementing the risk improvement programme to inform the Department's contribution to the report to the Chief Secretary. Since October 2003, assessments have been based on the risk management framework developed by the Treasury in 2003. The results of these assessments have been used to inform priorities for the Department's risk improvement programme.

The Audit Committee receives summaries of Internal Audit reports and considers the Head of Internal Audit's annual opinion on the effectiveness of risk management, control and governance. The Chair of the Audit Committee reports the Committee's views on the effectiveness of internal control to the Board regularly throughout the year.

The Department's Audit, Risk and Assurance Division (Internal Audit) operated to standards defined in the Government's Internal Audit Standard. It provided an independent opinion to the Accounting Officer on control and governance and the effectiveness of the Department's risk management systems. Regular reports were provided to the Department's management, as well as advice on risk and control issues. The Department's assessment of the control environment was also informed by the programme of external audits and value for money studies undertaken by the National Audit Office.

Directors produced end of year stewardship reports that confirmed they were substantially compliant with the Department's risk and resource management procedures, and explained any issues and problems arising. The Finance Director collated the results of these reports, together with his commentary, in a report on stewardship to the Accounting Officer.

A series of actions have been taken in the central Department to address the significant control problems identified in 2002-2003. A programme of work to improve financial management has been undertaken to address problems revealed in the production of the accounts for 2002-2003 and other control issues unresolved since the creation of the Department in the machinery of government changes in May 2002. Work on the 2003-2004 accounts has not revealed any significant problems. Actions to improve risk management, in line with wider government initiatives, are described in the preceding paragraphs.

The Group Head of Internal Audit has provided the following opinion for 2003-2004

- the risk management processes in the Department were introduced in 2003 after the machinery of government changes. Whilst these processes are working well at some levels, it is recognised that more work is required to apply these processes consistently across all levels of management;
- significant effort has been made to improve financial management and controls in the Department and management is working on a continuous programme to improve controls further; and
- improvements have been made to the Governance process across the Department during the year and these arrangements are working reasonably well.

*David Rowlands*  
Accounting Officer  
Department for Transport

5 January 2005

## The Certificate and Report of the Comptroller and Auditor General to the Houses of Parliament

I certify that I have audited the financial statements on page 66 under the Harbours Act 1964. These financial statements have been prepared in the form and on the basis determined by the Treasury.

### Respective responsibilities of the Accounting Officer and Auditor

As described on page 65, the Accounting Officer is responsible for the preparation of the financial statements in accordance with the Harbours Act 1964 and Treasury directions made thereunder and for ensuring the regularity of financial transactions. The Accounting Officer is also responsible for the preparation of the Foreword. My responsibilities, as independent auditor, are established by statute and I have regard to the standards and guidance issued by the Auditing Practices Board and the ethical guidance applicable to the auditing profession.

I report my opinion as to whether the financial statements properly present the receipts and payments and are properly prepared in accordance with the Harbours Act 1964 and Treasury directions made thereunder, and whether in all material respects the receipts and payments have been applied to the purposes intended by Parliament and conform to the authorities which govern them. I also report if, in my opinion, the Foreword is not consistent with the financial statements, if the Accounting Officer has not kept proper accounting records, or if I have not received all the information and explanations I require for my audit.

I review whether the statement on pages 67 to 70 reflects compliance with Treasury's guidance on the Statement on Internal Control. I report if it does not meet the requirements specified by Treasury, or if the statement is misleading or inconsistent with other information I am aware of from my audit of the financial statements. I am not required to consider, nor have I considered whether the Accounting Officer's Statement on Internal Control covers all risks and controls. I am also not required to form an opinion on the effectiveness of the Department's corporate governance procedures or its risk and control procedures.

### Basis of opinion

I conducted my audit in accordance with United Kingdom Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts, disclosures and regularity of financial transactions included in the financial statements. It also includes an assessment of the judgements made by the Accounting Officer in the preparation of the financial statements.

