

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 2005, together with the Report of the Comptroller and Auditor General thereon. (In continuation of House of Commons Paper No. 1572 of 2005-2006)

Presented pursuant to various Acts

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# Accounts relating to issues from the National Loans Fund 2004-2005

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 2005, together with the Report of the Comptroller and Auditor General thereon. (In continuation of House of Commons Paper No. 1572 of 2005-2006)

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# Accounts relating to issues from the National Loans Fund 2004-2005

ORDERED BY THE HOUSE OF COMMONS TO BE PRINTED 25 JULY 2007

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# Contents

This volume contains statutory accounts prepared to show the transactions of Ministers and others in 2004–2005 in connection with loans to various bodies out of issues from the National Loans Fund. Details of issues from the National Loans Fund in 2004–2005 are given in the relevant part of the National Loans Fund Account (see page 25 of HC 752 of 2005-2006). Certain issues and payments in respect of accounts not included herein are also notes to complete the reconciliation with that part of 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 2004-2005'

### Aircraft and Shipbuilding Industries Act 1977

Section 12(4) of the above Act requires the Secretary of State for Trade and Industry to prepare an account of any transactions with British Shipbuilders in respect of loans made from the National Loans Fund under Section 12(1) of the Act. As all outstanding loans made from the National Loans Fund were repaid in the financial year ended 31 March 1993 and there have been no subsequent transactions under the foregoing provisions, no account has been prepared for the year ended 31 March 2005.

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. No payments were made in the 2004-2005 financial year and so the total paid to 31 March 2005 was the same as at 31 March 2004, £1,598.4m.

In consideration of the sums received under Section 16(1), Section 16(2) of the Act requires the Corporation to make payments to the Secretary of State (public dividends) in respect of each accounting year, unless the Corporation satisfies him that it is inappropriate to make a payment in any year. If the public dividend proposed by the Corporation in any year is not acceptable to the Secretary of State and 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 2005. The net liabilities of the British Shipbuilders' Corporation as at 31 March 2004 were £3.4 million, as disclosed in the Departmental Resource Account 2004-2005.

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 Trade and Industry to prepare accounts for any transactions with the United Kingdom Atomic Energy Authority in respect of loans made from the National Loans Fund under section 4(4) of the above Act. As all outstanding debt was extinguished by the UKAEA (Extinguishment of Liabilities) Order 1996 No. 2511, and there have been no subsequent transactions under the foregoing provisions, no account has been prepared for the year ended 31 March 2005.

## Atomic Energy Authority Act 1971

Section 12(4) of the above Act requires the Secretary of State for Trade and Industry to prepare accounts for any transactions with British Nuclear Fuels plc (BNFL) in respect of loans made from the National Loans Fund under Sections 12(2) and (3) of the 1971 Act. As the company has repaid all outstanding debts from the National Loans Fund in the financial year ended 31 March 1991 and there have been no subsequent transactions under the foregoing provisions, no account has been prepared for the year ended 31 March 2005.

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 2005 the limit specified was £2,000m and the relevant aggregates were

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

During 2004-2005, BNFL took out no new loans and have repaid all outstanding 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 Trade and Industry under Section 39 of the Energy Act 2004. There was no consideration for the transfer.

## Electricity Act 1989

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

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.

Magnox Electric plc is the only successor company in England and Wales which remains wholly owned by the Crown and thereby eligible to receive loans from the National Loans Fund. As the successor companies in England and Wales had repaid all outstanding debts from the National Loans Fund in the financial year ended 31 March 1991 and there have been no subsequent transactions under the foregoing provisions, no account has been prepared for the year ended 31 March 2005.

Brian Bender KCB  
Principal Accounting Officer and Permanent Secretary

October 2005

## Transport Act

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 debts from the National Loans Fund in the financial year ended 31 March 2002, and as there have been no subsequent transactions under the foregoing provisions, no account has been prepared for the year ended 31 March 2005.

*David Rowlands*  
Department for Transport

14 November

## Commonwealth Development Corporation Act 1999

Section 13(1) of the Commonwealth Development Corporation Act 1999 requires the Secretary of State to prepare for each financial year an account of sums (if there are any) issued or received by him in respect of loans from the National Loans Fund (NLF) to the Commonwealth Development Corporation (now renamed the CDC Group) under Section 9(2) of the Act. The CDC Group repaid all the then outstanding loans from the NLF in the financial year ended 31 March 1999. Provisions for CDC borrowing from the NLF remain in force. However there have been no sums issued or received under these provisions up to 31 March 2005; no account has therefore been prepared for the year to 31 March 2005.

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

Section 82 of the Government of Wales Act 1998 allows for advances to be granted by the Secretary of State for Wales from the National Loans Fund. Section 83 directs the preparation of an account of sums paid and received by the Secretary of State. However, for the year ended 31 March 2005 no transactions have been processed in relation to this Act. No account has been produced for this period.

# Accounts of Loans to Public Corporations





# Transport Act 1968

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

Account Presented Pursuant To Act 1968, c.73, s.44 (3)

## Foreword

### Scope of the Account

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

Grants made to the Board under the provisions of the Transport Act 1968 were accounted for in the Defra Resource Accounts 2004-2005.

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

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

### Limits on borrowing

- 3 Section 19(3) of the Act as amended by section 1(1) of the Water Act 1981 and The British Waterways Board (Limit for Borrowing) Order 2001 (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 2005 the aggregate outstanding borrowings counting against these limits were

Loans made by the Secretary of State	£14,136,000
Temporary Loans	–
Commencing Capital Debt	–
	£14,136,000

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

**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 2004-2005. £600,000 of principal was repaid by the Board to the National Loans Fund in 2004-2005.

**Statement of Accounting Officer's responsibilities**

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

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

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

12 July 2005

## Transport Act 1968

Account, prepared under Section 44(1) of the Transport Act 1968, of the receipts and payments of the Secretary of State for the Environment, Food and Rural Affairs Sections 43 and 44(4) of that Act (and Sections 20 and 39 of the Transport Act 1962) for the year ended 31 March 2005.

### Receipts

	<b>2004-2005</b>	2003-2004
	£	£
Issues from the National Loans Fund [s.20(3)]		
<i>Payments by the British Waterways Board [s.20(2)]</i>		
Repayment of Loans	<b>600,000</b>	–
Interest on Loans*	<b>845,251</b>	2,535,754
	<b><u>1,445,251</u></b>	<u>2,535,754</u>

### Payments

Loans to the British Waterways Board [s.20(1)]		
<i>Payments to the National Loans Fund [s.20(5)]</i>		
Repayment of Loans	<b>600,000</b>	–
Interest on Loans	<b>1,690,503</b>	1,690,503
	<b><u>2,290,503</u></b>	<u>1,690,503</u>

### Notes

1 At 31 March 2005 the debt outstanding to the Secretary of State was £14,136,000.

\*2 The interest payment of £845,251 for April 2004 was received on 16 March 2004 and paid to the National Loans Fund in April 2004.

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

12 July 2005

## Statement on Internal Control

This statement is given in respect of the British Waterways Board National Loans Fund (NLF) Accounts. The Department for Environment, Food and Rural Affairs (Defra), since its inception on 8 June 2001, has managed waterways in England. Accordingly, I, as Accounting Officer for Defra, am responsible for the signing of the British Waterways Board National Loans Fund Accounts for 2004-2005.

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

The system of internal control is designed to manage risk to a reasonable level, rather than to eliminate all risk of failure to achieve policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of departmental policies, 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.

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 with the emphasis on planning, performance, governance and the management of Defra's Top Threats.
- Regular meetings of the Audit and Risk Committee, which is a sub-committee of the Management Board, were held during the year. It considers the adequacy of audit arrangements (internal and external) and provides strategic oversight and challenge to assurances and reports from Internal Audit, the National Audit Office (NAO) and others, on the Department's risk management, control and governance processes.

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

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

12 July 2005

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

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

## Respective responsibilities of the Accounting Officer and Auditor

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

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

I review whether the statement on pages 10 and 11 reflects compliance with Treasury's guidance on the Statement on Internal Control. I report if it does not meet the requirements specified by Treasury, or if the statement is misleading or inconsistent with other information I am aware of from my audit of the financial statements. I am not required to consider, nor have I considered whether the Accounting Officer's Statement on Internal Control covers all risks and controls. I am also not required to form an opinion on the effectiveness of the Department's corporate governance procedures or its risk and control procedures.

## Basis of audit opinion

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

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

## Opinion

In my opinion

- the account properly presents the receipts and payments of the Secretary of State for Environment, Food and Rural Affairs in respect of advances to the British Waterways Board for the year ended 31 March 2005 and the balance held at that date and has been properly prepared in accordance with the Transport Act 1968 and the directions made thereunder by the Treasury; and
- in all material respects the payments and receipts have been applied to the purposes intended by Parliament and conform to the authorities which govern them.

I have no observations to make on these financial statements.

