

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 respectively, for the year ended 31 March 2003, together with the Report of the Comptroller and Auditor General thereon. (In continuation of House of Commons Paper No. 1270 of 2003-2004)

Presented pursuant to various Acts

Accounts relating to issues from the National Loans Fund 2002-2003

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on behalf of Parliament.

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This volume contains statutory accounts prepared to show the transactions of Ministers and others in 2002–2003 in connection with loans to various bodies out of issues from the National Loans Fund. Details of issues from the National Loans Fund in 2002–2003 are given in the relevant part of the National Loans Fund Account (see page 16 of HC 93 of 2003-2004). Summary is provided on page 2 showing the issues from and payments to the National Loans Fund as recorded in the accounts in the volume. 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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Summary of National Loans Fund: Transactions

	Advances outstanding at 31 March 2002 £	Issues made from NLF in 2002–2003 £	Repayments made to NLF in 2002–2003 £	Advances outstanding at 31 March 2003 £	Interest received by NLF in 2002–2003 £
Loans to Public Corporations					
British Waterways Board	16,336,000	0	1,600,000	14,736,000	1,891,003
Central Office of Information	0	30,000,000	30,000,000	0	425,962
Civil Aviation Authority	9,761,668	0	959,242	8,802,426	767,225
Development Board for Rural Wales	3,963,259	0	2,638	3,960,621	570,963
Scottish Water (formerly East of Scotland Water Authority)	258,000,000	0	10,000,000	248,000,000	16,339,777
Mid Wales Development Corporation	7,960,923	0	10,155	7,950,767	1,161,436
Scottish Water (formerly North of Scotland Water Authority)	236,500,000	0	5,000,000	231,500,000	16,318,750
Ordnance Survey	12,352,847	0	1,334,765	11,018,082	568,499
Registers of Scotland	3,665,625	0	106,250	3,559,375	304,771
Royal Mail Group plc	500,000,000	50,000,000	0	550,000,000	29,170,000
Royal Mint	14,785,431	25,000,000	28,512,266	11,273,165	847,988
Scottish Homes	149,705,515	0	11,623,576	138,081,938	29,329,518
Welsh Development Agency	156,397	0	69,875	86,522	9,617
Scottish Water (formerly West of Scotland Water Authority)	412,390,000	0	0	412,390,000	27,064,650
Total loans to Public Corporations	1,625,577,665	105,000,000	89,218,767	1,641,358,896	124,770,160
Advances to Public Works Loan Commissioners for loans to Local Authorities	47,093,474,410	5,099,203,639	7,552,459,953	44,640,218,095	4,128,383,285
<i>Loans to bodies now in the Private Sector</i>					
Harbour Authorities	66,505	0	2,622	63,883	4,610
Housing Associations (Scotland) ⁽¹⁾	34,682	0	34,682	0	2,672
Total loans to bodies now in the Private Sector	101,187	0	37,303	63,883	7,282
<i>Loans within Central Government</i>					
Housing Corporation (England)	2,000,000	4,000,000	4,000,000	2,000,000	62,952
Married quarters for Armed Forces	56,358,216	0	1,423,756	54,934,460	3,621,430
Northern Ireland	1,473,875,323	0	93,450,490	1,380,424,833	132,992,558
Total loans within Central Government (excluding Debt Management Account)	1,532,233,539	4,000,000	98,874,246	1,437,359,292	136,676,941
Total loans and advances outstanding (excluding Debt Management Account)	50,251,386,800	5,208,203,639	7,740,590,271	47,719,000,168	4,389,837,668
Loans to the Debt Management Account	35,000,000,000	0	7,000,000,000	28,000,000,000	1,401,678,083
Grand total	85,251,386,800	5,208,203,639	14,740,590,271	75,719,000,168	5,791,515,751

1 The amount outstanding at 31 March 2002 has been restated.

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 2003.

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 2002–2003 financial year and so the total paid to 31 March 2003 was the same as at 31 March 2002, £1,598.4 million.

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 2003.

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 2003.

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 2003.

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 2003 the limit specified was £2,000 million and the relevant aggregates were:

	£m
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	–
	<hr style="width: 100%; border: none; border-top: 1px solid black; margin-bottom: 5px;"/> 15

During 2002–2003, 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 2003.

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 £5,500 million or such greater sum, not exceeding £6,000 million, 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 2003 the limit specified was £5,500 million 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 £3,770 million throughout 2002–2003. Within this limit the Corporation had the Secretary of State's consent to borrow up to £0.5 million 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.

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 2003.

Commonwealth Development Corporation Act 1999

Section 13(1)(a) of the Commonwealth Development Corporation Act 1999 requires the Secretary of State to prepare accounts of the transactions with the Commonwealth Development Corporation (now renamed the CDC Group) in respect of loans from the National Loans Fund under Section 9(2) of the Act. As the CDC Group repaid all outstanding loans from the National Loans Fund in the financial year ended 31 March 1999 and there have been no subsequent transactions under the foregoing provisions, no account has been prepared for the year 31 March 2003.

Sir Robin Young, KCB
Accounting Officer

27 October 2003

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 2003 no transactions have been processed in relation to this Act. No account has been produced for this period.

Transport Act 1968

Section 44(1) 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 Loan Fund under section 20(1) of the Transport Act 1962. As the British Railways Board has repaid all outstanding debt from the National Loans fund in the financial year ended 31 March 2002, and there have been no subsequent transactions under the foregoing provisions, no account has been prepared for the year ended 31 March 2003.

David Rowlands
Accounting Officer
Department of Transport

28 November 2003

Accounts of Loans to Public Corporations

Transport Act 1968

Advances to the 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 the 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 2002–2003.

Secretary of State's power to make loans

- 2 Section 20 provides that the Secretary of State may, with the approval of HM Treasury, lend to the Board any sums which it has power to borrow under sections 19(1) or (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 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 (Sln0 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 2003 the aggregate outstanding borrowings counting against these limits were

	£
Loans made by the Secretary of State	14,736,000
Temporary Loans	–
Commencing Capital Debt	–
	<u>14,736,000</u>

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

4 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 halfyearly. No new loans were advanced to the Board during 2002–2003. The Board repaid £1,600,000 principal back to the National Loans Fund.

* 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 Environment, Food and Rural Affairs under sections 43 and 44(4) of that Act (and sections 20 and 39 of the Transport Act 1962) for the year ended 31 March 2003.

Receipts

	2002–2003	2001–2002
	£	£
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	400,000
Interest on Loans	1,891,003	1,948,003
	<u>3,491,003</u>	<u>2,348,003</u>

Payments

	2002–2003	2001–2002
	£	£
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	400,000
Interest on Loans	1,891,003	1,948,003
	<u>3,491,003</u>	<u>2,348,003</u>

Note

At 31 March 2003 the debt outstanding to the Secretary of State was £14,736,000.

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 the signing of the British Waterways Board National Loans Fund Accounts for 2002–2003.

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 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 in use is based on an ongoing process designed to identify the principal risks to the achievement of departmental policies, aims and objectives, to evaluate the nature and extent of those risks and to manage them efficiently, effectively and economically. The system of internal control has been in place in Defra for the year ended 31 March 2003 and up to the date of approval of the annual report and accounts, and accords with HM Treasury guidance.