I planned and performed my audit so as to obtain all the information and explanations which I considered necessary in order to provide me with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by error or by fraud or other irregularity and that, in all material respects, the receipts and payments have been applied to the purposes intended by Parliament and conform to the authorities which govern them. In forming my opinion I also evaluated the overall adequacy of the presentation of information in the financial statements.

## Opinion

In my opinion

- the account properly presents the receipts and payments of the Secretary of State for Transport in respect of advances made to the Harbour Authorities for the year ended 31 March 2004 and the balances held at that date and has been properly prepared in accordance with Section 43(5) of the Harbours Act 1964 and the directions made thereunder by the Treasury; and
- in all material respects the receipts and payments have been applied to the purposes intended by Parliament and conform to the authorities which govern them.

I have no observations to make on these financial statements.

*John Bourn*  
Comptroller and Auditor General

31 January 2005

National Audit Office  
157-197 Buckingham Palace Road  
Victoria  
London SW1W 9SP

## Accounts of Loans with Central Government



# Northern Ireland (Loans) Act 1975

Advances to the Consolidated Fund of Northern Ireland (Secretary of State for Northern Ireland)

Account presented pursuant to Act 1975, c.83, s.3(1)

## Foreword

### Scope of the Account

- 1 This account prepared under Section 3(1) of the Northern Ireland (Loans) Act 1975, for the year ended 31 March 2004 is required to show
  - i the sums issued to the Secretary of State for Northern Ireland out of the National Loans Fund under Section 1(8) of the 1975 Act to enable him to make loans under Section 1(1) to the Consolidated Fund of Northern Ireland;
  - ii the loans so made by the Secretary of State;
  - iii the sums received by the Secretary of State in respect of interest on, and repayment of
    - a loans made under the 1975 Act (Section 1(7));
    - b loans made under previous enactments (Section 2(1));
  - iv the payment into the National Loans Fund of the sums received under (iii).

### The Secretary of State's powers in respect of loans

- 2 Section 1(1) of the 1975 Act provides that the Secretary of State may, with the approval of the Treasury, advance to the Consolidated Fund of Northern Ireland any sums for the purposes of any expenditure which, in the opinion of the Secretary of State, is of a capital nature. Sums required for making loans are issued by the Treasury to the Secretary of State who is required to determine, with the approval of the Treasury, the repayment terms and conditions and to pay into the National Loans Fund sums received in respect of interest and repayment of principal in respect of loans under this Act and previous enactments.

### Limits on loans outstanding

- 3 Section 1(2) of the 1975 Act as amended by Section 1(1) of the Northern Ireland (Loans) Act 1985 specified a maximum of £1,700 million for the aggregate amount outstanding by way of principal in respect of certain loans. The Northern Ireland (Loans) (Increase of Limit) Order 1995 increased the limit in Section 1(2) of the 1975 Act by £300 million to £2,000 million. At 31 March 2002 the aggregate amount outstanding was £1,371,996,886 as detailed in the Note to the Account.

### Loans made during the year

- 4 The amounts issued to the Secretary of State out of the National Loans Fund and advanced to the Consolidated Fund of Northern Ireland during the year ended 31 March 2004 was £89,435,000.

The Northern Ireland Public Income and Expenditure Account, published by the Northern Ireland Department of Finance and Personnel, shows the transactions and balances of the Northern Ireland Consolidated Fund.

*Sir Joseph Pilling KCB*  
Accounting Officer  
Northern Ireland Office

29 November 2004

**Statement of Secretary of State's and Accounting Officer's responsibilities**

- 5 Under Section 3(1) of the Northern Ireland (Loans) Act 1975 the Secretary of State for Northern Ireland is required to prepare an account for each financial year in the form and manner directed by the Treasury. The accounts are prepared on a cash basis and must properly present the receipts and payments for the financial year and the balances held at the year end.

The Treasury has appointed an Accounting Officer for the account. His relevant responsibilities as Accounting Officer, including his responsibility for the propriety and regularity of the public finances and for the keeping of proper records, are set out in the Accounting Officers' Memorandum issued by the Treasury and published in Government Accounting.