*John Bourn*  
Comptroller and Auditor General

15 July 2005

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

# Civil Aviation Act 1982

Advances To The Civil Aviation Authority (Secretary of State For Transport)

Account Presented pursuant to the Civil Aviation Act 1982, c.16 s.15(4)

## Foreword

### Scope of the Account

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

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

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

### Limits on borrowing

- 3 The Civil Aviation Authority (Borrowing Powers) Order 1995, made under the Civil Aviation Authority (Borrowing Powers) Act 1990, sets the limit on the Authority's aggregate outstanding borrowings and its initial debt at £550 million. These borrowings may comprise Government advances, temporary borrowings from banks and other sources, borrowings in foreign currency, borrowings from the Commission of the European Communities and from the European Investment Bank. At 31 March 2005, the aggregate outstanding borrowings counting against the limit of £550 million was

Loans made by the Secretary of State	£7,628,240
Foreign loans	—
	<hr/> £7,628,240

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



### **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 rollover periods of 1, 3 or 6 months.

### **Initial debt**

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

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

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

No such directions were issued in respect of the accounting year 2004-2005.

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

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

David Rowlands  
Accounting Officer  
Department for Transport

22 November 2005

## 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 Transport under Sections 9, 10, 12 and 13 of that Act for the year ended 31 March 2005.

### Receipts

	£	Previous year £
Balance as at 1 April 2004	-	-
From the National Loans Fund [s.12(4)]	-	-
<i>From the Civil Aviation Authority Loans [s.12(4)]</i>		
Repayment of Principal	<b>608,504</b>	565,683
Interest	<b>620,765</b>	663,586
Premium for early repayments of loans	-	-
Penalty for late repayments of loan	-	-
	<b><u>1,229,269</u></b>	<u>1,229,269</u>

### Payments

	£	Previous year £
<i>Loans to the Civil Aviation Authority [s.12(2)]</i>	-	-
Payments to the National Loans Fund [s.12(4)]		
Repayment of Principal	<b>608,504</b>	565,683
Interest	<b>620,765</b>	663,586
Premium for early repayments of loans	-	-
Penalty for late repayment of loan	-	-
Balance at 31 March 2005	-	-
	<b><u>1,229,269</u></b>	<u>1,229,269</u>

### Note

At 31 March 2005 the debt outstanding to the Secretary of State was: £7,628,239.60.

David Rowlands  
Accounting Officer  
Department for Transport

5 January 2005

## Statement on Internal Control

### Scope of responsibility

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

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

### 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 2005 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. The Department's Board includes the three Directors General in the central Department, the Director General for the DVO Group, the Chief Executive of the Highways Agency and three non-executive members. The Director General for Delivery and Security is the Board's 'Risk Management Champion'; and
- an Executive Committee, which seeks to ensure that the resources available to the central Department are managed as effectively as possible to meet 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 two non-executive members, who are themselves Chairman of Audit Committees within the DfT family.

Officials consult regularly with Ministers 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. DfT Ministers also receive regular reports on key cross-government risks from the Domestic Horizon Scanning Committee.

The Department's Risk Improvement Manager is responsible for ensuring that appropriate guidance, support and training on risk management is available to staff within the central Department. During 2005-2006 a programme of risk management workshops and was delivered.

## The risk and control framework

Directors General and Heads of Unit (Directors) in the Department take responsibility for the day to day management of risks in their respective areas of influence. The Board has set guidance criteria for the impact of risks that it considers should be escalated for its potential attention through regular delivery and financial reporting processes. The escalation of risk in this way does not transfer responsibility for its day to day management. The Board encourages the early escalation of corporate risks, as part of seeking to establish a 'no surprises' culture within the Department where risk identification, management and escalation is encouraged and rewarded.

Early in the year, the Department put in place a comprehensive 'Stewardship Pack', which included the framework of accountabilities, the roles and responsibilities of Directors and the end of year reporting arrangements. These set out Directors responsibilities for risk management. This pack was supported by delegations from the Accounting Officer to Directors to maintain accountability and the management of resources. Performance against these requirements was assessed through internal audits and a self assessment questionnaire. The risk elements of this were based upon the Treasury's Risk Management Framework.

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

## Review of effectiveness

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

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 the Committee's views on the effectiveness of internal control and the Board regularly through the year.

The effectiveness of the Department's Audit Committee was reviewed jointly with the National Audit Office in June 2005. The recommendations of that review have been agreed and implemented.

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 have completed end of year assurance questionnaires, which the Finance Director has reviewed and summarised in his report to me on stewardship. The responses confirmed that Directors regarded their Units as substantially compliant with the structure of internal control. As regards financial controls, the central Department has put in place an improvement programme to further strengthen its financial management, which is being implemented in 2005-2006.

Directors recognised that there remained scope for further improvement in risk management. A programme of work to improve the central Department's risk management processes and performance, including clarification of risk appetites, is being implemented during 2005-2006.

The Treasury and the Department have, separately conducted reviews of the Department's financial management and control arrangements. The Treasury has acknowledge the improvements that have been made by the Department and has agreed an action plan to address current challenges and priorities.

## Group audit opinion

The Group Head of Internal Audit has provided the following opinion for 2004-2005:

- "For the Department I can provide partial assurance. Whilst risk management at the Directorate level in the Department has improved during the year, the processes to manage risks at a corporate level were only developed and initiated during the latter part of 2004-2005. The plans in place to further strengthen and improve these practices in the Department provide a sound platform for risk management and should significantly improve the process going forward.
- Internal controls, including financial controls, have continued to improve during the year so that I am able to provide substantial assurance on internal control in all parts of the organisation other than in the central Department and Highways Agency. Significant effort has been made to improve financial management and control in the central Department, and management is working on a continuous programme to improve controls further, including areas identified in some of our audits. Accordingly I am only able to provide partial assurance on internal control arrangements in the central Department. Notwithstanding this level of assurance, no weaknesses were identified that are sufficiently significant or material to require disclosure in the Statement on Internal Control.
- Improvements have been made to the Governance process in the centre and in the agencies during the year leading me to provide substantial assurance."

*David Rowlands*  
Accounting Officer

22 November 2005

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

I have audited the financial statements on page 15 under the Civil Aviation Act 1982. These financial statements have been prepared in the form and on the basis determined by Treasury.

## Respective responsibilities of the Accounting Officer and Auditor

As described on page 14 the Accounting Officer is responsible for the preparation of financial statements in accordance with the Civil Aviation Act 1982 and Treasury directions made thereunder and for ensuring the regularity of financial transactions. The Accounting Officer is also responsible for the preparation of the Foreword. My responsibilities, as independent auditor, are established by statute and I have regard to the standards and guidance issued by the Auditing Practices Board and the ethical guidance applicable to the auditing profession.

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

I review whether the statement on pages 16 to 18 reflects compliance with Treasury's guidance on the Statement on Internal Control. I report if it does not meet the requirements specified by Treasury, or if the statement is misleading or inconsistent with other information I am aware of from my audit of the financial statements. I am not required to consider, nor have I considered whether the Accounting Officer's Statement on Internal Control covers all risks and controls. I am also not required to form an opinion on the effectiveness of the Department's corporate governance procedures or its risk and control procedures.

## Basis of audit opinion

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

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

## Opinion

In my opinion

- the account properly presents the receipts and payments of the Secretary of State for Transport in respect of advances made to the Civil Aviation Authority for the year ended 31 March 2005 and the balances held at that date and has been properly prepared in accordance with Section 15(4) of the Civil Aviation Act 1982 and the directions made thereunder by the Treasury; and
- in all material respects the receipts and payments have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

I have no observations to make on these financial statements.

*John Bourn*  
Comptroller and Auditor General

26 January 2006

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

# Post Office Act 1969

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

Account presented pursuant to the Post Office Act 1969

## Foreword

### Scope of the Account

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

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

- 2 Section 37 of the Post Office Act 1969<sup>2</sup> enabled the Secretary of State, with the approval of 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 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.1

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.

The Department of Trade and Industry also makes available a revolving loan facility of up to £1.15 billion to the Post Office Limited under an agreement reached on 17 October 2003 to help fund working capital requirements relating to the migration of state benefits payments to a system of direct payment. The availability of this facility runs until 30 March 2010. As at 31 March 2005, £520 million was repayable by the Post Office to DTI. Amounts recorded against this agreement are reported in the Departmental Resource Account.

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

- 4 In accordance with section 5 of the National Loans Fund Act 1968, HM Treasury prescribes the rate of interest applicable to each loan. Loans to the Post Office company are repayable after 20 to 25 years, with interest payable half-yearly. As at 31 March 2005, 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

Sir Brian Bender KCB  
Principal Accounting Officer and Permanent Secretary

31 October 2005

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

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



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

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

HM 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 HM Treasury and published in *Government Accounting*.

## Post Office Act 1969

Account, prepared under Section 39 of the Post Office Act 1969, of the Receipts and Payments by the Secretary of State for Trade and Industry under Section 37 of the Post Office Act 1969 for the year ended 31 March 2005.

### Receipts

	<b>2004-2005</b>	2003-2004
	£	£
Balance at 1 April	–	–
From National Loans Fund	–	–
<i>From the Royal Mail Group plc</i>		
Repayments of Loans	–	–
Interest on Loans	<b>29,170,000</b>	29,170,000
	<b><u>29,170,000</u></b>	<u>29,170,000</u>

### Payments

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

Sir Brian Bender KCB  
Principal Accounting Officer and Permanent Secretary

31 October 2005

## 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 Government Accounting.

Although I was not in post during the accounting period for the 2004-2005 Statement on Internal Control, my predecessors, Chairman of the Audit Committee and Head of Internal Audit have advised me about the control environment that operated in the Department up to the approval of the annual report and accounts.