I have reviewed, as far as is practicable, the effectiveness of the system of internal control that was in operation during the year ended 31 March 2003. The Department had an internal audit unit which operated to standards defined in the Government Internal Audit Manual. This assessment of effectiveness of the system of internal control is also informed by the work of the internal auditors and those executive managers within the Department who have responsibility for the development and maintenance of the internal control framework. It also takes account of 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 a plan to address weaknesses and ensure continuous improvement of the system is in place.

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

- a Management Board met regularly to consider the plans and strategic direction of the Department, and generic risks;
- regular meetings of the Audit and Risk Committee, which is a sub-committee of the Management Board, were held. It reviewed the approach to risk management and corporate governance across the Department; the effectiveness of the internal control mechanisms and considered proposals for further improvements; and the Department's financial and accounting policies;
- 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 Department's system of internal control;
- reports were made by the Departmental Risk Co-ordinator on the implication of the Risk Management Strategy; and
- a Delivery Strategy Team was created to improve the consistency of service delivery throughout the Department. It has also enhanced its emergency planning and business continuity systems.

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 11 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 10 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 12 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 2003 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
Victoria
London SW1W 9SP

Civil Aviation Act 1982

Advances to the Civil Aviation Authority (Secretary of State for Transport)

Account presented pursuant to the Civil Aviation 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)1 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
 - a loans under section 12(3);
 - b the Authority's initial debt under section 9(2);
 - 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 2003 the aggregate outstanding borrowings counting against the limit of £550 million was

	£
Loans made by the Secretary of State	8,802,427
Foreign loans	–
	<u>8,802,427</u>

1 All references to sections relate to 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 from 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 2002–2003.

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

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.

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).

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 2003.

Receipts

	£	Previous year £
Balance as at 1 April 2002	–	–
From the National Loans Fund [s.12(4)]	–	–
<i>From the Civil Aviation Authority Loans [s.12(4)]</i>		
Repayment of Principal	959,242	82,722,297
Interest	767,225	920,700
Premium for early repayments of loans	–	–
Penalty for late repayments of loan	–	13,183
	<u>1,726,467</u>	<u>83,656,180</u>

Payments

	£	Previous year £
Loans to the Civil Aviation Authority [s.12(2)]	–	–
<i>Payments to the National Loans Fund [s.12(4)]</i>	–	–
Repayment of Principal	959,242	82,722,297
Interest	767,225	920,700
Premium for early repayments of loans	–	–
Penalty for late repayments of loan	–	13,183
Balance at 31 March 2003	–	–
	<u>1,726,467</u>	<u>83,656,180</u>

Notes

- At 31 March 2003 the debt outstanding to the Secretary of State was: £8,802,427.
- Loans to and repaid from National Air Traffic Services (NATS) have been removed from the previous year figures as they do not relate to the Civil Aviation Authority (CAA) but were recorded incorrectly on last year's accounts, financial year 2001–2002.
- During the financial year 2001–2002 NATS were issued £747,100,000 from the National Loans Fund, and repaid £748,571,195 of which £747,100,000 was principal and £1,471,195 was interest. In addition to this there was an overpayment of loan 757 to the value of £20 which was repaid.

David Rowlands
Accounting Officer
Department for Transport

11 February 2004

Statement on Internal Control

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

As Principal Accounting Officer for the Department for Transport, I have responsibility for maintaining a sound system of internal control that supports the achievement of the 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 duties assigned to me 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 provide only reasonable and not absolute assurance of effectiveness.

The system of internal control is based on an ongoing process designed to identify the principal risks to the achievement of the Department's policies, aims and objectives, to evaluate the nature and extent of those risks and to manage them efficiently, effectively and economically. Key processes were established in 2002–2003, following the creation of the Department in May 2002. Further development, particularly on risk management processes, is taking place in 2003–2004. I expect to have full procedures necessary to implement Treasury guidance in place by 31 March 2004. This takes account of the time needed to embed fully these processes in a new department.

Governance standards

The Department's corporate governance and internal control arrangements follow the guidance in

- HM Treasury's governance requirements for central government, as set out in DAO (GEN) 13/00;
- HM Treasury's risk management guidance in 'Management of Risk – A Strategic Overview';
- 'Internal Control: Guidance for Directors on the Combined Code' (the Turnbull Report), specific requirement Principle D2.

The Department for Transport is a new department, created following a machinery of government change in May 2002 to focus on developing and delivering the Government's transport strategy. Significant progress has been made in shaping the new department so that it is equipped for future challenges. A big task has been to improve strategic capability and align internal organisation with delivery priorities.

Management of the Department

The management of the Department was structured in the following way to support me in my role as Principal Accounting Officer in the discharge of my responsibilities

- A **Management Board**, which set the strategic direction of the Department and ensured delivery against its objectives. The Board identified, monitored and managed high level corporate risks. It provided a lead on strategy and delivery, in support of the policy objectives set by Ministers. It held 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.
- A **Management Group**, with responsibility for the corporate management of the Department. This Group ensured that the resources available to the Department were managed as effectively as possible to improve corporate performance.
- An **Audit Committee**, which met three times during the year to monitor and review the Department's processes for managing risk, control, governance and assurance. In line with best practice, the Committee was chaired by a non-executive member of the Management Board. From April 2003, two non-executive chairmen of Agency Audit Committees joined the Department's Committee.

Corporate Governance arrangements

The 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 responsible for the delivery of a number of work streams within this 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.

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 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.

Throughout the year, senior managers operated under the delegated authority issued in February 2002 by the Accounting Officer of the former Department for Transport, Local Government and the Regions.

At the end of the year, the Department implemented a comprehensive 'Stewardship Pack', which set out the framework of accountabilities, the roles and responsibilities of Heads of Unit (Directors) and end of year reporting arrangements. This pack was supported by new delegation arrangements at Head of Unit level to improve accountability and the management of resources.

Review of the effectiveness of the system on internal control

As Accounting Officer, I also have responsibility for reviewing the effectiveness of the system of internal control within the Department.

My review of the effectiveness of the system of internal control is informed by executive managers within the Department, who have responsibility for the development, operation and maintenance of the internal control framework, by the work of internal auditors and by the Department's Audit Committee. It is further supported by comments made by the external auditors in their management letter, and in other reports.

Following the review of the effectiveness of the system of internal control and the preparation of the Department's 2002–2003 resource accounts, actions are being taken to improve the Department's systems of financial management and control, including: a review of the financial accounting systems and processes; an initiative to improve the quality of financial data; and a programme to strengthen financial skills and management across the Department and its agencies.

A detailed programme of action has been agreed with the Audit Committee.

The following specific actions that are needed to strengthen risk management have also been identified. I expect these arrangements to be in place by March 2004

Core processes

- integration of risk management into the Department's business planning and performance monitoring processes;
- establishment of a Performance, Risk and Delivery Committee to scrutinise delivery plans and monitor performance and risks against Departmental objectives;
- establishment of a Departmental risk register to enable the Board to track the most significant risks to the Department as a whole, and integrate this register with the process for monitoring performance and risk against specific Departmental objectives; and
- establishment and use of risk registers at unit level;

Supporting processes

- publication of DfT's risk strategy, setting out the Department's overall approach to managing risk and the criteria for escalating risks to Board level;
- appointment of a dedicated risk improvement manager to implement the Department's risk strategy and advise the Board and Audit Committee on the further improvements needed;
- publication of supporting guidance and tools on risk management, including templates for risk registers;
- provision of advice and support to units on how to identify, assess, manage and monitor risks;
- establishment of a risk network to improve communication and share best practice between the Department and its agencies;
- adoption by the Department of the Government's principles for managing risks to the public, and integration with the Department's stakeholder and communication strategies; and
- regular surveys by the Department's Audit and Risk Assurance Division of the extent to which risk management is becoming integrated within the Department's core management process.

