Northern Ireland Office

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

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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

6 April 2010

Ordered by the House of Commons to be printed

6 April 2010

HC535 London: The Stationery Office £14.75

ISBN: 9780102964998

Printed in the UK by The Stationery Office Limited
on behalf of the Controller of Her Majesty's Stationery Office

ID P002358825 03/10 2825 19585

Printed on paper containing 75% recycled fibre content minimum.

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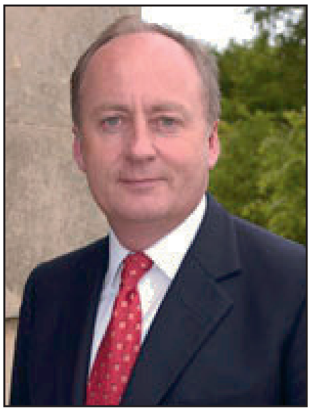
Preface



I am pleased to present the fifth 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 2007 to 17 September 2008 and also contains the audited accounts of the Independent Monitoring Commission for the 2007/08 financial year.

The IMC continues to 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. They have helped to achieve progress in Northern Ireland and continue to assist in bringing an end to paramilitarism.

This report covers the 17th and 18th reports on paramilitary activity and the 19th report on the leadership or PIRA and assessment of the completion of the transformation of PIRA. It does not refer to the 20th report on paramilitary activity as this fell outside the twelve month period under review.

I am very grateful to the Commissioners of the IMC for the continued commitment, focus and dedication they have shown during this reporting period, and for their continued efforts in promoting and maintaining 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 set 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 been the 2003 Act and the Northern Ireland (Monitoring Commission

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

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

[4] SI 2003 No 3126

(Immunities and Privileges) Order 2003 was made to confer such immunities upon the Commission.

Membership of the IMC

1.10 The IMC is made up of four commissioners:

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

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 monies 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 three 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 1 April 2007 to 31 March 2008 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 Under Article 5(1) of the International Agreement that established the IMC, when the British Government made a commitment to a package of security normalisation measures, the Commission had an obligation to monitor whether those commitments were 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 required the IMC to report its findings to the two Governments at six-monthly intervals.

2.9 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.

2.10 The normalisation programme is now complete. The IMC has no further role in reporting on security normalisation.

Foreword to the Accounts for the year ended 31 March 2008

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

Review of activities

<u>Corporate Governance</u>

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.

Financial position as at 31 March 2008

2.14 The Commission's financial position for the year ended 31 March 2008 is set out in the Operating Cost Statement and the Balance Sheet on pages 29 and 31 respectively. The deficit for the year reduced to £315,560 from £438,456 in 2007. Decreased staff costs and associated expenses have contributed to this. The Commission had net assets of £105,767 at 31 March 2008, an increase of £79,241 on the previous period's net assets of £26,526. 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

2.15 Full details of the Commissioner's remuneration and pension interests for the year ended 31 March 2008 are contained in note 3 to the accounts. Salaries of the joint secretaries are contained in the Remuneration Report laid out on pages 19 and 20. 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

2.16 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

2.17 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

2.18 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 the same date as they were certified by the Comptroller and Auditor General.

Equal opportunities

2.19 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

2.20 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

2.21 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

2.22 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.

2.23 On their receipt, invoices are sent for processing to the Northern Ireland Office (NIO). During the year ended 31 March 2008, the NIO paid 85.7% 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 2008 shows net assets of £105,767, consisting of £187,365 assets and £81,598 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 2008, 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: 8 December 2009

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

3.5 The Seventeenth Report, made under Articles 4 and 7 of the International Agreement was presented to the Secretary of State in November 2007, and published on 7 November 2007 by means of a press release.

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

3.6 The report built on previous assessments that the IRA was fully committed to pursuing the political path and that it would not be diverted from it. It noted that Sinn Féin's entry into the Northern Ireland Executive had meant that the provisional movement as a whole had been more closely engaged in the democratic process. The IMC had assessed the position as "stable".

3.7 In relation to dissident republican groups, the Commission's report made clear that these groups still posed a threat. Three paramilitary murders were reported, the first since February 2006. All three had been attributed to dissidents.

3.8 It was recognised that there were signs within the loyalist leadership that they wanted to bring their communities out of conflict. But the violent scenes in Carrickfergus and Bangor were a stark reminder of Northern Ireland's troubled past. It was clear that further steps were necessary if we were to see an end to violence and criminality once and for all.

3.9 The UVF's statement on 3 May 2007 represented 'a major turning point' for the organisation. As the report made clear, the UDA and UVF must urgently take action on decommissioning. This was the test by which any organisation must ultimately expect to be judged.

