

Presented to Parliament the Accounts of sums received by Ministers and others from the National Loans Fund, and from various bodies in respect of interest and repayment of loans, etc., and of the disposal of those sums respectively, for the year ended 31 March 2008, together with the Report of the Comptroller and Auditor General thereon. (In continuation of House of Commons Paper No. 807 of 2007-2008)

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## Accounts relating to issues from the National Loans Fund 2007-2008

Presented to Parliament the Accounts of sums received by Ministers and others from the National Loans Fund, and from various bodies in respect of interest and repayment of loans, etc., and of the disposal of those sums respectively, for the year ended 31 March 2008, together with the Report of the Comptroller and Auditor General thereon. (In continuation of House of Commons Paper No. 807 of 2007-2008)

Presented pursuant to

Aircraft and Shipbuilding Industries Act 1977

Atomic Energy Authority Act 1986

Atomic Energy Authority Act 1971

Electricity Act 1989

Civil Aviation Act 1982

Commonwealth Development Corporation Act 1999

Government of Wales Act 2006

Harbours Act 1964

Housing Associations Act 1985

National Loans Act 1968

Northern Ireland (Loans) Act 1975

Post Office Act 1969

Postal Services Act 2000

Scotland Act 1998

Transport Act 1968

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# Accounts relating to issues from the National Loans Fund 2007-2008

ORDERED BY THE HOUSE OF COMMONS TO BE PRINTED 21 JULY 2009

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# Contents

This volume contains statutory accounts prepared to show the transactions of Ministers and others in 2007-2008 in connection with loans to various bodies out of issues from the National Loans Fund. Details of issues from the National Loans Fund in 2007-2008 are given in the relevant part of the National Loans Fund Account (see page 16 of HC 1022 of 2007-2008). Certain issues and payments in respect of accounts not included herein are also notes to complete the reconciliation with that part on the National Loans Fund Accounts.

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## Notes for inclusion in the Summary to the Volume 'Accounts relating to issues from the National Loans Fund 2007-2008'

### Aircraft and Shipbuilding Industries Act 1977

Section 12(4) of the above Act requires the Secretary of State for Business, Enterprise and Regulatory Reform to prepare an account of any transactions with British Shipbuilders Corporation 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 2008.

Section 16 of the Act provides that the Secretary of State may, with the approval of HM Treasury, pay to the Corporation out of money provided by Parliament Public Dividend Capital within certain limits as he thinks fit. A payment of £7.4 million was made during the 2007-2008 financial year, so the total paid to 31 March 2008 is £1,610.7 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 HM Treasury, the Secretary of State, with the approval of HM 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 2008. The net liabilities of the British Shipbuilders Corporation, as at 31 March 2008 were £116 million, as disclosed in the Departmental Resource Account 2007-2008.

Under SI 1988 – 1401, there is a financial limit of £1,700 million in respect of aggregate borrowings and Public Dividend Capital.

### Atomic Energy Authority Act 1986

Section 4(6) of the above Act requires the Secretary of State for Business, Enterprise and Regulatory Reform 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 2008.

Under Section 3(1) of the Act, the aggregate amount outstanding by way of principal in respect of borrowing and guarantees in connection with the finances of the United Kingdom Atomic Energy Authority is limited to £150 million, or such greater sum, not exceeding £200 million, as the Secretary of State may specify by order.

## Atomic Energy Authority Act 1971

Section 12(4) of the above Act requires the Secretary of State for Business, Enterprise and Regulatory Reform 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 2008.

Under Section 3 of the Act, there is a financial limit of £200 million in respect of aggregate financial arrangements.

### 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 2008, the limit specified was £2,000 million.

BNFL have previously repaid all loans and during 2007-2008 it took out no new loans.

The shares in BNFL, now British Nuclear Group Sellafield Limited, were transferred to British Nuclear Group Limited on 1 April 2005 by the Nuclear Transfer Scheme, executed on behalf of the Secretary of State for Business Enterprise and Regulatory Reform under Section 39 of the Energy Act 2004. There was no consideration for the transfer.

## Electricity Act 1989

Section 78(5)(a) of the Electricity Act 1989 requires the Secretary of State for Business, Enterprise and Regulatory Reform 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.

Under Section 81 of the Act there is a financial limit of £2,000 million in respect of the aggregate loans and sums issued in fulfilment of guarantees.

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 2008.

During 2007-2008 Magnox Electric Ltd. was the only successor company in England and Wales, which was wholly owned by the Crown and thereby eligible to receive loans from the National Loans Fund. Magnox Electric was subsequently sold in June 2007, so there will be no eligible companies from 2008-2009 onwards.

## Commonwealth Development Corporation Act

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 2008.

## Postal Services Act 2000

Section 76 of the Postal Services Act 2000 requires the Secretary of State for Business, Enterprise and Regulatory Reform to prepare an account of any transaction with the Post Office company and its subsidiaries in respect of loans made from the National Loans Fund under Section 68 of the Act.

As the company has repaid all outstanding debts from the National Loans Fund in the financial year ended 31 March 2004 and there have been no subsequent transactions under the foregoing provisions, no account has been prepared for the year ended 31 March 2008.

Under Section 71 of the Act, 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.

During 2007-2008, there were no amounts loaned under the Postal Services Act 2000. A £500 million loan made available to Royal Mail by the Secretary of State under the Post Office Act 1969 remains repayable and is due to mature between 2021 and 2025.

On the 26 March 2007 the Secretary of State confirmed via written statement to Parliament finalisation of a new financing framework for Royal Mail. Part of this framework includes new debt facilities of £900 million to be provided by the NLF on commercial terms. This comprises a revolving loan facility of up to £300 million and a separate loan facility of £600 million, which would be advanced to the company under section 68 of the Postal Services Act 2000. This new package will allow the company to embark on an investment programme so that it can further transform its effectiveness and secure the efficiency improvements required under the latest regulatory settlement. The new NLF debt facilities became effective from the 23 March 2007 and the company did not utilise these facilities during 2007-2008.

*Sir Brian Bender KCB* 10 July 2008  
Principal Accounting Officer and Permanent Secretary

## 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 Loans 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 as there have been no subsequent transactions under the foregoing provisions, no account has been prepared for the year ended 31 March 2008.

*Robert Devereux* 26 August 2008  
Accounting Officer  
Department for transport

# 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 the Secretary of State 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 2007-2008.

### 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.

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

**Limits on borrowing**

- 3 Section 19(3) of the Act as amended by section 1(1) of the Water Act 1981 and The British Waterways Board (Limit for Borrowing) Order 2001 (SI No 1054) imposes a limit of £35 million on the Board's aggregate outstanding borrowing and its commencing capital debt. The borrowings comprise government advances and temporary borrowings from approved sources. A limit on temporary borrowings has been set by the Secretary of State, in accordance with section 19(1) of the Act, at £3 million and HM Treasury has guaranteed this borrowing under section 21(1). At 31 March 2008 the aggregate outstanding borrowings counting against these limits were

	£
Loans made by the Secretary of State	7,864,000
Temporary Loans	0
Commencing Capital Debt	0
	<u>7,864,000</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 half-yearly. No new loans were advanced to the Board during 2007-2008. £2,048,000 of principal was repaid by the Board to the National Loans Fund in 2007-2008

**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. The relevant responsibilities as Accounting Officer, including the responsibility for the propriety and regularity of the public finances for which the Accounting Officer is answerable and for the keeping of proper records, are set out in the Accounting Officers' Memorandum issued by HM Treasury and published in *Managing Public Money* (HMSO).

*Helen Ghosh*

16 July 2008

Accounting Officer for the Department for Environment, Food and Rural Affairs

## 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 2008.

	<b>2007-2008</b>	2006-2007
	<b>£</b>	£
<b>Receipts</b>		
Issues from the National Loans Fund (s.20(3)):	<b>0</b>	0
<i>Payments by the British Waterways Board [s.20(2)]:</i>		
Repayment of loans	<b>2,048,000</b>	640,000
Interest on loans	<b>888,603</b>	1,055,643
	<b><u>2,936,603</u></b>	<u>1,695,643</u>
<b>Payments</b>		
Loans to British Waterways Board (s.20(1)):	<b>0</b>	0
<i>Payments to the National Loans Fund [s.20(5)]:</i>		
Repayment of loans	<b>2,048,000</b>	640,000
Interest on loans	<b>888,603</b>	1,055,643
	<b><u>2,936,603</u></b>	<u>1,695,643</u>

### Notes

1 At 31 March 2008 the debt outstanding to the Secretary of State was £7,864,000.

*Helen Ghosh*

16 July 2008

Accounting Officer for the Department for Environment, Food and Rural Affairs

# Statement on Internal Control

## Scope of responsibility

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 preparing of the British Waterways Board National Loans Fund Accounts for 2007-2008.

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 Managing Public Money.

## Purpose of the system of internal control

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

## Capacity to handle risk

The Management Board reviews strategic-level risk through the corporate Balanced Scorecard, and by monitoring the status of our mission-critical programmes and top threats.

As well as generalist risk management training for managers across the Department, staff are encouraged to identify and address risks at a local level, free from blame.

## Risk and control framework

The Department identifies and addresses risks affecting all levels of the organisation, from high level strategic risks down to lower level operational matters. The risks associated with the British Waterways Board National Loans Fund (NLF) Accounts fall at operational level.

The Department has published a high level statement regarding its risk appetite but emphasis is being placed on taking a more explicit approach.

## Review of effectiveness

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

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

- The Management Board meets monthly and provides strategic leadership for the Department and is responsible for ensuring effective risk management and control;
- The Audit and Risk Committee, a sub committee of the Management Board, meets throughout the year and considers the adequacy of audit arrangements, both internal and external. It reviews and challenges risk assurances from senior managers; and
- Internal Audit reports to the Audit and Risk Committee and provides independent assurance of the adequacy and effectiveness of the Department's risk management, control and corporate governance procedures.

### Financial Control

Financial control for the British Waterways Board National Loans Fund (NLF) Accounts is supported by management information, financial regulations and procedures. Processes to achieve this control include

- Compilation of a timetable which incorporates activities designed to minimise risk; and
- Reconciliation of the account on a monthly basis. This is subject to regular management verification.

*Mrs Helen Ghosh*

16 July 2008

Accounting Officer for the Department for Environment, Food and Rural Affairs

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

I certify that I have audited the financial statements of the British Waterways Board National Loans Fund for the year ended 31 March 2008 under the Transport Act 1968. These financial statements have been prepared in the form and on the basis determined by HM Treasury.

## Respective responsibilities of the Accounting Officer and Auditor

The Accounting Officer is responsible for preparing the Foreword and the financial statements in accordance with the Transport Act 1968 and HM Treasury directions made thereunder and for ensuring the regularity of financial transactions. These responsibilities are set out in the Statement of Accounting Officer's responsibilities.

My responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements, and with International Standards on Auditing (UK and Ireland).

I report to you 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 HM Treasury directions made thereunder. I also report 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.

In addition I report to you 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 Internal Control reflects compliance with HM Treasury's guidance, and I report if it does not. I am not required to consider whether this statement covers all risks and controls, or form an opinion on the effectiveness of the Department for Environment, Food and Rural Affairs' corporate governance procedures or its risk and control procedures.

I read the other information contained in the Foreword and consider whether it is consistent with the audited financial statements. I consider the implications for my certificate if I become aware of any apparent misstatements or material inconsistencies with the financial statements. My responsibilities do not extend to any other information.

## Basis of audit opinion

I conducted my audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. My 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 judgments 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 fraud or error, 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.

## Opinions

### **Audit opinion**

In my opinion

- the financial statements properly present 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 2008 and the balance held at that date; and
- the financial statements have been properly prepared in accordance with the Transport Act 1968 and the directions made thereunder by HM Treasury.

### **Audit opinion on regularity**

In my opinion, 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.

### **Report**

I have no observations to make on these financial statements.

*T J Burr*  
Comptroller and Auditor General

21 July 2008

National Audit Office  
151 Buckingham Palace Road  
Victoria  
London SW1W 9SS

# 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)<sup>1</sup> to enable him to make loans under section 12(2) to the Civil Aviation Authority;
  - ii the loans so made by the Secretary of State;
  - iii the sums received by the Secretary of State in respect of interest on and repayment of loans under section 12(3);
  - iv the payment into the National Loans Fund of the sums received under (iii); and
  - 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); and
    - 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 2008, the aggregate outstanding borrowings counting against the limit of £550 million was

	£
Loans made by the Secretary of State	9,075,324
Foreign loans	<u>0</u>
	<u>9,075,324</u>

<sup>1</sup> 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; and
  - 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 2007-2008.

### **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).

*Robert Devereux*  
Accounting Officer  
Department for Transport

26 August 2008

## Civil Aviation Account 1982

Prepared under Section 15 of the Civil Aviation Act 1982, of the Receipts and Payments of the Secretary of State for The Department for Transport under Sections 9, 10, 12 and 13 of that Act for the year ended 31 March 2008.

### Receipts

	£	Previous year £
Balance as at 1 April 2007	0	0
From the National Loans Fund [s.12(4)]	0	0
<i>From the Civil Aviation Authority Loans [s.12(4)]</i>		
Repayment of Principal	<b>980,521</b>	917,785
Interest	<b>632,010</b>	694,746
Premium for early repayments of loans	0	0
Penalty for late repayments of loan	0	0
	<b><u>1,612,531</u></b>	<u>1,612,531</u>

### Payments

	£	Previous year £
<i>Loans to the Civil Aviation Authority [s.12(2)]</i>	0	0
Payments to the National Loans Fund [s.12(4)]		
Repayment of Principal	<b>980,521</b>	917,785
Interest	<b>632,010</b>	694,746
Premium for early repayments of loans	0	0
Penalty for late repayment of loan	0	0
Balance at 31 March 2008	0	0
	<b><u>1,612,531</u></b>	<u>1,612,531</u>

### Note

At 31 March 2008 the debt outstanding to the Secretary of State was: £9,075,323.97.