These actions are consistent with the recommendations in the Strategy Unit's 2002 report – Risk: Improving Government's Capability to Handle Risk and Uncertainty; and with the Treasury guidance in DAO (GEN) 03/13.

David Rowlands
Accounting Officer
Department for Transport

11 February 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 16 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 Auditors

As described on page 15 the Accounting Officer is responsible for the preparation of the 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 guided by the Auditing Practices Board and the auditing profession's ethical guidance.

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 17 to 19 reflects compliance with Treasury's guidance 'Corporate governance: statement on the system of 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.

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 2003 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 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

18 February 2004

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

Post Office Act 1969

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

Account presented pursuant to Act 1969

Foreword

Scope of the Account

- 1 This account is prepared in compliance with section 391 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 him 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 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 may, with the approval of Treasury, give directions for repayment. Loans made to the Post Office under section 37 before 26 March 2001 have been, since 26 March 2001, by virtue of section 62 of the 2000 Act, loans to Consignia plc. 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 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 arrangements³ with the Post office company (Consignia plc) and any of its subsidiaries are not to exceed £5,000 million.

- 1 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.
- 2 Section 37 of the Post Office Act 1969 was amended by S.I. 1974/691, by section 5 of the Post Office (Banking Services) Act 1976 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.
- 3 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 2003, the amounts and terms of loans made to the Post Office were as follows

Amount (£)	Rate of interest per cent	Principal to be paid off
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. 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 2003.

Receipts

	2002–2003	2001–2002
	£	£
Balance at 1 April	–	–
From National Loans Fund	–	–
<i>From the Post Office</i>		
Repayments of Loans	–	–
Interest on Loans	29,170,000	29,170,000
	<u>29,170,000</u>	<u>29,170,000</u>

Payments

	2002–2003	2001–2002
	£	£
Advances to the Post Office	–	–
<i>To the National Loans Fund</i>		
Repayments of Loans	–	–
Interest on Loans	29,170,000	29,170,000
Balance at 31 March	–	–
	<u>29,170,000</u>	<u>29,170,000</u>

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

27 October 2003

Statement of Internal Control

This statement is given in respect of the Post Office National Loans Fund Account for the year ending 31 March 2003. As Accounting Officer for this account, I acknowledge my responsibilities for ensuring that an effective system of internal control is maintained and operated by the Department of Trade and Industry (the Department).

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 provide only reasonable and not absolute assurance of effectiveness.

The system of internal control is based on an on-going process designed to identify the principal risks to the achievement of policies, aims and objectives, to evaluate the nature and extent of those risks and to manage them efficiently, effectively and economically. Examples of some types of processes are as follows

- procedures for identifying the Objectives, targets and key risks;
- development of the control strategy and risk management policy;
- allocation of risk ownership;
- involvement and role of internal audit;
- procedures for ensuring that aspects of risk management and internal control are regularly reviewed and reported on; and
- system used to ensure compliance with specific regulations or procedures laid down by the centre or central departments.

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 Group who have responsibility for the development and maintenance of the internal control framework, and comments made by external auditors in their management letter and other reports.

Sir Robin Young, KCB
Accounting Officer

27 October 2003

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

I certify that I have audited the financial statements on page 23 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 22 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 guided by the Auditing Practices Board and the auditing profession's ethical guidance.

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 24 reflects compliance with Treasury's guidance 'Corporate governance: statement on the system of 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.

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 the Department of Trade and Industry in respect of advances to the Post Office for the year ended 31 March 2003 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

7 November 2003

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

Postal Services Act 2000

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

Account presented pursuant to 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 lend to the Post Office company or any of its subsidiaries any sums which it has power to borrow. Sums needed for such loans were issued by the Treasury to the Secretary of State who may, with the approval of Treasury, give directions for repayment. 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(1), 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 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 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 Post Office company 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 2002–2003, the amounts and terms of loans made to the Post Office under the Postal Services Act 2000 were as follows

Amount (£)	Rate of interest per cent	Principal to be paid off
50,000,000	4.0607	4 April 2003

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. 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'.

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 2003.

Receipts

	2002–2003	2001–2002
	£	£
Balance at 1 April	–	–
From National Loans Fund	50,000,000	–
<i>From the Post Office</i>		
Repayments of Loans	–	–
Interest on Loans	–	–
	<u>50,000,000</u>	<u>–</u>

Payments

	2002–2003	2001–2002
	£	£
Advances to the Post Office	50,000,000	–
<i>To the National Loans Fund</i>		
Repayments of Loans	–	–
Interest on Loans	–	–
Balance at 31 March	–	–
	<u>50,000,000</u>	<u>–</u>

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

27 October 2003

Statement of Internal Control

This statement is given in respect of the Post Office National Loans Fund Account for the year ending 31 March 2003. As Accounting Officer for this account, I acknowledge my responsibilities for ensuring that an effective system of internal control is maintained and operated by the Department of Trade and Industry (the Department).

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 provide only reasonable and not absolute assurance of effectiveness.

The system of internal control is based on an on-going process designed to identify the principal risks to the achievement of policies, aims and objectives, to evaluate the nature and extent of those risks and to manage them efficiently, effectively and economically. Examples of some types of processes are as follows

- procedures for identifying the objectives, targets and key risks;
- development of the control strategy and risk management policy;
- allocation of risk ownership;
- involvement and role of internal audit;
- procedures for ensuring that aspects of risk management and internal control are regularly reviewed and reported on; and
- system used to ensure compliance with specific regulations or procedures laid down by the centre or central departments;

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 Group who have responsibility for the development and maintenance of the internal control framework, and comments made by external auditors in their management letter and other reports.

Sir Robin Young, KCB
Accounting Officer

27 October 2003

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

I certify that I have audited the financial statements on page 28 under section 76(3) 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 27 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 guided by the Auditing Practices Board and the auditing profession's ethical guidance.

I report my opinion as to whether the financial statements properly present the receipts and payments and are properly prepared in accordance with the Postal Services Act 2000 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 29 reflects compliance with Treasury's guidance 'Corporate governance: statement on the system of 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.

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 the Department of Trade and Industry in respect of advances to the Post Office for the year ended 31 March 2003 and has been properly prepared in accordance with 68(6) and 68(8) 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

7 November 2003

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

Scottish Act 1998

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

Foreword

Scope of the Account

- 1 This account is prepared in compliance with section 72(a) of the Scotland Act 1998 and is required to show
 - i 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;
 - 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 66 of the Scotland Act 1998; and
 - iv the payments into the National Loans Fund of the sums received under section 66.

Secretary of State's power to make loans

- 2 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

- 3 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

- 4 At 1 April 2002, total capital balances outstanding were £1,060,21,140, and after repayments during the year of £26,729,826, capital balances outstanding at 31 March 2003 were £1,033,531,314.

