Northern
Ireland
Office

Secretary of State's Fourth Report under Section 11(1) of the Northern Ireland (Monitoring Commission etc.) Act 2003

Secretary of State's Fourth Report
Under Section 11(1) of the Northern Ireland
(Monitoring Commission etc) Act 2003

Laid before the Houses of Parliament by the Northern Ireland Office in accordance with Section 11 (6) of the Northern Ireland (Monitoring Commission etc) Act 2003

7th October 2008

Ordered by the House of Commons to be printed

7 October 2008

HC1046 London: The Stationery Office £14.35

ISBN: 9780102958041

Contents

Preface

I am pleased to present the fourth annual report to Parliament under section 11(1) of the Northern Ireland (Monitoring Commission etc.) Act 2003. This report covers the twelve-month period 18 September 2006 to 17 September 2007 and also contains the audited accounts of the IMC for the 2006/07 financial year.

The IMC provide an independent and reliable assessment of any continuing activity by paramilitary organisations, which has contributed enormously to the process of restoring devolution in Northern Ireland. During the period covered by the report the IMC continued to monitor closely the process of security normalisation in Northern Ireland. They assessed whether the public commitments made on 1 August 2005 have been fully implemented in the light of their assessment of the paramilitary threat and the British Government's obligation to ensure the safety and security of the citizens of Northern Ireland.

This report covers the final report on normalisation published on 17 September 2007, which concluded that the normalisation programme as a whole has been complied with. This assessment illustrates the pace of change that has taken place in Northern Ireland society over the past two years.

I would like to take this opportunity to thank the Commissioners for their valuable contribution and the work they have undertaken over the past year. They have played a crucial role in promoting the transition to a peaceful society and a stable and inclusive devolved Government in Northern Ireland.

SHAUN WOODWARD MP

SECRETARY OF STATE FOR NORTHERN IRELAND

1. Introduction and Background

Introduction

1.1 The Northern Ireland (Monitoring Commission etc.) Act 2003[1] ('the 2003 Act') makes provision associated with the Independent Monitoring Commission (IMC), established by an Agreement between the British and Irish Governments.

1.2 Section 11 of the 2003 Act requires an Annual Report to be laid before Parliament. The report must cover two matters:

- the operation of the Agreement that established the IMC; and
- the operation of those parts of the 2003 Act that amend the Northern Ireland Act 1998[2] ('the 1998 Act').

Background

1.3 The Agreement between the British and Irish Governments that led to the establishment of the IMC was published on 1 May 2003 alongside a Joint Declaration[3] from the Governments on steps necessary to build trust and confidence amongst the Northern Ireland political parties with a view to restoration of the Belfast Agreement institutions.

1.4 The Agreement sets out the functions of the new body. The IMC would monitor and report on ongoing paramilitary activity, and a programme of security normalisation measures initiated by the British Government (when that commenced). It would also consider claims that a party sitting in the Northern Ireland Assembly was in breach of its commitments under the Belfast Agreement.

1.5 The IMC was formally established on 7 January 2004, by means of an International Agreement between the British and Irish Governments. Supplementary legislation was required in each country. In the UK, that has

---

[1] c25
[2] c47
[3] Both documents are available on the NIO website www.nio.gov.uk

been the 2003 Act and the Northern Ireland (Monitoring Commission etc.) Act 2003 (Immunities and Privileges) Order 2003[4]. These pieces of legislation established the IMC as an independent body in international law and allowed it to operate in the United Kingdom and Ireland.

1.6 The effect of this legislation is to permit the Northern Ireland Assembly to take remedial action in the light of an adverse report from the IMC. The 1998 Act was amended to allow the Assembly to take a number of measures against parties and Ministers on the basis of a cross-community vote. The 1998 Act already provides for the Assembly to vote to exclude a party or a Minister. These amendments added the ability to reduce MLA salaries and party funding and to vote on a motion of censure.

1.7 If the Assembly were to fail to give effect to an IMC recommendation, it would be for the British Government, in consultation with the Irish Government and the parties, to resolve the matter in a manner consistent with the IMC report. The legislation has therefore made provision to enable the Secretary of State to exclude a party or Minister in circumstances where the IMC had recommended that and where the first Assembly motion for an exclusion resolution failed to attract cross-community support.

Status of the Independent Monitoring Commission and its Duties

1.8 The IMC is independent of the two Governments. Its functions are defined by the International Agreement establishing the Commission. Article 13 of the Agreement and section 2(1) of the 2003 Act state that the IMC is under a duty not to do anything which might prejudice national security, put at risk the life or safety of any person, or prejudice present or future legal proceedings.

1.9 The Agreement and the 2003 Act enable the Governments to confer immunity from suit and legal challenge on the IMC. In the United Kingdom, the Northern Ireland (Monitoring Commission etc.) Act 2003 (Immunities and Privileges) Order 2003 was made to confer such immunities upon the Commission.

[4] SI 2003 No 3126

2. IMC Activities

Administration

2.1 Under Article 14 of the International Agreement, the Commission is required to keep proper accounts and proper records of all moneys received or expended by it and, at the joint request of the two Governments, appoint auditors who shall audit the accounts of the Commission. The reports of the auditors shall be submitted to both Governments.

2.2 Under Article 12 the two Governments must provide, on a basis to be determined by them, such monies, premises, facilities and services as may be necessary for the proper functioning of the Commission.

Management Statement and Financial Memorandum

2.3 Corporate Governance arrangements for the IMC codify the relationship between the IMC and the British and Irish Governments. This is achieved through a management statement, including a financial memorandum, which was agreed by the IMC and the British and Irish Governments, and sets out in greater detail certain aspects of the financial framework in which the Commission is required to operate.

Reports

2.4 The IMC made four reports during the year covered by this report. These are commented on in more detail in the next section of this document.

Accounts and Recoupment

2.5 The IMC's accounts for the period April 2006 to March 2007 were completed and subject to audit. These accounts are included later in this report.