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

3.10 The Eighteenth Report, made under articles 4 and 7 of the International Agreement, was published on the 1 May 2008 by press release. This report continued the six-monthly cycle required by the Agreement and covered the six months from 1 September 2007 to 29 February 2008, updating the situation presented in the Seventeenth report, which covered the proceeding six months.

3.11 The report confirmed the assessment made in previous reports that PIRA continued to be committed to a political path and the belief that they would not be diverted from it. The IMC highlighted that the organisation continued "to work with the policing institutions and encourage interaction with PSNI, including reporting crime".

3.12 The report illustrated that the threat from dissident republicans was still prevalent. There was also evidence of dissidents having sought to target the homes and places of work of PSNI officers and of members of the public. The IMC recognised that the Police and intelligence agencies North and South had maintained a high level of effort against dissident republicans.

3.13 In relation to Loyalism, the IMC highlighted that loyalists would be judged on delivery, one of the key elements to this being decommissioning. The IMC assessment of the UVF illustrated the organisations continuing efforts to pursue their 3 May 2007 statement. The Commission recognised the UDA statement of 11 November 2007 as an important “statement of intent”.

3.14 The report also provided an assessment of the killing of Paul Quinn. The IMC reported that this brutal murder was clearly contrary to the instructions and strategy of the leadership of PIRA. It was aware of no evidence linking the leadership of PIRA to the incident.

4. Ad Hoc Reports

4.1 The IMC published one ad hoc report during the period covered by this report. The ad hoc report focused on the leadership of PIRA and assessed the completion of the transformation of PIRA.

Requirements for Ad Hoc Reports

4.2 The British and Irish Governments have powers under Article 4 (c) to ask the IMC to produce an ad hoc report. On the 8 July the British and Irish Governments exercised their powers and asked for a report on the leadership of PIRA and assessment of the completion of the transformation of PIRA. They referred to what the IMC had said on the leadership of the PIRA in the Eighteenth Report and asked for further views on this issue, and sought a fuller assessment of the completion of the transformation of PIRA. The Nineteenth Report was produced as a response to that request.

The Nineteenth Report on the Leadership of PIRA and the transformation of PIRA – Content and Action by the Secretary of State

4.3 The Nineteenth Report, made under Articles 4 and 7 of the International Agreement was published in September 2008. This was the first report produced at the request of the two Governments.

4.4 The IMC concluded that they firmly believed that PIRA was "…set on and will remain on the political path. We do not believe that it presents a threat to peace or to democratic politics".

4.5 In relation to the issue of the nature of PIRA as an organisation they noted that for some time now PIRA was by design being allowed to wither away. They did not however foresee a formal announcement about disbandment of the structure.

4.6 Regarding the issue of whether PIRA might re-emerge as a terrorist organisation, the report concluded that the PIRA of the recent and violent past was well beyond recall and that if another paramilitary organisation were to seek to emerge in the future it would have to start afresh with new leaders and a new generation of active members.

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 2007 to 17 September 2008 there were no requests made for Article 6 reports.

6. Remuneration Report

Senior management

6.1 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.

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

Remuneration policy

6.3 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

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

Service contracts

6.5 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.

6.6 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.

6.7 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

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

[Audited Information]

	2007/08* Salary £'000	Benefits in kind £'000	2006/07* Salary £'000	Benefits in kind £'000
British Joint Secretary – Stephen Boys Smith	40-45	–	60-65	–
Irish Joint Secretary – Michael Mellett	80-85	–	65-70	–

* 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 2008.

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

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

STEPHEN BOYS SMITH

Accounting Officer

Date: 8 December 2009

7. Accounts for the year ended 31 March 2008

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

7.1 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.

7.2 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; and
- Prepare the financial statements on the going concern basis, unless it is inappropriate to presume that the entity will continue in operation.

7.3 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

7.4 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, 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 Managing Public Money.

7.5 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 of Great Britain and Northern Ireland and the Government of Ireland. The Commission discharges its functions independently from both Governments.

7.6 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

7.7 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.

7.8 The system of internal control is based on an ongoing process designed to identify and prioritise the 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.

7.9 The system of internal control has been in place in the Commission for the year ended 31 March 2008 and up to the date of approval of the annual accounts, and accords with Treasury guidance.

Capacity to handle risk

7.10 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.

7.11 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

7.12 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

7.13 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 mangers 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 board, and a plan to address weaknesses and ensure continuous improvement of the system is in place.

7.14 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

7.15 The 2007/08 internal audit report recognises that the majority of previous internal audit recommendations have been implemented. In respect of the 2007/08 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, mobile phones and maintenance of the fixed asset register.

7.16 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

STEPHEN BOYS SMITH
Accounting Officer
Date: 8 December 2009

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 2008. These comprise the Operating Cost Statement, the Balance Sheet, the Cash Flow Statement and the related Notes to the Accounts.