History of accounts

- 5 The advances outstanding at 31 March 2003 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 2002 to 31 March 2003.

Receipts

	2002–2003 £	2001–2002 £
Received from Scottish Homes by way of		
<i>Interest on advances</i>	29,329,518	37,952,435
<i>Repayment of advance</i>	11,623,576	11,914,934
Received from Water Authorities by way of		
<i>Interest on advances</i>	59,723,177	60,783,605
<i>Repayment of advance</i>	15,000,000	10,000,000
Received from Registers of Scotland		
<i>Interest on advances</i>	304,771	321,451
<i>Repayment of advance</i>	106,250	324,667
Total of interest payments	89,357,466	99,057,491
Total of repayments of advance	26,729,826	22,239,601
Total receipts	116,087,292	121,297,092

Payments

	2002–2003 £	2001–2002 £
Payments to National Loans Fund of sums received		
<i>Interest on advances</i>	29,329,518	37,952,435
<i>Repayment of advance</i>	11,623,576	11,914,934
Payments to National Loans Fund of sums received		
<i>Interest on advances</i>	59,723,177	60,783,605
<i>Repayment of advance</i>	15,000,000	10,000,000
Payments to National Loans Fund of sums received		
<i>Interest on advances</i>	304,771	321,451
<i>Repayment of advance</i>	106,250	324,667
Total of interest payments	89,357,466	99,057,491
Total of repayments of advance	26,729,826	22,239,601
Total payments	116,087,292	121,297,092

Note: Statement of balances at 31 March 2003

	Advances at 1 April 2002	Advances during 2002–2003	Advances repaid during 2002–2003	Advances outstanding at 31 March 2003
	£	£	£	£
Scottish Homes	149,705,514	0	11,623,576	138,081,938
Water Authorities	906,890,000	0	15,000,000	891,890,000
Registers of Scotland	3,665,626	0	106,250	3,559,376
Total	1,060,261,140	0	26,729,826	1,033,531,314

JR Wildgoose
Accounting Officer

16 November 2005

Statement on Internal Control

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 departmental 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 a Departmental Management Board, which includes the heads of the Department's functional divisions, the Principal Finance Officer, 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 Department and to Ministers and they are responsible for the analysis and assessment of risk in their respective areas.

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 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 2003 and up to the date of approval of the annual report and accounts, and accords with the key elements of Treasury guidance set out in DAO(GEN) 13/00, 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 Departmental Management Board.

The Department 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 Board on any significant changes. One of the key risks identified through this process was the impact of machinery of government changes on the policies, aims and objectives of the Department. This allowed for preparation before, and action immediately following the changes announced by the Prime Minister on 12 June 2003.

The Department relies on the services of the Scottish Executive Audit Services, who provide internal audit for the Scotland Office. Scottish Executive Audit Services 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 Department also has an Audit Committee, which I chair. It includes key managers, with attendance from internal and external auditors as required. The Audit Committee considers areas of risk across the Department as a whole and specific financial and audit issues. During the course of the year, the Audit Committee did not meet and these matters were dealt with by the main Departmental Management Board. The structure and functions of the Committee will be reviewed in the coming year, following the integration of the Scotland Office with the Department for Constitutional Affairs.

As Accounting Officer, I have responsibility for reviewing the effectiveness of the system of internal control. My review of the effectiveness of the system 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 Management Board. A plan to address weaknesses and ensure continuous improvement of the system is in place: this will be reviewed in the coming year to ensure that it takes full account of any changes arising from the integration of the Scotland Office with the Department for Constitutional Affairs.

Over the coming year, I shall also review the processes of internal control and risk with senior managers in the Department for Constitutional Affairs, to ensure that any changes are consistent with the policies of that department and that my responsibility to safeguard public funds and departmental assets is taken into account.

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 pages 32 and 33 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 31 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 pages 34 and 35 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 Scottish Homes, Water Authorities, and Registers of Scotland for the year ended 31 March 2003 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
Victoria
London SW1W 9SP

Government of Wales Act 1998

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

Account 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 2002–2003.

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 2003 the aggregate of amounts outstanding against the limit was

	£
Borrowing outstanding	11,997,909
Sums issued by the Treasury	–
Payments by the Secretary of State	1,709,567,485
Agency guarantees	–
Total	<u>1,721,565,394</u>

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 £1,699,000 in 2002–2003. 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 2003 amounted to £12,657,916.

2002–2003 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.

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
Wales Office.

25 November 2003

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 2003.

Receipts

	2002–2003	2001–2002
	£	£
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	69,875	136,343
Interest	9,617	16,242
<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	2,638	2,296
Interest	570,963	571,305
<i>Sums received from the Welsh Development Agency in respect of advances made to the former Mid Wales Development Corporation</i>		
Repayment of Principal	10,156	8,832
Interest	1,161,436	1,162,759
Total receipts	<u>1,824,685</u>	<u>1,897,777</u>

Payments

	2002–2003	2001–2002
	£	£
Advances to the Welsh Development Agency via the National Assembly for Wales	–	–
<i>Payments to the National Loans Fund</i>		
Repayment of Principal	82,669	147,471
Interest	1,742,016	1,750,306
	<u>1,824,685</u>	<u>1,897,777</u>

Notes

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

	Welsh Development Agency	Former Development Board for Rural Wales	Former Mid Wales Development Corporation	Total
	£	£	£	£
Outstanding at 1 April 2002	156,397	3,963,259	7,960,922	12,080,578
Repaid	(69,875)	(2,638)	(10,156)	(82,669)
Outstanding at 31 March 2003	<u>86,522</u>	<u>3,960,621</u>	<u>7,950,766</u>	<u>11,997,909</u>

2 See also the National Assembly for Wales Resource Account for 2002–2003.

Alison Jackson
Accounting Officer
Wales Office

25 November 2003

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 responsibility for maintaining a sound system of internal control 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 2003 and up to the date of approval of the annual report and accounts and accords with Treasury guidance.

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.

The Assembly undertakes much of the Wales Office's administrative work on an agency basis under a series of service level agreements. This includes, for example, the provision of accommodation services, financial services, IT, and personnel. The Department's risk management process takes account of these arrangements.

The Assembly's Internal Audit Unit also provide an internal audit service for the Wales Office. They operate to standards defined in the Government Internal Audit manual. They provide regular reports, which include the Head of Internal Audit's independent opinion on the adequacy and effectiveness of the system of internal control, together with recommendations for improvement to the Audit Committee.

As Accounting Officer I have responsibility for the review of 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 Wales Office who have responsibility for the development and maintenance of the internal control framework and by the recommendations and observations of the external auditors in their management letter and other reports.

During 2002–2003 a number of risk management activities took place

- a risk management seminar was held for senior managers; and
- the Department's principal risks were identified and a risk register was developed, approved by the Audit Committee, which details the risks and actions to be taken to mitigate the risks identified.

Internal audit have identified in the year some areas where documentation in support of procurement expenditure within the Wales Office could be improved. I will be taking action in 2003-2004 to address the recommendations made by internal audit in their report.

Internal control processes, including developing awareness of risk management, will continue to be developed through 2003-2004. This will take place within the new organisational arrangements for the Wales Office put in place in June 2003 following the creation of the new Department for Constitutional Affairs.