Robert Devereux  
Accounting Officer  
Department for Transport

26 August 2008

## Statement on Internal Control

### Scope of responsibility

Management and preparation of this account and the underlying accounting transactions are subject to the control environment of the Department for Transport to which the rest of this statement refers. There are no risks identified specifically for this account. In my role as Principal Accounting Officer for the Department for Transport (DfT), I have the responsibility for signing this account.

As Accounting Officer, I have responsibility for maintaining a sound system of internal control that supports the achievement of the Department for Transport's (DfT) 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 Managing Public Money.

### 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 departmental policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of departmental policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically. Subject to the developments during the year described in the following paragraphs, the system of internal control has been in place in the Department for Transport for the year ended 31 March 2008 and up to the date of approval of the annual report and accounts, and accords with Treasury guidance.

### Capacity to handle risk

Leadership on risk management is provided by

- the Department's Management Board, which monitors delivery against key objectives across the DfT family. Significant risks to these objectives are identified by the line and escalated to the Board. In 2007-2008, the Department's Management Board included the five Directors General in the central Department, the Chief Executive of the Highways Agency and two non-executive members. The following forums help ensure that risks are effectively managed
- an Executive Committee, which seeks to ensure that the resources available to the central Department are managed as effectively as possible to mitigate identified risks and corporate governance standards.

The Department's Audit Committee monitors and reviews the processes for managing risk, control, governance and assurance across the DfT family, and includes four non-executive members from the DfT family, including the Chair, who is also a member of the Departmental Board. Each Agency has its own Audit Committee, which fulfils a similar function. The business of the Civil Aviation National Loans Fund Account has not been subject to consideration of any Audit Committee.

Officials consult Ministers regularly on risk. Submissions to Ministers incorporate assessments of key risks, including, for example, to the operation of the transport system, including public perceptions, and to the successful delivery of new policies.

During 2007-2008, the focus for improving risk management throughout the Department has fallen to the Resource Management and Planning Teams (RMPTs) with a Departmental Risk Improvement Manager developing overall risk policy and reviewing the corporate risk log. They have continued to identify and implement actions to improve the identification and mitigation of Board and Group level risks through the business planning and risk management reporting process. The RMPTs are also responsible for ensuring that the appropriate support and training on risk management is available to staff within the central Department.

A programme of risk management workshops were delivered in year, supported by the Departmental Risk Improvement Manager. This has helped embed risk management concepts further into every day Departmental business. A number of improvements and additions were made to the Departmental risk guidance.

### The risk and control framework

The Treasury published its Code of Good Practice on Corporate Governance in Central Government Departments in July 2005; the Department's practices are broadly consistent with the principles set out in this Code.

Director Generals (DGs) and Heads of Unit (Directors) in the central Department take responsibility for the day to day management of risks in their respective areas of influence. Through regular delivery and financial reporting processes, the Departmental Management Board has set guideline criteria for the impact of risks that it considers should be escalated for its potential attention. The Department also has in place group risk registers, which are reviewed by the Departmental Risk Improvement Manager, in each case on a quarterly basis. Any significant Departmental risks are escalated to the Department's Management Board for attention.

The central Department has in place a Corporate Governance Framework, which includes: the framework of accountabilities; the roles and responsibilities of Agency Chief Executives, Directors General and Directors; and the end of year reporting arrangements. The Framework sets out the responsibilities of Directors General and Directors for risk management. The Framework is supported by delegations from the Accounting Officer to Directors General to maintain effective accountability and management of resources.

The Department and its Agencies have a number of well-established programmes for involving the public in managing the risks associated with transport. The Department has also identified its ability to manage major transport disruptions as a key corporate risk, and has in place an active programme, working with partners, to ensure that adequate contingency and emergency plans are maintained, developed and reviewed.

### Review of effectiveness

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

The Audit Committee receives summaries of Internal Audit reports and considers the Group Head of Internal Audit's annual opinion on the effectiveness of risk management, control and governance. The Chair of the Audit Committee reports periodically to the Departmental Management Board and to the Accounting Officer the Committee's views on the effectiveness of internal control.

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

Directors General and Directors have reviewed internal control within their areas of responsibility and have completed end of year assurance returns, which have been commissioned to the Audit Committee.

## Capability review

In 2006-2007 the Department underwent an external assessment by the Cabinet Office, referred to as a capability review. The purpose of this review was to determine how well placed the Department was in terms of leadership, strategy and delivery, to meet current and future challenges. The results of this review were published in June 2007 by the Cabinet Office and were very positive with the Department being placed third equal amongst all the Departments that had been assessed. Amongst the strengths that the Department exhibited were a limited number of weaknesses that required attention. A detailed plan spanning the next two years has been developed to tackle these weaknesses. The key elements of this plan are the strengthening of leadership, improvements to the way that strategy is developed, improvements in delivery and the development of our capability. Amongst the actions that have been taken following the Capability Review, now referred to as the 4ward programme, we have revised the organisational structure and recruited two new Directors General; developed new leadership standards; involved stakeholders in the development of our transport strategy and improved relations between the central Department and our agencies. Further actions to improve the running of the Department will be delivered in the next financial year.

## Information and data handling

I am aware that the handling of information and data is a key risk to the Department. I have issued guidance to all staff on the subject of data handling and I have emphasized the importance of the requirements contained within this guidance. In line with a requirement for greater transparency over the issues associated with information and data handling a full disclosure of incidents that have occurred in 2007-2008 can be reviewed within the Management Commentary.

The Department in compliance with Cabinet Office guidance has appointed an Information Management Officer and created an Information Management Directorate from April 2008. Responsibility for Information Management lies with the Director General for SSDL.

## Shared Service Centre

Starting from 1 April 2007, the Department commenced the transfer of its financial and HR services to a new shared services platform. One year into this implementation, DVLA and DSA have completed their transfer. The central Department including the Civil Aviation Authority National Loans Fund accounts have gone live on the new platform from the beginning of 2008-2009 and other elements of the Department will follow from October 2008.

During its first year of operation, the Shared Service Centre (SSC) has been subject to a comprehensive and continuous programme of internal audit and specialist review, and quality assurance by KPMG and Deloitte. This audit and review activity identified process weaknesses, which represent serious but not fundamental failures in the control framework. These weaknesses have led to instances of inappropriate authority levels amongst staff, prompt payment targets being missed and some elements of functionality not being delivered per the programme timetable. The Department's Management Board and DVLA and DSA's Accounting Officers are committed to implementing fully all the control recommendations.

During 2007-2008, DVLA and DSA only had their financial services provided by the new SSC. The system limitations had a temporary impact on the Agencies' abilities to exercise full financial control and to carry out management reporting. In order to mitigate risks ensuing from these inefficiencies, the Agencies implemented additional extra-systems control processes and detailed monitoring of financial management information. These measures ensured that effective internal controls were maintained within the Agencies throughout the year.

The Department's SSC Programme has taken action to address the cause of the weaknesses and to eliminate their effect. This work is ongoing and will continue throughout 2008-2009.

## Group internal audit opinion

In my opinion the DfT Group's arrangements for governance, risk management, and internal control have been adequate and effective in 2007-2008 except for the following matters of significance in the context of the DfT and its Agencies in aggregation as a group.

## Shared Services

The SSC commenced operations in April 2007 with a system of internal controls that was inadequate to support its activities. SSC management has started to address these weaknesses during the year but action plans to do so were neither fully formed nor implemented at the end of March 2008. As a result the system of internal controls remained inadequate at the year-end because of significant weaknesses that had not been resolved.

Implementation timetables for remedial control activities run through to at least mid 2008-2009, hence the ongoing weaknesses will have an adverse impact on the central Department and the Maritime and Coastguard Agency in 2008-09 unless adequate compensating controls are put in place.

Resources at the DVLA and the DSA, the SSC's customers during 2007-2008, have been diverted to performing additional controls to compensate for the SSC's control weaknesses. As a result of the additional controls performed at both agencies, the views of the respective agencies' management is that the DVLA's and the DSA's financial statements have not been materially mis-stated.

## Data protection

A data protection compliance audit commissioned jointly by line management and internal audit in 2007-2008 highlighted a number of significant issues that are likely to impact on the central Department's ability to manage the risks and compliance obligations associated with data protection. I summarised these issues in my report of 10 December 2007 to the Accounting Officer on the results of the Department's review of its data handling procedures.

Several of these issues had not been adequately addressed by May 2008 when internal audit followed-up the initial report. The Information Management Directorate, created in April 2008, now has actions underway which should address the unresolved issues as part of its broader programme to respond to the new data handling requirements the Cabinet Office has established.

## Partial and nil assurance audit reports

Across the Department and its Agencies for 2007-2008, 35 per cent (2006-2007: 34 per cent) of rated internal audit reports carried a 'partial' or 'nil' assurance rating, meaning that significant weaknesses had been identified in the adequacy and effectiveness of arrangements for governance, risk management, or internal control. These weaknesses were significant in the context of the individual audit scope and in some cases in the context of the central Department or respective Agency: management at the appropriate level should pay due attention to these issues.

In the context of this Annual Opinion for the Department and its Agencies as a group, none of these weaknesses warrant specific mention, either individually or in aggregation, except as reported above.

*Robert Devereux*  
Accounting Officer  
Department for Transport

26 August 2008

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

I have audited the financial statements for the year ended 31 March 2008 on page 15 under the Civil Aviation Act 1982. These financial statements have been prepared in the form and on the basis determined by HM Treasury.

## Respective responsibilities of the Accounting Officer and Auditor

The Accounting Officer is responsible for preparing the financial statements in accordance with the Civil Aviation Act 1982 and HM 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 responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements, and with International Standards on Auditing (UK and Ireland).

I report to you 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 HM Treasury directions made thereunder. I report to you whether, in my opinion, information in the Foreword is consistent with the financial statements. I also report whether in all material respects the receipts and payments have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

In addition, I report to you if the Accounting Officer has not kept proper accounting records, if I have not received all the information and explanations I require for my audit, or if information specified by HM Treasury is not disclosed.

I review whether the Statement on Internal Control reflects compliance with HM Treasury's guidance, and I report if it does not. I am not required to consider whether this statement covers all risks and controls, or form an opinion on the effectiveness of the Department's corporate governance procedures or its risks and control procedures.

## Basis of audit opinion

I conducted my audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. My 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 significant estimates and 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 fraud or error, 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.

## Opinions

In my opinion

- the financial statements properly present the receipts and payments of the Secretary of State for Transport in respect of advances to the Civil Aviation Authority for the year ended 31 March 2008 and the balances held at that date;
- the financial statements have been properly prepared in accordance with the Civil Aviation Act 1982 and HM Treasury directions made thereunder; and
- information given within the Foreword is consistent with the financial statements.

### **Audit opinion on regularity**

In my opinion, in all material respects the receipts and payments have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

### **Report**

I have no observations to make on these financial statements.

*T J Burr*  
Comptroller and Auditor General

17 September 2008

National Audit Office  
151 Buckingham Palace Road  
Victoria  
London SW1W 9SS



# Post Office Act 1969

Advances to the Post Office Corporation (Secretary of State for Business, Enterprise and Regulatory Reform)

Account presented pursuant to the Post Office Act 1969

## Foreword

### Scope of the Account

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

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

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

### Limits on borrowing

- 3 Under section 74(2) of the British Telecommunications Act 1981, which applied to loans made to the Post Office before 26 March 2001, the aggregate amount of loans outstanding by the Post Office was not at any time to exceed £1,200 million [note that this could be increased by statutory instrument to £1,700 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.

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

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

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

- 4 A £500m NLF loan facility was made available to Royal Mail by the Secretary of State, acting as an agent for the NLF, to assist with the company's acquisition of German Parcel. This facility was utilised on the 6 February 2001 and it comprises 20 separate tranches of £25m each, the first two tranches of which do not begin to mature until 20 March 2021 and then subsequently two more tranches then mature every 6 months after that until the final remaining tranches mature on 20 September 2025. Royal Mail makes bi-yearly interest payments on the loan. In accordance with section 5 of the National Loans Fund Act 1968, HM Treasury prescribed the rate of interest applicable to each loan. As at 31 March 2008, the amounts and terms of loans made to the Royal Mail Holdings plc and its subsidiaries 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

As at 31 March 2008, the balance outstanding on the principal loan is £500m.

As Accounting Officer, as far as I am aware there is no relevant audit information of which the auditors are unaware. I have taken all of the steps that I ought to have taken to make myself aware of any relevant audit information and to establish that the auditors are aware of that information.

*Sir Brian Bender KCB*

10 July 2008

Principal Accounting Officer and Permanent Secretary

- 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;
- amounts outstanding in respect of the principal of loans made under section 37 of the Post Office Act 1969,
  - amounts outstanding (otherwise than by way of interest) in respect of sums paid by HM Treasury in fulfilment of guarantees given under section 38 of that Act,
  - amounts outstanding in respect of the principal of loans made under section 68 of the Postal Services Act 2000,
  - amounts outstanding (otherwise than by way of interest) in respect of sums paid by the Secretary of State in fulfilment of guarantees given under section 69 of the Postal Services Act 2000,
  - amounts outstanding in respect of the principal of debt securities issued in pursuance of section 63 of this Act, and
  - liabilities extinguished under section 70 of the Postal Services Act 2000 so far as they are not replaced with corresponding liabilities.