2.6 On the basis of those accounts, a recoupment exercise was conducted to recover half the costs of the Commission from the Irish Government. The costs of the IMC are borne equally by the two Governments.

Accessibility of IMC

2.7 Under Article 8 of the International Agreement, the IMC must be accessible to all interested parties and must consult as necessary on the issues mentioned in Articles 4 to 6 in preparing its reports and making recommendations as described in Article 7. The IMC continued to make itself available to speak to interested parties, and actively solicited the views of others.

Normalisation

2.8 The Provisional IRA made a statement on 28 July 2005 that announced an end to armed conflict and other activities. In response to this statement, the British Government announced on 1 August 2005 that it was satisfied that an enabling environment would be achieved and it launched a security normalisation programme. This envisaged the gradual reduction of the security response in Northern Ireland over a two-year period, with a view to achieving security normalisation by 31 July 2007.

2.9 Under Article 5(1) of the International Agreement that established the IMC, when the British Government makes a commitment to a package of security normalisation measures, the Commission has an obligation to monitor whether those commitments are being fully implemented, in the light of its assessment of the paramilitary threat and the British Government's obligation to ensure the safety and security of the community as a whole. The International Agreement requires the IMC to report its findings to the two Governments at six-monthly intervals.

2.10 Two Article 5(1) reports were therefore prepared during the period covered by this report, including the final Article 5(1) report. They are covered in more detail in section 4 of this report.

Foreword to the Accounts for the year ended 31 March 2007

History and statutory background

2.11 The Independent Monitoring Commission (IMC) was established and became operational on 7 January 2004 under the Northern Ireland (Monitoring Commission etc) Act 2003 and the Agreement between the Government of the United Kingdom of Great Britain and Northern Ireland and the Government of Ireland. Its purpose is to help promote the establishment of stable and inclusive devolved government in a peaceful Northern Ireland. The accounts have been prepared in a form directed by the Secretary of State for Northern Ireland in accordance with the agreement between the Government of the United Kingdom of Great Britain and Northern Ireland and the Government of Ireland.

Principal activities

2.12 The duty of the IMC is to report to the Governments on the activity by paramilitary groups, on the normalisation of security measures in Northern Ireland, and on claims by Assembly parties that other parties, or Ministers in a devolved Executive, are not living up to the standards required of them. The four Commissioners are entirely independent of both Governments.

Review of activities

Corporate Governance

2.13 Work has been undertaken on the corporate governance arrangements for the IMC in order to codify the relationship between the IMC and the British and Irish Governments. Under Article 14 of the International Agreement, the IMC is required to keep proper accounts and proper records of all monies received or expended by it and, at the joint request of the two Governments, appoint auditors who shall audit the accounts of the IMC.

Reports

2.14 The IMC made four reports during the financial period.

Membership of the IMC

- Lord Alderdice
- Joe Brosnan
- Dick Kerr
- John Grieve

Financial position as at 31 March 2007

2.15 The Commission's financial position for the year ended 31 March 2007 is set out in the Income and Expenditure Account and the Balance Sheet on pages 27 and 28 respectively. The deficit for the year reduced to £438,456 from £657,960 in 2006. Decreased staff costs and legal costs have contributed to this. The Commission had net assets of £26,526 at 31 March 2007, a decrease of £4,348 on the previous period's net assets of £30,874. The decrease in debtors in the period represents reduced contributions due from the Irish Government as a result of less expenditure in the year. Ongoing cash requirements continue to be met from the NIO's grant funding.

Remuneration and pensions

2.16 Full details of the Commissioner's remuneration and pension interests for the year ended 31 March 2007 are contained in note 3 to the accounts. Salaries of the joint secretaries are contained in the Remuneration Report laid out on pages 23 to 24. Pensions are provided to staff through the Principal Civil Service Pension Scheme Northern Ireland. Further information on pension costs can be found in Note 3 to the Accounts.

Risk management

2.17 The Commission's management consider the identification and prioritisation of those risks which may prevent the Commission achieving its policies, aims and objectives.

Future developments

2.18 The IMC will continue to monitor as directed by its remit and produce reports on a regular cycle or as directed by the two Governments or on its own initiative. It will continue to remain accessible and meet with a wide range of people.

Post balance sheet events

2.19 There have been no significant events since the end of the financial year which would affect the results for the year or the assets and liabilities at the year end. The accounts were authorised for issue by the Accounting Officer on 17 April 2008.

Equal opportunities

2.20 It is the policy of the IMC to promote equality of opportunity. The IMC will provide equal opportunity for all job applicants and employees. All recruitment, promotion and training will be based on a person's ability and job performance and will exclude any consideration of an applicant's/employee's religious beliefs, political opinion, sex, marital status or disability.

Health and safety

2.21 The IMC is committed to providing for staff and visitors an environment that is as far as possible safe and free from risk to health.

Employee involvement

2.22 The IMC recognises the importance of good industrial relations and is committed to promoting and maintaining effective communication and consultation with its staff, and to creating and maintaining good morale. Staff involvement is maximised through regular team meetings and staff briefings. NIPSA is the IMC's recognised trade union.

Prompt payment

2.23 The IMC is committed to the prompt payment of bills for goods and services received in accordance with the Confederation of British Industry's Prompt Payers Code and British Standard BS 7890 – Achieving Good Payment Performance in Commercial Transactions. Unless otherwise stated in the contract, payment is due within 30 days of the receipt of the goods or services, or presentation of a valid invoice or similar demand, whichever is later.

On their receipt, invoices are sent for processing to the Northern Ireland Office (NIO). During the year ended 31 March 2007, the NIO paid 76.4% of the invoices received within 30 days of receipt by the IMC.

Audit

2.24 These accounts have been audited by the Comptroller and Auditor General. A fee of £5,000 has been charged by the National Audit Office in respect of audit services provided during the year.