Alison Jackson
Accounting Officer
Wales Office

25 November 2003

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

I certify that I have audited the financial statements on page 39 under Section 88 of the Government of Wales 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 38, the Accounting Officer is responsible for the preparation of 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 statement on internal control on page 40. My responsibilities, as independent auditor, are established by statute and guided by the Auditing Practices Board and the auditing profession's ethical guidance.

I report my opinion as to whether the account properly presents the receipts and payments of the Secretary of State for Wales in respect of advances to the Welsh Development Agency, and whether in all material respects the receipts and payments have been applied to the purposes intended by Parliament and conform to the authorities that govern them. I also report if, in my opinion, 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 40 reflects compliance with Treasury's guidance 'Corporate governance: statement of 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.

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 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 to the Welsh Development Agency for the year ended 31 March 2003 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

11 December 2003

National Audit Office Wales
3-4 Park Place
Cardiff
CF10 3DP

Accounts of Loans to Local Authorities

National Loans Act 1968

Advances to Local Authorities, etc.

Account presented pursuant to Act 1968, c.13, s.3(6)

Foreword

Scope of the Account

- 1 This account is prepared by the Public Works Loan Commissioners in compliance with section 3(6) of the National Loans Act 1968 (the 1968 Act) and shows
 - i the sums issued to the Loan Commissioners out of the National Loans Fund under Section 3(1) of the 1968 Act to enable them to make loans as authorised by Section 3(11) and Schedule 4 of the 1968 Act;
 - ii the loans so made;
 - iii the sums paid or applicable in the year in or towards the discharge of the principal or interest of any loan made by them whether before or after the coming into force of the 1968 Act; and
 - iv the payment of the sums received under (iii) into the National Loans Fund under Section 3(3) of the 1968 Act.

Statement of the Public Works Loan Commissioners and Accounting Officers responsibilities

- 2 Under Section 3(6) of the 1968 Act 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. The accounts are prepared on a cash basis and must properly present the receipts and payments for the financial year.
- 3 The Secretary to the Public Works Loan Board 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.

Issues from the National Loans Fund

- 4 The amount which the Commissioners might 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
 - i any commitments of the Loan Commissioners outstanding in respect of undertakings entered into by them to grant local loans; and
 - ii any amount outstanding in respect of the principal of any loans.

During the year the limit, set by the Finance Act 1990, was £55,000 million.

Loan Commissioners power to make loans

- 5 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.

Rate of interest and period of loans

- 6 Interest on loans made by the Commissioners is payable at such rates as the Treasury determines (Sections 3(2) and 5 of the 1968 Act).

- 7 Loans made by the Commissioners are repayable within 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).
- 8 The Commissioners are required 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 (Section 5(3) of the 1875 Act).

HD Watson
Secretary
Public Works Loan Board

National Loans Act 1968

Account, prepared under Section 3 of the National Loans Act 1968 of the Receipts and Payments of the Public Works Loan Commissioners under that Section of the Act for the year ended 31 March 2003

Receipts

	£	£	Previous year £
<i>Balance, 1 April 2002</i>			
Principal	48,436,165		69,704,913
Interest	20,895,163	69,331,328	32,201,496
Issues from the National Loans Fund (s.3(1) of the 1968 Act)		5,099,203,639	4,442,366,126
<i>Payments received from Borrowers</i>			
Principal	7,555,138,955		4,566,750,992
Interest	4,134,891,019	11,690,029,974	3,684,109,991
		16,858,564,941	12,795,133,518

Payments

	£	£	Previous year £
Loans to local authorities etc. (s.3(11) of the 1968 Act)		5,099,203,639	4,442,366,126
<i>National Loans Fund (s.3(3) of the 1968 Act)</i>			
Principal	7,552,459,954		4,588,019,740
Interest	4,128,383,285	11,680,843,239	3,695,416,325
<i>Balance, 31 March 2003</i>			
Principal	51,115,166		48,436,164
Interest	27,402,897	78,518,063	20,895,163
		16,858,564,941	12,795,133,518

Notes

- At 31 March 2003 the total amount of principal outstanding in respect of loans made by the Public Works Loan Commissioners, including loans under earlier legislation, was £44,589,264,176. The aggregate of commitments outstanding in respect of undertakings entered into to grant loans and the amount outstanding in respect of the principal of all local loans made amounted to £44,603,038,238 against the statutory limit of £55,000 million as specified in the National Loans Act 1968 as amended by Section 130 of the Finance Act 1990.
- At 31 March 2003 repayments of principal amounting to £9,032 and interest amounting to £198,092 were due but not paid.
- Interest received includes £657,675,946 in respect of premiums charged and £98,596,500 in respect of discounts allowed on loans prematurely repaid. Premiums and discounts were calculated by reference to the current capital value of the instalments of principal and interest outstanding.

IH Peattie
Accounting Officer
Public Works Loan Commission

29 August 2003

Statement on the System of Internal Control

As Secretary of the Public Works Loan Board (PWLB), I am responsible for maintaining a sound system of internal control that supports the achievement of PWLB's targets, policies and objectives in advancing loans to local authorities and receiving payments. I am also responsible for reviewing the effectiveness of the system of internal control. I manage the PWLB with the help of the Assistant Secretary, the Manager of Loans Branch and the IT Manager. My review of the effectiveness of the system of internal control is informed by the work of these colleagues within the wider UK Debt Management Office (DMO) who are responsible for developing and maintaining the internal control framework.

Under section 3(6) of the 1968 Act 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. The accounts are currently prepared on a cash basis and must properly present the receipts and payments for the financial year.

The PWLB and the DMO were merged in July 2002. The PWLB retains its statutory identity and largely operates as a separate business entity. The PWLB keeps its own accounts and publishes its own Annual Report; a self-standing team carries out the day-to-day work using a dedicated computer system. The PWLB relies on the DMO's settlements systems to advance loans and monitor the receipt of repayments. The PWLB's administrative expenditure is accounted for within DMO's overall budget agreed with HM Treasury. The operations of the PWLB are subject to review by the DMO's internal audit team in accordance with the Government Internal Audit Standards.

The Public Works Loan Commissioners are empowered as a body by the Public Works Loans Act 1875 for 'the purpose of (making) loans'. Commissioners may not be paid for their services. They are appointed by the Crown and are disqualified from membership of the House of Commons while serving as Commissioners. The various Acts relating to the Commissioners regulate their activities to some extent, but by long standing practice the Commissioners see their role as a decision-making body not an executive one. The Commissioners' role is primarily to determine the general lending policy, to take decisions in instances which fall outside that policy and to deal with matters of importance which are ancillary to that.

HM Treasury has published a 'Code of Best Practice for Board Members of Public Bodies' which, although intended to address the needs of executive bodies and specifically excluding Government departments, provides some universal principles to which the Commissioners have regard.

One of the main tasks of the Commissioners is to agree the policy framework within which the Board will discharge its duties. The Board's policy and practice are set out primarily in its Circulars, which are issued with the Commissioners' approval to all local authorities. A comprehensive Circular setting out the lending and administrative arrangements for each financial year is usually issued in March before the beginning of the fiscal year. The Circulars form the basis on which the Board's staff operates by providing prior approval of loans which fall within the parameters laid down and giving detailed guidance on lending arrangements.