### **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 Business Enterprise and Regulatory Reform is required to prepare an account for each financial year in the form and on the basis determined by HM Treasury of sums received by the Secretary of State under section 37(2) of the 1969 Act and of sums issued to the Secretary of State under section 37(3) and of the disposal by him of those sums respectively. The accounts are prepared on a cash basis and must properly present the receipts and payments for the financial year and the balances held at year-end.

HM Treasury has appointed the Permanent Secretary at the Department for Business Enterprise and Regulatory Reform as 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 '*Managing Public Money*' published by HM Treasury.

## 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 Business Enterprise and Regulatory Reform under Section 37 of the Post Office Act 1969 for the year ended 31 March 2008.

### Receipts

	<b>2007-2008</b>	2006-2007
	<b>£</b>	£
Balance at 1 April	<b>0</b>	0
From National Loans Fund	<b>0</b>	0
<i>From Royal Mail Holdings plc</i>		
Repayments of Loans	<b>0</b>	0
Interest on Loans	<b>29,172,306</b>	29,170,000
	<b><u>29,172,306</u></b>	<u>29,170,000</u>

### Payments

	<b>2007-2008</b>	2006-2007
	<b>£</b>	£
Advances to Royal Mail Holdings plc	<b>0</b>	0
<i>To the National Loans Fund</i>		
Repayments of Loans	<b>0</b>	0
Interest on Loans	<b>29,172,306</b>	29,170,000
Balance at 31 March	<b>0</b>	0
	<b><u>29,172,306</u></b>	<u>29,170,000</u>

Included in interest on Loans is £2,305.63 for late payment interest due to late receipt of interest from Royal Mail. This amount was subsequently recovered from Royal Mail.

The Accounting Officer has authorised these accounts to be issued on

*Sir Brian Bender KCB*  
Principal Accounting Officer and Permanent Secretary

10 July 2008

## Statement on Internal Control

### Scope of responsibility

As Accounting Officer, I have responsibility for maintaining a sound system of internal control that supports the achievement of the Post Office National Loans Fund Account'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 *Managing Public Money*.

The Account is administered and managed by the Royal Mail Team of the Shareholder Executive within the Department in conjunction with Amey Accounting and Business Services. The Secretary of State, with the approval of HM Treasury, has the power to make loans to Royal Mail Holdings plc or any of its subsidiaries any sums which it has power to borrow. Sums needed for such loans are issued by HM Treasury to the Secretary of State. The interest on loans is at such rates as the Secretary of State, with the approval of HM Treasury, may direct. Subject to this, loans are on such terms as set out in the Finance Agreement. 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.

### The purpose of the system of internal control

The system of internal control is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of departmental policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically. The system of internal control has been in place for the Post Office National Loans Fund Account for the year ended 31 March 2008 and up to the date of approval of the Annual Report and Accounts, and accords with HM Treasury guidance.

### Capacity to handle risk

Guidance on risk management is available to staff in the Royal Mail Team through the Risk Management Intranet site. This site includes the Department's Risk Management Policy and has specific guidance on undertaking risk self-assessment. Risk management workshops are available to all staff and practical guidance on its application has been incorporated into a wide range of BERR training courses that staff in Shareholder Executive attends. These courses cover all ranges of staff and are tailored to be appropriate to their authority and duties. The Shareholder Executive maintains a Risk Register that is regularly updated.

### The risk and control framework

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

## Review of effectiveness

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

There were no significant internal control issues during the course of 2007-2008.

*Sir Brian Bender KCB*  
Principal Accounting Officer and Permanent Secretary

10 July 2008

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

I certify that I have audited the financial statements of the Post Office National Loans Fund Account (PO NLF) for the year ended 31 March 2008 under section 39 of the Post Office Act 1969. These comprise the account of the Receipts and Payments. The financial statements have been prepared in the form and on the basis determined by HM Treasury.

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

The Secretary of State and Accounting Officer are responsible for preparing the Foreword and the financial statements in accordance with the Post Office Act 1969 and HM Treasury directions made thereunder and for ensuring the regularity of financial transactions. These responsibilities are set out in the Statement of the Secretary of State's and Accounting Officer's responsibilities.

My responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements, and with International Standards on Auditing (UK and Ireland).

I report my opinion as to whether the financial statements properly present the receipts and payments and are properly prepared in accordance with section 39 of the Post Office Act 1969 and HM Treasury directions made thereunder. I report to you whether, in my opinion, the Foreword is consistent with the financial statements. I also report whether in all material respects the receipts and payments have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

In addition, I report to you if the Accounting Officer has not kept proper accounting records, if I have not received all the information and explanations I require for my audit or if information specified by HM Treasury is not disclosed.

I review whether the Statement on Internal Control reflects PO NLF's compliance with Treasury's guidance, and I report if it does not. I am not required to consider, nor have I considered whether the Accounting Officer's Statement on Internal Control covers all risks and controls or form an opinion on the effectiveness of the PO NLF's corporate governance procedures or its risk and control procedures.

## Basis of audit opinion

I conducted my audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. My 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 error 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 have also evaluated the overall adequacy of the presentation of information in the financial statements.

## Opinions

### **Audit opinion**

In my opinion

- the account properly presents the receipts and payments of the Secretary of State for Business, Enterprise and Regulatory Reform in respect of advances to the Post Office for the year ended 31 March 2008;
- the financial statements have been properly prepared in accordance with section 39 of the Post Office Act 1969 and directions made thereunder by HM Treasury; and
- information given in the Foreword is consistent with the financial statements.

### **Audit opinion on regularity**

In my opinion, in all material respects the receipts and payments have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

### **Report**

I have no observations to make on these financial statements.

*T J Burr*  
Comptroller and Audit General

16 July 2008

National Audit Office  
151 Buckingham Palace Road  
Victoria  
London SW1W 9SS



# Scotland Act 1998

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

## Foreword

### Scope of the account

This account is prepared in compliance with section 72(a) of the Scotland Act 1998 and is required to show

- 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;
- Under section 71 of the Scotland Act the sums issued to the Secretary of State for Scotland out of the National Loans Fund prior to the enactment of the Scotland Act;
- The loans so made by the Secretary of State;
- 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
- The payments into the National Loans Fund of the sums received under section 66.

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

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

### Limits of borrowing

Under section 67(2) the aggregate at any time outstanding in respect of the principal of sums borrowed shall not exceed £500 million. This limit does not apply to the initial debt of advances to Scottish Water Authorities, Scottish Enterprise and the Registers of Scotland which existed before the enactment of the Scotland Act 1998 and which were issued within the limits set by the relevant legislation as detailed below.

### Outstanding capital balances

At 1 April 2007, total capital balances outstanding were £810,024,375, and after repayments during the year of £20,106,250, capital balances outstanding at 31 March 2008 were £789,918,125.

### History of Accounts

The advances outstanding at 31 March 2007 were made prior to 1 July 1999, under the terms of the Local Government etc. (Scotland) Act 1994 (Water Authorities), and the Scottish Development Agency Act 1975 (Scottish Enterprise). Loans to Scottish Enterprise have been repaid in full.

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 Local Government etc. (Scotland) Act 1994 (Water Authorities). Registers of Scotland (ROS) was established as a Trading Fund on 1 April 1996 and the loan was deemed to have been issued from the National Loan Fund (NLF) as ROS had no direct sponsor department. However, no physical payment has been made from the NLF. The deemed loan was based on the value of the assets and liabilities appropriated to the Trading Fund. 60 per cent was attributed to capital loans to be paid through the NLF and 40 per cent as public dividend capital, repayable through the Consolidated Fund. 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 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 the Head of the Scotland Office as 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 *Managing Public Money*.

*David Middleton*  
Accounting Officer  
Scotland Office

8 October 2008

## 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 2007 to 31 March 2008.

### Receipts

	2007-2008 £	2006-2007 £
<i>Received from Water Authorities by way of</i>		
Interest on advances	<b>52,855,900</b>	55,425,078
Repayment of advance	<b>20,000,000</b>	35,000,000
<i>Received from Registers of Scotland</i>		
Interest on advances	<b>260,279</b>	269,178
Repayment of advance	<b>106,250</b>	106,250
Total of interest payments	<b>53,116,179</b>	55,694,256
Total of repayments of advance	<b>20,106,250</b>	35,106,250
<b>Total receipts</b>	<b>73,222,429</b>	90,800,506

### Payments

	2007-2008 £	2006-2007 £
<i>Payments to National Loans Fund of sums received</i>		
Interest on advances	<b>52,855,900</b>	55,425,078
Repayment of advance	<b>20,000,000</b>	35,000,000
<i>Payments to National Loans Fund of sums received</i>		
Interest on advances	<b>260,279</b>	269,178
Repayment of advance	<b>106,250</b>	106,250
Total of interest payments	<b>53,116,179</b>	55,694,256
Total of repayments of advance	<b>20,106,250</b>	35,106,250
<b>Total payments</b>	<b>73,222,429</b>	90,800,506

Note: Statement of balances at 31 March 2008

	Advances at 1 April 2007 £	Advances during 2007-2008 £	Advances repaid during 2007-2008 £	<b>Advances outstanding at 31 March 2008 £</b>
Water Authorities	806,890,000	0	20,000,000	<b>786,890,000</b>
Registers of Scotland	3,134,375	0	106,250	<b>3,028,125</b>
Total	<u>810,024,375</u>	<u>0</u>	<u>20,106,250</u>	<b><u>789,918,125</u></b>

### Events after year end

In accordance with the requirements of FRS 21, events after the year end are considered up to the date on which the accounts are authorised for issue. This is interpreted as the date of the Certificate and Report of the Comptroller and Auditor General.

David Middleton  
Accounting Officer  
Scotland Office

8 October 2008

# Statement on Internal Control

## Scope of responsibility

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

## The Purpose of the System of Internal Control

The system of internal control is designed to manage risk to a reasonable level rather than eliminate all risk of failure to achieve policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of departmental policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically. The system of internal control has been in place in the Scotland Office for the year ended 31 March 2008 and up to the date of approval of the accounts, and accords with HM Treasury guidance.

## Capacity to handle risk

I acknowledge my overall responsibility for the effective management of risk throughout the Scotland Office.

Registers that identify, assess and set out mitigating actions to significant risks are in place across the Office and are regularly reviewed by the Office Management Group. Risk management is incorporated into the planning and decision making processes, with assessment of risk to business objectives documented, along with mitigating actions, and reported on through risk registers and other means which are regularly reviewed and updated.

## The risk and control framework

As part of the Ministry of Justice (MoJ), the Scotland Office applies the Ministry's Risk Management Policy and Framework document and the key elements are maintained in the Scotland Office as follows

- A formal process for identifying, evaluating, managing and reporting risk;
- A system of analysis and reporting that identifies risk to objectives, risk impact and likelihood, current and planned mitigating action and individual risk owners; and
- Formal programme and project management disciplines, incorporating procedures for the management of risk.

The other key elements in the MoJ control system, which are followed, are: regular management information, financial and administrative procedures including segregation of duties, and a system of delegation and accountability. In particular it includes

- Approval by the Management Group of the business plans;
- Comprehensive budgeting systems with an annual budget which is reviewed and agreed by the Management Group;
- Regular reviews by the Management Group of periodic and annual financial reports prepared to indicate financial performance against the forecasts;
- Target setting to measure financial and other performance;

- A formal system of financial and other controls, consisting of core control checks with an auditable trail of evidence, and a review and reporting mechanism to provide assurances from Budget Managers that internal controls are in place and operating effectively; and
- Business Continuity Plans, ensuring that key activities can continue effectively following a disruption, continue to be developed and refined.

### Review of effectiveness

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

I confirm that all key controls identified as a result of an assessment of my key business risks, in addition to the following key financial areas, are in place for the following and have been applied

- all expenditure/income has been recorded and properly spent / received with regard to propriety and regularity;
- the expenditure / income spent and received comply with law and regulations including those which provide the legal framework within which the Office conducts its activities;
- expenditure has been properly classified and transfers of expenditure between expenditure classifications have only been made in accordance with the Finance Manual;
- there have been no breaches of delegated financial authority;
- budgets are monitored regularly, comparing actual expenditure to forecasts, and variances reported upon;
- controls are in place to ensure that assets of the Office are safeguarded against unauthorised use or disposal;
- there are adequate control procedures in place to guard against fraud;
- there have been no breaches of the Finance Manual regarding hospitality and gifts;
- all losses and special payments have been reported, authorised and recorded in accordance with the Finance Manual; and
- all instances of loss resulting from a weakness in internal financial control have been reported and any necessary remedial action taken.

*David Middleton*  
Accounting Officer  
Scotland Office

8 October 2008

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

I certify that I have audited the financial statements of the National Loans Fund Advances to the Scotland Office Account for the year ended 31 March 2008 under section 66 of the Scotland Act 1998. These comprise the Receipts and Payments Account and the related notes. These financial statements have been prepared under the accounting policies set out within them

## Respective responsibilities of the Accounting Officer and Auditor

The Accounting Officer is responsible for preparing the Foreword, and the financial statements in accordance with the Scotland Act 1998 and HM Treasury directions made thereunder and for ensuring the regularity of financial transactions. These responsibilities are set out in the Statement of Secretary of State for Scotland's responsibilities.

My responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements, and with International Standards on Auditing (UK and Ireland).

I report to you my opinion as to whether the financial statements properly present the receipts and payments and whether the financial statements have been properly prepared in accordance with the Scotland Act 1998 and Treasury directions made thereunder. I also report whether in all material respects the receipts and payments have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

In addition, I report to you if the Scotland Office has not kept proper accounting records, if I have not received all the information and explanations I require for my audit, or if information specified by HM Treasury is not disclosed.