Going concern

2.25 The Balance Sheet as at 31 March 2007 shows net assets of £26,526, consisting of £213,948 assets and £187,422 liabilities. The IMC's future funding requirements will be met by future deficit funding from the IMC's sponsoring Department, the Northern Ireland Office. This is because, under the normal conventions applying to parliamentary control over income and expenditure, such funding may not be issued in advance of need.

2.26 Deficit funding for the year ended 31 March 2007, taking into account the amounts required to meet the IMC's liabilities falling due in that year, has already been included in the Department's estimates for that year, which have been approved by Parliament. There is no reason to believe that the IMC's future funding from the Department of Justice in the Republic of Ireland and the Northern Ireland Office will not be forthcoming. It has accordingly been considered appropriate to adopt a going concern basis for the preparation of these financial statements.

Disclosure of audit information

2.27 As Accounting Officer I am required to ensure that all relevant audit information is provided to the auditors. I have taken all reasonable steps to make myself aware of any relevant audit information and have ensured that all such information is available to the auditors. I would also confirm that there is no relevant audit information about which I am aware that the auditors have not been informed about.

STEPHEN BOYS SMITH
Accounting Officer
Date: 10 March 2008

3. Paramilitary Activity Reports

3.1 The IMC published two reports on paramilitary activity during the period covered by this report. This report focuses on the requirements of section 11 of the 2003 Act. It does not attempt to summarise in any detail IMC's reports, which are available publicly[5].

Requirements for Reports on Paramilitary Activity

3.2 Article 4 of the Agreement requires the IMC to monitor any continuing activity by paramilitary groups and it sets out the activities to be covered in reports. Article 4 also requires the IMC to assess whether the leaderships of paramilitary groups are directing or seeking to prevent continuing activities and it requires the IMC to assess trends in security incidents. The IMC must report to the two Governments at six-monthly intervals and can produce further ad hoc reports if it sees fit to do so, or at the request of the Governments.

3.3 Under Article 9 of the Agreement, the Governments must take steps to publish Article 4 reports and the 2003 Act further requires that reports must be laid in Parliament.

3.4 Article 7 of the Agreement requires the IMC to recommend any remedial action considered necessary when reporting on paramilitary activity under Article 4. The Commission may also recommend what measures, if any, the Northern Ireland Assembly should take but is limited in this respect to recommending measures provided for in the Northern Ireland Act 1998 as amended by the 2003 Act (exclusion, reduction of salaries, reduction of financial assistance to parties and censure).

The Thirteenth Report on Paramilitary Activity – Content and Action by the Secretary of State

---

[5] Via the Northern Ireland Office's website www.nio.gov.uk

3.5 The Thirteenth Report, made under Articles 4 and 7 of the International Agreement was presented to the Secretary of State in January 2007, and published on 30 January 2007 by means of a press release. This report was made by the IMC following the St Andrews Agreement at the request of the British and Irish Government.

3.6 They echoed their assessment in the Twelfth report concerning activities of dissident republicans.

3.7 The report highlighted PIRA's continuing commitment to a strategy of following a "political path" and the direction being set by the PIRA leadership to members in abandoning terrorism and violence. This is supported by evidence seen in the three months covered by the report, especially the decision to support policing and the criminal justice system; showing commitment and strong leadership by Sinn Fein and the republican movement as a whole.

3.8 The time span of the report illustrated some improvement on the part of the UDA with senior figures attempting to steer the organisation towards involvement in community development, democratic politics and the avoidance of sectarian conflict, however this movement was slow with continued involvement in violence and criminality. In relation to the UVF there has been minimal progress, and the pace of change has been slow.

3.9 The review noted for the period under examination there were no paramilitary murders.

The Fifteenth Report on Paramilitary Activity – Content and Action by the Secretary of State

3.10 The Fifteenth Report, made under Articles 4 and 7 of the International Agreement, was published on the 25 April 2007 by press release. This report continued the six-monthly cycle required by the Agreement and covered the three months from 1 December 2006 to 28 February 2007, updating the situation presented in the Thirteenth report, which covered the proceeding three months.

3.11 The report concluded that dissident republicans still remained active.

3.12 The IMC, in considering the LVF, concluded that although the organisation was not involved in activities of a terrorist kind during the three months under review, those using the LVF name are “primarily a criminal concern without any coherent political purpose”.

3.13 In relation to PIRA the position presented in the Thirteenth report remains unchanged as does their assessment of the RIRA.

3.14 The UDA continued to be involved in acts of violence during the period under review, with members continuing to be involved in serious crime. However overall their assessment of the UDA remains broadly the same as that expressed in their Thirteenth report, however emphasised a need for the UDA to “move faster and more vigorously”.

3.15 In relation to the UVF the IMC felt that the situation had remained broadly the same over the three months covered however in looking at indicators of its behaviour, “more things have moved in the right direction than have moved adversely or have stayed the same”.

4. Security Normalisation Reports

4.1 The IMC published two reports on security normalisation during the period covered by this report. The Sixteenth Report of the IMC which was published in September 2007, is the fourth and final report under Article 5(1).

Requirements for Reports on Security Normalisation

4.2 The IMC Agreement makes two distinct provisions for the IMC to report on security normalisation activities undertaken by the British Government. The IMC's main responsibility was to monitor a programme of security normalisation triggered by the Government.

4.3 Article 5(1) of the Agreement requires the IMC to monitor whether security normalisation commitments made by the British Government are being delivered within agreed timescales, in the light of the Commission's assessment of the paramilitary threat and the Government's obligations to ensure the safety and security of Northern Ireland. The security normalisation activities to be included in these reports, to be delivered to the two Governments at six-monthly intervals, are set out in the Agreement. They include:

- the demolition of towers and observation posts in Northern Ireland;
- the withdrawal of troops from police stations in Northern Ireland;
- the closure and dismantling of military bases and installations in Northern Ireland;
- troop deployments and withdrawals from Northern Ireland and levels of British Army helicopter use; and
- the repeal of counter-terrorism legislation particular to Northern Ireland.