The Account is administered and managed by the Royal Mail & Postal Services Team of the Shareholder Executive within the Department in conjunction with Amey Accounting and Business Services. The Secretary of State, with the approval of 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 2005 and up to the date of approval of the annual report and accounts, and accords with Treasury guidance.

### Capacity to handle risk

Guidance on risk management is available to staff in the Royal Mail & Postal Services 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 DTI training courses that staff in Shareholder Executive attend. These courses cover all ranges of staff and are tailored to be appropriate to their authority and duties. The Royal Mail & Postal Services Team of the Shareholder Executive maintains a Risk Register that is regularly updated.

The Department has also sought to integrate and embed risk management within individual performance management and personal development processes. This has resulted in a revision to the Personal Achievement Plan template for 2005-2006 that incorporates risk management within it. This means that consideration of risks and development of plans to manage them will be an integral part of the individual performance management process for all DTI management and staff.

## 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 Executive Board, the Audit 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 2004-2005.

Sir Brian Bender KCB  
Principal Accounting Officer and Permanent Secretary

31 October 2005

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

I certify that I have audited the financial statements on page 23 under Section 39 of the Post Office Act 1969. These financial statements have been prepared in the form and on the basis determined by Treasury.

## Respective responsibilities of the Accounting Officer and Auditor

As described on page 22 the Accounting Officer is responsible for the preparation of financial statements in accordance with the Post Office Act 1969 and Treasury directions made thereunder and for ensuring the regularity of financial transactions. The Accounting Officer is also responsible for the preparation of the Foreword. My responsibilities, as independent auditor, are established by statute and I have regard to the standards and guidance issued by the Auditing Practices Board and the ethical guidance applicable to the auditing profession.

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

I review whether the statement on pages 24 to 25 reflects compliance with Treasury's guidance on the statement on internal control. I report if it does not meet the requirements specified by Treasury or if the statement is misleading or inconsistent with other information I am aware of from my audit of the financial statements. I am not required to consider nor have I considered whether the Accounting Officer's Statement on Internal Control covers all risks and controls. I am not also required to form an opinion on the effectiveness of the Department's corporate governance procedures or its risks and control procedures.

## Basis of audit opinion

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

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

## Opinion

In my opinion

- the account properly presents the receipts and payments of the Secretary of State for Trade and Industry in respect of advances to the Post Office for the year ended 31 March 2005 and has been properly prepared in accordance with Section 39 of the Post Office Act 1969 and the directions made thereunder by the Treasury; and
- in all material respects the payments and receipts have been applied to the purposes intended by Parliament and conform to the authorities which govern them.

I have no observations to make on these financial statements.

*John Bourn*  
Comptroller and Auditor General

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

9 November 2005

# Postal Services Act 2000

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

Account presented pursuant to the Postal Services Act 2000

## Foreword

### Scope of the Account

- 1 This account is prepared in compliance with section 76 of the Postal Services Act 2000 and is required to show:
  - i sums issued to the Secretary of State under section 68(6);
  - ii sums received by the Secretary of State under section 68(8); and
  - iii the disposal of those sums.

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

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

### Limits on borrowing

- 3 Under section 71(1) of the Postal Services Act 2000, the Crown's financial arrangements with the Post Office company and any of its subsidiaries are not to exceed £5,000 million or any such greater sum as the Secretary of State may by order specify.

Under section 71(2), the Crown's financial arrangements with the Post Office company and any of its subsidiaries are the aggregate of amounts outstanding in respect of

- i The principal of loans made under section 37 of the Post Office Act 1969;
- ii Sums paid by HM Treasury in fulfilment of guarantees and outstanding principal of loans given under section 38 of that Act (otherwise than by way of interest),
- iii The principal of loans made under section 68 of that Act,
- iv Sums paid by the Secretary of State in fulfilment of guarantees given under section 69 of that Act (otherwise than by way of interest),
- v The principal of debt securities issued in pursuance of section 63 of that Act, and
- vi Liabilities extinguished under section 70 of that Act so far as they are not replaced with corresponding liabilities.

The Department of Trade and Industry also makes available a revolving loan facility of up to £1.15 billion to the Post Office Limited under an agreement reached on 17 October 2003 to help fund working capital requirements relating to the migration of state benefits payments to a system of direct payment. The availability of this facility runs until 30 March 2010. As at 31 March 2005, £520 million was repayable by the Post Office to DTI. Amounts recorded against this agreement are reported in the Departmental Resource Account.

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

- 4 In accordance with section 5 of the National Loans Fund Act 1968, HM Treasury prescribes the rate of interest applicable to each loan. Loans to the Royal Mail Holdings plc or any of its subsidiaries are repayable within the times and methods of payment of the principal and interest agreed between the Secretary of State and the company to which the loan is made. During 2004-2005, there were no amounts loaned under the terms of loans made to the Royal Mail Holdings plc or any of its subsidiaries under the Postal Services Act 2000.

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

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

HM 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 HM Treasury and published in 'Government Accounting'.

Sir Brian Bender KCB  
Principal Accounting Officer and Permanent Secretary

31 October 2005

## Postal Services Act 2000

Account, prepared under Section 76 of the Postal Services Act 2000, of the Receipts and Payments by the Secretary of State for Trade and Industry under Section 68 of the Postal Services Act 2000 for the year ended 31 March 2005.

### Receipts

	<b>2004-2005</b>	2003-2004
	<b>£</b>	£
Balance at 1 April	-	-
From National Loans Fund	-	-
<i>From Royal Mail Holdings plc</i>		
Repayments of Loans	-	50,000,000
Interest on Loans	-	38,938
	<u>-</u>	<u>50,038,938</u>

### Payments

	<b>2004-2005</b>	2003-2004
	<b>£</b>	£
Advances to Royal Mail Group plc	-	50,000,000
<i>To the National Loans Fund</i>		
Repayments of Loans	<b>50,000,000</b>	-
Interest on Loans	<b>38,938</b>	-
Balance at 31 March	-	-
	<u><b>50,038,938</b></u>	<u>50,000,000</u>

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

31 October 2005



## 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 Government Accounting.

Although I was not in post during the accounting period for the 2004-05 Statement on Internal Control, my predecessor, Chairman of the Audit Committee and Head of Internal Audit have advised me about the control environment that operated in the Department up to the approval of the annual report and accounts.

The Account is administered and managed by the Royal Mail & Postal Services Team of the Shareholder Executive within the Department in conjunction with Amey Accounting and Business Services. The Secretary of State, with the approval of 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 2005 and up to the date of approval of the annual report and accounts, and accords with Treasury guidance.

### Capacity to handle risk

Guidance on risk management is available to staff in the Royal Mail & Postal Services 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 DTI training courses that staff in Shareholder Executive attend. These courses cover all ranges of staff and are tailored to be appropriate to their authority and duties. The Royal Mail & Postal Services Team of the Shareholder Executive maintains a Risk Register that is regularly updated.

The Department has also sought to integrate and embed risk management within individual performance management and personal development processes. This has resulted in a revision to the Personal Achievement Plan template for 2005-2006 that incorporates risk management within it. This means that consideration of risks and development of plans to manage them will be an integral part of the individual performance management process for all DTI management and staff.

### 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 Executive Board, the Audit 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 2004-2005.

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

31 October 2005

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

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

## Respective responsibilities of the Accounting Officer and Auditor

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

I report my opinion as to whether the financial statements properly present the receipts and payments and are properly prepared in accordance with the Post Office Act 2000 and Treasury directions made thereunder and whether in all material respects the receipts and payments have been applied to the purposes intended by Parliament and conform to the authorities which govern them. I also report if, in my opinion the Foreword is not consistent with the financial statements, if the Accounting Officer has not kept proper accounting records or if I have not received all the information and explanations I require for my audit.

I review whether the statement on page 30 to 31 reflects compliance with Treasury's guidance on the Statement on Internal Control. I report if it does not meet the requirements specified by Treasury or if the statement is misleading or inconsistent with other information I am aware of from my audit of the financial statements. I am not required to consider, nor have I considered whether the Accounting Officer's Statement on Internal Control covers all risks and controls. I am also not required to form an opinion on the effectiveness of the Department's corporate governance procedures or its risk and control procedures.

## Basis of audit opinion

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

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

## Opinion

In my opinion

- the account properly presents the receipts and payments of the Secretary of State for Trade and Industry in respect of advances to the Post Office for the year ended 31 March 2005 and has been properly prepared in accordance with Section 76 of the Postal Services Act 2000 and the directions made thereunder by the Treasury; and
- in all material respects the payments and receipts have been applied to the purposes intended by Parliament and conform to the authorities which govern them.

I have no observations to make on these financial statements.

*John Bourn*  
Comptroller and Auditor General

9 November 2005

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

# Scotland Act 1998

Advances to Scottish Enterprise, Scottish Homes, 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

- i the sums issued to the Secretary of State for Scotland out of the National Loans Fund under section 67 of the Scotland Act 1998 to enable her to make loans to the Scottish Ministers under section 66 of the Act;
- iii the loans so made by the Secretary of State;
- iv the sums received by the Secretary of State in respect of interest on and repayment of loans under section 66 of the Scotland Act 1998;
- v the payments into the National Loans Fund of the sums received under section 66.

