

Supplement to Audit Report

Economy of cash balances and the drawdown of Grants-in-aid

Ordnance Survey Ireland (OSI) was established as a corporate body on 4 March 2002 by the Ordnance Survey Act 2001. Its general function is to provide a national mapping service in the State. In so doing it is obliged to operate in the public interest by creating and maintaining the definitive national mapping and related geographic records of the State.

OSI is funded by income earned from the sale of maps, mapping data and other information derived from the national mapping and related geographic databases, and by advances from the Minister for Finance as provided for in the Ordnance Survey Act, 2001. That Act also provides that the Minister shall from time to time make a service agreement with OSI under which certain tasks will be carried out, functions performed or standards adhered to in the performance of its functions in the public interest. The service agreement may contain terms and conditions in relation to accounting matters, pricing of products and recovery of costs. Legislative provisions are such that OSI is not, as a matter of course, obliged to surrender to the Exchequer any moneys it has on hands at the end of a financial year and may retain such moneys to finance its operations. However, the Minister may require OSI to pay a specified amount to the Exchequer by way of dividend. The service agreement envisaged in the legislation had not been finalised at the end of 2003.

During 2002 advances totalling €9.93 million were made to OSI by the Minister for Finance by way of grant-in-aid. Public Financial Procedures in relation to grant-in-aid subheads specify that

- issues should be made from grant-in-aid subheads by instalments over the year according as needed by the grantee unless otherwise agreed with the Minister for Finance. Particular care should be made to avoid over-issues, especially at the end of the financial year and there should be no automatic issue of the full provision in the subhead without ascertaining if the funds are required to meet the grantee's actual requirements.
- Departments should obtain cash flow statements from the grantees before deciding on issues from a grant-in-aid subhead and should subsequently check on the accuracy of these statements.

In the course of the audit of the 2002 financial statements I noted that at the end of 2002 OSI had cash on hand of €8.67 million, a figure which had increased to €11.5 million by the end of November 2003. I also noted that during 2002 bank reconciliations were only completed in the months of June and July and for the year end. It would be expected that such reconciliations would be carried out at least monthly. Apart from any other considerations, in the absence of bank reconciliations it is difficult to establish a base point from which to construct a cash flow statement, to monitor the level of funds on hand and to ensure that funds are not drawn down in advance of requirements.

In the accounting period under review OSI recorded a surplus before taxation of €3.84 million. OSI is a taxable entity and any surplus is liable to Corporation Tax. Based on professional advice, OSI has calculated the Corporation Tax liability for the period at €0.71 million. The surplus and the resulting Corporation Tax liability would not have arisen had the grant-in-aid been reduced to the level actually required to meet current needs. As it appeared that funds had been drawn down in this instance before they were needed I asked the Chief Executive Officer of OSI to explain

- Why funds had been drawn down in advance of requirements.
- Why bank reconciliations were not carried out on a regular basis in 2002.
- What controls OSI operated to ensure that it only drew down funds from the Department as needed.

I also sought the observations of the Accounting Officer of the Department of Finance.

Chief Executive Officer's response

The Chief Executive Officer informed me that at the time of vesting it was understood that OSI would receive a grant-in-aid from the Office of the Minister for Finance, which would cover the following:

- Costs incurred by OSI in providing specified survey and mapping services in the national interest
- Capital funding to establish the business on a sound footing

The capital funding was intended to cover the following projected expenditure

1. New accommodation
2. Rationalisation of OSI designed to enable it to meet its developing business needs
3. Finalisation of the rural mapping project by the end of 2004. This was a approved project which would cost approximately €10million over a period of 3-4 years
4. R&D for new OSI products in a commercial environment
5. Technology Development
6. Working Capital

The balance of cash on hand of €8.67 million was intended to part fund these projects with the balance being obtained from growth in commercial income. This cash balance was carried forward to 2003 in anticipation of expenditure on these projects in that year. In the event, Projects 1 and 2 had been halted due to decentralisation proposals announced by the Minister for Finance in late 2003. These proposals envisage OSI relocating to Dungarvan, Co Waterford and costs are now expected to be incurred, to varying degrees, in the years up to and including 2006.

During the first six months of its existence OSI established the key projects it needed to undertake and it was agreed that significant funding would be required to undertake these projects. It was anticipated that these projects could run over the years 2002, 2003 and 2004 and that sufficient cash would be made available to OSI to fund these projects. During 2003 cashflow projections and expenditure profiles were submitted to Department of Finance.

The CEO informed me that the failure to carry out bank reconciliations on a monthly basis had to be seen in the context of the situation pertaining in OSI during its first year of its operation. In March 2002, OSI moved from being part of the Department of Finance to being a State body. It also moved from cash based to accruals based accounting. Prior to vesting day OSI did not have any bank accounts and all financial transactions were processed through the Paymaster General. Since vesting day the finance function of OSI had to meet the challenges arising from the significant changes arising in the move to accruals based accounting. The introduction of new accounting systems had to be implemented and resources diverted from normal activities to train finance personnel on the new system. The difficulties were compounded by the absence through illness of the Financial Controller during this time. Tight controls were now in place in regard to the

submission of key operating figures to the Department of Finance and all relevant reconciliations were carried out on a monthly basis.

The CEO informed me that in early 2003, as a result of discussions with officials in the Department, a draft Service Level Agreement was submitted to the Department whose approval and sign off was still awaited.

Department's Response

The Accounting Officer informed me that it was not correct to suggest that the final tranche of the 2002 grant-in-aid was paid automatically by the Department of Finance. This was not the case. In advance of making the final payment in November 2002, the Department requested a cash flow statement for the period to 31 December 2002. OSI provided this cash flow statement which projected that, without the final quarter advance of the grant-in-aid of €2,483,500, OSI would have a positive cash flow of €1,100,000. However, the cash flow statement also projected additional costs for relocation of the OSI HQ (at that time expected to be in 2003) and restructuring costs, which in total amounted to €5,125,000. To allow for these liabilities, and having considered the options available, the Department decided to make a final quarter payment.

During the first half of 2003, the Board of OSI evaluated a number of options for a new HQ and in August 2003 the chairman put a formal proposal to the Minister for Finance. The Department raised a number of financial queries with OSI on the proposal and ultimately the Minister decided to include OSI in the general decentralisation programme, announced in his Budget Statement in December 2003. However, until the autumn of 2003 it was expected that the initial costs of the new HQ would be incurred in 2003. The final quarter payment of the grant-in-aid was not paid in 2003.

He informed me that as regards the checking of the projected cash flows against outcome, since January 2004 a system has been put in place for OSI to report actual income, expenditure and cash balance to the Department of Finance on a monthly basis. The Department had, up to mid June 2004, made no issues to OSI in 2004.



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