

Accounts of sums received by Ministers and others from the National Loans Fund, and from various bodies in respect of interest and repayment of loans, etc., and of the disposal of those sums respectively, for the year ended 31 March 2006, together with the Report of the Comptroller and Auditor General thereon. (In continuation of House of Commons Paper No. 990 of 2006-2007)

Presented pursuant to various Acts

Accounts relating to issues from the National Loans Fund 2005-2006

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This volume contains statutory accounts prepared to show the transactions of Ministers and others in 2005-2006 in connection with loans to various bodies out of issues from the National Loans Fund. Details of issues from the National Loans Fund in 2005-2006 are given in the relevant part of the National Loans Fund Account (see page 15 of HC 1652 of 2005-2006). Certain issues and payments in respect of accounts not included herein are also notes to complete the reconciliation with that part on the National Loans Fund Accounts.

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Aircraft and Shipbuilding Industries Act 1977

Section 12(4) of the above Act requires the Secretary of State for Trade and Industry to prepare an account of any transactions with British Shipbuilders in respect of loans made from the National Loans Fund under Section 12(1) of the Act. As all outstanding loans made from the National Loans Fund were repaid in the financial year ended 31 March 1993 and there have been no subsequent transactions under the foregoing provisions, no account has been prepared for the year ended 31 March 2006.

Section 16 of the Act provides that the Secretary of State may, with the approval of HM Treasury, pay to the Corporation out of money provided by Parliament public dividend capital within certain limits as he thinks fit. No payments were made in the 2005-2006 financial year and so the total paid to 31 March 2006 was the same as at 31 March 2005, £1,598.4m.

In consideration of the sums received under Section 16(1), Section 16(2) of the Act requires the Corporation to make payments to the Secretary of State (public dividends) in respect of each accounting year, unless the Corporation satisfies him that it is inappropriate to make a payment in any year. If the public dividend proposed by the Corporation in any year is not acceptable to the Secretary of State and HM Treasury, the Secretary of State, with the approval of HM Treasury, and after consultation with the Corporation, may determine the public dividend to be paid. The Government announced on 29 October 1979 that the Corporation would not pay dividends on its capital until it was profitable. No dividend therefore was paid in respect of the financial years up to 31 March 1988. The Government subsequently announced in May 1988 that dividends would no longer be expected to be proposed by or required of the Corporation in respect of further payments of public dividend capital. No dividends were therefore paid in respect of the financial year ended 31 March 2006. The net liabilities of the British Shipbuilders' Corporation as at 31 March 2005 were £83 million, as disclosed in the Departmental Resource Account 2005-2006.

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

Atomic Energy Authority Act 1986

Section 4(6) of the above Act requires the Secretary of State for Trade and Industry to prepare accounts for any transactions with the United Kingdom Atomic Energy Authority in respect of loans made from the National Loans Fund under section 4(4) of the above Act. As all outstanding debt was extinguished by the UKAEA (Extinguishment of Liabilities) Order 1996 No. 2511, and there have been no subsequent transactions under the foregoing provisions, no account has been prepared for the year ended 31 March 2006.

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

Atomic Energy Authority Act 1971

Section 12(4) of the above Act requires the Secretary of State for Trade and Industry to prepare accounts for any transactions with British Nuclear Fuels plc (BNFL) in respect of loans made from the National Loans Fund under Sections 12(2) and (3) of the 1971 Act. As the company has repaid all outstanding debts from the National Loans Fund in the financial year ended 31 March 1991 and there have been no subsequent transactions under the foregoing provisions, no account has been prepared for the year ended 31 March 2006.

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

Limits on borrowing

The commitment of public finance to BNFL under Section 2(1) and (2) of the Nuclear Industry (Finance) Act 1977 as amended by the Nuclear Industry (Finance) Act 1981 and by the Atomic Energy Act 1989 is limited. At 31 March 2006 the limit specified was £2,000m and the relevant aggregates were

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

During 2005-2006, BNFL took out no new loans and have repaid all outstanding loans.

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

Coal Industry Acts 1946 to 1990

Section 35 of the Coal Industry Nationalisation Act 1946 requires the Secretary of State for Trade and Industry to prepare an account for any transactions with the British Coal Corporation in respect of loans made from the National Loans Fund under Section 1 of the Coal Industry Act 1965 as amended by Section 1 of the Coal Industry Act 1983. As the Corporation had repaid all outstanding debts from the National Loans Fund in the financial year ended 31 March 1994 and there have been no subsequent transactions under the foregoing provisions, no account has been prepared for the year ended 31 March 2006. The British Coal Corporation was dissolved on 27 March 2004.

Limits on borrowing

Section 1(3) of the 1965 Act, as amended by Section 1(1) of the Coal Industry Act 1983, imposes a limit of £5,500m or such greater sum, not exceeding £6,000m, as the Secretary of State may by Order specify, on the aggregate borrowings outstanding of the Corporation, and any wholly-owned subsidiary of the Corporation, other than borrowings between one wholly-owned subsidiary and either the Corporation or another wholly-owned subsidiary. These borrowings may comprise Government advances, borrowings in foreign currency, borrowings in sterling from the Commission of the European Communities, borrowings in sterling by the wholly-owned subsidiaries and temporary borrowings from banks and other sources. At 31 March 2006 the limit specified was £5,500m and the aggregate borrowings outstanding were

	£m
i Loans made by the Secretary of State	–
ii Loans made under Section 2(1) of the Coal Industry Act 1980	–
iii Foreign Loans	–
iv Sterling loans to wholly-owned subsidiaries	–
	<u>–</u>

Within the overall limit, the aggregate of the amounts outstanding in respect of sums borrowed temporarily by the Corporation under Section 1(1) and 1(2)(a)* of the 1965 Act is limited by Section 1(4)** of the 1965 Act, to such amounts as the Secretary of State may direct. The limit was £3,770m throughout 2002-2003. Within this limit the Corporation had the Secretary of State's consent to borrow up to £0.5m from the clearing banks.

Notes

* as amended by Section 4(1) of the Coal Industry Act 1971.

** as amended by Section 1(1) of the Coal Industry Act 1977 and amended by Section 1(2) of the Coal Industry Act 1980.

The British Coal Corporation was dissolved on 27 March 2004.

Electricity Act 1989

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

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

Magnox Electric plc is the only successor company in England and Wales which remains wholly owned by the Crown and thereby eligible to receive loans from the National Loans Fund. As the successor companies in England and Wales had repaid all outstanding debts from the National Loans Fund in the financial year ended 31 March 1991 and there have been no subsequent transactions under the foregoing provisions, no account has been prepared for the year ended 31 March 2006.

Brian Bender KCB

18 July 2006

Principal Accounting Officer and Permanent Secretary

Commonwealth Development Corporation Act 1999

Section 13(1) of the Commonwealth Development Corporation Act 1999 requires the Secretary of State to prepare for each financial year an account of sums (if there are any) issued or received by him in respect of loans from the National Loans Fund (NLF) to the Commonwealth Development Corporation (now renamed the CDC Group) under Section 9(2) of the Act. The CDC Group repaid all the then outstanding loans from the NLF in the financial year ended 31 March 1999. Provisions for CDC borrowing from the NLF remain in force. However there have been no sums issued or received under these provisions up to 31 March 2006; no account has therefore been prepared for the year to 31 March 2006.

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

Section 82 of the Government of Wales Act 1998 allows for advances to be granted by the Secretary of State for Wales from the National Loans Fund. Section 83 directs the preparation of an account of sums paid and received by the Secretary of State. However, for the year ended 31 March 2006 no transactions have been processed in relation to this Act. No account has been produced for this period.

Postal Services Act 2000

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

As the company has repaid all outstanding debts from the National Loans Fund in the financial year ended 31 March 2004 and there have been no subsequent transactions under the foregoing provisions, no account has been prepared for the year ended 31 March 2006.

Under Section 71 of the Act, the Crown's financial arrangements with the Post Office company and any of its subsidiaries are not to exceed £5,000 million or any such greater sum as the Secretary of State may by order specify.

During 2005-2006, there were no amounts loaned under the Postal Services Act 2000. A £500 million loan made available to Royal Mail by the Secretary of State under the Post Office Act 1969 remains repayable and is due to mature between 2021 and 2025. The Department of Trade and Industry also makes available a revolving loan facility of up to £1.15 billion to the Post Office Limited under an agreement reached on 17 October 2003 to help fund working capital requirements relating to the migration of state benefits payments to a system of direct payment. The availability of this facility runs until 30 March 2010. As at 31 March 2006, £400 million was repayable by the Post Office to the DTI. Amounts recorded against this agreement are reported in the Departmental Resource Account.