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

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

### Limits of borrowing

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

### Outstanding capital balances

At 1 April 2004, total capital balances outstanding were £975,987,197, and after repayments during the year of £120,750,322, capital balances outstanding at 31 March 2005 were £855,236,875.

### History of accounts

The advances outstanding at 31 March 2005 were made prior to 1 July 1999, under the terms of the Housing (Scotland) Act 1988 (Scottish Homes), the Local Government etc. (Scotland) Act 1994 (Water Authorities), and the Scottish Development Agency Act 1975 (Scottish Enterprise). Loans to Scottish Enterprise and to Scottish Homes 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 Housing (Scotland) Act 1988 (Scottish Homes) and the Local Government etc. (Scotland) Act 1994 (Water Authorities). No accounts were prepared for Registers of Scotland prior to 2000-2001.

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

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

## Scotland Act 1998

Account prepared under section 72(a) of the Scotland Act 1998 of the Receipts and Payments of the Secretary of State for Scotland under sections 66, 67 and 71 of the Scotland Act 1998 for the period 1 April 2004 to 31 March 2005.

### Receipts

	2004-2005 £	2003-2004 £
<i>Received from Scottish Homes by way of</i>		
Interest on advances	<b>130,109,713</b>	76,062,329
Repayment of advance	<b>100,644,071</b>	37,437,867
<i>Received from Water Authorities by way of</i>		
Interest on advances	<b>57,332,030</b>	57,819,907
Repayment of advance	<b>20,000,000</b>	20,000,000
<i>Received from Registers of Scotland</i>		
Interest on advances	<b>286,975</b>	295,873
Repayment of advance	<b>106,251</b>	106,250
Total of interest payments	<b>187,728,718</b>	134,178,109
Total of repayments of advance	<b>120,750,322</b>	57,544,117
Total receipts	<b>308,479,040</b>	191,722,226

### Payments

	2004-2005 £	2003-2004 £
<i>Payments to National Loans Fund of sums received</i>		
Interest on advances	<b>130,109,713</b>	76,062,329
Repayment of advance	<b>100,644,071</b>	37,437,867
<i>Payments to National Loans Fund of sums received</i>		
Interest on advances	<b>57,332,030</b>	57,819,907
Repayment of advance	<b>20,000,000</b>	20,000,000
<i>Payments to National Loans Fund of sums received</i>		
Interest on advances	<b>286,975</b>	295,873
Repayment of advance	<b>106,251</b>	106,250
Total of interest payments	<b>187,728,718</b>	134,178,109
Total of repayments of advance	<b>120,750,322</b>	57,544,117
Total payments	<b>308,479,040</b>	191,722,226

Note: Statement of balances at 31 March 2005

	Advances at 1 April 2004	Advances during 2004-2005	Advances repaid during 2004-2005	<b>Advances outstanding at 31 March 2005</b>
	£	£	£	£
Scottish Homes	100,644,071	0	100,644,071	0
Water Authorities	871,890,000	0	20,000,000	<b>851,890,000</b>
Registers of Scotland	3,453,126	0	106,251	<b>3,346,875</b>
Total	<u>975,987,197</u>	<u>0</u>	<u>120,750,322</u>	<b><u>855,236,875</u></b>

*JR Wildgoose*  
Accounting Officer

16 November 2005

## Statement on Internal Control

### Scope of responsibility

I acknowledge my personal 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 and ensuring the efficient and effective management of proper accounting for the resources delegated to me.

### The purpose of the system of internal control

The system of internal control is based on an ongoing process designed to identify, evaluate and manage efficiently, effectively and economically, the principal risks to the achievement of business strategies, plans and objectives. The system is maintained and operated, and provides reasonable assurance that assets are safeguarded, transactions authorised and properly recorded, and that material errors or irregularities are either prevented or would be detected within a timely period. The overall system of internal control is subject to satisfactory review, and independent checking of controls is taking place on a regular basis.

### 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

The key elements of DCA's Risk Management Policy and Framework document 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 risk.

The other key elements in the DCA 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 are 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 Continuing Plans, ensuring that key activities can continue effectively following a disruption continued to be developed and refined.

### Review of effectiveness

I also have responsibility for reviewing the effectiveness of the system of internal control operating in my business area. My review is informed by the work of the managers within the Office, who have responsibility for the development and maintenance of the internal control framework, and by comments made by the internal and external auditors in their management letter and other reports.

I can 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 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 Scotland 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.

*JR Wildgoose*  
Accounting Officer

16 November 2005



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

I certify that I have audited the financial statements on page 34 and 35 under the Scotland Act 1998. These financial statements have been prepared in the form and on the basis determined by Treasury.

## Respective responsibilities of the Accounting Officer and Auditor

As described on page 33 the Accounting Officer is responsible for the preparation of financial statements in accordance with the Scotland Act 1998 and Treasury directions made thereunder and for ensuring the regularity of financial transactions. The Accounting Officer is also responsible for the preparation of the Foreword. My responsibilities as independent auditor are established by statute and I have regard to the standards and guidance issued by the Auditing Practices Board and the ethical guidance applicable to the auditing profession.

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

I review whether the statement on page 36 and 37 reflects compliance with Treasury's guidance on the Statement on Internal Control. I report if it does not meet the requirements specified by Treasury, or if the statement is misleading or inconsistent with other information I am aware of from my audit of the financial statements. I am not required to consider, nor have I considered whether the Accounting Officer's Statement on Internal Control covers all risks and controls. I am also not required to form an opinion on the effectiveness of the Department's corporate governance procedures or its risk and control procedures.

## Basis of audit opinion

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

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

## Opinion

In my opinion

- the account properly presents the receipts and payments of the Secretary of State for Scotland in respect of advances to the Scottish Homes, Water Authorities and Registers of Scotland for the year ended 31 March 2005 and has been properly prepared in accordance with the Scotland Act 1998 and the directions made thereunder by the Treasury; and
- in all material respects the payments and receipts have been applied to the purposes intended by Parliament and conform to the authorities which govern them.

I have no observations to make on these financial statements.

*John Bourn*  
Comptroller and Auditor General

28 November 2005

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

# Government of Wales Act 1998

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

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

## Foreword

### Scope of the Account

- 1 This Account is prepared in compliance with Section 88 of the Government of Wales Act 1998 and is required to show
  - i The amounts issued to the Secretary of State out of the National Loans Fund and passed to the National Assembly for Wales (the Assembly) for onward transmission to the Welsh Development Agency (the Agency) under paragraph 4 (1) of Schedule 3 to the Welsh Development Agency Act 1975; and
  - ii The amounts received by the Secretary of State from the Assembly which are repayments of, or payments of interest on, loans made out of the National Loans Fund.
- 2 It also includes repayments of, and payments of interest on, loans originally vested in the former Development Board for Rural Wales and Mid Wales Development Corporation, which were transferred to the Agency on 1 October 1998 under Sections 130 and 136 of the Government of Wales Act 1998.
- 3 Specific grants made to the Agency under the provisions of the Welsh Development Agency Act 1975 are not accounted for in this Account, but in the accounts of the National Assembly for Wales for 2004-2005.

### Financial limits

- 4 Section 18 of the Welsh Development Agency Act 1975, as amended by the Industry Acts for 1979, 1980 and 1981, the Welsh Development Agency Acts 1988, 1991 and 1998, and Welsh Statutory Instrument 2004 No. 1826 (W.202), limits to £3 billion the aggregate of the amount outstanding other than by way of interest in respect of
  - i The general external borrowing of the Agency and its subsidiaries, as defined in Section 18 (5) of the 1975 Act;
  - ii Sums issued by the Treasury in fulfilment of guarantees under paragraph 6 of Schedule 3 to the 1975 Act and not repaid to the Treasury;
  - iii Sums of Public Dividend Capital paid to the Agency less repayments by the Agency (other than payments made by virtue of paragraph 1 (3) of Schedule 3 to the 1975 Act) and less such sums paid in respect of the administrative expenses of the Agency;
  - iv Loans guaranteed by the Agency.
- 5 At 31 March 2005 the aggregate of amounts outstanding against the limit was

	£
Borrowing outstanding	11,914,865
Sums issued by the Treasury	–
Payments by the Secretary of State	2,067,305,985
Agency guarantees	–
<b>Total</b>	<b><u>2,079,220,850</u></b>

### **Public Dividend Capital**

- 6 Paragraph 1 (1) of Schedule 3 to the 1975 Act provides that the Secretary of State (now the Assembly) may, with the consent of Treasury, pay to the Agency out of money provided by Parliament such sums as he thinks fit (public dividend capital). This amounted to £399,000 in 2004-2005. No such capital was repaid during the year. The Agency recycled Public Dividend Capital income in line with the agreed arrangements. Public dividend capital outstanding at 31 March 2005 amounted to £13,321,416.

### **2004-2005 Transactions**

- 7 Section 87 of the Government of Wales Act 1998 provides for advances from the National Loans Fund to the Welsh Development Agency to be issued to the Secretary of State and routed through the National Assembly for Wales. Repayments of outstanding advances and interest thereon by the Agency are made to the Assembly, which passes these remittances to the Secretary of State for payment into the National Loans Fund.
- 8 These arrangements took effect from 1 July 1999 when the relevant functions of the Secretary of State for Wales were transferred to the Assembly. Section 88 of the 1998 Act provides that the Secretary of State shall prepare an account of the amounts issued from the National Loans Fund and passed to the Assembly for onward transmission to the Agency. The account must also show the interest and principal repayments received from the Assembly and paid in to the National Loans Fund.