The Code for Board Members also states that Commissioners have a duty to ensure that public funds are properly safeguarded and that the Board conducts its operations as economically, efficiently and effectively as possible with full regard to the relevant statutory provisions. Commissioners are responsible for ensuring that the Board does not exceed its powers or functions, whether defined in statute or otherwise or as circumscribed by any limitations on its authority to incur expenditure. The Secretary is responsible for ensuring that the Commissioners are informed on these matters and for consulting the Board's legal adviser when necessary.

Commissioners are required by statute to report annually to both Houses of Parliament on their transactions in respect of moneys issued to and loans granted by them and the execution of their duties as Commissioners. In addition to this report, the Commissioners are required to prepare financial accounts and submit them for external audit by the Comptroller and Auditor General, head of the National Audit Office.

The Commissioners appoint the Secretary to the Board. 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. The Secretary is responsible for the preparation of the Board's accounts, and their presentation to Parliament.

The Board's affairs are managed within the same systems and control environment that applies to the DMO's operations as a whole. In so far as the Secretary is relying on the effectiveness of the DMO's internal control framework, the Secretary would expect the DMO to be managed to the high standards expected of all departments or agencies as set out in Government Accounting.

The DMO system of internal control is based on an ongoing process designed to identify the main risks to the achievement of the DMO's objectives, to evaluate the nature of and extent of those risks and to manage them efficiently, effectively and economically. The DMO system of internal control includes the following elements that have a direct bearing on PWLB

- a the DMO has a robust corporate governance management structure including an Advisory Board which meets monthly to consider the plans and strategic direction of the DMO, and a Managing Committee which meets weekly to consider strategic and operational issues;
- b an audit committee chaired by a non-executive director meets quarterly to review the DMO's management of risk and control;
- c management in each business function is responsible for ensuring that the operations within their area comply with plans, policies, procedures and legislation;
- d a risk management function provides advice to PWLB. Other DMO staff, for example, the finance branch, provide advice and support as necessary and appropriate;
- e DMO maintains risk registers, one of which is devoted to the PWLB;
- f the DMO's business continuity plan, including disaster recovery site and other arrangements, is subject to continual review and update;
- g exception logs are completed to identify control weaknesses and actions to overcome them. The risk management unit reports key risks and exceptions to the Management Committee;
- h staff have job descriptions that cover the key risks and appropriate training in risk management;
- i procedure and controls manuals are maintained and reviewed annually to ensure they are comprehensive and up to date;
- j DMO has policies on anti-fraud and whistle blowing. Seminars have been held to raise staff awareness of these issues; and
- k DMO has controls in place to deter money laundering. These controls reflect best practice and guidance issued by the Financial Services Authority and the Joint Money Laundering Steering Group.

As part of my assessment of risk in the PWLB I have placed reliance on the statement of internal control of the DMO. I have received assurance from the DMO's Accounting Officer that appropriate steps have been taken to ensure that risks to meeting objectives have been managed. However, I understand that only reasonable and not absolute assurance can be given that risks have been controlled.

My review of the effectiveness of the system of internal control is informed by the work of the internal auditors and the assurances given by 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.

HD Watson
Secretary
Public Works Loan Board

29 August 2003

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 48 under the National Loans 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 the Auditor

As described on page 45 the Accounting Officer is responsible for the preparation of the financial statements in accordance with the National Loans Act 1968, and for ensuring the regularity of financial transactions. The Accounting Officer is also responsible for the preparation of the Foreword and the statement of internal control on page 48. My responsibilities, as independent auditor, are established by statute and guided by the Auditing Practices Board and the auditing profession's ethical guidance.

I report my opinion as to whether the financial statements properly present the receipts and payments, and balances at the year end, and are properly prepared in accordance with the National Loans Act 1968, and whether in all material respects the payments and receipts 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 Commissioners have 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 48 to 49 reflects compliance with Treasury's guidance 'Corporate governance: 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.

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, payments and transactions in securities conform to the authorities which govern them. In forming my opinion I have also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In my opinion

- the financial statements properly present the receipts and payments of the Public Works Loan Commissioners in respect of loans to local authorities, etc. for the year ended 31 March 2003, and the balances held at that date, and have been properly prepared in accordance with the National Loans Act 1968 and with directions made thereunder by Treasury;
- and in all material respects the receipts, payments, and transactions in securities conform to the authorities which govern them. I have no observations to make on these financial statements.

John Bourn
Comptroller and Auditor General

1 September 2003

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

Accounts of Loans to the Private Sector

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; andiv 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 2002–2003.

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

Under Section 43 of the Harbours Act 1964 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 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 Officer's Memorandum issued by the Treasury and published in 'Government Accounting' (TSO).

David Rowlands
Accounting Officer
Department of Transport

28 November 2003

Harbours Act 1964

Account, prepared under Section 43 of the Harbours Act 1964, of the Receipts and payments of the Secretary of State for the Department for Transport under Section 11 of the 1964 Act, for the year ended 31 March 2003.

Receipts

	2002–2003	2001–2002
	£	£
Balance as at 1 April 2002	–	–
<i>Payments by the Harbour Authorities [s.43(1)]</i>		
Repayment of Loans	2,622	2,447
Interest on Loans	4,610	4,785
<i>Less (discount) or plus premium on premature redemption</i>	–	–
Total receipts	<u>7,232</u>	<u>7,232</u>

Payments

	2002–2003	2001–2002
	£	£
Balance as at 1 April 2002	–	–
<i>Payments to the National Loans Fund [s.43(4)]</i>		
Repayment of Loans	2,622	2,447
Interest on Loans	4,610	4,785
<i>Less (discount) or plus premium on premature redemption</i>	–	–
Balance of 31 March 2003	–	–
Total Payments	<u>7,232</u>	<u>7,232</u>

Note

- 1 The aggregate amount of principal outstanding in respect of advances to Harbour Authorities under the Harbours Act 1964 at 31 March 2003 was £63,883.

David Rowlands
Accounting Officer
Department for Transport

28 November 2003

Statement of Internal Control

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

As Principal Accounting Officer for the Department for Transport, I have responsibility for maintaining a sound system of internal control that supports the achievement of the 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 duties assigned to me 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 provide only reasonable and not absolute assurance of effectiveness. It is based on an ongoing process designed to identify the principal risks to the achievement of the Department's policies, aims and objectives, to evaluate the nature and extent of those risks and to manage them efficiently, effectively and economically.

Key processes were established in 2002–2003, following the creation of the Department in May 2002. Further development, particularly on risk management processes, is taking place in 2003–2004. I expect to have full procedures necessary to implement Treasury guidance in place by 31 March 2004. This takes account of the time needed to embed fully these processes in a new department.

Governance Standards

The Department's corporate governance and internal control arrangements follow the guidance in

- HM Treasury's governance requirements for central government, as set out in DAO (GEN) 13/00;
- HM Treasury's risk management guidance in 'Management of Risk – A Strategic Overview'; and
- 'Internal Control: Guidance for Directors on the Combined Code' (the 'Turnbull Report'), specific requirement Principle D2.

The Department for Transport is a new department, created following a machinery of government change in May 2002 to focus on developing and delivering the Government's transport strategy. Significant progress has been made in shaping the new department so that it is equipped for future challenges. A big task has been to improve strategic capability and align internal organisation with delivery priorities.