Transport Act 1968

Section 44(1) of the above Act requires the Secretary of State for the Department for Transport to prepare accounts for any transactions with the British Railways Board in respect of loans made from the National Loans Fund under section 20(1) of the Transport Act 1962. As the British Railways Board has repaid all outstanding debt from the National Loans Fund in the financial year ended 31 March 2002, and as there have been no subsequent transactions under the foregoing provisions, no account has been prepared for the year ended 31 March 2006

David Rowlands
Accounting Officer
Department for Transport

15 September 2006

Accounts of Loans to Public Corporations

Transport Act 1968

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

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

Foreword

Scope of the Account

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

Grants made to the Board under the provisions of the Transport Act 1968 were accounted for in the Defra Resource Accounts 2005-2006.

Secretary of State's power to make loans

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

Limits on borrowing

- 3 Section 19(3) of the Act as amended by section 1(1) of the Water Act 1981 and The British Waterways Board (Limit for Borrowing) Order 2001 (SI No 1054) imposes a limit of £35 million on the Board's aggregate outstanding borrowing and its commencing capital debt. The borrowings comprise government advances and temporary borrowings from approved sources. A limit on temporary borrowings has been set by the Secretary of State, in accordance with section 19(1) of the Act, at £3 million and HM Treasury has guaranteed this borrowing under section 21(1). At 31 March 2006 the aggregate outstanding borrowings counting against these limits were

	£
Loans made by the Secretary of State	10,552,000
Temporary Loans	–
Commencing Capital Debt	–
	<hr style="width: 100px; margin-left: auto; margin-right: 0;"/> 10,552,000

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

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

- 4 In accordance with section 5 of the National Loans Act 1968, HM Treasury prescribes the rate of interest applicable to each loan. The loans to the Board are repayable after 7 or 25 years, with interest payable half-yearly. No new loans were advanced to the Board during 2005-2006. £3,584,000 of principal was repaid by the Board to the National Loans Fund in 2005-2006.

Statement of Accounting Officer's responsibilities

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

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

Helen Ghosh

11 July 2006

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

Transport Act 1968

Account, prepared under Section 44(1) of the Transport Act 1968, of the receipts and payments of the Secretary of State for the Environment, Food and Rural Affairs under Sections 43 and 44(4) of that Act (and Sections 20 and 39 of the Transport Act 1962) for the year ended 31 March 2006 .

Receipts

	2005-2006	2004-2005
	£	£
Issues from the National Loans Fund [s.20(3)]		
<i>Payments by the British Waterways Board [s.20(2)]</i>		
Repayment of Loans	3,584,000	600,000
Interest on Loans	1,466,284	845,251
	<u>5,050,284</u>	<u>1,445,251</u>

Payments

Loans to the British Waterways Board [s.20(1)]	-	-
<i>Payments to the National Loans Fund [s.20(5)]</i>		
Repayment of Loans	3,584,000	600,000
Interest on Loans*	1,466,284	1,690,503
	<u>5,050,284</u>	<u>2,290,503</u>

Notes

- 1 At 31 March 2006 the debt outstanding to the Secretary of State was £10,552,000.
- 2 The interest on loans figures include a penalty of £8,762. This was incurred as result of the loan repayment, due on 2 April 2005, being delayed by two working days.
- 3* The difference between receipts and payments in 2004-2005 is owing to the fact that the half yearly interest payment, due in April 2004, was repaid in March of that year.

Helen Ghosh

11 July 2006

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

Statement on Internal Control

Scope of responsibility

This statement is given in respect of the British Waterways Board National Loans Fund (NLF) Accounts. The Department for Environment, Food and Rural Affairs (Defra), since its inception on 8 June 2001, has managed waterways in England. Accordingly, I, as Accounting Officer for Defra, am responsible for the signing of the British Waterways Board National Loans Fund Accounts for 2005-2006.

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

Purpose of the system of internal control

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

Capacity to handle risk

Defra's Management Board continues to provide the strategic lead on risk management in the Department. Risk is regularly on the Board's Agenda, both in terms of the individual policy and delivery areas being discussed. This is co-ordinated via the use of a corporate Balanced Scorecard.

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

Risk and control framework

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

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

Review of effectiveness

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

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

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

Financial control

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

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

Helen Ghosh

11 July 2006

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

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

I certify that I have audited the financial statements on page 11 under the Transport Act 1968. These financial statements have been prepared in the form and on the basis determined by Treasury.

Respective responsibilities of the Accounting Officer and Auditor

As described on page 10, the Accounting Officer is responsible for the preparation of financial statements in accordance with the Transport Act 1968 and Treasury directions made thereunder and for ensuring the regularity of financial transactions. The Accounting Officer is also responsible for the preparation of the Foreword. My responsibilities, as independent auditor, are established by statute and I have regard to the standards and guidance issued by the Auditing Practices Board and the ethical guidance applicable to the auditing profession.

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

I review whether the statement on pages 12 and 13 reflects compliance with Treasury's guidance on the Statement on Internal Control. I report if it does not meet the requirements specified by Treasury, or if the statement is misleading or inconsistent with other information I am aware of from my audit of the financial statements. I am not required to consider, nor have I considered whether the Accounting Officer's Statement on Internal Control covers all risks and controls. I am also not required to form an opinion on the effectiveness of the Department's corporate governance procedures or its risk and control procedures.

Basis of audit opinion

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

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

Opinion

In my opinion

- the account properly presents the receipts and payments of the Secretary of State for Environment, Food and Rural Affairs in respect of advances to the British Waterways Board for the year ended 31 March 2006 and the balance held at that date and has been properly prepared in accordance with the Transport Act 1968 and the directions made thereunder by the Treasury; and
- in all material respects the payments and receipts have been applied to the purposes intended by Parliament and conform to the authorities which govern them.

I have no observations to make on these financial statements.

John Bourn
Comptroller and Auditor General

17 July 2006

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

Civil Aviation Act 1982

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

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

Foreword

Scope of the Account

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

Secretary of State's power to make loans

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

Limits on borrowing

- 3 The Civil Aviation Authority (Borrowing Powers) Order 1995, made under the Civil Aviation Authority (Borrowing Powers) Act 1990, sets the limit on the Authority's aggregate outstanding borrowings and its initial debt at £550 million. These borrowings may comprise Government advances, temporary borrowings from banks and other sources, borrowings in foreign currency, borrowings from the Commission of the European Communities and from the European Investment Bank. At 31 March 2006, the aggregate outstanding borrowings counting against the limit of £550 million was

	£
Loans made by the Secretary of State	10,973,630
Foreign loans	-
	10,973,630

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

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

- 4 Up to the end of 1992, advances made to the Authority under section 12(2) were normally repayable at maturity. However from January 1993, advances made to the Authority under section 12(2) have been equal repayment loans. Advances at fixed interest rates are based on the rates prescribed by the Treasury for the period in which the dates of the loan fall. There are no outstanding variable rate loans. Interest on advances is paid half-yearly on 2 January and 2 July. The Authority pays interest to the Secretary of State without deductions for Income Tax. The Authority is also permitted to take up to 10 per cent of its non-temporary borrowing from the NLF in any one year on variable rate terms. Such loans are available for maturities of from 1 to 10 years, with roll-over periods of 1, 3 or 6 months.

Initial debt

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

Excess revenues and sums standing to the credit of reserves

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

No such directions were issued in respect of the accounting year 2005-2006.

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

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

David Rowlands
Accounting Officer
Department for Transport

15 September 2006

Civil Aviation Account 1982

Prepared under Section 15 of the Civil Aviation Act 1982, of the Receipts and Payments of the Secretary of State for The Department for Transport under Sections 9, 10, 12 and 13 of that Act for the year ended 31 March 2006.

Receipts

	£	Previous year £
Balance as at 1 April 2005	-	-
From the National Loans Fund [s.12(4)]	4,000,000	-
<i>From the Civil Aviation Authority Loans [s.12(4)]</i>		
Repayment of Principal	654,609	608,504
Interest	629,344	620,765
Premium for early repayments of loans	-	-
Penalty for late repayments of loan	-	-
	<u>5,283,953</u>	<u>1,229,269</u>

Payments

	£	Previous year £
<i>Loans to the Civil Aviation Authority [s.12(2)]</i>	4,000,000	-
Payments to the National Loans Fund [s.12(4)]		
Repayment of Principal	654,609	608,504
Interest	629,344	620,765
Premium for early repayments of loans	-	-
Penalty for late repayment of loan	-	-
Balance at 31 March 2006	-	-
	<u>5,283,953</u>	<u>1,229,269</u>

Note

At 31 March 2006 the debt outstanding to the Secretary of State was: £10,973,630.21.