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

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

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

*Alan Cogbill*  
Accounting Officer for the Wales Office

June 2007

## Government of Wales Act 1998

Account, prepared under Section 88 of the Government of Wales Act 1998 of the Receipts and Payments of the Secretary of State for Wales under the legislation shown for the year ended 31 March 2005.

### Receipts

	2004-2005 £	2003-2004 £
Issues from the National Loans Fund under Schedule 3, paragraph 4(1) to the Welsh Development Agency Act 1975	-	-
<i>Sums received from the Welsh Development Agency under paragraph 4(2) of Schedule 3 to the Welsh Development Agency Act 1975</i>		
Repayment of Principal	<b>23,375</b>	28,050
Interest	<b>3,897</b>	5,799
<i>Sums received from the Welsh Development Agency in respect of advances made to the former Development Board for Rural Wales</i>		
Repayment of Principal	<b>3,483</b>	3,031
Interest	<b>570,118</b>	570,570
<i>Sums received from the Welsh Development Agency in respect of advances made to the former Mid Wales Development Corporation</i>		
Repayment of Principal	<b>13,428</b>	11,677
Interest	<b>1,158,164</b>	1,159,914
<b>Total Receipts</b>	<b><u>1,772,465</u></b>	<b><u>1,779,041</u></b>

### Payments

	2004-2005 £	2003-2004 £
Advances to the Welsh Development Agency via the National Assembly for Wales	-	-
<i>Payments to the National Loans Fund</i>		
Repayment of Principal	<b>40,286</b>	42,758
Interest	<b>1,732,179</b>	1,736,283
<b>Total payments</b>	<b><u>1,772,465</u></b>	<b><u>1,779,041</u></b>

### Notes

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

	Welsh Development Agency £	Former Development Board for Rural Wales £	Former Mid Wales Development Corporation £	Total £
Outstanding at 1 April 2004	58,472	3,957,590	7,939,089	11,955,151
Repaid	(23,375)	(3,483)	(13,428)	(40,286)
<b>Outstanding at 31 March 2005</b>	<b><u>35,097</u></b>	<b><u>3,954,107</u></b>	<b><u>7,925,661</u></b>	<b><u>11,914,865</u></b>

Alan Cogbill  
Accounting Officer for the Wales Office

25 June 2007

## Statement on Internal Control

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

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

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

The system of internal control is based on an ongoing process designed to identify the risks to the achievement of the Wales Office's policies, aims and objectives, to evaluate the nature and extent of those risks being realised (especially in the unique Wales Office context) and their likely impact should they be realised, and to manage them efficiently, effectively and economically. The system of internal control was put in place by my predecessor for the year ended 31 March 2005 and has continued in operation up to the date of the approval of the annual report and accounts and accords with Treasury guidance.

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

A risk register identifying risks linked to Wales Office business objectives and setting out mitigating actions to significant risks was produced in March 2003. The risk register is agreed and reviewed at Management Board meetings with relevant officials taking ownership for actions and review periods within their specific areas of business. In the case of NLF payments by the WDA via the National Assembly for Wales (the Assembly), the risk the Assembly carried was subject to the Accounting Officer Agreement between the Wales Office and the Assembly's Principal Accounting Officer (PAO).

The Assembly administered the repayment of advances and interest thereon during 2004-2005. The risk associated with undertaking these tasks fell to the Assembly's PAO. The AO agreement required the PAO to ensure that that he had systems and procedures in place to manage and account for all the Assembly's financial matters, including such repayments, and as AO I draw my reassurance from that agreement. During 2005-2006 the Department for Constitutional Affairs took over responsibility for passing these remittances from the Assembly to the Secretary of State for payment into the National Loans Fund. The Wales Office has now put in place a service level agreement with DCA Finance which affirms the level of service which was and is provided. The Assembly activity in managing and accounting for repayments as they pass through the Assembly's financial systems is subject to the AO agreement.

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 DCA Internal Audit who operate to Government Internal Audit Standards.

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

These plans draw on a review of the systems which were in place with both DCA Finance and the Assembly Finance Department, and a revised Accounting Officer Agreement with the Assembly's Principal Accounting Officer. All agreements were developed further in line with IAD recommendations. Unfortunately the work delayed the clearance of the 2004-2005 accounts.

*Alan Cogbill*  
Accounting Officer for the Wales Office

25 June 2007

# 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 41 under Section 88 of the Government of Wales Act 1998. These financial statements have been prepared in the form and on the basis determined by Treasury.

## Respective responsibilities of the Accounting Officer and Auditor

As described on page 40, the Accounting Officer is responsible for the preparation of financial statements in accordance with the Government of Wales Act 1998 and Treasury directions made thereunder and for ensuring the regularity of financial transactions. The Accounting Officer is also responsible for the preparation of the Foreword. My responsibilities, as independent auditor, are established by statute and I have regard to the standards and guidance issued, or adopted, 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 Government of Wales Act 1998 and Treasury directions made thereunder, and whether in all material respects the receipts and payments have been applied to the purposes intended by Parliament and conform to the authorities which govern them. I also report if, in my opinion, the Foreword is not consistent with the financial statements, if the Accounting Officer has not kept proper accounting records, or if I have not received all the information and explanations I require for my audit.

I review whether the statement on page 42 reflects compliance with Treasury's guidance on the Statement on Internal Control. I report if it does not meet the requirements specified by Treasury, or if the statement is misleading or inconsistent with other information I am aware of from my audit of the financial statements. I am not required to consider, nor have I considered, whether the Accounting Officer's Statement on Internal Control covers all risks and controls. I am also not required to form an opinion on the effectiveness of the Department's corporate governance procedures or its risk and control procedures.

## Basis of audit opinion

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

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

## Opinion

In my opinion

- the account properly presents the receipts and payments of the Secretary of State for Wales in respect of advances to the Welsh Development Agency for the year ended 31 March 2005 and has been properly prepared in accordance with Section 88 of the Government of Wales Act 1998 and the directions made thereunder by the Treasury; and
- in all material respects the payments and receipts have been applied to the purposes intended by Parliament and conform to the authorities which govern them.

I have no observations to make on these financial statements.

*John Bourn*  
Comptroller and Auditor General

4 July 2007

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

# Accounts of Loans to Local Authorities





## Foreword

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

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

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

Moneys are provided by Act of Parliament and drawn from the National Loans Fund (NFL). The NFL is the Government's main borrowing account and is administered by HM Treasury, which determines the rates of interest and the maximum maturity for loans.

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).

### Management and organisation

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

PWLB's fee income and administrative expenditure are accounted for within the DMO's overall budget agreed with HM Treasury. In 2004-2005, the DMO received fees and charges of £1.9 million (2003-2004: £1.3 million) from PWLB customers in respect of new loans issued.

### The role of the Commissioners

The Commissioners act as a Board to discharge their duties. 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 is the Accounting Officer of the PWLB and attends meetings of the Board.

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

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

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

All loans are drawn from the NLF and repayments are paid back to the NLF.

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

Loans made by the Commissioners are repayable with a period not exceeding that authorised by the Act authorising the local authority to borrow, or if no period is so authorised, they are repayable within 50 years (Section 11 of the Public Works Loan Act 1875 and Section 2 (2) of the Local Authorities Loans Act 1945). In practice, the maximum period for which the Commissioners may advance new loans is the same as the longest period for which HM Treasury has set a rate. For 2004-2005 the maximum maturity of new loans was 30 years.

2004-2005 saw the Board introduce new lending arrangements to take account of the 'prudential' regime for local government capital finance brought in by the Local Government Act 2003. Circular 135, issued on 16 March 2004, set out the arrangements in detail. In summary, the Commissioners are prepared to lend to an authority up to the available capacity in its legal borrowing limit. The Commissioners require a 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.

## Results for 2003-2004

Movements in the PWLB balance sheet and its corresponding pattern of income is driven by borrower demand for new loans and the redemption (early or otherwise) of existing loans. PWLB does not take positions to enhance its income or to otherwise influence its financial performance. All interest receivable by PWLB from borrowers is payable to the NLF. The demand for new loans and the pattern of early redemption by borrowers of existing loans is greatly influenced by changes in the market borrowing rates and borrower expectation of future interest rate changes.

In 2004-2005 PWLB's operating income from interest receivable on loans was £2,796 million (2003-2004: £2,981 million). The reduction in interest income on the previous year was mainly due to the lower average balance of loans outstanding over the course of 2004-2005 compared to the previous year, although loans outstanding to borrowers at 31 March 2005 were slightly higher than the previous year-end. A secondary factor was the reduction in the average interest rate of loans outstanding during the year, as new loans taken were generally at lower rates than loans maturing or which were redeemed early.

At 31 March 2005, PWLB's total assets stood at £42,701 million (2004: £42,120 million). The corresponding liability of the Board to the NLF comprised loans principal of £42,103 million (2004: £41,469 million) with combined loan interest of and early redemption premiums of £598 million (2004: £651 million) outstanding.