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 on behalf of the Secretary of State for Northern Ireland and for ensuring the regularity of financial transactions. These responsibilities are set out in the Statement of the 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 on behalf of the Secretary of State for Northern Ireland. I report to you whether, in my opinion, certain information given in the Secretary of State's Fifth Report, which comprises the Preface, Introduction and Background, IMC Activities, Paramilitary Activity Reports, Adhoc Report, 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 the 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 Secretary of State's Fifth 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 judgments 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

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 on behalf of the Secretary of State for Northern Ireland, of the state of the Independent Monitoring Commission's affairs as at 31 March 2008 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 on behalf of the Secretary of State for Northern Ireland; and
- the information given within the Secretary of State's Fifth Report, which comprises the Preface, Introduction and Background, IMC Activities, Paramilitary Activity Reports, Adhoc Report, Arrangements for Article 6 Reports and the unaudited part of the Remuneration Report, is consistent with the financial statements.

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.

Amyas C E Morse
Comptroller and Auditor General
4 March 2010

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

Operating Cost Statement for the year ended 31 March 2008

	Note	2008 £	2007 £
Income			
Operating Income	2	346,920	427,859
Expenditure			
Staff costs	3	325,998	395,914
Depreciation	6	12,229	13,258
Notional cost of capital	5	2,315	1,004
Other operating costs	4	324,253	456,139
Total expenditure		664,795	866,315
(Deficit) for the year prior to credit in respect of notional cost of capital		(317,875)	(438,456)
Credit in respect of notional costs		2,315	1,004
Net Cost of Operations		(315,560)	(437,452)
Amount Transferred to Reserves		(315,560)	(437,452)

All amounts above relate to continuing activities.

The notes on pages 33 to 42 form part of these accounts.

Statement of Recognised Gains and Losses for the year ended 31 March 2008

	2008 £	2007 £
Retained deficit for the year	(315,560)	(437,452)
Unrealised gain on revaluation	–	–
Total recognised gains/(losses) since last financial Statements	(315,560)	(437,452)

The notes on pages 33 to 42 form part of these accounts.

Balance Sheet as at 31 March 2008

	Note	2008 £	2007 £
Fixed Assets			
Tangible assets	6	10,978	23,207
Current Assets			
Cash in hand		–	–
Debtors	9	176,387	190,741
		176,387	190,741
Current Liabilities			
Creditors: amounts falling due within one year	10	(81,598)	(187,422)
Net Current Assets/(Liabilities)		94,789	3,319
Provisions for Liabilities and Charges	11	–	–
Total Assets less Liabilities		105,767	26,526
Financed By:			
Capital and Reserves			
General fund	12	105,745	26,504
Revaluation reserve	12	22	22
		105,767	26,526

STEPHEN BOYS SMITH
Accounting Officer
Date: 8 December 2009

The notes on pages 33 to 42 form part of these accounts.

Cash Flow Statement for the year ended 31 March 2008

	Note	2008 £	2007 £
Net cash flow from operating activities	14	(394,801)	(426,878)
Capital expenditure	6	–	(6,276)
Cash Outflow before Financing		(394,801)	(433,154)
Financing			
Cash Inflow from Financing	12	394,801	433,154
Cash Flow for period		–	50

The notes on pages 33 to 42 form part of these accounts.

Notes to the Accounts

1. Accounting Policies

These financial statements have been prepared in accordance with the 2007–08 Northern Ireland Financial Reporting Manual (FReM). The accounting policies contained in the FReM follow UK generally accepted accounting practice for companies (UK GAAP) to the extent that it is meaningful and appropriate to the public sectors.

Accounting Convention

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

Tangible fixed assets

Fixed assets comprise 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 the tangible fixed asset group of assets is £1,000.

Depreciation

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	2–5 years
Computer equipment	5 years

Notional Cost of Capital charge

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

Value Added Tax

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 element 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 recognised the contributions payable for the year.

Provisions

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

The IMC receives income from the Department of Justice in the Republic of Ireland for 50% of operational costs excluding minor final accounting adjustments which are reflected in the following year and non-cash costs. All accounting transactions are processed through the NIO and are included in the NIO Resource Accounts.

	2008	**2007**
	£	**£**
Reimbursement from Department of Justice	346,920	427,859

3. Staff costs

	Directly employed staff	Commissioners [1]	Staff on secondment and contract staff[2]	2008 Total
	£	£	£	£
Wages & salaries	67,878	82,125	159,855	309,858
Social security costs	4,718	–	–	4,718
Pension costs	11,422	–	–	11,422
	84,018	82,125	159,855	325,998

	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

[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 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 Pensions Scheme 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 2008, employer's contribution of £11,422 (31 March 2007 £11,792) were payable to the PCSPS (NI) at one of four rates in the range 12 to 18.5 per cent (31 March 2007: 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 8 and 9 contains further pension information.