David Rowlands
Accounting Officer
Department for Transport

15 September 2006

Statement on Internal Control

Scope of responsibility

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

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

The purpose of the system of internal control

The system of internal control is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve departmental policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of departmental policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically. Subject to the developments during the year described in the following paragraphs, the system of internal control has been in place in the Department for Transport for the year ended 31 March 2006 and up to the date of approval of the annual report and accounts, and accords with Treasury guidance.

Capacity to handle risk

Leadership on risk management is provided by

- the Department's Management Board, which monitors delivery against key objectives across the DfT family. Significant risks to these objectives are identified by the line and escalated to the Board. The Department's Board includes the three Directors General in the central Department, the Director General for the DVO Group, the Chief Executive of the Highways Agency and three non-executive members. The Director General for Delivery and Security is the Board's "Risk Management Champion"; and
- an Executive Committee, which seeks to ensure that the resources available to the central Department are managed as effectively as possible to meet identified risks and corporate governance standards.

The Department's Audit Committee monitors and reviews the processes for managing risk, control, governance and assurance across the DfT family, and includes two non-executive members from the DfT family.

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

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

The risk and control framework

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

Directors General and Heads of Unit (Directors) in the central Department take responsibility for the day to day management of risks in their respective areas of influence. Through regular delivery and financial reporting processes, the Board has set guideline criteria for the impact of risks that it considers should be escalated for its potential attention. The Department has in place risk registers, and a corporate risk log which is reviewed by the Board on a bi-monthly basis.

Early in the year, the central Department put in place a comprehensive "Corporate Governance Framework", which included the framework of accountabilities, the roles and responsibilities of Directors General and Directors, and the end of year reporting arrangements. The Framework set out the responsibilities of Directors General and Directors for risk management. The Framework was supported by delegations from the Accounting Officer to Directors General to maintain effective accountability and the management of resources.

During the year, the Department agreed a framework of management assurances to support a more transparent and consistent approach to the review of systems of internal control. This will be implemented fully in 2006-2007.

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

Review of effectiveness

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

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

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

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

Directors General and Directors have reviewed internal control within their areas of responsibility and have completed end of year assurance returns, which the Finance Director has reviewed and summarised in his report to me on stewardship. The responses confirmed that Directors General regarded their Units as substantially compliant with the structure of internal control.

Group audit opinion

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

- "I can provide substantial assurance that risk management processes are working well in the Department and the Agencies. The Department has made significant improvements during the year and there are plans in place to further strengthen and improve these practices. Agencies continue to embed risk management as part of decision making and management processes.
- Internal controls, including financial controls, have continued to improve during the year so that I am able to provide substantial assurance on internal control in all parts of the organisation other than in the Highways Agency. Significant effort has been made to improve internal controls in the Highways Agency and management is working on a continuous programme to improve controls further. However some of our audits identified scope for improvement. Accordingly I am able to provide partial assurance on internal control arrangements in the Highways Agency. Notwithstanding this level of assurance, no weaknesses were identified that are sufficiently significant or material to require disclosure in the Statement on Internal Control.
- Improvements have been made to the Governance process in the Department and in the agencies during the year leading me to provide substantial assurance."

David Rowlands
Accounting Officer

15 September 2006

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

I have audited the financial statements on page 17 under the Civil Aviation Act 1982. These financial statements have been prepared in the form and on the basis determined by Treasury.

Respective responsibilities of the Accounting Officer and Auditor

As described on page 16 the Accounting Officer is responsible for the preparation of financial statements in accordance with the Civil Aviation Act 1982 and Treasury directions made thereunder and for ensuring the regularity of financial transactions. The Accounting Officer is also responsible for the preparation of the Foreword. My responsibilities, as independent auditor, are established by statute and I have regard to the standards and guidance issued by the Auditing Practices Board and the ethical guidance applicable to the auditing profession.

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

I review whether the statement on pages 18 to 20 reflects compliance with Treasury's guidance on the Statement on Internal Control. I report if it does not meet the requirements specified by Treasury, or if the statement is misleading or inconsistent with other information I am aware of from my audit of the financial statements. I am not required to consider, nor have I considered whether the Accounting Officer's Statement on Internal Control covers all risks and controls. I am also not required to form an opinion on the effectiveness of the Department's corporate governance procedures or its risk and control procedures.

Basis of audit opinion

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

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

Opinion

In my opinion

- the account properly presents the receipts and payments of the Secretary of State for Transport in respect of advances made to the Civil Aviation Authority for the year ended 31 March 2006 and the balances held at that date and has been properly prepared in accordance with Section 15(4) of the Civil Aviation Act 1982 and the directions made thereunder by the Treasury; and
- in all material respects the receipts and payments have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

I have no observations to make on these financial statements.

John Bourn
Comptroller and Auditor General

25 September 2006

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

Post Office Act 1969

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

Account presented pursuant to the Post Office Act 1969

Foreword

Scope of the Account

- 1 This account is prepared in compliance with section 39¹ of the Post Office Act 1969 and is required to show
 - i sums received by the Secretary of State under section 37 (2);
 - ii sums issued to the Secretary of State under section 37 (3); and
 - iii the disposal of those sums.

Secretary of State's power to make loans

2 Section 37 of the Post Office Act 1969² enabled the Secretary of State, with the approval of HM Treasury, to lend to the Post Office any sums which it has power to borrow under section 73 of the British Telecommunications Act 1981. Sums needed for such loans were issued by HM Treasury to the Secretary of State who could, with the approval of Treasury, give directions for repayment. Loans made to the Post Office corporation under section 37 before midnight on 25 March 2001 have been, since midnight on 25 March 2001, by virtue of a scheme made under section 60 of the British Telecommunications Act 1981, loans to Royal Mail Group plc (at the time of the scheme it was named Consignia plc). Ownership of Consignia plc was transferred on 26 March 2001 to the Post Office company by virtue of section 62 of the Postal Services Act 2000. The Secretary of State is required by section 37(4) of the 1969 Act to pay into the National Loans Fund sums received in respect of interest on and repayment of principal on those loans.

Limits on borrowing

3 Under section 74(2) of the British Telecommunications Act 1981, which applied to loans made to the Post Office before 26 March 2001, the aggregate amount of loans outstanding by the Post Office was not at any time to exceed £1,200 million [note that this could be increased by statutory instrument to £1,700 million]. Section 74 of the 1981 Act was amended by section 115(6) of the 2000 Act with effect from 28 September 2000 so that the aggregate amount of loans outstanding to the Post Office and its subsidiaries should not exceed £5,000 million.

1 Section 39 of the Post Office Act 1969 was amended by S.I. 1974/691 and by section 5 of the Post Office (Banking Services) Act 1976. It was repealed by Schedule 9 to the Postal Services Act 2000 and its repeal was commenced by S.I. 2001/1148 (C.37) with effect from 26 March 2001. Paragraph 12 of S.I. 2001/1148 saves section 39 insofar as it relates to a loan made before 26 March 2001 by the Secretary of State under section 37 of the 1969 Act.

2 Section 37 of the Post Office Act 1969 was amended by S.I. 1974/691, by paragraph 51(3) of the British Telecommunications Act 1981 and by section 115 (2) of the Postal Services Act 2000 with effect from 28 September 2000 to permit loans to be made to any subsidiary of the Post Office. It was repealed by Schedule 9 to the Postal Services Act 2000 and its repeal was commenced by S.I. 2001/1148 (C.37) with effect from 26 March 2001. Paragraph 11 of S.I. 2001/1148 saves section 37(2) to (4) in respect of a loan made before 26 March 2001 by the Secretary of State.

Section 74 was subsequently repealed by Schedule 9 of the 2000 Act, and its repeal commenced by S.I.2000/2957 (C.88), with effect from 26 March 2001. Thereafter under section 71(1) of the 2000 Act the Crown's financial arrangements³ with Consignia Holdings plc (company number 4074919, which was renamed Royal Mail Holdings plc on 4 November 2002) and any of its subsidiaries are not to exceed £5,000 million, or such greater sum as the Secretary of State may by order specify.

The Department of Trade and Industry also makes available a revolving loan facility of up to £1.15 billion to the Post Office Limited under an agreement reached on 17 October 2003 to help fund working capital requirements relating to the migration of state benefits payments to a system of direct payment. The availability of this facility runs until 30 March 2010. As at 31 March 2006, £400 million was repayable by the Post Office to DTI. Amounts recorded against this agreement are reported in the Departmental Resource Account.