## Audit arrangements

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

*HD Watson*  
Secretary, Public Works Loan Board

3 November 2005

## Statement of Accounting Officer's responsibilities

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

The Public Works Loan Board Account is 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 analogue 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 Accounting Officer 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 responsibilities 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 *Government Accounting*.

## Statement on Internal Control

### Scope of responsibility

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

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

### The purpose of the system of internal control

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

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

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

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

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

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

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

## Review of effectiveness

As Secretary, I have responsibility for reviewing the effectiveness of the system of internal control 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.

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

*HD Watson*  
Secretary, Public Works Loan Board

3 November 2005

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

I certify that I have audited the financial statements on pages 54 to 56 under the National Loans Act 1968. These financial statements have been prepared under the historical cost convention as modified by the revaluation of certain investments and the accounting policies set out on page 57.

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

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

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

I review whether the statement on pages 50 and 51 reflects the Public Works Loan Board's compliance with the Treasury's guidance on the Statement on Internal Control. I report if it does not meet the requirements specified by the Treasury, or if the statement is misleading or inconsistent with other information I am aware of from my audit of the financial statements. I am not required to consider, nor have I considered whether the Secretary's Statement on Internal Control covers all risks and controls. I am also not required to form an opinion on the effectiveness of the Public Works Loan Board's corporate governance procedures or its risk and control procedures.

### Basis of audit opinion

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

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

## Opinion

In my opinion

- the financial statements give a true and fair view of the state of affairs of the Public Works Loan Board as at 31 March 2005 and of the surplus and cash flows for the year then ended; and have been properly prepared in accordance with Section 3 (6) of the National Loans Act 1968 and directions made thereunder by Treasury; and
- in all material respects the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

I have no observations to make on these financial statements.

*John Bourn*  
Comptroller and Auditor General

11 November 2005

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



## Income and Expenditure Account for the year ended 31 March 2005

	Notes	2004-2005 £m	2003-2004 £m
Interest receivable	2	<b>2,796</b>	2,981
Premiums/(discounts) receivable for early redemption	3	<b>288</b>	961
<b>Operating income</b>		<b>3,084</b>	3,942
Interest and premiums payable to National Loans Fund		<b>3,084</b>	3,942
<b>Operating surplus retained</b>		<b>0</b>	0

*The notes on pages 57 to 61 form part of these accounts.*

## Balance Sheet as at 31 March 2005

	Notes	2005 £m	2004 £m
<b>Assets</b>			
Cash and balances at Bank of England	9d	47	223
Loans outstanding to PWLB borrowers	6	42,070	41,307
Accrued income	5	584	590
Total assets		<u>42,701</u>	<u>42,120</u>
<b>Liabilities</b>			
Amounts owed to the NLF			
Loan principal	8	(42,103)	(41,469)
Loan Interest		(596)	(601)
Discount/premium on loan early redemption		(2)	(50)
Total amounts due to the NLF		<u>(42,701)</u>	<u>(42,120)</u>
<b>Total liabilities</b>		<u>(42,701)</u>	<u>(42,120)</u>

*The notes on pages 57 to 61 form part of these accounts.*

HD Watson  
Secretary, Public Works Loan Board

3 November 2005

## Cash Flow Statement for the year ended 31 March 2005

	Notes	2005 £m	2004 £m
Net cash flow from operating activities	9a	<b>2,274</b>	7,257
Returns on investments and servicing of finance	9b	<b>(3,084)</b>	(3,942)
<b>Net cash flow before financing</b>		<b>(810)</b>	3,315
Financing	9c	<b>634</b>	(3,171)
<b>Increase/(decrease) in cash</b>		<b>(176)</b>	144

*The notes on pages 57 to 61 form part of these accounts.*

# Notes to the Accounts for the year ended 31 March 2005

## 1 Accounting policies

### *i Accounting convention*

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

### *ii Valuation of loans*

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

### *iii Recognition of assets and liabilities*

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

### *iv Income recognition*

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

## 2 Interest receivable

FDCA	<b>2005</b> <b>£m</b>	2004 £m
Fixed rate loans	<b>2,733</b>	2,916
Variable rate loans	<b>63</b>	65
	<b><u>2,796</u></b>	<u>2,981</u>

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

	<b>2005</b> <b>£m</b>	2004 £m
Premiums payable	<b>321</b>	1,005
Discounts payable	<b>(33)</b>	(44)
	<b><u>288</u></b>	<u>961</u>

#### 4 Segmental analysis of gross interest receivable

##### 4a Segmental analysis by type of borrower 2005

	2005 Local Authority	2005 Parish Council	2005 Harbour and Drainage Board	<b>2005 Total</b>
	£m	£m	£m	£m
Fixed rate loans	2,728	4	1	<b>2,733</b>
Variable rate loans	63	0	0	<b>63</b>
	<u>2,791</u>	<u>4</u>	<u>1</u>	<u>2,796</u>

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

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

##### 4b Segmental analysis by country 2005

	England £m	Wales £m	Scotland £m	<b>Total £m</b>
Fixed rate loans	2,077	191	465	<b>2,733</b>
Variable rate loans	54	5	4	<b>63</b>
	<u>2,131</u>	<u>196</u>	<u>469</u>	<u>2,796</u>

##### Segmental analysis by country 2004

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

#### 5 Accrued income

	<b>2005 £m</b>	2004 £m
Accrued interest on fixed rate loans	<b>582</b>	583
Accrued interest on variable rate loans	<b>2</b>	7
	<u><b>584</b></u>	<u>590</u>

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

	<b>2005</b>	<b>2005</b>	2004	2004
	<b>Principal</b>	<b>Market</b>	Principal	Market
	<b>£m</b>	<b>value</b>	£m	value
		<b>£m</b>		£m
Fixed rate loans	<b>41,498</b>	<b>48,851</b>	39,492	47,506
Variable rate loans	<b>572</b>	<b>575</b>	1,815	1,822
	<b><u>42,070</u></b>	<b><u>49,426</u></b>	<u>41,307</u>	<u>49,328</u>

At 31 March 2005, £14 million of loans (2002-2003: £182 million) had been confirmed but not yet advanced. These loans are not included in the balance sheet.

The balance of outstanding loans includes £13 million of Loans (2003-2004: £25 million) which borrowers had confirmed their intention to repay but as at the balance sheet date had not yet been received.

**6b Loans outstanding – country analysis**

	<b>2005</b>	2004
	<b>£m</b>	£m
England	<b>32,223</b>	31,130
Wales	<b>3,097</b>	3,122
Scotland	<b>6,750</b>	7,055
Total	<b><u>42,070</u></b>	<u>41,307</u>

**6c Loans outstanding – maturity analysis**

	<b>2005</b>	2004
	<b>£m</b>	£m
In not more than 3 months	<b>281</b>	283
In more than 3 months but not more than 1 year	<b>1,777</b>	1,729
In more than 1 year but not more than 2 years	<b>830</b>	803
In more than 2 years but not more than 3 years	<b>746</b>	826
In more than 3 years but not more than 4 years	<b>781</b>	846
In more than 4 years but not more than 5 years	<b>795</b>	912
In more than 5 years but not more than 6 years	<b>1,178</b>	901
In more than 6 years but not more than 10 years	<b>4,854</b>	4,875
In more than 10 years but not more than 15 years	<b>5,349</b>	6,758
More than 15 years	<b>26,079</b>	23,374
	<b><u>42,070</u></b>	<u>41,307</u>

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

	2005 Principal outstanding £m	2005 Average rate %	2005 Principal outstanding	2004 Average rate %
<b>Loan type</b>				
Fixed rate (principal at maturity loans)	39,558	6.57	37,425	6.84
Fixed rate (equal instalments of principal loans)	941	6.32	951	6.65
Fixed annuity	999	8.68	1,116	8.72
<b>Total – fixed rate loans</b>	<b>41,498</b>	<b>6.62</b>	<b>39,492</b>	<b>6.89</b>
One month variable (principal at maturity loans)	217	4.90	745	4.19
One month variable (principal at maturity loans)	253	4.91	696	4.19
Six month variable (principal at maturity loans)	84	5.00	342	4.30
One month variable (equal instalments of principal loans)	7	4.88	17	4.18
Three month variable (equal instalments of principal loans)	3	4.88	4	4.24
Six month variable (equal instalments of principal loans)	8	4.95	11	4.14
<b>Total – variable rate loans</b>	<b>572</b>	<b>4.92</b>	<b>1,815</b>	<b>4.21</b>
Total – all loan types	<b>42,070</b>	<b>6.59</b>	<b>41,307</b>	<b>6.77</b>

EIP means equal instalments of principal.

The weighted average period for which rates are fixed is 20.2 years (2003-2004: 20.2 years) for fixed rate loans.