Management of the Department

The management of the Department was structured in the following way to support me in my role as Principal Accounting Officer in the discharge of my responsibilities

- A **Management Board**, which set the strategic direction of the Department and ensured delivery against its objectives. The Board identified, monitored and managed high level corporate risks. It provided a lead on strategy and delivery, in support of the policy objectives set by Ministers. It held 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.
- A **Management Group**, with responsibility for the corporate management of the Department. This Group ensured that the resources available to the Department were managed as effectively as possible to improve corporate performance.
- An **Audit Committee**, which met three times during the year to monitor and review the Department's processes for managing risk, control, governance and assurance. In line with best practice, the Committee was chaired by a non-executive member of the Management Board. From April 2003, two non-executive chairmen of Agency Audit Committees joined the Department's Committee.

Corporate Governance arrangements

The 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 responsible for the delivery of a number of work streams within this 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.

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 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.

Throughout the year, senior managers operated under the delegated authority issued in February 2002 by the Accounting Officer of the former Department for Transport, Local Government and the Regions.

At the end of the year, the Department implemented a comprehensive 'Stewardship Pack', which set out the framework of accountabilities, the roles and responsibilities of Heads of Unit (Directors) and end of year reporting arrangements. This pack was supported by new delegation arrangements at Head of Unit level to improve accountability and the management of resources.

Review of the effectiveness of the system of internal control

As Accounting Officer, I also have responsibility for reviewing the effectiveness of the system of internal control within the Department.

My review of the effectiveness of the system of internal control is informed by executive managers within the Department, who have responsibility for the development, operation and maintenance of the internal control framework, by the work of internal auditors and by the Department's Audit Committee. It is further supported comments made by the external auditors in their management letter, and in other reports.

Following the review of the effectiveness of the system of internal control and the preparation of the Department's 2002-2003 resource accounts, actions are being taken to improve the Department's systems of financial management and control, including: a review of the financial accounting systems and processes; an initiative to improve the quality of financial data; and a programme to strengthen financial skills and management across the Department and its agencies.

A detailed programme of action has been agreed with the Audit Committee. The following specific actions that are needed to strengthen risk management have also been identified. I expect these arrangements to be in place by March 2004

Core processes

- integration of risk management into the Department's business planning and performance monitoring processes;
- establishment of a Performance, Risk and Delivery Committee to scrutinise delivery plans and monitor performance and risks against Departmental objectives;
- establishment of a Departmental risk register to enable the Board to track the most significant risks to the Department as a whole, and integrate this register with the process for monitoring performance and risk against specific Departmental objectives; and
- establishment and use of risk registers at unit level;

Supporting processes

- publication of DfT's risk strategy, setting out the Department's overall approach to managing risk and the criteria for escalating risks to Board level;
- appointment of a dedicated risk improvement manager to implement the Department's risk strategy and advise the Board and Audit Committee on the further improvements needed;
- publication of supporting guidance and tools on risk management, including templates for risk registers;
- provision of advice and support to units on how to identify, assess, manage and monitor risks;
- establishment of a risk network to improve communication and share best practice between the Department and its agencies;
- adoption by the Department of the Government's principles for managing risks to the public, and integration with the Department's stakeholder and communication strategies; and
- regular surveys by the Department's Audit and Risk Assurance Division of the extent to which risk management is becoming integrated within the Department's core management process.

These actions are consistent with the recommendations in the Strategy Unit's 2002 report *Risk: Improving Government's Capability to Handle Risk and Uncertainty*; and with the Treasury guidance in DAO (GEN) 03/13.

David Rowlands
Accounting Officer
Department for Transport

28 November 2003

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 54 under the Harbours Act 1964. 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 53, the Accounting Officer is responsible for the preparation of 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 guided by the Auditing Practices Board and the auditing profession's ethical guidance.

I report my opinion as to whether the financial statements properly present the receipts and payments and are properly prepared under 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 55 to 57 reflect compliance with Treasury's guidance 'Corporate governance: 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.

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 Transport in respect of advances made to the Harbours Authority for the year ended 31 March 2003 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 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

12 January 2004

National Audit Office
157-197 Buckingham Palace
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 2003 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 2003 the aggregate amount outstanding was £1,380,424,833 as detailed in the Note to the Account.

Loans made during the year

- 4 There were no amounts issued to the Secretary of State out of the National Loans Fund during the year ended 31 March 2003. 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.

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

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 2003

Receipts

	£	Previous year £
Issues from the National Loans Fund (s.1.(8))	–	33,000,000
<i>From the Consolidated Fund of Northern Ireland</i>		
i Loans under previous enactments (s.2(1))		
Repayment of principal	12,035,223	11,134,632
Interest	11,172,545	12,073,136
ii Loans under the 1975 Act (s.1(7))		
Repayment of principal	81,415,267	81,133,886
Interest	121,820,013	129,296,788
	<u>226,443,048</u>	<u>266,638,442</u>

Payments

	£	Previous year £
Loans to the Consolidated Fund of Northern Ireland (s.1(1))	–	33,000,000
<i>Payments to the National Loans Fund (ss.1(8) and 2(3))</i>		
Repayment of principal	93,450,490	92,268,518
Interest	132,992,558	141,369,924
	<u>226,443,048</u>	<u>266,638,442</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 2003 were

Loans under previous enactments	127,872,211
Loans under the 1975 Act	<u>1,252,552,622</u>
	1,380,424,833

The Public Income and Expenditure Account is published separately as a White Paper – see Foreword note 4.

Sir Joseph Pilling KCB
Northern Ireland Office
Accounting Officer

7 November 2003

Statement on the System of Internal Control

As Accounting Officer for this Account, I acknowledge my responsibility for ensuring that an effective system of internal control is maintained and operated by the Northern Ireland Office.

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 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.

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 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

7 November 2003

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 62 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 61, 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 guided by the Auditing Practices Board and the auditing profession's ethical guidance.

I report my opinion as to whether the financial statements properly present the receipts and payments and are properly prepared under 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 63 reflects compliance with Treasury's guidance 'Corporate governance: 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.

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 financial statements properly present the receipts and payments of the Secretary of State for Northern Ireland in respect of loans to the Consolidated Fund of Northern Ireland for the year ended 31 March 2003 and the balances held at that date, and have been properly prepared in accordance with 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

12 January 2004

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 First Secretary of State 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 First Secretary of State;
 - iii the sums received by the First 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 First 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 First Secretary of State may, with the approval of the Treasury, from time to time determine.

Transactions during the year ended 31 March 2003

- 5 A total of £4,000,000 was issued to the First Secretary of State out of the National Loans Fund for advancement to the Housing Corporation.⁶ The Corporation repaid £4,000,000 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 2003 was £2,000,000. The Corporation also paid interest totalling £62,952.

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

Under Section 97 of the Housing Associations Act 1985 the First 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 account is prepared on a cash basis and must properly present the receipts and payments for the financial year.

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

28 November 2003

Housing Associations Act 1985

Account, prepared under Section 97 of the Housing Associations Act 1985 of the Receipts and Payments of the First Secretary of State under Section 92 of that Act for the year ended 31 March 2003.