I review whether the Statement on Internal control reflects the Scotland Office's compliance with HM Treasury's guidance, and I report if it does not. I am not required to consider whether this statement covers all risks and controls, or form an opinion on the effectiveness of the Scotland Office's corporate governance procedures or its risk and control procedures.

I read the other information contained in the Foreword and consider whether it is consistent with the audited financial statements. I consider the implications for my report if I become aware of any apparent misstatements or material inconsistencies with the financial statements. My responsibilities do not extend to any other information.

## Basis of audit opinions

I conducted my audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. My 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 significant judgments 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 fraud or error, and that in all material respects the receipts and payments have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them. In forming my opinion I also evaluated the overall adequacy of the presentation of information in the financial statements.

## Opinions

### **Audit opinion**

In my opinion

- the financial statements properly present the receipts and payments of the Secretary of State for Scotland in respect of advances to Scottish Enterprise, Scottish Water Authorities and Registers of Scotland, in accordance with the Scotland Act 1998 and directions made thereunder by Treasury, for the year ended 31 March 2008;
- the financial statements have been properly prepared in accordance with the Scotland Act 1998 and Treasury directions made thereunder; and
- information given within the Foreword is consistent with the financial statements

### **Audit opinion on regularity**

In my opinion, in all material respects the receipts and payments have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

### **Report**

I have no observations to make on these financial statements.

*T J Burr*  
Comptroller and Auditor General

17 October 2008

National Audit Office  
151 Buckingham Palace Road  
Victoria  
London SW1W 9SS

# Government of Wales Act 2006

Accounts presented pursuant to Act 2006 s.121, s.122 and s.123

## Scope of the Account

- 1 This Account is prepared in compliance with section 123 of the Government of Wales Act 2006 and is required to show
  - a Loans made by the Secretary of State to the Welsh Assembly Government under section 123 or treated as made by paragraph 11(6) of schedule 3 or paragraph 44(6) of schedule 11; and
  - b Repayments and payments of interest made to the Secretary of State in respect of those loans.

## Secretary of State's power to make loans

- 2 Under Section 121 of the Government of Wales Act 2006, the Secretary of State has the power, with the approval of Treasury, to lend to the Welsh Ministers sums required for the purpose of (a) meeting a temporary excess of sums paid out of the Welsh Consolidated Fund over sums paid into that Fund, or (b) providing a working balance in the Fund. Under section 122 of the Act, the Treasury may issue to the Secretary of State out of the National Loans Fund such sums as required under section 121.

## Limits on borrowing

- 3 Section 122 of the Government of Wales Act 2006 imposes a limit of £500 million on the Welsh Assembly Government's aggregate outstanding borrowings from the National Loans Fund.
- 4 At 31 March 2008 the aggregate of amounts outstanding against the limit was

	£
Borrowing outstanding	11,812,261
Sums issued by the Treasury	0
<b>Total</b>	<b>11,812,261</b>

## Loans made by the Secretary of State, Interest Payable and Repayment of Principal

- 5 In 2007-2008 no new loans were issued by the Secretary of State to the Welsh Ministers. The amount outstanding relates to advances made initially to
  - Mid Wales Development Corporation; and
  - Development Board for Rural Wales.

The Mid Wales Development Corporation was established under the terms of the New Towns Act 1965 to reverse the trend of depopulation in rural Wales. The Development Board for Rural Wales was established under the 1976 Act (since amended) and took over the functions of the Mid Wales Development Corporation in 1977.

The 1998 Government of Wales Act abolished the Development Board for Rural Wales on 1 October 1998. All functions, property, rights and liabilities were transferred to the Welsh Development Agency including the responsibility for these loans.



The Welsh Development Agency was abolished on 1 April 2006 under the 'Welsh Development Agency (Transfer of Functions to the National Assembly for Wales and Abolition) order 2005'. The Welsh Development Agency's functions, property, rights and liabilities were transferred to the National Assembly for Wales and subsequently the Welsh Assembly Government under the Government of Wales Act 2006. The Welsh Assembly Government is now responsible for repayment of these loans previously held by the Welsh Development Agency. A loan which was made initially to the former Welsh Development Agency matured on 23 March 2008.

The last loan, which was issued to the former Development Board for Rural Wales, is due to mature on 15 September 2041.

The Government of Wales Act 2006 created the Welsh Consolidated Fund. The repayment of NLF loans held by the Welsh Assembly Government is now made via the Welsh Consolidated Fund to the Ministry of Justice and thereafter paid to the Treasury.

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

Under Section 123 of the Government of Wales Act 2006, 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 for loans issued to the Welsh Ministers. 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 the Head of the Wales Office as 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 *Managing Public Money*.

*Alan Cogbill*  
Accounting Officer for the Wales Office

5 January 2009

# Government of Wales Act 2006

Account, prepared under section 123 of the Government of Wales Act 2006 of the receipts and payments of the Secretary of State for Wales under the legislation shown for the year ended 31 March 2008.

	<b>2007-2008</b>	2006-2007
	£	£
<b>Receipts</b>		
Sums received from the National Assembly for Wales in respect of advances made to		
<i>Former Welsh Development Agency Act 1975</i>		
Repayment of Principal	<b>5,000</b>	9,802
Interest	<b>253</b>	777
<i>Former Development Board for Rural Wales</i>		
Repayment of Principal	<b>5,286</b>	4,600
Interest	<b>568,315</b>	569,001
<i>Former Mid Wales Development Corporation</i>		
Repayment of Principal	<b>20,421</b>	17,757
Interest	<b>1,151,170</b>	1,153,834
<b>Total receipts</b>	<b><u>1,750,445</u></b>	<b><u>1,755,771</u></b>

	<b>2007-2008</b>	2006-2007
	£	£
<b>Payments</b>		
Advances to the National Assembly for Wales	<b>0</b>	0
<i>Payments to the National Loans Fund</i>		
Repayment of principal	<b>30,707</b>	32,159
Interest	<b>1,719,738</b>	1,723,612
<b>Total payments</b>	<b><u>1,750,445</u></b>	<b><u>1,755,771</u></b>

Notes

1 Statement of balances

	Former Welsh Development Agency	Former Development Board for Rural Wales	Former Mid Wales Development Corporation	<b>Total</b>
	£	£	£	£
Outstanding at 1 April 2007	5,000	3,945,504	7,892,464	<b>11,142,568</b>
Repaid during the year	(5,000)	(5,286)	(20,421)	<b>(30,707)</b>
<b>Outstanding at 31 March 2008</b>	<b><u>0</u></b>	<b><u>3,939,818</u></b>	<b><u>7,872,043</u></b>	<b><u>11,811,861</u></b>

## 2 Events after year end

In accordance with the requirements of FRS 21, events after the year-end are considered up to the date at which the accounts are authorised for issue. This is interpreted as the date of the Certificate and Report of the Comptroller and Auditor General.

*Alan Cogbill*  
Accounting Officer for the Wales Office

5 January 2009

## Statement on Internal Control

This statement is given in respect of the account of National Loans Fund advances to the former Welsh Development Agency, the former Development Board for Rural Wales and the former Mid Wales Development Corporation now held by the Welsh Assembly Government.

### Scope of responsibility

As Accounting Officer, I have the 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 Managing Public Money.

### The purpose of the system of internal control

The system of internal control is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve, policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of departmental policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically. The system of internal control, has been in place in the Wales Office for the year ended 31 March 2008 and up to the date of approval of the annual report and accounts, and accords with Treasury guidance.

### Capacity to handle risk

As Accounting Officer I acknowledge my overall responsibility for the effective management of risk throughout the Department. Leadership is provided by the Wales Office Management Board, who have approved a risk management strategy that has been communicated to all staff. My staff will attend future corporate governance and risk training seminars. In 2008-2009 all staff will attend risk management workshops.

### Risk and control framework

As part of the Ministry of Justice, the Wales Office applies the Ministry's Risk Management Policy and framework document. A risk register identifying risks linked to Wales Office business objectives and setting out actions to mitigate significant risks is agreed and reviewed at Management Board meetings with Heads of Departments taking ownership for action and review periods within their specific areas of Business.

The Welsh Assembly Government held the loans and made the repayment of advances and interest thereon during 2007-2008. The risks associated with undertaking these tasks were incorporated within the Welsh Assembly Government's risk policy. During 2007-2008 the Ministry of Justice was responsible for passing these remittances to the Secretary of State for payment into the National Loans Fund. Both the Welsh Assembly Government and the Ministry of Justice provide these services under Service Level Agreements.

The Wales Office has an Audit Committee that supports me as Accounting Officer by offering objective advice on issues concerning the risk, control and governance of the Department. Its role is to consider whether the management and governance arrangements are sufficient to support the Accounting Officer's responsibilities. I am also advised by Internal Audit of the Ministry of Justice who operate according to Government Internal Audit Standards.

## Review of effectiveness

As Accounting Officer, I have responsibility for reviewing the effectiveness of the system of internal control. My review of the effectiveness of the system of internal control is informed by the work of the internal auditors and the executive managers within the Wales 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 and the Audit Committee, and a plan to address weaknesses and ensure continuous improvement of the system is in place.

*Alan Cogbill*  
Accounting Officer for the Wales Office

5 January 2009

# The Certificate and Report of the Comptroller and Auditor General to the House of Commons

I certify that I have audited the financial statements of the National Loans Fund Advances to the Welsh Assembly Government on pages 39 to 40 under section 123 of the Government of Wales Act 2006. These comprise the Receipts and Payments Account and the related notes. These financial statements have been prepared in the form and on the basis determined by HM Treasury.

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

The Accounting Officer is responsible for preparing the Foreword and the financial statements in accordance with the Government of Wales Act 2006 and HM Treasury directions made thereunder and for ensuring the regularity of financial transactions. These responsibilities are set out in the Statement of the Secretary of State's and Accounting Officer's responsibilities.

My responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements, and with International Standards on Auditing (UK and Ireland).

I report to you my opinion as to whether the financial statements properly present the receipts and payments and whether the financial statements are properly prepared in accordance with the Government of Wales Act 2006 and HM Treasury directions made thereunder. I also report 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.

In addition, I report to you if the Wales Office has not kept proper accounting records, if I have not received all the information and explanations I require for my audit, or if information specified by HM Treasury is not disclosed.

I review whether the Statement on Internal Control reflects the Wales Office's compliance with HM Treasury's guidance, and I report if it does not. I am not required to consider whether this Statement on Internal Control covers all risks and controls or form an opinion on the effectiveness of the Wales Office's corporate governance procedures or its risk and control procedures.

I read the information contained in the Foreword and consider whether it is consistent with the audited financial statements. I consider the implications for my report if I become aware of any apparent misstatements or material inconsistencies with the financial statements. My responsibilities do not extend to other information.

## Basis of audit opinion

I conducted my audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. My 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 fraud or error and that, in all material respects, the receipts and payments have been applied to the purposes intended by Parliament and the financial transactions 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.

## Opinions

### **Audit opinion**

In my opinion

- the financial statements properly present the receipts and payments of the Secretary of State for Wales in respect of advances to the Welsh Assembly Government for the year ended 31 March 2008;
- the financial statements have been properly prepared in accordance with the Government of Wales Act 2006 and directions made thereunder by HM Treasury; and
- information given within the Foreword is consistent with the financial statements.

### **Audit opinion on regularity**

In my opinion, in all material respects the receipts and payments have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

### **Report**

I have no observations to make on these financial statements.

*T J Burr*  
Comptroller and Auditor General

12 January 2009

National Audit Office  
151 Buckingham Palace Road  
Victoria  
London SW1W 9SS

# Accounts of Loans to Local Authorities



## Foreword

### Introduction

These accounts have been prepared by the Public Works Loans Board (PWLB) under a direction issued by HM Treasury in accordance with Section 3 (6) of the National Loans Act 1968. The accounts show amounts advanced by the Board and the repayments received from borrowers to service their loans. The accounts do not demonstrate the resources that have been used to deliver the PWLB's objectives, which are reported in the DMO Report and Accounts 2007-2008.

### Brief history and background of the Public Works Loans Board

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

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

Monies are provided by Act of Parliament and drawn from the National Loans Fund (NLF). The NLF is the government's main borrowing account and is administered by HM Treasury, which determines the rates of interest.

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

### Current Commissioners of the PWLB

Mr John Parkes, CBE DL Chairman	Treasurer and Pro-Chancellor, University of Hull; Director, EMIH Ltd; Former Chief Executive, Humberside County Council
Mrs Rachel Terry Deputy Chairman	Former Associate, Tribal Treasury Services Limited; Former Partner, Touche Ross & Company
Mr Brian Tanner, CBE DL	Chairman, Taunton & Somerset NHS Trust; Former Chief Executive, Somerset County Council
Mr Lawrence Nippers, MBE	Former Director of Finance and Central Services, Newport City Council
Mrs Sarah Wood	Former Director of Economic and Environmental Policy, Local Government Association
Miss Mei Sim Lai, OBE	Principal, LaiPeters
Mr Gordon Edwards	Corporate Director for Resources Management, Aberdeen City Council
Mrs Philippa Foster Back, OBE	Director, Institute of Business Ethics
Mr Tony Caplin	Chairman, Ealing Hospital NHS Trust, Disenco plc; Non-Executive Director, Panmure Gordon plc, Hand Picked Hotels Ltd

### The role of the Commissioners

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

Management of credit risk is described in Note 9 to the accounts.