## Northern Ireland (Loans) Act 1975

Account, prepared under Section 3(1) of the Northern Ireland (Loans) Act 1975, of the Receipts and Payments of the Secretary of State for Northern Ireland under Sections 1(1), 1(7), 1(8), 2(1) and 2(3) of that Act for the year ended 31 March 2004

### Receipts

	£	Previous year £
Issues from the National Loans Fund (s.1.(8))	<b>89,435,000</b>	–
<i>From the Consolidated Fund of Northern Ireland</i>		
i Loans under previous enactments (s.2(1))		
Repayment of principal	<b>13,011,275</b>	12,035,223
Interest	<b>10,196,493</b>	11,172,545
ii Loans under the 1975 Act (s.1(7))		
Repayment of principal	<b>84,851,672</b>	81,415,267
Interest	<b>114,072,365</b>	121,820,013
	<b><u>311,566,805</u></b>	<u>226,443,048</u>

### Payments

	£	Previous year £
Loans to the Consolidated Fund of Northern Ireland (s.1(1))	<b>89,435,000</b>	–
<i>Payments to the National Loans Fund (ss.1(8) and 2(3))</i>		
Repayment of principal	<b>97,862,947</b>	93,450,490
Interest	<b>124,268,858</b>	132,992,558
	<b><u>311,566,805</u></b>	<u>226,443,048</u>

### Note

Under Section 1(2) of the 1975 Act as amended by Section 1(1) of the Northern Ireland (Loans) Act 1985 the aggregate amount outstanding by way of principal of loans to the Consolidated Fund of Northern Ireland under this and previous enactments shall not exceed £1,700 million. The Northern Ireland (Loans) (Increase of Limit) Order 1995 increased the limit in Section 1(2) of the 1975 Act by £300 million to £2,000 million. The amounts outstanding at 31 March 2004 were

Loans under previous enactments	114,860,936
Loans under the 1975 Act	<u>1,257,135,950</u>
	<b>1,371,996,886</b>

The Public Income and Expenditure Account is published separately as a White Paper. See foreword note 4.

Sir Joseph Pilling KCB  
Accounting Officer  
Northern Ireland Office

29 November 2004

# Statement on the System of Internal Control

## The scope of responsibility

As Accounting Officer I have responsibility for maintaining a sound system of internal control that supports the achievement of the Northern Ireland Office policies, aims and objectives, whilst safeguarding the public funds and departmental assets for which I am personally responsible, in accordance with the responsibilities assigned to me in Government Accounting.

## The purpose of the system of internal control

The system of internal control is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control has been in place in the Northern Ireland Office for the year ended 31 March 2004 and up to the date of approval of the annual accounts, and accords with Treasury guidance.

## Capacity to handle risk

Executive responsibility for risk management with the National Loans Fund rests with me as Accounting Officer. My staff and I have attended and will attend in the future corporate governance and risk management training seminars to keep us up to date on developments within that sector of management. A risk management strategy has been established and has been communicated to all staff within the National Loans Fund who are trained to manage risks in a way appropriate to their responsibilities and duties.

The system of internal control is based on a framework of regular management information, financial regulations, administrative procedures including segregation of duties, and a system of delegation and accountability. In particular it includes

- the existence of an appropriate control environment, such as clearly defined responsibilities and procedures and evidence of reaction to control failures;
- the preparation and check by middle management of schedules of amounts due for repayment to the National Loans Fund, for Department of Finance and Personnel approval and HM Treasury agreement, prior to payment over; and
- the preparation of six-monthly reports which indicate the level of transactions.

## Review of effectiveness

As Accounting Officer, I also have responsibility for reviewing the effectiveness of the system of internal control. My review of the effectiveness of the system of internal control is informed by the work of the executive managers within the Department who have responsibility for the development and maintenance of the internal control framework, and comments made by the external auditors in their management letter and other reports.