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

4 A £500m NLF loan facility was made available to Royal Mail by the Secretary of State, acting as an agent for the NLF, to assist with the company's acquisition of German Parcel. This facility was utilised on the 6 February 2001 and it comprises 20 separate tranches of £25m each, the first two tranches of which do not begin to mature until 20th March 2021 and then subsequently two more tranches then mature every 6 months after that until the final remaining tranches mature on 20th September 2025. Royal Mail makes annual bi-yearly interest payments on the loan. In accordance with section 5 of the National Loans Fund Act 1968, HM Treasury prescribed the rate of interest applicable to each loan. As at 31 March 2006, the amounts and terms of loans made to the Royal Mail Holdings plc and its subsidiaries were as follows

Amount (£)	Rate of interest per cent	Principal to be paid off
25,000,000	5.26	20 March 2021
25,000,000	5.56	20 March 2021
25,000,000	5.7	20 September 2021
25,000,000	5.7	20 September 2021
25,000,000	5.7	20 March 2022
25,000,000	5.7	20 March 2022
25,000,000	5.63	20 September 2022
25,000,000	5.98	20 September 2022
25,000,000	5.87	20 March 2023
25,000,000	6.05	20 March 2023
25,000,000	6.05	20 September 2023
25,000,000	6.03	20 September 2023
25,000,000	6.03	20 March 2024
25,000,000	6.03	20 March 2024
25,000,000	6.12	20 September 2024
25,000,000	5.94	20 September 2024
25,000,000	5.94	20 March 2025
25,000,000	5.94	20 March 2025
25,000,000	5.94	20 September 2025
25,000,000	5.51	20 September 2025

As at 31 March 2006, the balance outstanding on the principal loan is £500m.

Sir Brian Bender KCB

17 July 2006

Principal Accounting Officer and Permanent Secretary

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

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

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

Under Section 39 of the Post Office Act 1969 (see footnote 1 to this Foreword) the Secretary of State for Trade and Industry is required to prepare an account for each financial year in the form and on the basis determined by HM Treasury of sums received by the Secretary of State under section 37(2) of the 1969 Act and of sums issued to the Secretary of State under section 37(3) and of the disposal by him of those sums respectively. The accounts are prepared on a cash basis and must properly present the receipts and payments for the financial year and the balances held at year-end.

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

Post Office Act 1969

Account, prepared under Section 39 of the Post Office Act 1969, of the Receipts and Payments by the Secretary of State for Trade and Industry under Section 37 of the Post Office Act 1969 for the year ended 31 March 2006.

Receipts

	2005-2006	2004-2005
	£	£
Balance at 1 April	–	–
From National Loans Fund	–	–
<i>From the Royal Mail Group plc</i>		
Repayments of Loans	–	–
Interest on Loans	29,170,000	29,170,000
	<u>29,170,000</u>	<u>29,170,000</u>

Payments

	2005-2006	2004-2005
	£	£
Advances to the Royal Mail Group plc	–	–
<i>To the National Loans Fund</i>		
Repayments of Loans	–	–
Interest on Loans	29,170,000	29,170,000
Balance at 31 March	–	–
	<u>29,170,000</u>	<u>29,170,000</u>

Sir Brian Bender KCB
Principal Accounting Officer and Permanent Secretary

17 July 2006

Statement on Internal Control

Scope of responsibility

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

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

The purpose of the system of internal control

The system of internal control is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of departmental policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically. The system of internal control has been in place for the Post Office National Loans Fund Account for the year ended 31 March 2006 and up to the date of approval of the annual report and accounts, and accords with Treasury guidance.

Capacity to handle risk

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

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

The risk and control framework

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

Review of effectiveness

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

There were no significant internal control issues during the course of 2005-2006.

Sir Brian Bender KCB
Principal Accounting Officer and Permanent Secretary

18 July 2006

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

I certify that I have audited the financial statements on page 26 for the year ended 31 March 2006 under section 39 of the Post Office Act 1969. These financial statements have been prepared in the form and on the basis determined by Treasury.

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

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

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

I report to you my opinion as to whether the financial statements properly present the receipts and payments and are properly prepared in accordance with section 39 of the Post Office Act 1969 and Treasury directions made thereunder. I report whether in all material respects the receipts and payments have been applied to the purposes intended by Parliament and conform to the authorities which govern them. I also report if, in my opinion, the Accounting Officer has not kept proper accounting records, or if I have not received all the information and explanations I require for my audit.

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

I review whether the statement on page 27 to 28 reflects compliance with Treasury's guidance on the Statement on Internal Control, and I report if it does not. I am not required to consider whether the Accounting Officer's Statement on Internal Control covers all risks and controls or form an opinion on the effectiveness of the Department's corporate governance procedures or its risk and control procedures.

Basis of audit opinion

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

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

Opinion

In my opinion

- the financial statements properly present the receipts and payments of the Secretary of State for Trade and Industry in respect of advances to the Post Office for the year ended 31 March 2006 and have been properly prepared in accordance with section 39 of the Post Office Act 1969 and directions made thereunder by Treasury; and
- in all material respects the receipts and payments have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

I have no observations to make on these financial statements.

John Bourn
Comptroller and Auditor General

26 March 2007

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

Scotland Act 1998

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

Foreword

Scope of the Account

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

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

Secretary of State's power to make loans

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

Limits of borrowing

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

Outstanding capital balances

At 1 April 2005, total capital balances outstanding were £855,236,875, and after repayments during the year of £10,106,250, capital balances outstanding at 31 March 2006 were £845,130,625.

History of accounts

The advances outstanding at 31 March 2005 were made prior to 1 July 1999, under the terms of the Housing (Scotland) Act 1988 (Scottish Homes), the Local Government etc.(Scotland) Act 1994 (Water Authorities), and the Scottish Development Agency Act 1975 (Scottish Enterprise). Loans to Scottish Enterprise and to Scottish Homes have been repaid in full.

Prior to 1 July 1999, responsibility for the preparation of this account fell to the Scottish Office. Upon devolution, the responsibility transferred to the Scotland Office. The Scotland Office first prepared accounts for the year 1 April 2000 – 31 March 2001. Accounts were prepared prior to 1 July 1999 under the terms of the Housing (Scotland) Act 1988 (Scottish Homes) and the Local Government etc. (Scotland) Act 1994 (Water Authorities). No accounts were prepared for Registers of Scotland prior to 2000-2001.

Statement of Secretary of State for Scotland's responsibilities

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

Scotland Act 1998

Account prepared under section 72(a) of the Scotland Act 1998 of the Receipts and Payments of the Secretary of State for Scotland under sections 66, 67 and 71 of the Scotland Act 1998 for the period 1 April 2005 to 31 March 2006.

Receipts

	2005-2006	2004-2005
	£	£
<i>Received from Scottish Homes by way of</i>		
Interest on advances	–	130,109,713
Repayment of advance	–	100,644,071
<i>Received from Water Authorities by way of</i>		
Interest on advances	56,175,078	57,332,030
Repayment of advance	10,000,000	20,000,000
<i>Received from Registers of Scotland</i>		
Interest on advances	278,076	286,975
Repayment of advance	106,250	106,251
Total of interest payments	56,453,154	187,728,718
Total of repayments of advance	10,106,250	120,750,322
Total receipts	66,559,404	308,479,040

Payments

	2005-2006	2004-2005
	£	£
<i>Payments to National Loans Fund of sums received</i>		
Interest on advances	–	130,109,713
Repayment of advance	–	100,644,071
<i>Payments to National Loans Fund of sums received</i>		
Interest on advances	56,175,078	57,332,030
Repayment of advance	10,000,000	20,000,000
<i>Payments to National Loans Fund of sums received</i>		
Interest on advances	278,076	286,975
Repayment of advance	106,250	106,251
Total of interest payments	56,453,154	187,728,718
Total of repayments of advance	10,106,250	120,750,322
Total payments	66,559,404	308,479,040

Note: Statement of balances at 31 March 2006

	Advances at 1 April 2005	Advances during 2005-2006	Advances repaid during 2005-2006	Advances outstanding at 31 March 2006
	£	£	£	£
Scottish Homes	–	–	–	–
Water Authorities	851,890,000	–	10,000,000	841,890,000
Registers of Scotland	3,346,875	–	106,250	3,240,625
Total	<u>855,236,875</u>	<u>–</u>	<u>10,106,250</u>	<u>845,130,625</u>

JR Wildgoose
Accounting Officer

25 January 2007

Statement on Internal Control

1 Scope of responsibility

I acknowledge my personal responsibility for maintaining a sound system of internal control that supports the achievement of the policies, aims and objectives of my business area and the department, whilst safeguarding and ensuring the efficient and effective management of and proper accounting for the resources delegated to me.

2 The purpose of the system of internal control

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

3 Capacity to handle risk

I acknowledge my overall responsibility for the effective management of risk throughout my business area.