In practice the Commissioners' main role is to determine the general lending policy of the PWLB and to deal with related matters. The Board has delegated to the Secretary day-to-day responsibilities for authorising loans and ensuring the collection of payments due. The Secretary acts as the Accounting Officer of the PWLB and attends meetings of the Board.

The Commissioners act as a Board to discharge their duties. The Commissioners are not paid for their services.

### **The loans**

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

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

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

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

All loans are drawn from, and repayments are paid back to, the NLF. All interest and premiums on early redemption paid to PWLB by borrowers is paid back to the NLF. Discounts payable on early redemptions are drawn from the NLF.

In accordance with Sections 3(2) and 5 of the 1968 Act, interest on loans made by the Commissioners is payable at rates that are set on a day to day basis by the DMO, using a methodology agreed with HM Treasury.

Loans are repayable within a period not exceeding that authorised by the Act empowering the local authority to borrow. If no period is so authorised, loans are repayable within 50 years (Section 11 of the 1875 and Section 2(2) of the Local Authorities Loans Act 1945). In practice, the maximum period for which the Commissioners may advance new loans is the same as the longest period for which HM Treasury has set a rate, currently 50 years. Prior to February 2000, PWLB issued loans for up to 60 years.

The Commissioners are normally prepared to lend to an authority up to the available capacity in its legal borrowing limit as determined under Part 1, Chapter 1 of the Local Government Act 2003. The Commissioners require a verbal statement of confirmation from the borrowing authority that it is complying with the appropriate requirements of the Board's Circulars and the relevant legislation with regard to the council's borrowing powers.

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

## **Audit arrangements**

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

The Secretary has taken all the steps that he ought to have taken to make himself aware of any relevant audit information and to establish that PWLB's auditors are aware of that information. So far as he knows, there is no relevant audit information of which PWLB's auditors are unaware.

## **Management Commentary**

### **Factors influencing financial performance**

Movements in the PWLB balance sheet and its corresponding pattern of income are driven by borrower demand for new loans and the repayment (early or otherwise) of existing loans. All interest receivable by PWLB from borrowers is payable to the NLF. The demand for new loans is influenced by their need for capital finance, changes in market borrowing rates and borrowers' expectation of future interest rate changes. These factors, considered alongside any premium or discount payable for early redemption, also influence the pattern of demand for early redemption of existing loans by borrowers for refinancing purposes. Borrowers can request to repay loans before their due date. Acceptance of requests for early repayment is at the discretion of PWLB.

### **Results for 2007-2008**

In 2007-2008, PWLB agreed new loans to borrowers of £10,000 million compared to £12,354 million the previous year.

With effect from 1 November 2007, PWLB implemented changes to the interest rate structure of its loans incorporating a separate set of rates for early repayments. The purpose of this change was to better reflect the impact on the Exchequer of the borrower's option to refinance. This has had the effect of reducing the total value of loans redeemed early for refinancing purposes.

Overall, as at March 2008, there was an increase in the average period to maturity of fixed rate loans to 29.5 years (2007: 27.5 years). There was also a reduction in the weighted average interest rate of PWLB loans outstanding at the balance sheet date to 5.72 per cent (2007: 5.97 per cent).

PWLB borrowers redeemed early loans of value £6,434 million in 2007-2008 (2006-2007: £10,698 million). Premiums paid by PWLB customers for early redemption of loans were £337 million in 2007-2008 (2006-2007: £354 million). Discounts paid to PWLB customers for early redemption of loans were £244 million in 2007-2008 (2006-2007: £169 million).

At 31 March 2008, PWLB held loan assets outstanding to borrowers of £51,344 million (2007: £48,671 million), inclusive of accrued interest receivable of £598 million (2007: £762 million). PWLB also held a cash balance at the Bank of England of £29 million (2007: £211 million) comprising monies in transition between the NLF and PWLB borrowers.

In 2007-2008 PWLB's income from interest receivable on loans was £2,841 million (2006-2007: £2,895 million). The slight decrease in interest income on the previous year was due to a fall in the rates applied to variable rate loans and new loans due to refinancing in 2007-2008.

The corresponding liability of the Board to the NLF comprised loan principal of £50,753 million (2007: £48,110 million) and loan interest of £620 million (2007: £772 million) outstanding.

PWLB's fee income and administrative expenditure are accounted for within the DMO's overall budget agreed with HM Treasury. In 2007-2008, the DMO received fees and charges of £3.5 million (2006-2007: £4.3 million) from PWLB customers in respect of new loans issued.

**Date of authorisation for issue**

The accounts were authorised for issue on 25 June 2008.

*Mark Frankel*  
Secretary, Public Works Loans Board

23 June 2008

## Statement of Secretary's responsibilities

Under Section 3 (6) of the National Loans Act 1968 the Commissioners are required to prepare an account for each financial year in the form and on the basis determined by HM Treasury.

The Public Works Loan Board Accounts are prepared on an accruals basis, as directed by HM Treasury, and must give a true and fair view of the state of affairs of the Board and the cash flows for the financial year.

The Commissioners have appointed the Secretary to discharge their residual statutory responsibilities, a role that is analogous to acting as an Accounting Officer. Therefore the Secretary has responsibility for preparing the annual accounts and for transmitting these to the Comptroller and Auditor General.

In preparing the accounts the Secretary is required to observe the applicable accounting standards and generally accepted accounting practice in so far as they are relevant to the Accounts, and apply suitable accounting policies on a consistent basis.

The responsibilities of an Accounting Officer, including responsibility for the propriety and regularity of the public finances for which the Accounting Officer is answerable, and for the keeping of proper accounting records, are set out in the Accounting Officers' Memorandum issued by HM Treasury and published in *Managing Public Money*.

# Statement on Internal Control

## Scope of responsibility

The Public Works Loan Board Commissioners have appointed me as Secretary to the Board. I am responsible for ensuring that appropriate advice is given to the Commissioners on all matters relating to financial propriety and regularity, for keeping accounts and submitting them for external audit by the Comptroller and Auditor General and for the efficient and effective use of resources and ensuring that the business is managed within the appropriate control framework.

PWLB is a separate statutory entity managed within the control framework of the DMO. While I am responsible for PWLB's system of internal control, the Accounting Officer of the DMO is responsible for the wider control framework within which PWLB is managed. In discharging my own controls responsibilities I place assurance on the continued sound maintenance of the wider control framework from the Statement on Internal Control for the DMO, although I understand that only reasonable and not absolute assurance can be given that the risks have been controlled.

## The purpose of the system of internal control

The system of internal control is designed to manage risk to an acceptable level, balancing the impact of potential risks with the resources required to manage them, rather than to eliminate all risk. It can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically.

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

Relevant elements of the DMO system of internal control have been implemented for PWLB. The system of internal control has been in place for the year ended 31 March 2008 and up to the date of approval of this account, and accords with Treasury guidance.

## Capacity to handle risk

The DMO has a formal risk management strategy and policy, which includes PWLB activities, set by the DMO Managing Board. The DMO has risk management policies documenting its risk management processes.

The DMO's Managing Board is responsible for setting strategic direction and considering high-level operational issues. An executive sub committee of the Managing Board generally meets weekly. The terms of reference of this committee and those of the Risk Committee clearly set out their roles and responsibilities for providing the organisational capability to consider issues and make relevant decisions at the appropriate level.

Staff have attended presentations on relevant elements of the DMO's risk management framework. These have covered specific issues such as anti-money laundering, whistleblowing, fraud and personal dealing in order to ensure a good level of awareness of the DMO's risk policies and controls. All members of staff have job descriptions, including specific key risks they are expected to manage.

Management in each business function is responsible for ensuring that the operations within their area are compliant with plans, policies, procedures and legislation. Most functional managers are responsible for maintaining compliance arrangements across the DMO in their area of specialism.

## The risk and control framework

The DMO has various formal mechanisms for managing risk, including operational and other risk relating to PWLB, that are incorporated into its approach to both regular operations and new business initiatives. A key component is a Risk Committee that meets every month. Processes are in place for regular measurement and monitoring of key business risks.

The DMO's Risk Management Unit provides control advice on risks throughout the DMO. In the DMO's management reporting structure the risk management unit is separate and independent of the DMO's trading operations. The risk management function also conducts risk analysis and provides an operational, market and credit risk capability for the DMO.

Heads of business units and functional teams assess regularly whether risks to their operations are being managed effectively. The DMO has Senior Risk Owners who undertake a cross-functional moderation process to promote better prioritisation of operational risks across the organisation. Project teams use risk registers to monitor and manage identified risks for each DMO project. Managing Board has reviewed during the year the high level risks that the organisation faces, and the adequacy of the relevant controls. This process is supported by the maintenance of exception logs, which identify control weaknesses and resultant actions to improve controls. Key risks, progress on treatment actions, and exceptions are documented in a quarterly report produced by the Risk Management Unit for the Senior Risk Owners and the Managing Board.

During the year the DMO has reviewed information risk for sensitive data in the light of Cabinet Office guidance. No significant weaknesses were found. The DMO has nominated a Senior Information Risk Owner and work is in hand to ensure compliance with the latest Cabinet Office requirements.

All teams have documented procedures for their main activities. The DMO has policies on anti-fraud and whistleblowing that cover PWLB activities. An independent review of DMO's money laundering controls was undertaken in 2006-2007. Recommendations to move to a risk-based approach in line with market practice have been implemented in 2007-2008. The DMO has its own anti-money laundering handbook. DMO staff report on anti-money laundering developments and processes to the Managing Board. The Commissioners have regard for the relevant principles of the 'Code of Best Practice for Board Members of Public Bodies' issued by HM Treasury.

The PWLB team meet regularly to review risk management issues, including emerging risks, and to agree control improvements and other relevant measures as necessary.

A controls team met periodically to review issues affecting the DMO's system of internal control, including PWLB, recommend actions to management and implement changes where appropriate. The controls team comprises senior representatives of the DMO teams responsible for finance, risk, control, compliance and internal audit. The controls team reports periodically to the Exchequer Funds Audit Committee on progress to improve the internal control system during the year.

Responsibility for supporting me as Secretary in matters relating to governance, internal control and risk management processes rests with the Exchequer Funds Audit Committee. The Exchequer Funds Audit Committee performs this role for the Accounting Officers of each of the Exchequer Funds which are the Debt Management Account, Public Works Loan Board, Exchange Equalisation Account, National Loans Fund, Consolidated Fund, the Contingencies Fund and the funds managed by the Commissioners for the Reduction of the National Debt. Members of the Committee are appointed for periods of up to three years, extendable by no more than one additional three-year period. The Chair of the Committee reports to me on matters relating to the PWLB. The current membership of the Committee is

- Colin Price, Chair, non-executive member of the DMO's Managing Board, and formerly Global Pension Fund Adviser/Finance Director at Shell Pensions Management Services Limited;
- Brian Larkman, non-executive member of the DMO's Managing Board and formerly Global Head of Money Markets at the Royal Bank of Scotland PLC; and
- Mark Clarke (appointed June 2007), Director General Finance and Strategy at the Department for Business, Enterprise and Regulatory Reform.

## Review of effectiveness

As Secretary, I have responsibility for reviewing the effectiveness of the system of internal control relating to PWLB within the context of the wider DMO system of internal control on which the Chief Executive of the DMO has given me assurances. My review of the effectiveness of the system of internal control for PWLB is a continuous process. It is informed by the work of the managers who have responsibility for the development and maintenance of the internal control framework, work of the internal auditors and comments made by the external auditors in their management letter and other reports. A process to address weaknesses and ensure continuous improvement of the system is in place. I inform the Commissioners of details of Internal Audit reports and my response to any recommendations.

The DMO's Risk Management Unit conducts monthly controls and compliance testing providing the executive sub-committee of the Managing Board with independent assurance on the effectiveness of operational controls. No significant internal control failures were identified during the period.

Internal Audit attended each meeting of the Exchequer Funds Audit Committee to report the results of audit work and the results of follow-up work on management action to address audit recommendations. Internal Audit's view was that assurance could be given over the risk management, control and governance arrangements relevant to the accounts. There are no matters arising from the work of Internal Audit in the period that would give rise to a separate comment in the Statement on Internal Control.

In my opinion, the system of internal control relating to PWLB was effective throughout the financial year 2007-2008 and remains so on the date I sign this statement.

*Mark Frankel*  
Secretary, Public Works Loan Board

23 June 2008



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

I certify that I have audited the financial statements of the Public Works Loan Board for the year ended 31 March 2008 under the National Loans Act 1968. These comprise the Income and Expenditure Account, the Balance Sheet, the Cashflow Statement and the related notes. These financial statements have been prepared under the accounting policies set out within them.

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

As described in the Foreword, the Loan Commissioners have a statutory duty to prepare accounts in respect of their transactions. They have appointed the Secretary to the Public Works Loan Board to discharge their responsibilities for the preparation of financial statements in accordance with Section 3 (6) of the National Loans Act 1968 and Treasury directions made thereunder and for ensuring the regularity of financial transactions. The Secretary is also responsible for preparation of the Foreword. These responsibilities are set out in the Statement of Secretary's responsibilities.

My responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements, and with International Standards on Auditing (UK and Ireland).

I report to you my opinion as to whether the financial statements give a true and fair view and whether the financial statements have been properly prepared in accordance with the National Loans Act 1968 and Treasury directions made thereunder. I also report whether in all material respects the financial transactions of the Public Works Loan Board have been applied to the purposes intended by Parliament and conform to the authorities which govern them.

In addition, I report to you if the Public Works Loan Board has not kept proper accounting records, if I have not received all the information and explanations I require for my audit, or if information specified by HM Treasury regarding other transactions is not disclosed.