*Sir Joseph Pilling KCB*  
Accounting Officer  
Northern Ireland Office

29 November 2004

# The Certificate and Report of the Comptroller and Auditor General to the Houses of Parliament

I certify that I have audited the financial statements on page 77 under the Northern Ireland (Loans) Act 1975. These financial statements have been prepared in the form and on the basis determined by Treasury.

## Respective responsibilities of the Accounting Officer and Auditor

As described on page 76 the Accounting Officer is responsible for the preparation of financial statements in accordance with the Northern Ireland (Loans) Act 1975 and Treasury directions made thereunder and for ensuring the regularity of financial transactions. The Accounting Officer is also responsible for the preparation of the Foreword. My responsibilities, as independent auditor, are established by statute and I have regard to the standards and guidance issued by the Auditing Practices Board and the ethical guidance applicable to the auditing profession.

I report my opinion as to whether the financial statements properly present the receipts and payments and are properly prepared in accordance with the Northern Ireland (Loans) Act 1975 and Treasury directions made thereunder, and whether in all material respects the receipts and payments have been applied to the purposes intended by Parliament and conform to the authorities which govern them. I also report if, in my opinion, the Foreword is not consistent with the financial statements, if the Accounting Officer has not kept proper accounting records, or if I have not received all the information and explanations I require for my audit.

I review whether the statement on page 78 reflects compliance with Treasury's guidance on the Statement on Internal Control. I report if it does not meet the requirements specified by Treasury, or if the statement is misleading or inconsistent with other information I am aware of from my audit of the financial statements. I am not required to consider, nor have I considered whether the Accounting Officer's Statement on Internal Control covers all risks and controls. I am also not required to form an opinion on the effectiveness of the Department's corporate governance procedures or its risk and control procedures.

## Basis of audit opinion

I conducted my audit in accordance with United Kingdom Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts, disclosures and regularity of financial transactions included in the financial statements. It also includes an assessment of the judgements made by the Accounting Officer in the preparation of the financial statements.

I planned and performed my audit so as to obtain all the information and explanations which I considered necessary in order to provide me with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by error, or by fraud or other irregularity and that, in all material respects, the receipts and payments have been applied to the purposes intended by Parliament and conform to the authorities which govern them. In forming my opinion I also evaluated the overall adequacy of the presentation of information in the financial statements.

## Opinion

In my opinion

- the account properly presents the receipts and payments of Secretary of State for Northern Ireland in respect of advances to the Consolidated Fund of Northern Ireland for the year ended 31 March 2004 and the balances held at that date, and has been properly prepared in accordance with Section 3(1) of the Northern Ireland (Loans) Act 1975 and the directions made thereunder by the Treasury; and
- in all material respects the payments and receipts have been applied to the purposes intended by Parliament and conform to the authorities which govern them.

I have no observations to make on these financial statements.

*John Bourn*  
Comptroller and Auditor General

8 February 2005

National Audit Office  
157-197 Buckingham Palace Road  
Victoria  
London SW1W 9SP

# Housing Associations Act 1985

Advances to the Housing Corporation

Account pursuant to the Housing Associations Act 1985, c.69, s.97(4)

## Foreword

### Scope of the Account

- 1 This account is prepared in compliance with Section 97 of the Housing Associations Act 1985 (the 1985 Act) and is required to show
  - i the sums issued to the Secretary of State for the Office of the Deputy Prime Minister out of the National Loans Fund under Section 92(5) of the 1985 Act to enable him to make loans under Section 92(1) to the Housing Corporation;
  - ii the loans so made by the Secretary of State;
  - iii the sums received by the Secretary of State under Section 92(4) of the 1985 Act in respect of interest and repayment; and
  - iv the payment into the National Loans Fund of the sums received under (iii).
- 2 The principal activities of the Housing Corporation throughout the year were to finance, regulate and facilitate the proper performance of Registered Social Landlords (RSLs) in England. With Central Government finance it provides grants to RSLs for the development of homes for people in housing need. The Corporation has a small portfolio of long term loans which are financed by the borrowings disclosed in the attached account.