4.4 Following the Provisional IRA's statement of 28 July 2005, the Secretary of State determined that an enabling environment had been achieved. On 1 August 2005 he published a two-year programme of security normalisation that would commence immediately. At the same time, he formally commenced IMC's obligation to monitor that programme under Article 5(1).

The Secretary of State wrote to the IMC and to Michael McDowell (Irish Minister for Justice, Equality and Law Reform) under Article 15 of the International Agreement on 2 August 2005. This letter informed them that he was formally triggering the IMC's role in monitoring a programme of security normalisation under Article 5(1). The first report under Article 5(1) therefore covers the period 1 August 2005 to 31 January 2006.

Reports under Article 5(2) of the International Agreement

4.5 Before that enabling environment had been attained and the security normalisation programme triggered, the Agreement also allowed the British Government to commission the IMC, under Article 5(2), to prepare a report on such normalisation activities over such a specified period as are notified by the British Government.

4.6 In response to a request by the British Government, the IMC produced an Article 5(2) report – the Second Report – published on 20 July 2004. That report gave a current assessment of the normalisation activities set out in Article 5(1) of the International Agreement which had taken place since the British Government published its Security Strategy Paper in December 1999. It also set out a number of considerations about the IMC's future monitoring role.

4.7 When the security normalisation programme was announced and Article 5(1) was commenced, Article 5(2) ceased to have effect.

The Fourteenth Report on Security Normalisation – Content and Action by the Secretary of State

4.8 The Fourteenth Report, made under Article 5(1) of the International Agreement was published on 12 March 2007 by a Written Ministerial Statement. This was the IMC's third report under Article 5(1) and covers the period 1 August 2006 to 31 January 2007.

4.9 They concluded that the provisions of the programme relating to military support to the police, police estate and police patrolling patterns had been met.

4.10 However they noted that the normalisation programme required action on counter terrorism legislation particular to Northern Ireland by July 2007, noting that this work had already commenced in the form of the Bill presently before parliament.

4.11 In addition to the formal compliance with the normalisation programme they also noted further indications of progress, including the announcement of reductions in military bases in Northern Ireland, the continued reduction in troop numbers and the continuing downward trend in the use of military helicopters.

The Sixteenth Report on Security Normalisation – Content and Action by the Secretary of State

4.12 The Sixteenth Report, made under Article 5(1) of the International Agreement was published on 17 September 2007. It was the IMC's fourth and final report on the security normalisation programme and covered the period 1 February to 31 July 2007, as well as concluding the examination of the programme as a whole.

4.13 Their conclusions were that the provisions of the programme relating to military support to the police, counter-terrorist legislation, police estate, police patrolling patterns had been met. They also highlighted that for the second year running the parades on 12 July 2007 were policed without the need for military assistance.

4.14 They concluded that the normalisation programme as a whole had been complied with.

5. Arrangements for Article 6 Reports

5.1 Article 6 of the Agreement enables the Commission to consider a claim by a party represented in the Northern Ireland Assembly that another party or Minister was, broadly speaking, in breach of their commitments under the Belfast Agreement.

5.2 Article 6(1) defines the claims the Commission may consider. These are claims that a Minister or party is not committed to non-violence and exclusively peaceful and democratic means; or that a Minister has failed to observe any other terms of the pledge of office; or that a party is not committed to such of its members as are or might become Ministers observing the other terms of the pledge of office.

5.3 Article 6(2) makes clear that any claims that relate to the operation of the institutional arrangements under Strand 1 of the Belfast Agreement can only be considered by the Commissioners appointed by the British Government (Lord Alderdice and John Grieve). Article 6(3) provides that such reports shall be made to the British Government only. Other reports under Article 6 are to be made to both Governments.

5.4 Otherwise, the arrangements that apply to reports on paramilitary activity apply to Article 6 reports; the IMC can make recommendations as to remedial action and measures to be taken by the Assembly, and its Article 6 reports will be made public.

5.5 The Article 6 reporting arrangements operate in the context of a sitting Assembly. During this reporting period 18 September 2006 to 17 September 2007 there were no requests made for Article 6 reports.

6. Accounts for the year ended 31 March 2007

Statement of the Responsibilities of the Independent Monitoring Commission and the Accounting Officer

6.1. Under the Agreement between the Government of the United Kingdom of Great Britain and Northern Ireland and the Government of Ireland the IMC is required to prepare accounts in the form and on the basis determined by the Secretary of State, with the approval of HM Treasury. The accounts are prepared on an accruals basis and must give a true and fair view of the IMC's state of affairs at the year end and of its income and expenditure, recognised gains and losses and cash flows for the financial year.

6.2. In preparing the accounts the Accounting Officer is required to:

- Observe the accounts direction issued by the Northern Ireland Office on behalf of the Secretary of State including the relevant accounting and disclosure requirements, and apply accounting policies on a consistent basis;
- Make judgements and estimates on a reasonable basis;
- State whether applicable accounting standards have been followed, and disclose and explain any material departures in the financial statements;
- Prepare the financial statements on the going concern basis, unless it is inappropriate to presume that the entity will continue in operation.

6.3. The Accounting Officer for the Northern Ireland Office has designated the UK Joint Secretary to the IMC as the Accounting Officer for the IMC. 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 Non-Departmental Public Bodies' Accounting Officers' Memorandum issued by HM Treasury and published in Government Accounting.

Statement on Internal Control

Scope of responsibility

6.4 As Accounting Officer, I have responsibility for maintaining a sound system of internal control that supports the achievement of the Independent Monitoring Commission's policies, aims and objectives, as set out in Section 1 of the Northern Ireland (Monitoring Commission etc.) Act 2003, whilst safeguarding the public funds and the Commission's assets for which I am personally responsible, in accordance with the responsibilities assigned to me in Government Accounting and in my letter of designation as Accounting Officer.

6.5 The Independent Monitoring Commission is an independent statutory body, established under the Northern Ireland (Monitoring Commission etc.) Act 2003 and the Agreement between the Government of the United Kingdom and Northern Ireland and the Government of Ireland. The Commission discharges its functions independently from both Governments.