Receipts

	£	Previous year £
Balance as at 1 April 2002	–	–
Issues from the National Loans Fund [s.92(5) of the 1985 Act]	4,000,000	6,000,000
<i>Payments by the Housing Corporation</i>		
Repayment of advances	4,000,000	7,000,000
Interest on advances	62,952	114,736
Balance at 31 March 2003	–	–
	<u>8,062,952</u>	<u>13,114,736</u>

Payments

	£	Previous year £
Advances to the Housing Corporation [s.92(1) of the 1985 Act]	4,000,000	6,000,000
<i>Payments to the National Loans Fund</i>		
Repayment of advances	4,000,000	7,000,000
Interest of advances	62,952	114,736
Balance at 31 March 2003	–	–
	<u>8,062,952</u>	<u>13,114,736</u>

Note

The amount of advances outstanding at 31 March 2003 was £2,000,000.

Mavis McDonald
Accounting Officer
Office of the Deputy Prime Minister

28 November 2003

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 account and incorporates the transactions that pertain to this account.

Scope of responsibility

As Accounting Officer for the Office of the Deputy Prime Minister, I have responsibility for maintaining a sound system of internal control and a duty to safeguard the public funds and assets for which I am personally responsible, in accordance with the responsibilities assigned to me in Government Accounting.

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.

To help me discharge my responsibilities as the Accounting Officer, senior managers within ODPM have a 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 is an essential element of their responsibilities.

During 2002–2003 senior managers operated under delegated authority issued in February 2002 by the then Accounting Officer of the former Department of Transport, Local Government and the Regions. The delegation framework was thoroughly reviewed to reflect organisational changes and responsibilities and a new one was put in place in April 2003. All senior managers are now required to provide me with an interim statement on the effectiveness of their internal controls on a quarterly 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 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 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 ODPM for the year ended 31 March 2003 and up to the date of approval of the annual report and accounts, and accords with the Treasury guidance.

Capacity to handle risk

The newly created Office inherited a portfolio of responsibilities that included functions, structures, and differing risk management strategies previously located in the Cabinet Office and the former Department for Transport, Local Government and the Regions. A good part of the year was therefore spent on integration and defining our strategic objectives, key delivery priorities, and building a complementary corporate risk management framework.

The Office continued to review its risk management arrangements during the year in response to evolving business needs. The Management Board provided the lead by setting out the Office's risk management principles. Key risks to the achievement of the Office's aims and objectives have been identified and allocated to individual members. A new arrangement for reporting the status of risks was developed. We plan to complete the outstanding work during 2003–2004. Work to strengthen the framework to meet the requirements of the Strategy Unit Report of November 2002 (Risk: Improving Government's Capability to Handle Risk and Uncertainty) and of the revised Statement of Internal Control [DAO GEN 9/2003], finally published in May 2003, began during 2002–2003 and continued into 2003–2004.

Guidance and training in risk management is available through a variety of mechanisms including

- as part of project and programme management and in business improvement workshops;
- Treasury, Office of Government Commerce and NAO websites; and
- business and delivery planning guidance.

The ODPM risk website will be developed to host guidance and training material. A Risk Improvement Manager has been appointed to oversee the embedding of all aspects of risk management within the culture and business process of the Office.

The risk and control framework

Our aim is to create an environment of “no surprises” in which we manage our threats and opportunities effectively. Throughout the Office risks have been identified through the Business Planning Process, building on existing systems of risk management including delivery planning, project management and the implementation of internal and external auditor’s recommendations. In the last quarter of 2002–2003 these were incorporated into an Office Risk Register. During 2003–2004 the Register will be incorporated into the corporate management information system. The Register will be regularly reviewed and updated by the risk owners and regularly reviewed by a risk network.

We are now drawing up action plans for the key risks identified by the Board and the outcome will determine the risk appetite within the Office against which risk will be assessed, especially, for the forthcoming Spending Review 2004.

Review of effectiveness

As Accounting Officer, I have responsibility for reviewing the effectiveness of the system of internal control. This review 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 and Risk Committee, and a plan to address weaknesses and ensure continuous improvement of the system is in place.

The consequences of the machinery of government changes announced in May 2002 caused some disruption, in particular to central services; however controls were maintained to reasonable standards. This also coincided with the introduction of a new corporate accounting system in April 2002. Much effort was diverted to adapting the accounting system to provide separate services for ODPM and the Department for Transport rather than promoting and realising the full potential of the new system.

There is no indication of any major control weaknesses, such as major or systematic cases of irregularity and abuse that would lead me to qualify this statement. Where we have identified a need for an enhanced level of control, such as the future development of risk management processes, the Office has either taken or plan to take appropriate steps to re-establish standards and further strengthen them in 2003–2004.

Senior Managers were required to prepare an end of the year report on the stewardship of their resources during 2002–2003. On the basis of these reports and assessment made centrally, the Principal Establishment and Finance Officer prepared a Memorandum that provided me with the necessary assurance on the effectiveness of the system of internal control that was in operation during 2002–2003. In addition the following were in place and functioning

- a Management Board, that included two non executive directors appointed during the year, which met monthly to consider the plans and strategic direction of the Office, including strategic challenges and opportunities;
- an audit and risk committee made up of senior staff , which met three times in the year (one meeting was for the former DTLR). An external member joined the committee as chairman in November 2002. The Committee reviewed the approach to risk management and corporate governance across the Office and considered proposals for further improvements and for obtaining assurances from agencies and government offices;
- 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
- progress against PSA targets was reviewed, including financial performance against forecast, determination of spending priorities in the context of emerging pressures and new demands.

In addition the Board takes a more active and direct role in the strategic monitoring and performance management of the Office. This encompasses key targets, major programmes and projects, financial management performance, risks and other aspects of the Office's performance. We have a number of initiatives currently in progress

- a Departmental Capacity Programme is underway to benchmark our capacity to deliver our objectives and set out a programme for improving our performance. As a first step we have carried out a staff survey and initial work on the skills audit has begun and the baseline assessment for the peer review of the Office has been completed;
- a programme and project centre of excellence has been set up by the Treasury deadline of June 2003 to support the Board in its strategic oversight of programmes, including those delivered by our agencies and Non-departmental Public Bodies. More work will be done during the remainder of 2003-2004 to consolidate and improve the centre;
- we are reviewing the data systems used to monitor and report on progress against a selection of the Office's Spending Review 2000 PSA targets in the light of advice and suggestions provided by the NAO; and
- we are continuing to build-up our base of financial expertise by encouraging and sponsoring staff with finance responsibilities to acquire recognised external qualifications.

Significant internal control problems

I am not aware of any significant internal control problems relating to this account.

I hope to have the full procedures necessary for the Office to implement Treasury guidance (DAO(GEN) 09/2003 in place during 2003-2004.

Mavis McDonald
Accounting Officer
Department for Transport, Local Government and the Regions

28 November 2003

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 67 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 66, the First Secretary of State is responsible for the preparation of 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 guided by the Auditing Practices Board and the auditing profession's ethical guidance.

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 68 to 70 reflects compliance with Treasury's guidance 'Corporate governance: 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.

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 2003 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

18 December 2003

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

For further information about the National Audit Office please contact:

National Audit Office
Press Office
157-197 Buckingham Palace Road
Victoria
London
SW1W 9SP
Tel: 020 7798 7400
Email: enquiries@nao.gsi.gov.uk

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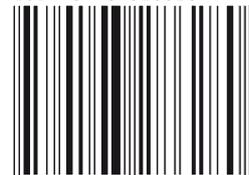
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