I confirm that registers that identify, assess and set out mitigating actions to significant risks are in place across my business area and are regularly reviewed at management boards. Risk management is incorporated into the planning and decision making processes, with assessment of risk to business objectives documented, along with mitigating actions and reported on through risk registers and other means which are (regularly) reviewed and updated.

Comment

The Joint Office Management Group of the Scotland Office and Office of the Advocate General for Scotland receives regular reports on the risk registers; and considers the impact of any changes on the operation of the Offices. Separately, the subordinate Management Group for the Office of the Advocate General considers the detailed risks involved in individual court cases and undertakes any necessary corrective action.

I confirm that Leadership is given to the Risk Management process & that staff are trained or equipped to manage risk in a way appropriate to their authority and duties. Include comment on guidance provided to them and ways in which you seek to learn from good practice).

Comment (Linked to RMAF Section Leadership 1 & Section 3 People)

The Office has recently (Oct 2005) undertaken a workshop for senior managers on their responsibilities in the context of risk management, with the effect that there is an improved understanding and awareness of the need to factor risks (and their impact) into daily operations

4 The risk and control framework

The following key elements of the DCA Risk Management Strategy, as outlined in the Policy and Framework document, are maintained in my business areas:

There is a formal system for identifying, evaluating, managing and reporting risks to objectives, their impact, and likelihood of occurrence & current and planned mitigating action along with assigned responsible risk owners.

**Comment upon the effectiveness / improvement planned or in progress
(Linked to RMAF Section(s) on (1.2), (3.1), (4.1), (4.4), (6.5))**

Senior managers have attended a workshop on risk management and work is in hand to more directly link the Offices' Annual Report, objectives and the management of risks. It is hoped to conclude this work by autumn.

Risk management is embedded in the activities of the business area including

- Policy making;
- Project and programme;
- Operational and performance management;
- Business and delivery planning; and
- Spending review.

**Comment upon the effectiveness / improvement planned / in progress
(Linked to RMAF Section (5.1))**

The Scotland Office primarily deals with the scrutiny of policy initiatives undertaken by other Departments bearing in mind any devolution aspects, rather than project etc management. The Office identifies any potential risks involved in such initiatives and draws them to the attention of the respective Departments. The Office of the Advocate General deals with casework and Westminster Bill work on behalf of Departments and draws the attention of clients to the risks involved in these activities on a case-by-case basis.

The other key elements in the DCA control system, which are followed, are

- regular management information;
- financial and administrative procedures including segregation of duties; and
- a system of delegation and accountability.

Aspects of these key elements arrangements are in place to ensure the following;

Formal approval by the Management Board of the business plans;

Comment upon the effectiveness/improvement planned or in progress

The Joint Office Management Group of the Scotland Office and Office of the Advocate General for Scotland approve the Annual Report of the Offices which details the forward plans of both bodies.

The Secretary of State for Scotland and the Advocate General for Scotland approve the Annual Report before publication.

Comprehensive budgeting systems with an annual budget which is reviewed and agreed by the Management Board;

Comment upon the effectiveness / improvement planned or in progress

The Joint Office Management Group of the Scotland Office and Office of the Advocate General for Scotland approves the allocation of budgets to Budget Centre Managers. The Office has formally delegated day-to-day financial responsibility to budget centre managers (BCMs) with central scrutiny and reporting to BCMS and Office Management Group on a monthly basis.

Regular reviews by the Management Board of periodic and annual financial reports prepared to indicate financial performance against forecasts;

Comment upon the effectiveness/improvement planned or in progress

The Joint Office Management Group of the Scotland Office and Office of the Advocate General for Scotland receives a monthly update on expenditure against budgets. At this meeting, Senior managers discuss the financial performance and projected outturn and make decisions on revised priorities. This Group also approves any major changes to the budgets with the Offices.

Target setting to measure financial and other performance;

Comment upon the effectiveness/improvement planned or in progress

The Secretary of State for Scotland and the Advocate General for Scotland approve the Annual Report before publication; this includes the PIs for the Offices.

The Joint Office Management Group of the Scotland Office and Office of the Advocate General for Scotland receives a monthly update on performance against published Performance Indicators.

A formal system of financial and other controls, with an auditable trail of evidence, and a review and reporting mechanism to provide assurances from * Budget Holders / (Senior) Budget Managers, that internal controls are in place and operating effectively;

Comment upon the effectiveness/improvement planned or in progress

The Office has a formal system of delegation of responsibility to Budget Centre Managers and the Joint Management Group receives regular reports on the performance of each budget centre against provision. At year-end, BCMs are required to provide the Head of Office, as AAO, with an internal 'statement of internal control'

Business Continuity Plans, which are regularly reviewed and refined, ensuring that key activities can continue effectively following a disruption.

Comment upon the effectiveness/improvement planned / in progress

The Office is presently reorganising its risk register to reflect latest thinking on the activities of the Offices, with a separate detailed register being created for the Office of the Advocate General to deal with case management.

5 Review of effectiveness

I also have responsibility for reviewing the effectiveness of the system of internal control operating in my business area. My review is informed by the work of the Executive/(Senior) Budget Managers within the Department who have responsibility for the development and maintenance of the internal control framework, and comments made by the internal and external auditors in their management letters and other reports.

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

All expenditure/income has been recorded and properly spent/received with regard to propriety and regularity.

Comment (include details of issue and corrective action taken, or proposed to improve compliance levels and overall control)

All payments and receipts are handled centrally, with appropriate monthly reconciliations, and the necessary security of signatories is maintained.

The expenditure / income spent and received comply with law and regulations including those which provide the legal framework within which the Department conducts its activities.

Comment (include details of issue and corrective action taken, or proposed to improve compliance levels and overall control)

All payments and receipts are handled centrally, with appropriate monthly reconciliations, and the necessary security of signatories is maintained.

Expenditure has been properly classified and transfers of expenditure between expenditure classifications have only been made in accordance with the Finance Manual (chapter 6.3)

Comment (include details of issue and corrective action taken, or proposed to improve compliance levels and overall control)

All payments and receipts are handled centrally, with appropriate monthly reconciliations, and the necessary security of signatories is maintained. The Offices have ring-fenced provision and any transfers of expenditure have been within this prescribed function.

There have been no breaches of delegated financial authority

Comment (include details of issue and corrective action taken, or proposed to improve compliance levels and overall control)

All payments and receipts are handled centrally, with appropriate monthly reconciliations, and the necessary security of signatories is maintained.

Budgets are monitored regularly, comparing actual expenditure to forecasts, and variances reported upon.

Comment (include details of issue and corrective action taken, or proposed to improve compliance levels and overall control)

The Joint Office Management Group of the Scotland Office and Office of the Advocate General for Scotland receives a monthly update on expenditure against budgets and approve any major changes to the allocation of budgets within the Offices.

An investment appraisal has been undertaken before decisions were made on major capital or programme expenditure.

Comment (include details of issue and corrective action taken, or proposed to improve compliance levels and overall control)

Not applicable in 2005-2006

Controls are in place to ensure that departmental assets are safeguarded against unauthorised use or disposal.

Comment (include details of issue and corrective action taken, or proposed to improve compliance levels and overall control)

There are adequate control procedures in place to guard against fraud.

Comment (include details of issue and corrective action taken, or proposed to improve compliance levels and overall control)

All payments and receipts are handled centrally, with appropriate monthly reconciliations, and the necessary security of signatories is maintained.

There have been no breaches of the Finance Manual (chapter 17) regarding hospitality and gifts

Comment (include details of issue and corrective action taken, or proposed to improve compliance levels and overall control)

Hospitality given by the Offices is proved in advance by the Secretary of State or the Advocate General, as necessary; minor hospitality has to be approved by the Head of Office.

Staff in the Office are required to comply with the guidance on the receipt of hospitality as set out in the DCA staff handbook or the Scottish Executive Staff manual, depending on their employer.

All losses and special payments have been reported, authorised and recorded in accordance with the Finance Manual Policy Chapter 7.6.

Comment (include details of issue and corrective action taken, or proposed to improve compliance levels and overall control).

No losses or special payments have been recorded in 2005-2006

All instances of loss resulting from a weakness in internal financial control have been reported and any necessary remedial action taken.

Comment (include details of issue and corrective action taken, or proposed to improve compliance levels and overall control)

Not applicable in 2005-2006.

JR Wildgoose
Accounting Officer

January 2007

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

I certify that I have audited the financial statements on page 32 and 33 under the Scotland Act 1998. These financial statements have been prepared in the form and on the basis determined by Treasury.