I review whether the Statement on Internal Control reflects the Public Work Loans Board's compliance with HM Treasury's guidance, and I report if it does not. I am not required to consider whether this statement covers all risks and controls, or form an opinion on the effectiveness of the Public Works Loan Board's corporate governance procedures or its risk and control procedures.

I read the information contained in the Foreword and consider whether it is consistent with the audited financial statements. I consider the implications for my report if I become aware of any apparent misstatements or material inconsistencies with the financial statements. My responsibilities do not extend to any other information.

## Basis of audit opinion

I conducted my audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. My 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 significant estimates and judgements made by the Secretary to the Public Works Loan Board in the preparation of the financial statements, and of whether the accounting policies are most appropriate to the Public Works Loan Board's circumstances, consistently applied and adequately disclosed.

I planned and performed my audit so as to obtain all the information and explanations which I considered necessary in order to provide me with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error, and that in all material respects the financial transactions 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.

## Opinions

### **Audit opinion**

In my opinion

- the financial statements give a true and fair view, in accordance with the National Loans Act 1968 and Treasury directions made thereunder, of the state of the Public Works Loan Board's affairs as at 31 March 2008;
- the financial statements have been properly prepared in accordance with the National Loans Act 1968 and Treasury directions made thereunder; and
- information contained in the Foreword is consistent with the financial statements.

### **Audit opinion on regularity**

In my opinion, in all material respects the financial transactions have been applied to the purposes intended by Parliament and conform to the authorities which govern them.

### **Report**

I have no observations to make on these financial statements.

*T J Burr*  
Comptroller and Auditor General

24 June 2008

National Audit Office  
151 Buckingham Palace Road  
Victoria  
London SW1W 9SS

## Income and Expenditure Account for the year ended 31 March 2008

	2007-2008	2006-2007
	Note	£m
Interest income	2	3,080
<b>Operating income</b>		<b>3,080</b>
Interest and premiums payable to National Loans Fund		(3,080)
<b>Operating surplus retained</b>		<b>0</b>

There were no gains or losses during the year other than those disclosed in the Income and Expenditure Account.

*The notes on pages 59 to 64 form part of these accounts.*

## Balance Sheet as at 31 March 2008

	Note	2008 £m	2007 £m
<b>Assets</b>			
Cash balance at Bank of England	8d	29	211
Loans outstanding to customers	4	<b>51,344</b>	48,671
<b>Total assets</b>		<b>51,373</b>	48,882
<b>Liabilities</b>			
Amounts owed to the National Loans Fund			
Loan principal	7	<b>50,753</b>	48,110
Loan Interest including discounts/premiums	7	<b>620</b>	772
Total amounts due to the NLF		<b>51,373</b>	48,882
<b>Total liabilities</b>		<b>51,373</b>	48,882

*The notes on pages 59 to 64 form part of these accounts.*

Mark Frankel  
Secretary, Public Works Loan Board

23 June 2008

## Cash Flow Statement for the year ended 31 March 2008

	2008	2007
Note	£m	£m
Net cash flow from operating activities	8a <b>263</b>	2,111
Returns on investments and servicing of finance	8b <b>(3,087)</b>	(2,947)
<b>Net cash flow before financing</b>	<b>(2,824)</b>	(836)
Financing	8c <b>2,642</b>	987
<b>Increase/(decrease) in cash</b>	<b>(182)</b>	151

*The notes on pages 59 to 64 form part of these accounts.*

# Notes to the Accounts for the year ended 31 March 2008

## 1 Accounting policies

### *i Basis of preparation*

The accounts have been prepared in accordance with a direction given by HM Treasury and in accordance with UK GAAP in so far as they are appropriate to PWLB, under the historical cost convention.

### *ii Financial assets*

PWLB classifies its financial assets as loans and receivables under FRS 26 (Financial Instruments: Recognition and Measurement), which are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. PWLB does not sell financial assets and so does not designate any loans and receivables as available-for-sale or held for trading.

All loans are recognised initially at fair value, normally the amount advanced to the borrower. Loans and receivables are subsequently measured at amortised cost using the effective interest method.

The effective interest rate is the rate that exactly discounts estimated future cash receipts or payments through the expected life of the financial instrument or, where appropriate, a shorter period, to the net carrying amount of the instrument. When calculating the effective interest rate, cash flows are based on the contractual terms of the loan. Owing principally to the long maturities of most loans and the volatile pattern of early repayments, the actual cash flows and the expected lives of the loans cannot be estimated reliably.

The market value of loans outstanding, disclosed in Note 5 to the accounts, is calculated as the aggregate net present value of future cash flows on each individual loan.

### *iii Liabilities*

All PWLB liabilities relate to monies drawn from the National Loans Fund for the purpose of issuing loans to PWLB borrowers. All principal and interest repayments receivable by PWLB, along with any premiums for early redemption, are repayable to the NLF and are valued in the same way as the corresponding asset.

### *iv Recognition of assets and liabilities*

Loans and receivables are recognised when cash is advanced to borrowers and are derecognised when borrowers settle their obligations. Liabilities are recognised when cash is advanced to PWLB from the National Loans Fund and derecognised when cash is paid back to the National Loans Fund.

### *v Income recognition*

Contractual interest income is recognised using the effective interest method. Premiums and discounts on early repayments are recognised when received and paid.

## 2 Interest income

	<b>2008</b>	2007
	<b>£m</b>	£m
Contractual interest income for fixed rate loans	<b>2,834</b>	2,885
Contractual interest income for variable rate loans	<b>7</b>	10
Premiums received	<b>337</b>	354
Discounts paid	<b>(244)</b>	(169)
	<b><u>2,934</u></b>	<u>3,080</u>

### 3 Segmental analysis of interest income by country

#### Analysis for 2008

	England £m	Wales £m	Scotland £m	Total £m
Fixed rate loans	2,210	185	439	<b>2,834</b>
Variable rate loans	7	0	0	<b>7</b>
	<u>2,217</u>	<u>185</u>	<u>439</u>	<u><b>2,841</b></u>

#### Analysis for 2007

	England £m	Wales £m	Scotland £m	Total £m
Fixed rate loans	2,228	194	463	<b>2,885</b>
Variable rate loans	10	0	0	<b>10</b>
	<u>2,238</u>	<u>194</u>	<u>463</u>	<u><b>2,895</b></u>

### 4 Loans outstanding to customers

	2008 £m	2007 £m
Fixed rate loans principal	<b>50,671</b>	47,734
Variable rate loans principal	<b>75</b>	175
<b>Total – Loans outstanding</b>	<b>50,746</b>	47,909
Accrued interest on fixed rate loans	<b>597</b>	761
Accrued interest on variable rate loans	<b>1</b>	1
<b>Total – Accrued interest</b>	<b>598</b>	762
<b>Total – Loans outstanding</b>	<b>51,344</b>	48,671

### 5 Loans and advances to customers

#### 5a Loans outstanding - market valuation and weighted average interest rate

	2008 Principal £m	2008 Market Value £m	2008 Weighted Average Interest Rate %
Fixed rate loans	50,671	59,371	5.72
Variable rate loans	75	75	5.35
	<u>50,746</u>	<u>59,446</u>	<u>5.72</u>
	2007 Principal	2007 Market Value	2007 Weighted Average Interest Rate
Fixed rate loans	47,734	53,013	5.97
Variable rate loans	175	176	5.51
	<u>47,909</u>	<u>53,189</u>	<u>5.97</u>

The weighted average period for which rates are fixed is 29.5 years (2006-2007: 27.5 years) for fixed rate loans.

At 31 March 2008, £1 million of loans (31 March 2007: £1 million) had been confirmed but not yet advanced. These loans are not included in the balance sheet.

The balance of outstanding loans includes £11 million of loans (31 March 2007: £5 million) which borrowers had confirmed their intention to repay but as at the balance sheet date had not yet been received.

*5b Loans outstanding – maturity analysis*

	<b>2008</b>	2007
	<b>Principal</b>	Principal
	<b>Outstanding</b>	Outstanding
	<b>£m</b>	£m
Up to 1 month / repayable on demand	<b>16</b>	80
In more than 1 months but not more than 3 months	<b>97</b>	145
In more than 3 months but not more than 1 year	<b>537</b>	519
In more than 1 year but not more than 5 years	<b>3,275</b>	3,116
In more than 5 years but not more than 10 years	<b>5,328</b>	5,280
In more than 10 years but not more than 20 years	<b>8,671</b>	10,063
In more than 20 years but not more than 30 years	<b>8,471</b>	10,181
In more than 30 years but not more than 40 years	<b>4,325</b>	2,841
More than 40 years	<b>20,026</b>	15,684
<b>Total assets</b>	<b>50,746</b>	47,909

*5c Loans outstanding – interest rate profile*

This note indicates the period of the next re-pricing date for variable rate loans and the maturity date for fixed rate loans.

	<b>2008</b>	2007
	<b>Principal</b>	Principal
	<b>Outstanding</b>	Outstanding
	<b>£m</b>	£m
Up to 1 month / repayable on demand	<b>51</b>	139
In more than 1 months but not more than 3 months	<b>115</b>	180
In more than 3 months but not more than 1 year	<b>551</b>	523
In more than 1 year but not more than 5 years	<b>3,223</b>	3,073
In more than 5 years but not more than 10 years	<b>5,313</b>	5,225
In more than 10 years but not more than 20 years	<b>8,671</b>	10,063
In more than 20 years but not more than 30 years	<b>8,471</b>	10,181
In more than 30 years but not more than 40 years	<b>4,325</b>	2,841
More than 40 years	<b>20,026</b>	15,684
<b>Total assets</b>	<b>50,746</b>	47,909



5d *Loans outstanding – country analysis*

	<b>2008</b>	2007
	<b>£m</b>	£m
England	<b>40,383</b>	37,668
Wales	<b>3,223</b>	3,151
Scotland	<b>7,140</b>	7,090
Total	<b>50,746</b>	47,909

**6 New issue, maturity and early redemption of loan principal**

	<b>2008</b>	2007
	<b>£m</b>	£m
New agreed loans to customers	<b>10,000</b>	12,354
Loans maturing	<b>(729)</b>	(831)
Loans redeemed early	<b>(6,434)</b>	(10,698)
Net increase in loans	<b>2,837</b>	825

**7 Loan principal and interest owed to National Loans Fund**

	<b>2008</b>	2007
	<b>£m</b>	£m
Loan principal outstanding to customers	<b>50,746</b>	47,909
Loan principal repaid but not yet surrendered to NLF	<b>7</b>	201
Total loan principal owed to National Loans Fund	<b>50,753</b>	48,110

Loan interest owed to the National Loans Fund of £620m at 31 March 2008 (2007: £773m) included £1m premium (2007: £1m discount) for loans redeemed early.

**8 Analysis of cash flow**

	<b>2007-2008</b>	2006-2007
	<b>£m</b>	£m
<i>8a Reconciliation of operating income to net cash flow from operating activities</i>		
Operating income	<b>2,934</b>	3,080
Increase in loans and advances to customers	<b>(2,837)</b>	(824)
Increase/(decrease) in accrued income	<b>164</b>	(143)
Increase/(decrease) in net early redemption discounts and premiums due to NLF	<b>2</b>	(2)
Net cash flow from operating activities	<b>263</b>	2,111
<i>8b Return on investments and servicing of finance</i>		
Interest and premiums paid to National Loans Fund	<b>(3,087)</b>	(2,947)
<b>Total returns on investments and servicing of finance</b>	<b>(3,087)</b>	(2,947)
<i>8c Financing</i>		
Increase/(Decrease) in loans principal outstanding to NLF	<b>2,642</b>	987
<b>Total financing</b>	<b>2,642</b>	987

## 8d Analysis of cash balances

	<b>2008</b>	Movement	2007
	<b>£m</b>	£m	£m
Cash and balances at Bank of England	<b>29</b>	(182)	211

**9 Risk management**

Measurement and management of certain specific financial risks is described below.

*Credit risk:* credit risk is the risk that a counterparty will fail to discharge a contractual obligation, resulting in financial loss to the PWLB. Any such loss would be borne by the NLF.

*Risk measurement*

Credit risk exposures (before collateral held or other credit enhancements) are shown below

	Wholly-owned by UK central government	Major local authorities	Parish councils and drainage boards	Harbour boards	<b>Total</b>
	£m	£m	£m	£m	<b>£m</b>
<b>2008</b>					
Cash and balances at Bank of England	29	0	0	0	<b>29</b>
Loans outstanding to customers	0	51,240	100	4	<b>51,344</b>
<b>Total gross amount</b>	<b>29</b>	<b>51,240</b>	<b>100</b>	<b>4</b>	<b>51,373</b>
Loans confirmed but not advanced	0	1	0	0	<b>1</b>
<b>2007</b>					
Cash and balances at Bank of England	211	0	0	0	<b>211</b>
Loans outstanding to customers	0	48,572	93	6	<b>48,671</b>
<b>Total gross amount</b>	<b>211</b>	<b>48,572</b>	<b>93</b>	<b>6</b>	<b>48,882</b>
Loans confirmed but not advanced	0	1	0	0	<b>1</b>

The components of 'Total gross amount' set out above are based on carrying amounts as reported in the balance sheet.

There were no overdue loan repayments, renegotiated loans or assets considered impaired at 31 March 2008 (31 March 2007: nil).

Loans for which payment schedules had been amended in order to facilitate more efficient administration by local authorities are not considered to constitute renegotiated loans in credit risk terms and there were no such amendments for harbour boards.

PWLB does not issue any financial guarantees.