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

	2005 £m	2004 £m
New agreed loans to PWLB borrowers	5,822	4,604
Loans maturing	(1,978)	(2,199)
Loans redeemed early	(3,081)	(5,686)
Net increase/(decrease) in loans	<b>762</b>	<b>(3,281)</b>

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

	2005 £m	2004 £m
Loan principal outstanding to borrowers	42,070	41,307
Loan principal repaid but not yet surrendered to NLF	33	162
Total loan principal owed to National Loans Fund	<b>42,103</b>	<b>41,469</b>

**9 Analysis of cash flow***9a Reconciliation of operating income to net cashflow from operating activities*

	<b>2004-2005</b>	2003-2004
	<b>£m</b>	£m
<b>Operating income</b>	<b>3,084</b>	3,942
(Increase)/decrease in loans outstanding to PWLB borrowers	<b>(763)</b>	3,282
(Increase)/decrease in accrued income due from PWLB borrowers	<b>6</b>	77
Increase/(decrease) in loan interest payable to NLF	<b>(5)</b>	(88)
Increase/(decrease) in net early redemption discounts and premiums due to NLF	<b>(48)</b>	44
<b>Net cash flow from operating activities</b>	<b><u>2,274</u></b>	<u>7,257</u>

*9b Return on investments and servicing of finance*

Interest and premiums payable to National Loans Fund	<b>(3,083)</b>	(3,942)
Total returns on investments and servicing of finance	<b>(3,083)</b>	(3,942)

*9c Financing*

Increase/(decrease) in loans principal outstanding to NLF	<b>634</b>	(3,171)
Total financing	<b>634</b>	(3,171)

*9d Analysis of cash balances*

	<b>2005</b>	Movement	2004
	<b>£m</b>	£m	£m
Cash and balances at Bank of England	<b>47</b>	(176)	223



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

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

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

25 February 2005

## Accounts of Loans to the Private Sector



# Harbours Act 1964

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

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

## Foreword

### Background

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

### Scope of the Account

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

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

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

### Limits on borrowing

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

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

- 6 Loans made under section 11(1)(a) and (b) of the Harbours Act 1964 (as amended) are subject to interest at the rate prescribed by the Treasury at the date of issue. No such loans were made in 2004-2005.

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

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

*David Rowlands*  
Accounting Officer  
Department for Transport

22 November 2005

## Harbours Act 1964

Prepared under Section 43 of the Harbours Act 1964, of the Receipts and Payments of the Secretary of State for Transport, under Section 11 of the 1964 Act for the year ended 31 March 2005

### Receipts

	£	Previous year £
Balance as at 1 April 2004	-	-
<i>Payments by the Harbour Authorities [s.43(1)]</i>		
Repayment of Loans	<b>3,008</b>	2,808
Interest on Loans	<b>4,223</b>	4,424
Less (discount) or plus premium on premature redemption	-	-
	<b>7,231</b>	7,232

### Payments

	£	Previous year £
Payments to the National Loans Fund [s.43(4)]	-	-
Repayment of Loans	<b>3,008</b>	2,808
Interest on Loans	<b>4,223</b>	4,424
Less (discount) or plus premium on premature redemption	-	-
Balance at 31 March 2005	-	-
	<b>7,231</b>	7,232

### Note

The aggregate amount of principal outstanding in respect of advances to Harbour Authorities under the Harbours Act 1964 at 31 March 2005 was £58,065.89.

David Rowlands  
Accounting Officer  
Department of the Transport

22 November 2005

## Statement on Internal Control

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

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

### The purpose of the system of internal control

The system of internal control is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of departmental policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically. Subject to the developments during the year described in the following paragraphs, the system of internal control has been in place in the Department for Transport for the year ended 31 March 2005 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. The Department's Board includes the four Directors General in the central Department, the Director General for the DVO Group, the Chief Executive of the Highways Agency and three non-executive members. The Director General for Delivery and Security is the Board's 'Risk Management Champion';
- an Executive Committee, which seeks to ensure that the resources available to the central department are managed as effectively as possible to meet 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 two non-executive members, who are themselves Chairmen of Audit Committees within the DfT family.

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

The Department's Risk Improvement Manager is responsible for ensuring that appropriate guidance, support and training on risk management is available to staff within the central Department. During 2004-2005 a programme of risk management workshops was delivered.

### The risk and control framework

Directors General and Head of Unit (Directors) in the Department take responsibility for the day to day management of risks in their respective areas of influence. The Board has set guideline criteria for the impact of risks that it considers should be escalated for its potential attention through regular delivery and financial reporting processes. The escalation of a risk in this way does not transfer responsibility for its day to day management. The Board encourages the early escalation of corporate risks, as part of seeking to establish a 'no surprises' culture within the department where risk identification, management and escalation is encouraged and rewarded.

Early in the year, the Department put in place a comprehensive 'Stewardship Pack' which included the framework of accountabilities, the roles and responsibilities of Directors and the end of year reporting arrangements. These set out Directors' responsibilities for risk management. This pack was supported by delegations from the Accounting Officer to Directors to maintain accountability and the management of resources. Performance against these requirements was assessed through internal audits and a self-assessment questionnaire. The risk elements of this were based upon the Treasury's Risk Management Framework.

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

### Review of effectiveness

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

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 the Committee's views on the effectiveness of internal control to the Board regularly throughout the year.

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 have completed end of year assurance questionnaires, which the Finance Director has reviewed and summarised in his report to me on stewardship. The responses confirmed that Directors regard their Units as substantially compliant with the structure of internal controls. As regards financial controls, the central Department has put in place an improvement programme to further strengthen its financial management, which is being implemented in 2005-2006.

Directors recognised that there remained scope for further improvement in risk management. A programme of work to improve the central department's risk management processes and performance, including clarification of risk appetites, is being implemented during 2005-2006.

The Treasury and the Department have, separately, conducted reviews of the Department's financial management and control arrangements. The Treasury has acknowledge the improvements that have been made by the Department and has agreed an action plan to address current challenges and priorities.



## Group audit opinion

The Group Head of Internal Audit has provided the following opinion for 2005-2006

- "For the Department I can provide partial assurance. Whilst risk management at the Directorate level in the Department has improved during the year, the processes to manage risks at a corporate level were only developed and initiated during the latter part of 2004-2005. The plans in place to further strengthen and improve these practices in the Department provide a sound platform for risk management and should significantly improve the process going forward.
- Internal controls, including financial controls, have continued to improve during the year so that I am able to provide substantial assurance on internal control in all parts of the organisation other than in the central Department and Highways Agency. Significant effort has been made to improve financial management and control in the central Department, and management is working on a continuous programme to improve controls further, including areas identified in some of our audits. Accordingly I am only able to provide partial assurance on internal control arrangements in the central Department. Notwithstanding this level of assurance, no weaknesses were identified that are sufficiently significant or material to require disclosure in the Statement on Internal Control.
- Improvements have been made to the Governance process in the centre and in the agencies during the year leading me to provide substantial assurance."

*David Rowlands*  
Accounting Officer

22 November 2005

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

I certify that I have audited the financial statements on page 67 under the Harbours Act 1964. These financial statements have been prepared in the form and on the basis determined by the Treasury.

## Respective responsibilities of the Accounting Officer and Auditor

As described on page 66, the Accounting Officer is responsible for the preparation of the financial statements in accordance with the Harbours Act 1964 and Treasury directions made thereunder and for ensuring the regularity of financial transactions. The Accounting Officer is also responsible for the preparation of the Foreword. My responsibilities, as independent auditor, are established by statute and I have regard to the standards and guidance issued by the Auditing Practices Board and the ethical guidance applicable to the auditing profession.

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

I review whether the statement on pages 68 to 70 reflects compliance with Treasury's guidance on the Statement on Internal Control. I report if it does not meet the requirements specified by Treasury, or if the statement is misleading or inconsistent with other information I am aware of from my audit of the financial statements. I am not required to consider, nor have I considered whether the Accounting Officer's Statement on Internal Control covers all risks and controls. I am also not required to form an opinion on the effectiveness of the Department's corporate governance procedures or its risk and control procedures.

## Basis of opinion

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

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

## Opinion

In my opinion

- the account properly presents the receipts and payments of the Secretary of State for Transport in respect of advances made to the Harbour Authorities for the year ended 31 March 2005 and the balances held at that date and has been properly prepared in accordance with Section 43(5) of the Harbours Act 1964 and the directions made thereunder by the Treasury; and
- in all material respects the receipts and payments have been applied to the purposes intended by Parliament and conform to the authorities which govern them.

I have no observations to make on these financial statements.

*John Bourn*  
Comptroller and Auditor General

26 January 2006

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

## Accounts of Loans with Central Government



# Northern Ireland (Loans) Act 1975

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

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

## Foreword

### Scope of the Account

- 1 This account prepared under Section 3(1) of the Northern Ireland (Loans) Act 1975, for the year ended 31 March 2005 is required to show
  - i the sums issued to the Secretary of State for Northern Ireland out of the National Loans Fund under Section 1(8) of the 1975 Act to enable him to make loans under Section 1(1) to the Consolidated Fund of Northern Ireland;
  - ii the loans so made by the Secretary of State;
  - iii the sums received by the Secretary of State in respect of interest on, and repayment of
    - a loans made under the 1975 Act (Section 1(7));
    - b loans made under previous enactments (Section 2(1));
  - iv the payment into the National Loans Fund of the sums received under (iii).

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

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

### Limits on loans outstanding

- 3 Section 1(2) of the 1975 Act as amended by Section 1(1) of the Northern Ireland (Loans) Act 1985 specified a maximum of £1,700 million for the aggregate amount outstanding by way of principal in respect of certain loans. The Northern Ireland (Loans) (Increase of Limit) Order 1995 increased the limit in Section 1(2) of the 1975 Act by £300 million to £2,000 million. At 31 March 2005 the aggregate amount outstanding was £1,440,491,381 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 2005 was £168,726,000.