### Limits on borrowing

- 3 Under Section 93 of the 1985 Act as amended by Schedule 6 to the Housing Act 1988 and the Housing Corporation Advances (Increase of Limit) Order 1990, the Secretary of State may make advances up to a limit of £2,300 million.

### Repayment of loans

- 4 The advances must be repaid at such times and by such methods with interest payable at such rates and at such times as the Secretary of State may, with the approval of the Treasury, from time to time determine.

### Transactions during the year ended 31 March 2004

- 5 A total of £2,600,000 was issued to the Secretary of State for the Office of the Deputy Prime Minister out of the National Loans Fund for advancement to the Housing Corporation.
- 6 The Corporation repaid £3,400,000 in respect of advances made to them. Taking into account advances made in previous years the outstanding amount of advances to the Housing Corporation at 31 March 2004 was £1,200,000. The Corporation also paid interest totalling £64,471.

**Statement of Secretary of State's and Accounting Officer's responsibilities**

- 7 Under Section 97 of the Housing Associations Act 1985 the Secretary of State is required to prepare an account for each financial year in the form and on the basis determined by the Treasury. The accounts are prepared on a cash basis and must properly present the receipts and payments for the financial year.
- 8 The Treasury has appointed the Permanent Secretary, ODPM, as Accounting Officer for the account. Her relevant responsibilities as Accounting Officer, including her responsibility for the propriety and regularity of the public finances for which she is answerable and for the keeping of proper records, are set out in the Accounting Officer's Memorandum issued by the Treasury and published in 'Government Accounting' (TSO).

*Mavis McDonald*  
Accounting Officer  
Office of the Deputy Prime Minister

October 2004

## Housing Associations Act 1985

Receipts and Payments of the first Secretary of State under section 92 of the Housing Associations Act 1985 for the year ended 31 March 2004

### Receipts

	<b>2003-2004</b>	2002-2003
	£	£
Balance as at 1 April 2003	–	–
Issues from the National Loans Fund [s.92(5) of the 1985 Act]	<b>2,600,000</b>	4,000,000
<i>Payments by the Housing Corporation</i>		
Repayment on advances	<b>3,400,000</b>	4,000,000
Interest on advances	<b>64,471</b>	62,952
	<b><u>6,064,471</u></b>	<u>8,062,952</u>

### Payments

	<b>2003-2004</b>	2002-2003
	£	£
Advances to the Housing Corporation [s.92(1) of the 1985 Act]	<b>2,600,000</b>	4,000,000
<i>Payments to the National Loans Fund</i>		
Repayment on advances	<b>3,400,000</b>	4,000,000
Interest on advances	<b>64,471</b>	62,952
Balance at 31 March 2004	–	–
	<b><u>6,064,471</u></b>	<u>8,062,952</u>

### Note

The amount of advances outstanding at 1 April 2003 and 31 March 2004 was £2,000,000 and £1,200,000 respectively.

Mavis McDonald  
Accounting Officer  
Office of the Deputy Prime Minister

October 2004

# Statement on Internal Control

## Introduction

This statement is given in respect of the Housing Associations Act 1985, Advances to the Housing Corporation National Loans Funds accounts and incorporates the transactions that pertain to this account.

## Scope of responsibility

As Principal Accounting Officer, I have responsibility for maintaining a sound system of internal control that supports the achievement of ODPM's policies, aims and objectives as set by the Office's Ministers. I have a duty to safeguard the public funds and departmental assets for which I am personally responsible, in accordance with the responsibilities assigned to me in Government Accounting.

In addition some of the responsibilities are delegated to additional Accounting Officers and the relationship with the Principal Accounting Officer is set out in written statements.

Ministers set the vision and political direction of the Office's policies within which many calculated risks are taken. My senior managers and I ensure that Ministers are able to take informed decisions on the basis of policy options that have clear statements on implications attached to the various courses of action.