6.6 The Commission is funded jointly by the Secretary of State through the Northern Ireland Office and the Department of Justice in the Republic of Ireland.

The purpose of the system of internal control

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

6.8 The system of internal control is based on an ongoing process designed to identify and prioritise the principal risks to the achievement of the Commission'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.

6.9 The system of internal control has been in place in the Commission for the year ended 31 March 2007 and up to the date of approval of the annual accounts, and accords with Treasury guidance.

Capacity to handle risk

6.10 The Commission is committed to achieving high standards of corporate governance throughout the organisation, and to high ethical standards and integrity in all its dealings.

6.11 The Commission's management consider the identification and prioritisation of those risks which may prevent the Commission achieving its policies, aims and objectives.

The risk and control framework

6.12 The controls and systems operating within the Commission include:

- The implementation of a Strategic Internal Audit Plan and Audit Needs Assessment;
- The day to day management of risk and the internal control framework by the managers and staff within the Commission;
- The operation of a performance management system for staff;
- The maintenance of financial planning and budgeting systems with an annual budget which is agreed with the Northern Ireland Office and the Department of Justice; and
- Maintaining financial management systems and administrative procedures, including delegated levels of authority.

Review of effectiveness

6.13 As Accounting Officer, I also have responsibility for reviewing the effectiveness of the system of internal control. The system of internal control is based on a framework of regular management information, financial and administrative procedures including the segregation of duties, management supervision and a system of delegation and accountability. In particular the system includes an internal audit service that has been appointed by the

Commission which operates to standards defined in the Government Internal Audit Manual. The work of the internal audit service is informed by an analysis of risk and a review of systems of control and reports on adequacy and effectiveness of these systems. The analysis of risk and the internal audit plans are approved by me.

6.14 My review of the effectiveness of the system of internal control is informed by the work of both internal and external auditors, and the management and staff from within the Commission who have responsibility for the development and maintenance of the internal control framework.

Internal Audit report

6.15 The 2006/07 internal audit report recognises that the majority of previous internal audit recommendations have been implemented. In respect of the 2006/07 financial year the internal auditors consider a limited assurance rating to be appropriate. The report identifies a number of high priority recommendations in relation to the adoption of a financial procedures manual and implementing increased controls over a number of areas including purchasing, travel and subsistence and mobile phones.

6.16 The Commission accepts the recommendations made by the internal auditors and is working to implement the recommendations as soon as is practicable.

STEPHEN BOYS SMITH

Accounting Officer

Date: 10 March 2008

Remuneration report

Senior management

6.17. The Independent Monitoring Commission's activities are managed by the British Joint Secretary: Mr Stephen Boys Smith and the Irish Joint Secretary, Michael Mellett. The British Joint Secretary was initially appointed by the Government of the United Kingdom and Northern Ireland and substantiated by the Commissioners in January 2004. The Irish Joint Secretary was initially appointed by the Government of Ireland and substantiated by the Commissioners in January 2004. The posts are part time.

Mr Boys Smith is also the Commission's Accounting Officer.

Remuneration policy

6.18. The Joint Secretaries are retired civil servants. They are paid salaries agreed by the Commissioners in Mr Boys Smith's case a per diem rate and in Mr Mellett's case an annual rate.

Performance conditions

6.19. The Commissioners regularly monitor the performance of the Joint Secretaries, including, in Mr Boys Smith case, his role as Accounting Officer.

Service contracts

6.20. Civil Service appointments are made in accordance with the Civil Service Commissioners' Recruitment Code, which requires appointments to be on merit on the basis of fair and open competition but includes circumstances when appointments may otherwise be made.

6.21. The British Joint Secretary was appointed by way of a letter of appointment from the Secretary of State which was later substantiated by the Commissioners. The Irish Joint Secretary was initially appointed by the Government of Ireland and substantiated by the Commissioners in January 2004.

6.22. It is envisaged that the role of the British Joint Secretary, the Accounting Officer and Irish Joint Secretary to the Commission will remain until the Commission completes its activities.

Salary and pension entitlements

6.23. The following sections provide details of the remuneration paid to the Joint Secretaries.

[Audited Information]

	2006/07*		2005/06*	
	Salary £'000	Benefits in kind £'000	Salary £'000	Benefits in kind £'000
British Joint Secretary - Stephen Boys Smith	60-65	-	55-60	-
Irish Joint Secretary - Michael Mellett	65-70	-	60-65	-

***** The Irish Joint Secretary was paid in euros on the basis of a calendar year from 1 January to 31 December. Mr Mellett's salary has been converted to sterling at the closing rate on 31 March 2007.

Salary

(i) 'Salary' includes the per diem fees paid to the British Joint Secretary and in the case of the Irish Joint Secretary an allowance for working outside the Republic of Ireland.

Benefits-in-kind

(ii) The monetary value of benefits in kind covers any benefits provided by the employer and treated by the Inland Revenue as a taxable emolument.

Pension

The posts of British and Irish Joint Secretary are not pensionable.

Stephen Boys Smith

STEPHEN BOYS SMITH
Accounting Officer
Date: 10 March 2008

THE INDEPENDENT AUDITOR'S REPORT TO THE GOVERNMENT OF THE UNITED KINGDOM OF GREAT BRITAIN AND NORTHERN IRELAND AND THE GOVERNMENT OF THE REPUBLIC OF IRELAND

I have audited the financial statements of the Independent Monitoring Commission for the year ended 31 March 2007. These comprise the Income and Expenditure Account, the Balance Sheet, the Cashflow Statement and Statement of Recognised Gains and Losses and the related notes.

These financial statements have been prepared under the accounting policies set out within them. I have also audited the information in the Remuneration Report that is described in that report as having been audited.

Respective responsibilities of the Independent Monitoring Commission, the Accounting Officer and auditor

The Independent Monitoring Commission and the Joint Secretary as Accounting Officer are responsible for preparing the Annual Report, the Remuneration Report and the financial statements in accordance with Article 14 of the Agreement establishing the Independent Monitoring Commission and directions made thereunder by the Secretary of State for Northern Ireland and for ensuring the regularity of financial transactions. These responsibilities are set out in the statement of Responsibilities of the Independent Monitoring Commission and Accounting Officer.