Respective responsibilities of the Accounting Officer and Auditor

As described on page 31 the Accounting Officer is responsible for the preparation of financial statements in accordance with the Scotland Act 1998 and Treasury directions made thereunder and for ensuring the regularity of financial transactions. The Accounting Officer is also responsible for the preparation of the Foreword. My responsibilities, as independent auditor, are established by statute and I have regard to the standards and guidance issued by the Auditing Practices Board and the ethical guidance applicable to the auditing profession.

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

I review whether the statement on pages 34 and 38 reflects compliance with Treasury's guidance on the Statement on Internal Control. I report if it does not meet the requirements specified by Treasury, or if the statement is misleading or inconsistent with other information I am aware of from my audit of the financial statements. I am not required to consider, nor have I considered whether the Accounting Officer's Statement on Internal Control covers all risks and controls. I am also not required to form an opinion on the effectiveness of the Department's corporate governance procedures or its risk and control procedures.

Basis of audit opinion

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

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

Opinion

In my opinion

- the account properly presents the receipts and payments of the Secretary of State for Scotland in respect of advances to Scottish Homes, Water Authorities and Registers of Scotland for the year ended 31 March 2006 and has been properly prepared in accordance with the Scotland Act 1998 and the directions made thereunder by the Treasury; and
- in all material respects the payments and receipts have been applied to the purposes intended by Parliament and conform to the authorities which govern them.

I have no observations to make on these financial statements.

John Bourn
Comptroller and Auditor General

26 March 2007

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

Government of Wales Act 1998

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

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

Foreword

Scope of the Account

- 1 This Account is prepared in compliance with Section 88 of the Government of Wales Act 1998 and is required to show
 - i The amounts issued to the Secretary of State out of the National Loans Fund and passed to the National Assembly for Wales (the Assembly) for onward transmission to the Welsh Development Agency (the Agency) under paragraph 4 (1) of Schedule 3 to the Welsh Development Agency Act 1975; and
 - ii The amounts received by the Secretary of State from the Assembly which are repayments of, or payments of interest on, loans made out of the National Loans Fund.
- 2 It also includes repayments of, and payments of interest on, loans originally vested in the former Development Board for Rural Wales and Mid Wales Development Corporation, which were transferred to the Agency on 1 October 1998 under Sections 130 and 136 of the Government of Wales Act 1998.
- 3 Specific grants made to the Agency under the provisions of the Welsh Development Agency Act 1975 are not accounted for in this Account, but in the accounts of the National Assembly for Wales for 2005-2006.

Financial limits

- 4 Section 18 of the Welsh Development Agency Act 1975, as amended by the Industry Acts for 1979, 1980 and 1981, the Welsh Development Agency Acts 1988, 1991 and 1998, and Welsh Statutory Instrument 2004 No 1826 (w.202), limits to £3 billion the aggregate of the amount outstanding other than by way of interest in respect of
 - i The general external borrowing of the Agency and its subsidiaries, as defined in Section 18 (5) of the 1975 Act;
 - ii Sums issued by the Treasury in fulfilment of guarantees under paragraph 6 of Schedule 3 to the 1975 Act and not repaid to the Treasury;
 - iii Sums of Public Dividend Capital paid to the Agency less repayments by the Agency (other than payments made by virtue of paragraph 1 (3) of Schedule 3 to the 1975 Act) and less such sums paid in respect of the administrative expenses of the Agency; and
 - iv Loans guaranteed by the Agency.
- 5 At 31 March 2006 the aggregate of amounts outstanding against the limit was

	£
Borrowing outstanding	11,875,127
Sums issued by the Treasury	–
Payments by the Secretary of State	2,226,755,020
Agency guarantees	–
Total	<u>2,238,630,147</u>

Public Dividend Capital

- 6 Paragraph 1 (1) of Schedule 3 to the 1975 Act provides that the Secretary of State (now the Assembly) may, with the consent of Treasury, pay to the Agency out of money provided by Parliament such sums as he thinks fit (public dividend capital). This amounted to £862,604 in 2005-2006. No such capital was repaid during the year. The Agency recycled public dividend capital income in line with the agreed arrangements. Public dividend capital outstanding at 31 March 2006 amounted to £14,184,020.

2005-2006 Transactions

- 7 Section 87 of the Government of Wales Act 1998 provides for advances from the National Loans Fund to the Welsh Development Agency to be issued to the Secretary of State and routed through the National Assembly for Wales. Repayments of outstanding advances and interest thereon by the Agency are made to the Assembly, which passes these remittances to the Secretary of State for payment into the National Loans Fund.
- 8 These arrangements took effect from 1 July 1999 when the relevant functions of the Secretary of State for Wales were transferred to the Assembly. Section 88 of the 1998 Act provides that the Secretary of State shall prepare an account of the amounts issued from the National Loans Fund and passed to the Assembly for onward transmission to the Agency. The account must also show the interest and principal repayments received from the Assembly and paid in to the National Loans Fund.
- 9 The Welsh Development Agency was abolished on 1 April 2006 under SI 2005/3226: The Welsh Development Agency (Transfer of Functions to the National Assembly for Wales and Abolition) Order 2005. At that date, the liabilities of the Agency were transferred to the National Assembly for Wales.

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

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

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

Alan Cogbill
Accounting Officer for the Wales Office

28 September 2007

Government of Wales Act 1998

Account, prepared under Section 88 of the Government of Wales Act 1998 of the Receipts and Payments of the Secretary of State for Wales under the legislation shown for the year ended 31 March 2006.

Receipts

	2005-2006	2004-2005
	£	£
Issues from the National Loans Fund under Schedule 3, paragraph 4(1) to the Welsh Development Agency Act 1975	–	–
<i>Sums received from the Welsh Development Agency under paragraph 4(2) of Schedule 3 to the Welsh Development Agency Act 1975</i>		
Repayment of principal	20,295	23,375
Interest	2,203	3,897
<i>Sums received from the Welsh Development Agency in respect of advances made to the former Development Board for Rural Wales</i>		
Repayment of Principal	4,003	3,483
Interest	569,598	570,118
<i>Sums received from the Welsh Development Agency in respect of advances made to the former Mid Wales Development Corporation</i>		
Repayment of principal	15,440	13,428
Interest	1,156,151	1,158,164
Total receipts	<u>1,767,690</u>	<u>1,772,465</u>

Payments

	2005-2006	2004-2005
	£	£
Advances to the Welsh Development Agency via the National Assembly for Wales	–	–
<i>Payments to the National Loans Fund</i>		
Repayment of Principal	39,738	40,286
Interest	1,727,952	1,732,179
Total payments	<u>1,767,690</u>	<u>1,772,465</u>

Notes

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

	Welsh Development Agency	Former Development Board for Rural Wales	Former Mid Wales Development Corporation	Total
	£	£	£	£
Outstanding at 1 April 2005	35,097	3,954,107	7,925,661	11,914,865
Repaid	(20,295)	(4,003)	(15,440)	(39,738)
Outstanding at 31 March 2005	<u>14,802</u>	<u>3,950,104</u>	<u>7,910,221</u>	<u>11,875,127</u>

Alan Cogbill
Accounting Officer for the Wales Office

28 September 2007

Statement on Internal Control

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

Scope of responsibility

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

The purpose of the system of internal control

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

The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of the Wales Office's policies, aims and objectives, to evaluate the likelihood of those risks being realised (especially in the unique Wales Office context) and their likely impact should they be realised, and to manage them efficiently, effectively and economically. This system of internal control has been in place in the Wales Office for the year ended 31 March 2006 and up to the date of approval of the Annual Report and Accounts and accords with Treasury guidance.

Capacity to handle risk

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

Risk and control framework

A risk register identifying risks linked to Wales Office business objectives and setting out actions to mitigating significant risks is agreed and reviewed at Management Board meetings with Heads of Departments taking ownership for actions and review periods within their specific areas of Business.

The Assembly continued to administer the repayment of advances and interest thereon from the relevant bodies and with the risk associated with this undertaking these tasks were incorporated within the Assembly risk policy. During 2005-2006 the Department for Constitutional Affairs (DCA) inherited the responsibility for passing these remittances from the Assembly to the Secretary of State for payment into the National Loans Fund.

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

Review of effectiveness

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

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

I certify that I have audited the financial statements on page 40 under section 88 of the Government of Wales Act 1998. These financial statements have been prepared in the form and on the basis determined by HM Treasury.

Respective responsibilities of the Accounting Officer and Auditor

The Accounting Officer is responsible for preparing the financial statements in accordance with the Government of Wales Act 1998 and HM Treasury directions made thereunder and for ensuring the regularity of financial transactions. These responsibilities are set out in the Statement of Secretary of State's and Accounting Officer's responsibilities on page 42.