*Risk management*

As stated on page 47, the PWLB Commissioners are legally required before making a loan to satisfy themselves that there is sufficient security for its repayment. The vires of all new borrowers are checked.

The PWLB lends only to local authorities and other prescribed bodies.

Loans to local authorities, together with related interest, are automatically secured by statute on all revenue streams of the borrower.

Loans to harbour boards are secured on property and are made only with the provision of a guarantee from the local authority. In addition, the business plan is reviewed. No new loans were made to harbour boards in the year ended 31 March 2008 (31 March 2007: nil).

PWLB does not differentiate borrowers by credit rating.

PWLB continuously monitors its total lending against a limit set by statute.

*Market risk:* market risk is the risk that the fair value of a financial instrument will fluctuate because of changes in market prices.

Market risk comprises interest rate risk, currency risk and other price risk. PWLB activities are not considered to give rise to interest rate risk for the PWLB itself, but rather form part of the interest rate risk profile of the NLF. Interest rates on PWLB lending are set on a day to day basis by the DMO, using a methodology agreed with HM Treasury.

There is no exposure to currency risk or other price risk.

*Liquidity risk:* liquidity risk is the risk that the PWLB will encounter difficulty in meeting obligations associated with financial liabilities.

PWLB activities are not considered to give rise to liquidity risk for the PWLB itself, but rather form part of the liquidity risk profile of the NLF. PWLB cash flow requirements are forecast and monitored daily.

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

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

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

25 February 2005

## Accounts of Loans to the Private Sector

# Harbours Act 1964

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

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

## Foreword

### Background

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

### Scope of the Account

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

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

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

### Limits on borrowing

- 4 Limits are usually placed on the total borrowings of individual harbour authorities by private Acts. Steps would be taken before any advances were made by the Secretary of State to ensure that these would not cause the borrowing authority to exceed any statutory limit applying.
- 5 There is a statutory limit of £200 million or, if so provided by a resolution of the Commons House of Parliament, £300 million on loans made under S11(1) of the Harbours Act 1964 to Harbour authorities. This limit is set out in S4(1) of the Harbours (Loans) Act 1972.

### 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 2007-2008.

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

Under Section 43 of the Harbours Act 1964 the Secretary of State for the Department for Transport is required to prepare an account for each financial year in the form and on the basis determined by the Treasury. The accounts are prepared on a cash basis and must properly present the receipts and payments for the financial year and the balances held at year end.

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).

*Robert Devereux*  
Accounting Officer  
Department for Transport

26 August 2008

## Harbours Act 1964

Prepared under Section 43 of the Harbours Act 1964, of the Receipts and Payments of the Secretary of State for the Department of Transport, under Section 11 of the 1964 Act for the year ended 31 March 2008.

### Receipts

	£	Previous year £
Balance as at 1 April 2007	0	0
<i>Payments by the Harbour Authorities [s.43(1)]</i>		
Repayment of Loans	<b>3,698</b>	3,452
Interest on Loans	<b>3,534</b>	3,780
Less (discount) or plus premium on premature redemption	<b>0</b>	0
	<b><u>7,232</u></b>	<u>7,232</u>

### Payments

	£	Previous year £
<i>Payments to the National Loans Fund [s.43(4)]</i>		
Repayment of Loans	<b>3,698</b>	3,452
Interest on Loans	<b>3,534</b>	3,780
Less (discount) or plus premium on premature redemption	<b>0</b>	0
Balance at 31 March 2007	<b>0</b>	0
	<b><u>7,232</u></b>	<u>7,232</u>

### Note

The aggregate amount of principal outstanding in respect of advances to Harbour Authorities under the Harbours Act 1964 at 31 March 2008 was £47,692.93

Robert Devereux  
Accounting Officer  
Department for Transport

26 August 2008



## Statement on Internal Control

Management and preparation of this account and the underlying accounting transactions are subject to the control environment of the Department for Transport to which the rest of this statement refers. There are no risks identified specifically for this account. In my role as Principal Accounting Officer for the Department for Transport (DfT), I have the responsibility for signing this account.

As Accounting Officer, I have responsibility for maintaining a sound system of internal control that supports the achievement of the Department for Transport's (DfT) 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 Managing Public Money.

### 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 departmental policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of departmental policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically. Subject to the developments during the year described in the following paragraphs, the system of internal control has been in place in the Department for Transport for the year ended 31 March 2008 and up to the date of approval of the annual report and accounts, and accords with Treasury guidance.

### Capacity to handle risk

Leadership on risk management is provided by

- the Department's Management Board, which monitors delivery against key objectives across the DfT family. Significant risks to these objectives are identified by the line and escalated to the Board. In 2007-2008, the Department's Board included the five Directors General in the central Department, the Chief Executive of the Highways Agency and two non-executive members. The following forums help ensure that risks are effectively managed
- an Executive Committee, which seeks to ensure that the resources available to the central Department are managed as effectively as possible to mitigate identified risks and corporate governance standards

The Department's Audit Committee monitors and reviews the processes for managing risk, control, governance and assurance across the DfT family, and includes four non-executive members from the DfT family, including the Chair, who is also a member of the Departmental Board. Each Agency has its own Audit Committee, which fulfils a similar function. The business of the Harbours Authorities National Loans Fund Account has not been subject to consideration of any Audit Committee.

Officials consult Ministers regularly on risk. Submissions to Ministers incorporate assessments of key risks, including, for example, to the operation of the transport system, including public perceptions, and to the successful delivery of new policies.

During 2007-2008, the focus for improving risk management throughout the Department has fallen to the Resource Management and Planning Teams (RMPTs) with a Departmental Risk Improvement Manager developing overall risk policy and reviewing the corporate risk log. They have continued to identify and implement actions to improve the identification and mitigation of Board and Group level risks through the business planning and risk management reporting process. The RMPTs are also responsible for ensuring that the appropriate support and training on risk management is available to staff within the central Department.

A programme of risk management workshops were delivered in year, supported by the Departmental Risk Improvement Manager. This has helped embed risk management concepts further into every day Departmental business. A number of improvements and additions were made to the Departmental risk guidance.

## The risk and control framework

The Treasury published its Code of Good Practice on Corporate Governance in Central Government Departments in July 2005; the Department's practices are broadly consistent with the principles set out in this Code.

Director Generals (DGs) and Heads of Unit (Directors) in the central Department take responsibility for the day to day management of risks in their respective areas of influence. Through regular delivery and financial reporting processes, the Departmental Management Board has set guideline criteria for the impact of risks that it considers should be escalated for its potential attention. The Department also has in place group risk registers, which are reviewed by the Departmental Risk Improvement Manager, in each case on a quarterly basis. Any significant Departmental risks are escalated to the Department's Management Board for attention.

The central Department has in place a Corporate Governance Framework, which includes: the framework of accountabilities; the roles and responsibilities of Agency Chief Executives, Directors General and Directors; and the end of year reporting arrangements. The Framework sets out the responsibilities of Directors General and Directors for risk management. The Framework is supported by delegations from the Accounting Officer to Directors General to maintain effective accountability and management of resources.

The Department and its Agencies have a number of well-established programmes for involving the public in managing the risks associated with transport. The Department has also identified its ability to manage major transport disruptions as a key corporate risk, and has in place an active programme, working with partners, to ensure that adequate contingency and emergency plans are maintained, developed and reviewed.

## Review of effectiveness

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

The Audit Committee receives summaries of Internal Audit reports and considers the Group Head of Internal Audit's annual opinion on the effectiveness of risk management, control and governance. The Chair of the Audit Committee reports periodically to the Departmental Management Board and to the Accounting Officer the Committee's views on the effectiveness of internal control.

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

Directors General and Directors have reviewed internal control within their areas of responsibility within the central department and have completed end of year assurance returns, which have been communicated to the Audit Committee.

## Capability review

in 2006-2007 the Department underwent an external assessment by the Cabinet office, referred to as a capability review. The purpose of this review was to determine how well placed the Department was in terms of leadership, strategy and delivery, to meet current and future challenges. The result of this review were published in June 2007 by the Cabinet Office and were very positive with the Department being placed third equal amongst all Departments that had been assessed. Amongst the strengths that the Department exhibit were a limited number of weaknesses that required attention. A detailed plan spanning the next two years have been developed to tackle these weaknesses. The key elements of this plan are the strengthening of leadership, improvements to the way

that strategy is developed, improvements in delivery and the development of our capability. Amongst the actions that have been taken following the Capability Review, now referred to as 4ward programme, we have revised the organisational structure and recruited two new Directors General; developed new leadership standards; involved stakeholders in the development of our transport strategy and improved relations between the central Department and our agencies. Further action to improve the running of the Department will be delivered in the next financial year.

### Information and data handling

I am aware that the handling of information and data is a key risk to the Department. I have issued guidance to all staff on the subject of data handling and I have emphasized the importance of the requirements contained within this guidance. In line with a requirement for greater transparency over the issues associated with information and data handling a full disclosure of incidences that have occurred in 2007-2008 can be reviewed within the Management Commentary.

The Department in compliance with Cabinet Office guidance has appointed an Information Management Officer and created an Information Management Directorate from April 2008. Responsibility for Information Management lies with the Director General for SSDL.

### Shared Service Centre

Starting from 1 April 2007, the Department commenced the transfer of its financial and HR services to a new shared services platform. One year into this implementation, DVLA and DSA have completed their transfer. The central Department including the Harbour Authorities National Loans Fund accounts have gone live on the new platform from the beginning of 2008-2009 and other elements of the Department will follow from October 2008.

During its first year of operation, the Shared Services Centre (SSC) has been subject to a comprehensive and continuous programme of internal audit and specialist review, and quality assurance by KMPG and Deloitte. This audit and review activity identified process weaknesses, which represent serious but not fundamental failures in the control framework. These weaknesses have led to instances of inappropriate authority levels amongst staff, prompt payment targets being missed and some elements of functionality not being delivered per the programme timetable. The Department's Management Board and DVLA and DSA's Accounting Officers are committed to implementing fully all the control recommendations.

During 2007-2008, DVLA and DSA only had their financial services provided by the new SSC. The system limitation had a temporary impact on the Agencies' abilities to exercise full financial control and to carry out management reporting. In order to mitigate risks ensuing from these inefficiencies, the Agencies implemented additional extra-systems control processes and detailed monitoring of financial management information. These measures ensured that effective internal controls were maintained within the Agencies throughout the year.

The Department's SSC Programme has taken action to address the cause of the weaknesses and to eliminate their effect. This work is ongoing and will continue through 2008-2009.

### Group internal audit opinion

In my opinion the DfT Group's arrangements for governance, risk management and internal control have been adequate and effective in 2007-2008 except for the following matters of significance in the context of the DfT and its Agencies in aggregation as a group.

### **Shared Services**

The SSC commenced operations in April 2007 with a system of internal controls that was inadequate to support its activities. SSC management has started to address these weaknesses during the year but action plans to do so were neither fully formed nor implemented as at the end of March 2008. As a result the system of internal controls remained inadequate at the year-end because of significant weaknesses that had not been resolved.

Implementation timetables for remedial control activities run through to as least mid 2008-2009, hence the ongoing weaknesses will have an adverse impact on the central Department and the Maritime and Coastguard Agency in 2008-2009 unless adequate compensating controls are put in place.

Resources at the DVLA and the DSA, the SSC's customers during 2007-2008, have been diverted to performing additional controls to compensate for the SSC's control weaknesses. As a result of the additional controls performed at both agencies, the views of the respective agencies' management is that the DVLA's and the DSA's financial statements have not been materially mis-stated.

### **Data Protection**

A data protection compliance audit commissioned jointly by line management and internal audit 2007-2008 highlighted a number of significant issues that are likely impact on the central Departments' ability to manage the risks and compliance obligations associated with data protection. I summarised these issues in my report of 10 December 2007 to the Accounting Officer on the results of the Department's review of its data handling procedures.

Several of these issues had not been adequately addressed by May 2008 when internal audit followed-up the initial report. The Information Management Directorate, created in April 2008, now has actions underway which should address the unresolved issues as part of its broader programme to respond to the new data handling requirements the Cabinet Office has established.

### **Partial and Nil Assurance Audit Reports**

Across the Department and its Agencies for 2007-2008, 35 per cent (2006-2007: 34 per cent) of rated internal audit reports carried a 'partial' or 'nil' assurance rating, meaning that significant weaknesses had been identified in the adequacy and effectiveness of arrangements for governance, risk management, or internal control. These weaknesses were significant in the context of the individual audit scope and in some cases the context of the central Department or respective Agency: management at the appropriate level should pay due attention to these issues.

In the context of this Annual Opinion for the Department and its Agencies as a group, none of these weaknesses warrant specific mention, either individually or in aggregation, except as reported above.

*Robert Devereux*  
Accounting Officer  
Department for Transport

26 August 2008

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

I certify that I have audited the financial statements for the year ended 31 March 2008 on page 70 under the Harbours Act 1964. These financial statements have been prepared in the form and on the basis determined by HM Treasury.

## Respective responsibilities of the Accounting Officer and Auditor

The Accounting Officer is responsible for preparing the financial statements in accordance with the Harbours Act 1964 and HM 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 responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements, and with International Standards on Auditing (UK and Ireland).

I report to you my opinion as to whether the financial statements properly present the receipts and payments and are properly prepared in accordance with the Harbours Act 1964 and HM Treasury directions thereunder. I report to you whether, in my opinion, information in the Foreword is consistent with the financial statements. I also report whether in all material respects the receipts and payments have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

In addition, I report to you if the Accounting Officer has not kept proper accounting records, if I have not received all the information and explanations I require for my audit, or if information specified by HM Treasury is not disclosed.