The Chief Executive of each agency and other bodies, falling within the ODPM departmental boundary, is responsible for risk management and the maintenance and operation of the system of internal control in that body. Each has signed a statement relating to that system which is reproduced in the accounts of the body.

To help me discharge my responsibilities as the Principal Accounting Officer, senior managers within ODPM, including the Government Officers for the Regions, have specific delegated authority for the management and accountability of programme and administration resources within their area of responsibility. Identification, evaluation, and management of risks to the achievement of strategic objectives and key targets are essential elements of their responsibilities. As part of the Office assurance process senior managers provide me with an interim statement on the effectiveness of their internal controls on a quarterly or half-yearly basis. Similarly, Government Offices and the agencies provide interim Statements of Internal Control on a half-yearly basis.

## The purpose of the system of internal control

The system of internal control is designed to manage risk to a reasonable level rather than to eliminate all risks of failure to achieve policies, aims and objectives, it can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risk to the achievement of the Office's policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively, and economically.

The system of internal control has been in place in the ODPM for the year ended 31 March 2004 and up to the date of approval of the annual report and accounts, and this statement complies with the HM Treasury guidance.

## Capacity to handle risk

Risk is identified, assessed, managed and reviewed within the Office to ensure the efficient, effective, and economical delivery of the objectives, targets and business.

During 2003-2004 risk processes and assurance continued to be applied through

- the Management Board, that in May 2003 set out the principles under which risk is managed and from June 2003 reviewed corporate risks, particularly of PSA targets and business critical projects, through the monthly Performance Monitoring Report (covering key targets, milestones, risks and spend against monthly budget profiles);



- an Audit and Risk Committee, under independent chairmanship, that reviews on an on-going basis the approach to risk management and corporate governance across the Office; and
- senior managers within the Office Headquarters, Chief Executives of Agencies, and the Director General of the Regional Co-ordination Unit reporting how they were managing risk through their interim Statements on Internal Control provided on a quarterly or half-yearly basis.

Throughout the year, processes were in place to identify, assess and manage risk through business and delivery planning (including for the Spending Review 2004), through project and programme management, through policy development and implementation and through audit. In common with other departments, the Office reported to the Prime Minister in June and December 2003 how it was managing risk.

Further work to embed risk management within planning, project and programme management and delivery is being driven by the Office's Centre of Excellence, which also encompasses the role of the Risk Improvement Manager. In 2004, this work will include addressing elements of the Treasury's risk framework – covering leadership, strategy and policies, people, partnerships, processes, outcomes and handling. A risk website was developed during 2003-2004 to host guidance and training material for staff and this became available in March 2004.

## The risk and control framework

Our aim is to create an environment of 'no surprises' in which we manage our threats and opportunities effectively. Risks identified through the Business Planning process and other project and programme management systems and through implementation of internal and external auditor's recommendations form the basis of the Office risk register that feeds into the corporate management information system. This corporate and strategic risk register is regularly reviewed and updated by the risk owners and a risk network. Action plans are developed where the level of residual risk is deemed unacceptable.

## Review of effectiveness

As Accounting Officer, I have responsibility for reviewing the effectiveness of the system of internal control. My review of the effectiveness of the system of internal control is informed by the work of the internal auditors and the executive managers within the Office who have responsibility for the development and maintenance of the internal control framework, and comments made by the external auditors in their management letter and other reports. I have been advised on the implications of the result of my review of the effectiveness of the system of internal control by the Board, the Audit Committee and Risk Committee, and a plan to address weaknesses and ensure continuous improvement of the system is in place.

There are no major or systematic cases of irregularity or abuse that would lead me to qualify this statement.

We are taking action to bring about more professionalism in the monitoring, forecasting, and planning of resources. These include

- establishing an accounts production project team to manage the accounts preparation process; and
- producing dry run resource accounts to highlight any areas of concern prior to year-end and early completion of key balance sheet reconciliation at year end.