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

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

I review whether the statement on page 44 reflects the Agency's compliance with HM Treasury's guidance on the Statement on Internal Control and I report if it does not. I am not required to consider whether the Accounting Officer's statements on internal control cover all risks and controls, or to form an opinion on the effectiveness of the Agency's corporate governance procedures or its risk and control procedures.

Basis of audit opinion

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

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

Opinion

In my opinion

- the financial statements properly present the receipts and payments for the year ended 31 March 2006 and balances as at that date;
- the financial statements have been properly prepared in accordance with the Government of Wales Act 1998 and HM Treasury directions made thereunder; and
- in all material respects the payments and receipts have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

I have no observations to make on these financial statements.

John Bourn
Comptroller and Auditor General

3 October 2007

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

Accounts of Loans to Local Authorities

Foreword

Introduction

These accounts have been prepared by the Public Works Loans Board (PWLB). The Accounts have been prepared under a direction issued by HM Treasury in accordance with Section 3 (6) of the National Loans Act 1968. The accounts show the interest and similar payments paid by PWLB borrowers in servicing their borrowing. The accounts do not demonstrate the resources that have been used to deliver the PWLB's objectives, which are instead reported in the DMO Report and Account 2005-2006.

Brief history and background of the Public Works Loan Board

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

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

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

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

Current Commissioners of the PWLB

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

The role of the Commissioners

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

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

The Commissioners act as a Board to discharge their duties.

The Commissioners are not paid for their services.

Audit arrangements

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

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

Management Commentary

Factors influencing financial performance

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

Results for 2005-2006

In 2005-2006, PWLB agreed new loans to borrowers of £8,952 million compared to £5,822 million the previous year. Borrowers took out longer loans on average in 2005-2006 most notably to benefit from the extension of the maximum maturity of loans from thirty to fifty years with effect from 7 December 2005. This led to an increase over the year in the average period to maturity of fixed rate loans to 22.2 years (2005: 20.5 years), and also a reduction in the weighted average interest rate of PWLB loans outstanding at the balance sheet date to 6.21% (2005: 6.59%) as 2005-2006 was characterised by generally falling rates.

PWLB borrowers redeemed early loans of value £2,501 million in 2005-2006 (2004-2005: £3,081 million). Premiums receivable for early redemption of loans were £179 million in 2005-2006 (2004-2005: £288 million).

At 31 March 2006, PWLB's total assets stood at £47,764 million (2005: £42,701 million).

In 2005-2006 PWLB's operating income from interest receivable on loans was £2,863 million (2004-2005: £2,796 million). The increase in interest income on the previous year was mainly due to higher average balances of PWLB loans outstanding over the course of 2005-2006 compared to the previous year.

The corresponding liability of the Board to the NLF comprised loan principal of £47,124 million (2005: £42,103 million) with combined loan interest of and early redemption premiums of £640 million (2005: £598 million) outstanding.

PWLB's fee income and administrative expenditure are accounted for within the DMO's overall budget agreed with HM Treasury. In 2005-06, the DMO received fees and charges of £3.1 million (2004-2005: £1.9 million) from PWLB customers in respect of new loans issued.

The loans

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

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

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

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

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

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

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

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

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

H D Watson
Secretary, Public Works Loans Board

28 June 2006

Statement of Accounting Officer's responsibilities

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

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

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

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

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

Statement on Internal Control

Scope of responsibility

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

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

The purpose of the system of internal control

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

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

The system of internal control has been in place for the year ended 31 March 2006 and up to the date of approval of this account, and accords with Treasury guidance. The DMO has made additions to the system of internal control over the course of the year.

The risk and control framework and capacity to handle risk

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

Heads of business units assess regularly whether risks to their operations are being managed effectively. New risks, and risks where there is an increased likelihood of occurrence, are highlighted and actions identified to ensure all will be effectively managed. The DMO has introduced Senior Risk Owners who undertake a cross-functional moderation process to promote better prioritisation of risks across the organisation. Project teams used risk registers to monitor and manage identified risks for each DMO project. Managing Board has reviewed during the year the high level risks that the organisation faces, and the adequacy of the relevant controls. This process is supported by the maintenance of exception logs, which identify control weaknesses, and resultant actions to improve controls.

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

An independent review of the DMO's risk reporting framework was undertaken during 2005-2006. Improvements to the DMO's risk reporting have been made in response to the report's recommendations, primarily a revised and more focused risk map linking detailed risks to high level risks and a more effective reporting process.

Review of effectiveness

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

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

In my opinion, the system of internal control relating to PWLB was effective throughout the financial year 2005-2006 and remains so on the date I sign this statement.

HD Watson
Secretary, Public Works Loans Board

28 June 2006

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

I certify that I have audited the financial statements of the Public Works Loan Board for the year ended 31 March 2006 under the National Loans Act 1968. These comprise the Income and Expenditure Account, the Balance Sheet, the Cash Flow Statement and the related notes. These financial statements have been prepared under the accounting policies set out within them.

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

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

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

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

I also report to you, if in my opinion, the Foreword is not consistent with the financial statements, if proper accounting records have not been kept or if I have not received all the information and explanations I require for my audit, or if information specified by relevant authorities is not disclosed.

I review whether the statement on pages 53 and 54 reflects the Public Work Loans Board's compliance with HM Treasury's guidance on the Statement on Internal Control, and I report if it does not. I am not required to consider whether the Secretary to the Public Works Loan Board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the Public Works Loan Board's corporate governance procedures or its risk and control procedures.

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

Basis of audit opinion

I conducted my audit in accordance with International Standards of 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 in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Secretary to the Public Works Loan Board in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Public Works Loan Board's circumstances, consistently applied and adequately disclosed.

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

Opinion

In my opinion

- the financial statements give a true and fair view, in accordance with the National Loans Act 1968 and directions made thereunder by Treasury, of the financial position of the Public Works Loan Board as at 31 March 2006 and of the surplus and cash flows for the year ended 31 March 2006;
- the financial statements have been properly prepared in accordance with the National Loans Act 1968 and directions made thereunder by Treasury; and
- in all material respects, the financial transactions of the Public Works Loan Board conform to the authorities which govern them.

I have no observations to make on these financial statements.

John Bourn
Comptroller and Auditor General

30 June 2006

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

Income and Expenditure Account For the year ended 31 March 2006

	Notes	2005-2006 £m	2004-2005 £m
Interest receivable	2	2,863	2,796
Premiums/(discounts) receivable for early redemption	3	179	288
Operating income		3,042	3,084
Interest and premiums payable to National Loans Fund		3,042	3,084
Operating surplus retained		-	-

The notes on pages 60 to 64 form part of these accounts.

Balance Sheet as at 31 March 2006

	Notes	2006 £m	2005 £m
Assets			
Cash and balances at Bank of England	9d	60	47
Outstanding loans to PWLB borrowers	6	47,085	42,070
Accrued income	5	619	584
Total assets		47,764	42,701
Liabilities			
Amounts owed to the NLF			
Loan principal	8	(47,124)	(42,103)
Loan interest		(639)	(596)
Discount/Premium on loan early redemption		(1)	(2)
Total amounts due to the NLF		(47,764)	(42,701)
Total liabilities		(47,764)	(42,701)

The notes on pages 60 to 64 form part of these accounts

H D Watson
Secretary, Public Works Loans Board

28 June 2006

Cash Flow Statement for the year ended 31 March 2005

	Notes	2006 £m	2005 £m
Net cash flow from operating activities	9a	(1,966)	2,274
Returns on investments and servicing of finance	9b	(3,042)	(3,084)
Net cash flow before financing		(5,008)	(810)
Financing	9c	5,021	634
Increase/(Decrease) in cash		13	(176)

The notes on pages 60 to 64 form part of these accounts

Notes to the Accounts for the year ended 31 March 2005

1 Accounting policies

i Accounting convention

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

ii Valuation of loans

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

iii Recognition of assets and liabilities

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

iv Income recognition

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

2 Interest receivable

	2006	2005
	£m	£m
Fixed rate loans	2,846	2,733
Variable rate loans	17	63
	2,863	2,796

3 Premiums/(discounts) receivable for early redemption

	2006	2005
	£m	£m
Premiums payable	189	321
Discounts payable	(10)	(33)
	179	288

4 Segmental analysis of gross interest receivable

4a Segmental analysis by type of borrower 2006

	2006 Local Authority £m	2006 Parish Council £m	2006 Harbour & Drainage Board £m	2006 Total £m
Fixed rate loans	2,840	5	1	2,846
Variable rate loans	17	–	–	17
	2,857	5	1	2,863

Segmental analysis by type of borrower 2005

	2005 Local Authority £m	2005 Parish Council £m	2005 Harbour & Drainage Board £m	2005 Total £m
Fixed Rate Loans	2,728	4	1	2,733
Variable Rate Loans	63	–	–	63
	2,791	4	1	2,796

4b Segmental analysis by country 2006

	England £m	Wales £m	Scotland £m	Total £m
Fixed rate loans	2,187	196	463	2,846
Variable rate loans	17	–	–	16
	2,204	196	463	2,863

Segmental analysis by country 2005

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

5 Accrued income

	2006 £m	2005 £m
Accrued interest on fixed rate loans	618	582
Accrued interest on variable rate loans	1	2
	619	584

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

	2006 Principal £m	2006 Market Value £m	2005 Principal £m	2005 Market Value £m
Fixed rate loans	46,867	55,888	41,498	48,851
Variable rate loans	218	219	572	575
	<u>47,085</u>	<u>56,107</u>	<u>42,070</u>	<u>49,426</u>

At 31 March 2006, £1 million of loans (2004-2005: £14 million) had been confirmed but not yet advanced. These loans are not included in the balance sheet.