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.

*Jonathan Phillips*  
Accounting Officer  
Northern Ireland Office

13 December 2005

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

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

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

## Northern Ireland (Loans) Act 1975

Account, prepared under Section 3(1) of the Northern Ireland (Loans) Act 1975, of the Receipts and Payments of the Secretary of State for Northern Ireland under Sections 1(1), 1(7), 1(8), 2(1) and 2(3) of that Act for the year ended 31 March 2005

### Receipts

	£	Previous year £
Issues from the National Loans Fund (s.1.(8))	<b>168,726,000</b>	89,435,000
<i>From the Consolidated Fund of Northern Ireland</i>		
i Loans under previous enactments (s.2(1))		
Repayment of principal	<b>14,069,277</b>	13,011,275
Interest	<b>9,138,491</b>	10,196,493
ii Loans under the 1975 Act (s.1(7))		
Repayment of principal	<b>86,162,228</b>	84,851,672
Interest	<b>108,993,111</b>	114,072,365
	<b><u>387,089,107</u></b>	<u>311,566,805</u>

### Payments

	£	Previous year £
Loans to the Consolidated Fund of Northern Ireland (s.1(1))	<b>168,726,000</b>	89,435,000
<i>Payments to the National Loans Fund (ss.1(8) and 2(3))</i>		
Repayment of principal	<b>100,231,505</b>	97,862,947
Interest	<b>118,131,602</b>	124,268,858
	<b><u>387,089,107</u></b>	<u>311,566,805</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 2005 were

Loans under previous enactments	100,791,659
Loans under the 1975 Act	<u>1,339,699,722</u>
	<b>1,440,491,381</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

13 December 2005

## Statement on the System of Internal Control

### The scope of responsibility

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

### The purpose of the system of internal control

The system of internal control is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control has been in place in the Northern Ireland Office for the year ended 31 March 2005 and up to the date of approval of the annual accounts, and accords with Treasury guidance.

### Capacity to handle risk

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

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

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

### Review of effectiveness

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

*Jonathan Phillips*  
Accounting Officer  
Northern Ireland Office

13 December 2005



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

I certify that I have audited the financial statements on page 76 under the Northern Ireland (Loans) Act 1975. These financial statements have been prepared in the form and on the basis determined by Treasury.

## Respective responsibilities of the Accounting Officer and Auditor

As described on page 75 the Accounting Officer is responsible for the preparation of financial statements in accordance with the Northern Ireland (Loans) Act 1975 and Treasury directions made thereunder and for ensuring the regularity of financial transactions. The Accounting Officer is also responsible for the preparation of the Foreword. My responsibilities, as independent auditor, are established by statute and I have regard to the standards and guidance issued by the Auditing Practices Board and the ethical guidance applicable to the auditing profession.

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

I review whether the statement on page 77 reflects compliance with Treasury's guidance on the Statement on Internal Control. I report if it does not meet the requirements specified by Treasury, or if the statement is misleading or inconsistent with other information I am aware of from my audit of the financial statements. I am not required to consider, nor have I considered whether the Accounting Officer's Statement on Internal Control covers all risks and controls. I am also not required to form an opinion on the effectiveness of the Department's corporate governance procedures or its risk and control procedures.

## Basis of audit opinion

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

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

## Opinion

In my opinion

- the account properly presents the receipts and payments of the Secretary of State for Northern Ireland in respect of advances to the Consolidated Fund of Northern Ireland for the year ended 31 March 2005 and the balances held at that date, and has been properly prepared in accordance with the Northern Ireland (Loans) Act 1975 and the directions made thereunder by the Treasury; and
- in all material respects the payments and receipts have been applied to the purposes intended by Parliament and conform to the authorities which govern them.

I have no observations to make on these financial statements.

*John Bourn*  
Comptroller and Auditor General

20 January 2006

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

# Housing Associations Act 1985

Advances to the Housing Corporation

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

## Foreword

### Scope of the Account

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

### Limits on borrowing

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

### Repayment of loans

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

### Transactions during the year ended 31 March 2005

- 5 A total of £2,600,000 was issued to the First Secretary of State out of the National Loans Fund for advancement to the Housing Corporation.
- 6 The Corporation repaid £2,400,000 in respect of advances made to them. Taking into account advances made in previous years the outstanding amount of advances to the Housing Corporation at 31 March 2005 was £1,400,000. The Corporation also paid interest totalling £53,292.

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

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

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

11 October 2005

## 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 2005

### Receipts

	<b>2004-2005</b>	2003-2004
	£	£
Issues from the National Loans Fund [S.92(5) of the 1985 Act]	<b>2,600,000</b>	2,600,000
<i>Payments by the Housing Corporation</i>		
Repayment on advances	<b>2,400,000</b>	3,400,000
Interest on advances	<b>53,292</b>	64,471
	<b><u>5,053,292</u></b>	<u>6,064,471</u>

### Payments

	<b>2004-2005</b>	2003-2004
	£	£
Advances to the Housing Corporation [S.92(1) of the 1985 Act]	<b>2,600,000</b>	2,600,000
<i>Payments to the National Loans Fund</i>		
Repayment on advances	<b>2,400,000</b>	3,400,000
Interest on advances	<b>53,292</b>	64,471
	<b><u>5,053,292</u></b>	<u>6,064,471</u>

### Note

The amount of advances outstanding at 1 April 2004 was £1,200,000. The amount of advances outstanding at 31 March 2005 was £1,400,000.

Mavis McDonald  
Accounting Officer  
Office of the Deputy Prime Minister

11 October 2005

# 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

The Housing Corporation is Non-Departmental Public Body sponsored by the Office of the Deputy Prime Minister (ODPM). The Corporation has a small portfolio of long term loans which are financed by the borrowings disclosed in the attached account. As the Permanent Secretary for ODPM, I have been appointed by the Treasury as Accounting Officer for this account.

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

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

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

## The purpose of the system of internal control

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

The system of internal control has been in place in ODPM for the year ended 31 March 2005 and up to the date of approval of the annual report and accounts, and this statement complies with the Treasury guidance.

## Capacity to handle risk

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

Throughout the year, processes were in place to identify, assess and manage risk through business and delivery planning (including for the Spending Review 2004), through project and programme management, through policy development and implementation and through audit.

Further work to embed risk management within planning, project and programme management and delivery is being driven by the Office's Centre of Excellence. During 2004-05 work continued on addressing elements of the Treasury's risk framework – leadership, strategy and policies, people, partnerships, processes, outcomes and handling – including the identification, assessment and management of risk early in the policy development process and the spread of risk across the Office.

## The risk and control framework

Our aim is to create an environment of 'no surprises' in which we manage our threats and opportunities effectively. Risks identified through the business delivery planning processes and other project and programme management systems, performance monitoring and through implementation of internal and external auditor's recommendations form the basis of the Office's risk register that feeds into the management information systems. This corporate and strategic risk register is regularly reviewed and updated by the risk owners.

## Review of effectiveness

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

Mechanisms exist to ensure the effectiveness of the system of internal control is regularly reviewed and these are set out in the statement contained within the 2004-2005 ODPM Resource Accounts.

No significant control issues arose during the year in the operation of this account.

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

11 October 2005

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

I certify that I have audited the financial statements on page 82 under the Housing Associations Act 1985. These financial statements have been prepared in the form and on the basis determined by Treasury.

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

As described on page 81 the First Secretary of State is responsible for the preparation of the financial statements in accordance with the Housing Associations Act 1985 and Treasury directions made thereunder. The Accounting Officer is responsible for ensuring the regularity of financial transactions and for the preparation of the Foreword. My responsibilities, as independent auditor, are established by statute and I have regard to the standards and guidance issued by the Auditing Practices Board and the ethical guidance applicable to the auditing profession.

I report my opinion as to whether the financial statements properly present the receipts and payments and are properly prepared in accordance with the Housing Associations Act 1985 and Treasury directions made thereunder, and whether in all material respects the receipts and payments have been applied to the purposes intended by Parliament and conform to the authorities which govern them. I also report if, in my opinion, the Foreword is not consistent with the financial statements, if 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 pages 83 to 84 reflects compliance with Treasury's guidance on the Statement on Internal Control. I report if it does not meet the requirements specified by Treasury, or if the statement is misleading or inconsistent with other information I am aware of from my audit of the financial statements. I am not required to consider, nor have I considered, whether the Accounting Officer's Statement on Internal Control covers all risks and controls. I am also not required to form an opinion on the effectiveness of the Department's corporate governance procedures or its risk and control procedures.

## Basis of audit opinion

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

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



## Opinion

In my opinion

- the account properly presents the receipts and payments of the First Secretary of State in respect of advances to the Housing Corporation for the year ended 31 March 2005 and the balances held at that date and has been properly prepared in accordance with Section 97 of the Housing Associations Act 1985 and the directions made thereunder by the Treasury; and
- in all material respects the payments and receipts have been applied to the purposes intended by Parliament and conform to the authorities which govern them.

I have no observations to make on these financial statements.

*John Bourn*  
Comptroller and Auditor General

17 October 2005

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