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

I report to you my opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the Remuneration Report to be audited have been properly prepared in accordance with the agreement establishing the Independent Monitoring Commission and directions made thereunder by the Secretary of State for Northern Ireland. I report to you whether, in my opinion, certain information given in the Annual Report, which comprises the Preface, Introduction and Background, IMC activities, Paramilitary Activity reports, Security normalisation reports, Arrangements for Article 6 reports and the unaudited part of the Remuneration Report, is consistent with the financial statements. I also report whether in all material respects the expenditure and income have been applied to the purposes intended by the Government of the United Kingdom of Great Britain and Northern Ireland and the Government of the Republic of Ireland and the financial transactions conform to the authorities which govern them.

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

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

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

Basis of audit opinion

I conducted my audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. My audit includes examination, on a test basis, of evidence relevant to the amounts, disclosures and regularity of financial transactions included in the financial statements and the part of the Remuneration Report to be audited. It also includes an assessment of the significant estimates and judgements made by the Independent Monitoring Commission and Accounting Officer in the preparation of the financial statements, and of whether the accounting policies are most appropriate to the Independent Monitoring Commission's circumstances, consistently applied and adequately disclosed.

I planned and performed my audit so as to obtain all the information and explanations which I considered necessary in order to provide me with sufficient evidence to give reasonable assurance that the financial statements and the part of the Remuneration Report to be audited are free from material misstatement, whether caused by fraud or error, and that in all material respects the expenditure and income have been applied to the purposes intended by the Government of the United Kingdom of Great Britain and Northern Ireland and the Government of the Republic of Ireland and the financial transactions conform to the authorities which govern them. In forming my opinion I also evaluated the overall adequacy of the presentation of information in the financial statements and the part of the Remuneration Report to be audited.

Opinions
Audit Opinion

In my opinion:

- The financial statements give a true and fair view, in accordance with the agreement establishing the Independent Monitoring Commission and directions made thereunder by the Secretary of State for Northern Ireland, of the state of the Independent Monitoring Commission's affairs as at 31 March 2007 and of its deficit for the year then ended;
- the financial statements and the part of the Remuneration Report to be audited have been properly prepared in accordance with the agreement establishing the Independent Monitoring Commission and directions made thereunder by the Secretary of State for Northern Ireland; and
- the information given within the Annual Report, which comprises the Preface, Introduction and Background, IMC activities, Paramilitary Activity reports, Security normalisation reports, Arrangements for Article 6 reports and the unaudited part of the Remuneration Report, is consistent with the financial statements.

Audit Opinion on Regularity

In my opinion, in all material respects the expenditure and income have been applied to the purposes intended by the Government of the United Kingdom of Great Britain and Northern Ireland and the Government of the Republic of Ireland and the financial transactions conform to the authorities which govern them.

TJ Burr
Comptroller & Auditor General
17 April 2008

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

Income and Expenditure Account for the year ended 31 March 2007

	Note	2007 £	2006 £
Income			
Reimbursement from DOJ	2	427,859	675,471
Expenditure			
Staff costs	3	395,914	555,613
Depreciation	6	13,258	6,216
Notional cost of capital	5	1,004	(507)
Other operating costs	4	456,139	772,109
		866,315	1,333,431
Deficit for the Period		(438,456)	(657,960)
Amount Transferred to Reserves		(438,456)	(657,960)

All amounts above relate to continuing activities and include VAT where it is not possible to reclaim the input VAT.

Statement of Recognised Gains and Losses for the year ended 31 March 2007

	2007 £	2006 £
Retained deficit for the year	(438,456)	(657,960)
Unrealised gain on revaluation	-	-
	(438,456)	(657,960)

The notes on pages 30 to 40 form part of these accounts.

Balance Sheet as at 31 March 2007

	Note	2007 £	2006 £
Fixed Assets			
Tangible assets	6	23,207	30,189
Current Assets			
Cash in hand		-	50
Debtors	9	190,741	274,004
		190,741	274,054
Current Liabilities			
Creditors (due within one year)	10	(187,422)	(138,839)
Net Current Assets/(Liabilities)		3,319	135,215
Provisions for liabilities and charges	11	-	(134,530)
Total Assets less Liabilities		26,526	30,874
Financed By:			
Capital and Reserves			
General Fund	12	26,504	30,852
Revaluation reserve	12	22	22
		26,526	30,874

Stephen Boys Smith

STEPHEN BOYS SMITH
Accounting Officer
Date: 10 March 2008

The notes on pages 30 to 40 form part of these accounts.

Cash Flow Statement for the year ended 31 March 2007

	Note	2007 £	2006 £
Cash Outflow from Continuing Operating Activities	14	(426,878)	(734,273)
Capital Expenditure	6	(6,276)	(14,832)
Cash Outflow Before Financing		(433,154)	(749,105)
Financing			
Cash inflow from financing	12	433,104	749,105
Decrease in cash		50	
		433,154	749,105

The notes on pages 30 to 40 form part of these accounts.

Notes to the Accounts

1. Accounting Policies

These financial statements have been prepared on an accruals basis in accordance with the Accounts Direction given by the Secretary of State for Northern Ireland and the requirements of the Annual Reports and Accounts Guidance for the Executive Non-Departmental Public Bodies issued by HM Treasury. The particular accounting policies adopted by the IMC are described below. They have been applied consistently in dealing with items considered material in relation to the accounts.

<u>Accounting Convention</u>

The accounts have been prepared in accordance with the historical cost convention, modified by the revaluation of tangible fixed assets by reference to their current cost.

The accounts comply with the accounting standards issued or adopted by the Accounting Standards Board and accounting and disclosure requirements issued by HM Treasury, in so far as those requirements are appropriate.