Number of Employees

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

	2008	**2007**
	£	**£**
Employed on a full-time basis	3	3
Commissioners (of which there are 4 Commissioners)	1.5	1.5
Staff on secondment and contract staff (of which there are 4 staff)	2	2

Numbers and costs of Commissioners

The total emoluments of the Commissioners during the year ended 31 March 2008 amounted to £82,125 (31 March 2007: £125,712). The Commissioners are Non-Northern Ireland Civil Servants therefore they are not pensionable.

	2008	**2007**
	£	**£**
Lord Alderdice	22,407	29,817
Dick Kerr	12,879	19,858
Joe Brosnan	26,076	38,550
John Grieve	20,763	37,487
	82,125	125,712

4. Other Operating Costs

	2008 £	2007 £
Other operating costs comprise		
Accommodation costs	3,615	3,824
Rent	162,150	162,150
Travel, subsistence and hospitality	14,486	23,263
Publications	438	10,657
IT expenses	13,032	2,034
Telecommunications	5,265	7,303
Commissioners' expenses	66,430	115,591
Support staff expenses	27,836	82,851
Professional advisors' fees	7,246	21,169
Auditor's remuneration	5,000	5,000
Accountancy fees	6,480	8,000
Stationery, printing and postage	5,854	3,951
Other expenditure	6,421	10,346
	324,253	456,139

5. Notional Cost of Capital

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.

	2008 £	2007 £
Cost of capital	2,315	1,004

6. Fixed Assets

Tangible Assets

	Office Equipment	Leasehold Improvements	Computer Equipment	Total
	£	£	£	£
Cost at 1 April 2007	5,233	19,332	20,655	45,220
Additions	–	–	–	–
Disposals	–	–	–	–
Cost at 31 March 2008	5,233	19,332	20,655	45,220
Accumulated depreciation at 1 April 2007	757	10,770	10,486	22,013
Charge for year	368	7,813	4,048	12,229
Disposals	–	–	–	–
Accumulated depreciation at 31 March 2008	1,125	18,583	14,534	34,242
Net Book Value at 31 March 2008	**4,108**	**749**	**6,121**	**10,978**
Net Book Value at 31 March 2007	4,476	8,562	10,169	23,207

7. Capital Commitments

There were no outstanding capital commitments as at 31 March 2008.

8. Contingent Liabilities

There were no contingent liabilities as at 31 March 2008.

9. Debtors

	2008	2007
	£	£
Debtors	154,286	169,377
Prepayments	22,101	21,364
	176,387	190,741

10. Creditors

	2008 £	2007 £
Amounts falling due within one year:		
Accruals	81,598	187,422
	81,598	187,422

11. Provisions for liabilities and charges

	2008 £	2007 £
Opening balance	–	134,530
Created in year	–	–
Released in year	–	(134,530)
Closing balance	–	–

12. Reconciliation of Movements in Reserves

	General Fund £	Revaluation Reserve £	Total £
At 1 April 2007	26,504	22	26,526
Transfer from Operating Cost Statement	(315,560)	–	(315,560)
Financing from vote	394,801	–	394,801
At 31 March 2008	105,745	22	105,767

13. Financial Commitment under Operating Leases

As at 31 March 2008 the IMC had annual commitments under non-cancellable operating leases expiring as follows:

	2008 £	2007 £
Expiry within 1 year	27,025	27,025
Expiry after 1 year, but not more than 5 years	–	–
Expiry thereafter	–	–
	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

	2008 £	2007 £
Deficit for the period	(315,560)	(437,452)
Depreciation	12,229	13,258
Loss of disposal of fixed assets	–	–
Increase/(Decrease) in debtors	14,354	83,263
Increase/(Decrease) in creditors	(105,824)	48,583
Increase/(Decrease) in provisions for liabilities and charges	–	(134,530)
Net Cash Outflow From Operating Activities	**(394,801)**	**(426,878)**

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 FRS13 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 for the IMC carry out nil rates of interest and therefore are not exposed to interest rate risk.

Currency Risk

The IMC is subject to exchange risk as it receives invoices in dollars and Euros. However, any exchange difference incurred is not expected to be material and no measure to mitigate risk is therefore in place. Foreign currency is translated at the exchange rate applicable on the date expenditure is incurred.

Fair Values

The book values and fair values of the IMC's financial assets and financial liabilities as at 31 March 2008 are as set out below:

Primary Financial Instruments:

	2008	2007
	£	£
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 of Great Britain 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.

17. Events After The Balance Sheet Date

The financial statements were authorised for issue to be laid in the UK Parliament by the Secretary of State for Northern Ireland.

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ISBN 978-0-10-296499-8

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