Senior Managers have prepared an end of the year report on the stewardship of their resources during 2003-2004. On the basis of these reports and assessment made centrally, the Director of Finance has prepared a Memorandum that provided me with the necessary assurance on the effectiveness of the system of internal control that was in operation during 2003-2004. In addition the following were in place and functioning during 2003-2004:

- a Management Board, that included two Non-executive Directors, that met monthly to consider, amongst other issues, the plans and strategic direction of the Office, including strategic challenges and opportunities;
- financial performance against budgets and forecasts was reviewed by the Board on a monthly basis, and spending priorities were determined in the context of emerging pressures and new demands;

- an Audit and Risk Committee made up of senior staff and chaired by an external member met four times in the year. The Committee reviewed the approach to risk management and corporate governance across the Office, agreed the Internal Audit work programme, and this statement on internal control. The NAO attend the Committee as observers;
- regular reports were made by internal audit, to standards defined in the Government Internal Audit Manual, which included the Head of Internal Audit's independent opinion on the adequacy and effectiveness of the Office's system of internal control; and
- delivery plans for Spending Review 2002 PSA targets were finalised with the Performance Management and Delivery Unit and HM Treasury, and performance-monitoring arrangements were put in place.

### Significant internal control problems

There are no significant internal control problems to report.

*Mavis McDonald*  
Accounting Officer  
Office of the Deputy Prime Minister

October 2004

# The Certificate and Report of the Comptroller and Auditor General to the Houses of Parliament

I certify that I have audited the financial statements on page 83 under the Housing Associations Act 1985. These financial statements have been prepared in the form and on the basis determined by Treasury.

## Respective responsibilities of the Secretary of State, Accounting Officer and Auditor

As described on page 82 the First Secretary of State is responsible for the preparation of the financial statements in accordance with the Housing Associations Act 1985 and Treasury directions made thereunder. The Accounting Officer is responsible for ensuring the regularity of financial transactions and for the preparation of the Foreword. My responsibilities, as independent auditor, are established by statute and I have regard to the standards and guidance issued by the Auditing Practices Board and the ethical guidance applicable to the auditing profession.

I report my opinion as to whether the financial statements properly present the receipts and payments and are properly prepared in accordance with the Housing Associations Act 1985 and Treasury directions made thereunder, and whether in all material respects the receipts and payments have been applied to the purposes intended by Parliament and conform to the authorities which govern them. I also report if, in my opinion, the Foreword is not consistent with the financial statements, if the Accounting Officer has not kept proper accounting records, or if I have not received all the information and explanations I require for my audit.

I review whether the statement on pages 84 to 86 reflects compliance with Treasury's guidance on the Statement on Internal Control. I report if it does not meet the requirements specified by Treasury, or if the statement is misleading or inconsistent with other information I am aware of from my audit of the financial statements. I am not required to consider, nor have I considered, whether the Accounting Officer's Statement on Internal Control covers all risks and controls. I am also not required to form an opinion on the effectiveness of the Department's corporate governance procedures or its risk and control procedures.

## Basis of audit opinion

I conducted my audit in accordance with United Kingdom Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts, disclosures and regularity of financial transactions included in the financial statements. It also includes an assessment of the judgements made by the Accounting Officer in the preparation of the financial statements.

I planned and performed my audit so as to obtain all the information and explanations which I considered necessary in order to provide me with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by error, or by fraud or other irregularity and that, in all material respects, the receipts and payments have been applied to the purposes intended by Parliament and conform to the authorities which govern them. In forming my opinion I also evaluated the overall adequacy of the presentation of information in the financial statements.

## Opinion

In my opinion

- the account properly presents the receipts and payments of the First Secretary of State in respect of advances to the Housing Corporation for the year ended 31 March 2004 and the balances held at that date and has been properly prepared in accordance with Section 97 of the Housing Associations Act 1985 and the directions made thereunder by the Treasury; and
- in all material respects the payments and receipts have been applied to the purposes intended by Parliament and conform to the authorities which govern them.

I have no observations to make on these financial statements.

*John Bourn*  
Comptroller and Auditor General

11 November 2004

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