I review whether the Statement on Internal Control reflects compliance with HM Treasury's guidance, and I report if it does not. I am not required to consider whether this statement covers all risks and controls, or form an opinion on the effectiveness of the Department's corporate governance procedures or its risk and control procedures.

## Basis of audit opinions

I conducted my audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. My 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 significant estimates and 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 fraud or error, and that, in all material respects, the receipts and payments have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them. In forming my opinion I also evaluated the overall adequacy of the presentation of information in the financial statements.

## Opinions

### **Audit opinion**

In my opinion

- the financial statements 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 2008 and the balances held at that date;
- the financial statements have been properly prepared in accordance with Section 43(5) of the Harbours Act 1964 and HM Treasury directions made thereunder; and
- information given within the Foreword is consistent with the financial statements.

### **Audit opinion on regularity**

In my opinion, in all material respects the receipts and payment have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

### **Report**

I have no observations to make on these financial statements.

*T J Burr*  
Comptroller and Auditor General

17 September 2008

National Audit Office  
151 Buckingham Palace Road  
Victoria  
London SW1W 9SS

## Accounts of Loans with Central Government

# Northern Ireland

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 2008 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)); and
    - 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 2008 the aggregate amount outstanding was £1,589,123,183 as detailed in the Note to the Account.

### Loans made during the year

- 4 The amounts issued to the Secretary of State out of the National Loans Fund and advanced to the Consolidated Fund of Northern Ireland during the year ended 31 March 2008 was £97,605,000.

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



**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 *Managing Public Money*.

*Jonathan Phillips*  
Accounting Officer  
Northern Ireland Office

26 March 2009

## 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 2008.

### Receipts

	£	Previous year £
Issues from the National Loans Fund (s.1.(8))	<b>97,605,000</b>	214,621,000
<i>From the Consolidated Fund of Northern Ireland</i>		
i Loans under previous enactments (s.2(1))		
Repayment of principal	<b>14,798,117</b>	15,581,811
Interest	<b>5,186,382</b>	6,755,728
ii Loans under the 1975 Act (s.1(7))		
Repayment of principal	<b>101,967,125</b>	94,246,839
Interest	<b>109,112,126</b>	109,065,046
	<b><u>328,668,750</u></b>	<u>440,270,424</u>

### Payments

	£	Previous year £
Loans to the Consolidated Fund of Northern Ireland (s.1(1))	<b>97,605,000</b>	214,621,000
<i>Payments to the National Loans Fund (ss.1(8) and 2(3))</i>		
Repayment of principal	<b>116,765,242</b>	109,828,650
Interest	<b>114,298,508</b>	115,820,774
	<b><u>328,668,750</u></b>	<u>440,270,424</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 2008 were

Loans under previous enactments	55,195,441
Loans under the 1975 Act	<u>1,533,927,742</u>
	<b>1,589,123,183</b>

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

Jonathan Phillips  
Accounting Officer  
Northern Ireland Office

26 March 2009

## Statement on Internal Control

### The scope of responsibility

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

### The purpose of the system of internal control

The system of internal control is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control has been in place in the Northern Ireland Office for the year ended 31 March 2008 and up to the date of approval of the annual accounts, and accords with Treasury guidance.

### Capacity to handle risk

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

### The risk and control framework

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

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

### Review of effectiveness

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

*Jonathan Phillips*  
Accounting Officer  
Northern Ireland Office

26 March 2009

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

I certify that I have audited the financial statements of the National Loans Fund for the year ended 31 March 2008 under the Northern Ireland (Loans) Act 1975. These comprise the Foreword, Receipts and Payments Account, and the related note. These financial statements have been prepared under the accounting policies set out within them.

## Respective responsibilities of the Accounting Officer and Auditor

The Accounting Officer is responsible for preparing the Foreword and the financial statements in accordance with the Northern Ireland (Loans) Act 1975 and Treasury directions made thereunder and for ensuring the regularity of financial transactions. These responsibilities are set out in the Statement of Accounting Officer's responsibilities.

My responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements, and with International Standards on Auditing (UK and Ireland).

I report to you my opinion as to whether the financial statements properly present the receipts and payments and whether the financial statements have been properly prepared in accordance with the Northern Ireland (Loans) Act 1975 and Treasury directions made thereunder. I report to you whether, in my opinion, certain information given in the Foreword, is consistent with the financial statements. I also report whether in all material respects the receipts and payments have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

In addition, I report to you if the National Loans Fund has not kept proper accounting records, if I have not received all the information and explanations I require for my audit, or if information specified by HM Treasury is not disclosed.

I review whether the Statement on Internal control reflects the National Loans Fund's compliance with HM Treasury's guidance, and I report if it does not. I am not required to consider whether this statement covers all risks and controls, or form an opinion on the effectiveness of the National Loan's Fund's corporate governance procedures or its risk and control procedures.

I read the other information contained in the Foreword and consider whether it is consistent with the audited financial statements. I consider the implications for my report if I become aware of any apparent misstatements or material inconsistencies with the financial statements. My responsibilities do not extend to any other information.

## Basis of audit opinions

I conducted my audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. My 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 significant estimates and judgments 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 fraud or error, and that in all material respects the receipts and payments have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them. In forming my opinion I also evaluated the overall adequacy of the presentation of information in the financial statements.

## Opinions

### **Audit opinion**

In my opinion

- the financial statements properly present the receipts and payments of the Secretary of State for Northern Ireland in respect of advances to the Consolidated Fund of Northern Ireland, in accordance with the Northern Ireland (Loans) Act 1975 and directions made thereunder by Treasury for the year ended 31 March 2008;
- the financial statements have been properly prepared in accordance with the Northern Ireland (Loans) Act 1975 and Treasury directions made thereunder; and
- information given within the Foreword, is consistent with the financial statements.

### **Audit opinion on regularity**

In my opinion, in all material respects the receipts and payments have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

### **Report**

I have no observations to make on these financial statements.

*T J Burr*  
Comptroller and Auditor General

8 April 2009

National Audit Office  
151 Buckingham Palace Road  
Victoria  
London SW1W 9SS

# Housing Associations Act 1985

Advances to the Housing Corporation

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

## Management Commentary

### Scope of the Account

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

### Limits on Borrowing

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

### Repayment of Loans

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

### Transactions during the year ended 31 March 2008

- 5 A total of £2,800,000 was issued to the Secretary of State out of the National Loans Fund for advancement to the Housing Corporation.
- 6 The Corporation repaid £2,800,000 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 2008 was £1,400,000. The Corporation also paid interest totalling £77,882.

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

Under Section 97 of the Housing Associations Act 1985 the Secretary of State is required to prepare an account for each financial year in the form and on the basis determined by the Treasury. The accounts are prepared on a cash basis and must properly present the receipts and payments for the financial year.

The Treasury has appointed the Permanent Secretary for the Department for Communities and Local Government as 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 '*Managing Public Money*' (TSO).

*Peter Housden*  
Accounting Officer  
Department for Communities and Local Government

16 July 2008

## Housing Associations Act 1985

Receipts and Payments of the First Secretary of State under Section 92 of the Housing Associations Act 1985 for the year ended 31 March 2008

### Receipts

	<b>2007-2008</b>	2006-2007
	<b>£</b>	£
Issues from the National Loans Fund [S.92(5) of the 1985 Act]	<b>2,800,000</b>	2,800,000
<i>Payments by the Housing Corporation</i>		
Repayment on advances	<b>2,800,000</b>	2,800,000
Interest on advances	<b>77,882</b>	64,154
<b>Total receipts</b>	<b><u>5,667,882</u></b>	<u>5,664,154</u>

### Payments

	<b>2007-2008</b>	2006-2007
	<b>£</b>	£
Advances to the Housing Corporation [S.92(1) of the 1985 Act]	<b>2,800,000</b>	2,800,000
<i>Payments to the National Loans Fund</i>		
Repayment of advances	<b>2,800,000</b>	2,800,000
Interest on advances	<b>77,882</b>	66,178
<b>Total payments</b>	<b><u>5,677,882</u></b>	<u>5,664,154</u>
Net movement	<b><u>0</u></b>	<u>0</u>

### Note

The amount of advances outstanding at 1 April 2007 was £1,400,000. The amount of advances outstanding at 31 March 2008 was £1,400,000.

*Peter Housden*  
Accounting Officer  
Department for Communities and Local Government

16 July 2008



# 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 Principal Accounting Officer, I have responsibility for maintaining a sound system of internal control that supports the achievement of the Department for Communities and Local Government'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 Managing Public Money.

I delegate authority for the management and accountability of resources to my Directors-General, including budget provision for the year ahead, programme near cash, non cash and capital budgets, and administration allocations. Directors-General sub-delegate this authority to their Directors and Deputy Directors. I require all submissions to Ministers which have financial implications to be cleared with Finance Directorate and Heads of Finance who support Directors-General.

## The purpose of the system of internal control

The system of internal control is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of departmental policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically. The system of internal control has been in place in the Department for Communities and Local Government for the year ended 31 March 2008 and up to the date of approval of the annual report and accounts, and accords with Treasury guidance.

## Capacity to handle risk

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

Over the past year, the Department has strengthened its corporate governance and risk management process. The Delivery Sub Committee of the Board provides additional scrutiny, focussed specifically on the effective management of risk across our key programmes.

The introduction of Programme Boards to manage our business across the Department has strengthened our capacity to handle risk with nominated Senior Responsible Officers accountable for the effective management and escalations of risks within their programmes.

## The risk and control framework

During 2007-2008 risk processes and assurance were applied as follows

The departmental Board reviewed the critical risks to departmental business and the actions being taken to mitigate them on a monthly basis through the Board risk register.

The Audit & Risk Committee under the independent chairmanship of a Non-Executive Member of the Board reviewed and endorsed the approach to risk management and corporate governance across the Department.

The key Programme Boards across the Department regularly review their risks and escalate strategic and cross cutting risks to the departmental Board through monthly reports.

The Delivery Sub Committee of the Board provides scrutiny of the highest risk programmes, focussing its time on assuring that the key risks are being effectively managed.

Directors and heads of unit within the Department reported how they were managing risk through their Statement on Internal Control returns provided to me at mid-year and at the end of the financial year.

The Chief Executives of the Executive Agency and of our Trading Funds provided draft Statements on Internal Control to me at mid-year and end-year, which outlined how they were managing risk.

The Department has invested in a significant training programme to build the skills of staff in managing Programmes and Projects. This training has a specific focus on risk management as part of our ongoing commitment to continue to strengthen risk management across the Department.

The Department has reviewed and reinforced its data security measures. No data security issues of concern have been identified. By reviewing data held and processes in place, the Department has ensured that it is compliant with the recently announced minimum requirements for personal data handling and in certain areas has chosen to apply additional measures (e.g. code of conduct, increased communications). By increasing general communication and setting up a group to regularly review personal data handling processes and risk management, we have also increased assurance that the departmental family is aware of its obligations and that best practice is shared to further manage this risk

## Review of effectiveness

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

I require all Directors and heads of unit within the Department to complete a return at mid-year and end-year providing a self-assessment of how well they have managed their corporate responsibilities. This encompasses; (a) strategy, planning, monitoring and review, (b) risk management, (c) relationship with Agencies, Non-Departmental Public Bodies and Government Offices for the Regions, (d) system of financial management and control, and (e) other management responsibilities. All returns must be counter-signed by relevant Directors-General.

An analysis of returns and draft Statements on Internal Control provided is presented to the Audit & Risk Committee. At mid-year, the Committee recommends any actions necessary to address any significant internal control concerns. At end-year, the Committee advises me whether I have the necessary level of assurance from senior colleagues in order to sign this Statement on Internal Control.

No significant internal control issues were identified.

*Peter Housden*  
Principal Accounting Officer  
Department for Communities and Local Government

16 July 2008

# 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 8 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

The First Secretary of State is responsible for the preparation of the financial statements in accordance with the Housing Associations Act 1985 and Treasury directions made thereunder. The Accounting Officer is responsible for ensuring the regularity of financial transactions and for the preparation of the Management Commentary. These responsibilities are set out in the Statement of the Secretary of State's and Accounting Officer's responsibilities.

My responsibilities, as independent auditor, are established by statute and I have regard to the standards and guidance issued by the Auditing Practices Board and the ethical guidance applicable to the auditing profession.

I report my opinion as to whether the financial statements properly present the receipts and payments and are properly prepared in accordance with the Housing Associations Act 1985 and directions made thereunder. I report to you whether, in my opinion, the information given in the Management Commentary is not consistent with the financial statements. I also report 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.

In addition, I report to you if 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 Internal Control reflects compliance with HM Treasury's guidance, and I report if it does not. I am not required to consider whether the statement covers all risks and controls or to form an opinion on the effectiveness of the Department's corporate governance procedures or its risk and control procedures.

I read the other information contained in the Management Commentary and consider whether it is consistent with the audited financial statements. I consider the implications for my report if I become aware of any apparent misstatements or material inconsistencies with the financial statements. My responsibilities do not extend to any other information.

## Basis of audit opinion

I conducted my audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. My 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 significant estimates and 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 fraud or error, 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, in accordance with the Housing Associations Act 1985 and directions made thereunder by HM Treasury for the year ended 31 March 2008 and the balances held at that date;
- the financial statements have been properly prepared in accordance with the Housing Associations Act 1985 and directions made thereunder by HM Treasury; and
- information given in the Management Commentary is consistent with the financial statements.

### **Audit opinion on regularity**

In my opinion, 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.

## Report

I have no observations to make on these financial statements.

*T J Burr*  
Comptroller and Auditor General

18 July 2008

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