<u>Fixed Assets</u>

Fixed assets comprise of computer equipment, leasehold improvements and office equipment. Fixed assets would ordinarily have been stated at current costs using the appropriate indices compiled by the Office for National Statistics. However, due to the immateriality of the amounts involved these indices were not applied. The level for capitalisation of a tangible fixed asset or group of assets is £1,000.

<u>Depreciation</u>

Depreciation is provided from the month of purchase on a straight line basis on all fixed assets and is calculated to write off the cost (less any estimated residual value) of each asset over its expected useful life.

The estimated useful lives for depreciation purposes are as follows:

Office equipment	15 years
Leasehold improvements	2 years
Computer equipment	5 years

<u>Capital Charge</u>

A charge reflecting the cost of capital utilised by the IMC, is included in the operating costs. The charge is calculated at the government's standard rate of 3.5 per cent in real terms on all assets less liabilities.

VAT

The IMC does not have any income, which is subject to output VAT. The IMC recovers input VAT on contracted out services in accordance with guidance.

Pension Costs

The employees of the IMC are covered by the provisions of the Principal Civil Service Pension Scheme Northern Ireland, PCSPS (NI), which is described at Note 3. The defined benefit elements of the scheme is unfunded and is non-contributory except in respect of dependants' benefits. The organisation recognises the expected cost of these elements on a systematic and rational basis over the period during which it benefits from employees' services by payment to the PCSPS (NI) of amounts calculated on an accruing basis. Liability for payment of future benefits is a charge on the PCSPS (NI). In respect of the defined contribution elements of the scheme, the organisation recognises the contributions payable for the year.

Provisions for liabilities and charges

The IMC makes provision for liabilities and charges where, at the balance sheet date, a legal or constructive liability exists, where the transfer of economic benefits is probable and a reasonable estimate can be made. The provision for liabilities and charges related to irrecoverable legal costs in relation to defending a judicial review against the IMC.

2. Income

	2007 **£**	**2006** **£**
Reimbursable from Department of Justice	427,859	675,471

The IMC receives income from the Department of Justice in the Republic of Ireland for 50% of operational costs (excluding non-cash). All accounting transactions are processed through the NIO and are included in the NIO Resource Accounts.

3. Staff Numbers and Costs

Staff costs consist of:

	Directly employed staff	Commissioners [1]	Staff on secondment and contract staff [2]	2007 Total
	£	£	£	£
Wages & salaries	69,543	125,712	183,786	379,041
Social security costs	5,081	-	-	5,081
Pension costs	11,792	-	-	11,792
	86,416	125,712	183,786	395,914

	Directly employed staff	Commissioners [1]	Staff on secondment and contract staff [2]	2006 Total
	£	£	£	£
Wages & salaries	61,906	193,989	284,683	540,578
Social security costs	4,355	-	-	4,355
Pension costs	10,680	-	-	10,680
	76,941	193,989	284,683	555,613

(1) Commissioners are paid an agreed daily rate for their work in the IMC and are treated as being self-employed and therefore are responsible for payment of their own tax and social security costs.

(2) Amounts payable in respect of staff on secondment and contract staff includes amounts payable to the two Joint Secretaries (including the Accounting Officer) and one member of staff seconded from the Department of Justice.

The Principal Civil Service Pension Schemes Northern Ireland, PCSPS (NI), is an unfunded multi-employer defined benefit scheme, producing its own resource accounts, but the IMC is unable to identify its share of the underlying assets and liabilities. Details of the PCSPS (NI) can be found in the resource accounts of the Department of Finance and Personnel: Superannuation and Other Allowances (Principal Civil Service Pension Scheme (Northern Ireland)).

For the year ending 31 March 2007, employer's contributions of £11,792 (31 March 2006: £10,680) were payable to the PCSPS (NI) at one of four rates in the range 12 to 18.5 per cent (31 March 2006: 12 to 18.5 per cent) of pensionable pay, based on salary bands.

Employer contributions are to be reviewed every four years following a full scheme valuation by the Government Actuary. The contribution rates reflect benefits as they are accrued, not when the costs are actually incurred, and reflect past experience of the scheme.

The Remuneration Report on pages 23 to 24 contains further pension information.

Number of Employees

The average number of whole-time equivalent persons employed during the year was:

	2007	**2006**
Employed on a full-time basis	3	3
Commissioners (of which there are 4 Commissioners)	1.5	2
Staff on secondment and contract staff (of which there are 4 staff)	2	2.5

Numbers and costs of Commissioners

The total emoluments of the Commissioners during the year ended 31 March 2007 amounted to £125,712 (31 March 2006: £193,989). The Commissioners are Non-Northern Ireland Civil Service therefore they are not pensionable.

	2007	**2006**
	£	**£**
Lord Alderdice	29,817	35,588
Dick Kerr	19,858	53,577
Joe Brosnan	38,550	61,802
John Grieve	37,487	43,022
	125,712	193,989

4. Other Operating Costs

	2007	2006
	£	£
Other operating costs comprise		
Accommodation costs	3,824	5,885
Rent	162,150	147,463
Travel, subsistence & hospitality	23,263	25,955
Publications	10,657	16,355
IT expenses	2,034	4,340
Telecommunications	7,303	8,381
Commissioners' expenses	115,591	178,433
Support staff expenses	82,851	92,034
Office staff expenses	-	305
Professional advisors' fees	21,169	268,597
Auditor's remuneration	5,000	5,000
Accountancy fees	8,000	-
Stationery, printing & postage	3,951	4,460
Loss on disposal of fixed assets	-	6,545
Other expenditure	10,346	8,356
	456,139	772,109

5. Notional Costs

The income and expenditure account bears a non-cash charge for interest relating to the use of capital by the IMC. The basis of the charge is 3.5 per cent of the average capital employed by the IMC during the year, defined as the total assets less current liabilities.

	2007	2006
	£	£
Cost of capital	1,004	(507)

6. Fixed Assets

Tangible Assets

	Office Equipment £	Leasehold Improvements £	Computer Equipment £	Total £
Cost at 1 April 2006	3,457	14,832	20,655	38,944
Additions	1,776	4,500	-	6,276
Disposals	-	-	-	-
Cost at 31 March 2007	5,233	19,332	20,655	45,220
Accumulated depreciation at 1 April 2006	482	1,854	6,419	8,755
Charge for the year	275	8,916	4,067	13,258
Disposals	-	-	-	-
Accumulated depreciation at 31 March 2007	757	10,770	10,486	22,013
Net Book Value at 31 March 2007	**4,476**	**8,562**	**10,169**	**23,207**
Net Book Value as 31 March 2006	2,975	12,978	14,236	30,189

7. Capital Commitments

There were no outstanding capital commitments as at 31 March 2007.

8. Contingent Liabilities

There were no contingent liabilities as at 31 March 2007.

9. Debtors

	2007 £	2006 £
Debtors	169,377	259,793
Prepayments	21,364	14,211
	190,741	274,004

10. Creditors

	2007 £	2006 £
Amounts falling due within one year		
Creditors	-	-
Accruals	187,422	138,839
	187,422	138,839

11. Provisions for liabilities and charges

	2007 £	2006 £
Opening balance	134,530	-
Created in year	-	134,530
Released in year	(134,530)	-
Closing balance	-	134,530

12. Reconciliation of Movements in Reserves

	General Fund £	Revaluation Reserve £	Total 2007 £
At 1 April 2006	30,852	22	30,874
Transfer from income and expenditure account	(438,456)	-	(438,456)
Financing from vote	433,104	-	433,104
Cost of capital	1,004	-	1,004
At 31 March 2007	**26,504**	**22**	**26,526**

13. Financial Commitments under Operating Leases

At 31 March 2007 the IMC had annual commitments under non-cancellable operating leases expiring as follows:

	2007 £	2006 £
Expiry within 1 year	27,025	27,025
Expiry after 1 year, but not more than 5 years	-	-
Expiry thereafter	-	-
Total	27,025	27,025

The IMC has entered into a six-month Licence Agreement for the use of their office facilities, which may be terminated by giving two months notice. The amounts disclosed above represent two months rental repayments i.e. the non-cancellable commitment.

14. Reconciliation of Results for the Period to Net Cash Flow from Operating Activities

	2007 £	2006 £
Deficit for the period	(438,456)	(657,960)
Depreciation	13,258	6,216
Loss on disposal of fixed assets	-	6,545
Cost of capital	1,004	(507)
(Increase)/Decrease in debtors	83,263	(259,381)
Increase/(Decrease) in creditors	48,583	36,284
Increase/(Decrease) in provisions for liabilities and charges	(134,530)	134,530
Net Cash Outflow From Operating Activities	**(426,878)**	**(734,273)**

15. Financial Instruments

FRS 13, Derivatives and Other Financial Instruments, requires disclosure of the role which financial instruments have had during the period in creating or changing the risks an entity faces in undertaking its activities. Due to the non-trading nature of its activities and the way in which executive Non-Departmental Public Bodies are financed, the IMC is not exposed to the degree of risk faced by business entities. Moreover, financial instruments play a much more limited role in creating or changing risk than would be typical of the listed companies to which FRS 13 mainly applies. The IMC has no powers to borrow or invest surplus funds and has limited end year flexibility. Financial assets and liabilities are generated by day-to-day operational activities and are not held to change the risks facing the IMC in undertaking its activities.

As permitted by FRS 13, debtors and creditors that mature or become payable within 12 months from the balance sheet date have been excluded from this disclosure.

Liquidity Risk

The IMC is financed through the Northern Ireland Office Request for Resources 1 and is accountable to Parliament through the Secretary of State for Northern Ireland and is not therefore exposed to significant liquidity risk.

Interest-Rate Risk

All financial assets and liabilities of the IMC carry nil rates of interest and therefore are not exposed to interest rate risk.

Currency Risk

The IMC does not trade in foreign currency and therefore has no exposure to foreign currency risk.

Fair Values

The book values and fair values of the IMC's financial assets and financial liabilities as at 31 March 2007 are as set out below:

Primary Financial Instruments:

	Book Value £	Fair Value £
Financial Assets		
Petty cash	-	-
Financial Liabilities		
None	-	-

16. Related Party Transactions

The IMC is an independent statutory body, established under the Northern Ireland (Monitoring Commission etc) Act 2003 and the Agreement between the Government of the United Kingdom and Northern Ireland and the Government of Ireland, and funded jointly by the Secretary of State through the Northern Ireland Office and the Department of Justice in the Republic of Ireland.

The Northern Ireland Office is regarded as a related party. During the year, the IMC has had various material transactions with the Northern Ireland Office.

In addition, the IMC has had a small number of material transactions with other Government Departments.

None of the IMC members, staff or other related parties has undertaken any material transactions with the IMC during this year.

Printed in the UK by The Stationery Office Limited
on behalf of the Controller of Her Majesty's Stationery Office
ID5940795 10/08 410302 19585

Printed on Paper containing 75% recycled fibre content minimum.

TSO
information & publishing solutions

Published by TSO (The Stationery Office) and available from:

Online
www.tsoshop.co.uk

Mail, Telephone, Fax & E-mail
TSO
PO Box 29, Norwich NR3 1GN
General enquiries: 0870 600 5522
Order through the Parliamentary Hotline *Lo-call* 0845 7 023474
Fax orders: 0870 600 5533
Email: customer.services@tso.co.uk
Textphone: 0870 240 3701

TSO Shops
16 Arthur Street, Belfast BT1 4GD
028 9023 8451 Fax 028 9023 5401
71 Lothian Road, Edinburgh EH3 9AZ
0870 606 5566 Fax 0870 606 5588

The Parliamentary Bookshop
12 Bridge Street, Parliament Square
London SW1A 2JX

TSO@Blackwell and other Accredited Agents

ISBN 978-0-10-295804-1

9 780102 958041