The balance of outstanding loans includes £35 million of loans (2004-2005: £13 million) which borrowers had confirmed their intention to repay but as at the balance sheet date had not yet been received.

6b Loans outstanding - country analysis

	2006 £m	2005 £m
England	36,613	32,223
Wales	3,256	3,097
Scotland	7,216	6,750
Total	<u>47,085</u>	<u>42,070</u>

6c Loans outstanding - maturity analysis

	2006 £m	2005 £m
In not more than 3 months	237	281
In more than 3 months but not more than 1 year	670	1,177
In more than 1 year but not more than 2 years	681	830
In more than 2 years but not more than 3 years	776	746
In more than 3 years but not more than 4 years	890	781
In more than 4 years but not more than 5 years	1,254	795
In more than 5 years but not more than 6 years	1,094	1,178
In more than 6 years but not more than 10 years	5,293	4,854
In more than 10 years but not more than 15 years	4,664	5,349
More than 15 years	<u>31,526</u>	<u>26,079</u>
	<u>47,085</u>	<u>42,070</u>

6d Loans outstanding – interest rate profile

	2006 Principal outstanding	2006 Average rate %	2005 Principal outstanding £m	2005 Average rate %
Loan type				
Fixed rate (principal at maturity loans)	44,946	6.18	39,558	6.57
Fixed rate (equal instalments of principal loans)	1,005	5.89	941	6.32
Fixed annuity	916	8.62	999	8.68
Total – fixed rate loans	46,867	6.22	41,498	6.62
One month variable (principal at maturity loans)	54	4.57	217	4.90
Three month variable (principal at maturity loans)	71	4.58	253	4.91
Six month variable (principal at maturity loans)	86	4.53	84	5.00
One month variable (EIP loans)	1	2.91	7	4.88
Three month variable (EIP loans)	–	4.56	3	4.88
Six month variable (EIP loans)	6	4.6	8	4.95
Total – variable rate loans	218	4.55	572	4.92
Total – all loan types	47,085	6.21	42,070	6.59

EIP means equal instalments of principal.

The weighted average period for which rates are fixed is 22.2 years (2004-2005: 20.5 years) for fixed rate loans.

7 New issue, maturity and early redemption of loans

	2006 £m	2005 £m
New agreed loans to PWLB borrowers	8,952	5,822
Loans maturing	(1,436)	(1,979)
Loans redeemed early	(2,501)	(3,081)
Net increase/(decrease) in loans	5,015	762

8 Loan principal owed to National Loans Fund

	2006 £m	2005 £m
Loan principal outstanding to borrowers	47,085	42,070
Loan principal repaid but not yet surrendered to NLF	39	33
Total loan principal owed to National Loans Fund	47,124	42,103

9 Analysis of cash flow

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

	2005-2006	2004-2005
	£m	£m
Operating income	3,042	3,084
(Increase)/decrease in loans outstanding to PWLB borrowers	(5,015)	(763)
(Increase)/decrease in accrued income due from PWLB borrowers	(35)	6
Increase/(decrease) in loan interest payable to NLF	43	(5)
Increase/(decrease) in net early redemption discounts and premiums due to NLF	(1)	(48)
Net cash flow from operating activities	<u>(1,966)</u>	<u>2,274</u>

9b Return on investments and servicing of finance

Interest and premiums payable to National Loans Fund	(3,042)	(3,083)
Total returns on investments and servicing of finance	<u>(3,042)</u>	<u>(3,083)</u>

9c Financing

Increase/(decrease) in loans principal outstanding to NLF	5,021	634
Total financing	5,021	634

9d Analysis of cash balances

	2006	Movement	2005
	£m	£m	£m
Cash and balances at Bank of England	60	13	47

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

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

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

25 February 2005

Accounts of Loans to the Private Sector

Harbours Act 1964

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

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

Foreword

Background

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

Scope of the Account

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

Secretary of State's powers to make loans

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

Limits on borrowing

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

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

- 6 Loans made under section 11(1)(a) and (b) of the Harbours Act 1964 (as amended) are subject to interest at the rate prescribed by the Treasury at the date of issue. No such loans were made in 2005-2006.

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

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

David Rowlands
Accounting Officer
Department for Transport

15 September 2006

Harbours Act 1964

Prepared under Section 43 of the Harbours Act 1964, of the Receipts and Payments of the Secretary of State for Transport, under Section 11 of the 1964 Act for the year ended 31 March 2006.

Receipts

	£	Previous year £
Balance as at 1 April 2005	-	-
<i>Payments by the Harbour Authorities [s.43(1)]</i>		
Repayment of Loans	3,223	3,008
Interest on Loans	4,009	4,223
Less (discount) or plus premium on premature redemption	-	-
	<u>7,232</u>	<u>7,231</u>

Payments

	£	Previous year £
Payments to the National Loans Fund [s.43(4)]	-	-
Repayment of Loans	3,223	3,008
Interest on Loans	4,009	4,223
Less (discount) or plus premium on premature redemption	-	-
Balance at 31 March 2006	<u>7,232</u>	<u>7,231</u>

Note

The aggregate amount of principal outstanding in respect of advances to Harbour Authorities under the Harbours Act 1964 at 31 March 2006 was £54,843.22.

David Rowlands
Accounting Officer
Department of the Transport

15 September 2006

The Department's Statement on Internal Control

Scope of responsibility

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

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

The purpose of the system of internal control

The system of internal control is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve departmental policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of departmental policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically. Subject to the developments during the year described in the following paragraphs, the system of internal control has been in place in the Department for Transport for the year ended 31 March 2006 and up to the date of approval of the annual report and accounts, and accords with Treasury guidance.

Capacity to handle risk

Leadership on risk management is provided by

- the Department's Management Board, which monitors delivery against key objectives across the DfT family. Significant risks to these objectives are identified by the line and escalated to the Board. The Department's Board includes the three Directors General in the central Department, the Director General for the DVO Group, the Chief Executive of the Highways Agency and three non-executive members. The Director General for Delivery and Security is the Board's 'Risk Management Champion';
- an Executive Committee, which seeks to ensure that the resources available to the central Department are managed as effectively as possible to meet identified risks and corporate governance standards.

The Department's Audit Committee monitors and reviews the processes for managing risk, control, governance and assurance across the DfT family, and includes two non-executive members from the DfT family.

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

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

The risk and control framework

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

Directors General and Heads of Unit (Directors) in the central Department take responsibility for the day to day management of risks in their respective areas of influence. Through regular delivery and financial reporting processes, the Board has set guideline criteria for the impact of risks that it considers should be escalated for its potential attention. The Department has in place risk registers, and a corporate risk log which is reviewed by the Board on a bi-monthly basis.

Early in the year, the central Department put in place a comprehensive 'Corporate Governance Framework' which included the framework of accountabilities, the roles and responsibilities of Directors General and Directors, and the end of year reporting arrangements. The Framework set out the responsibilities of Directors General and Directors for risk management. The Framework was supported by delegations from the Accounting Officer to Directors General to maintain effective accountability and the management of resources.

During the year, the Department agreed a framework of management assurances to support a more transparent and consistent approach to the review of systems of internal control. This will be implemented fully in 2006-2007.

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

Review of effectiveness

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

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

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

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

Directors General and Directors have reviewed internal control within their areas of responsibility and have completed end of year assurance returns, which the Finance Director has reviewed and summarised in his report to me on stewardship. The responses confirmed that Directors General regarded their Units as substantially compliant with the structure of internal control.

Group audit opinion

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

- "I can provide substantial assurance that risk management processes are working well in the Department and the Agencies. The Department has made significant improvements during the year and there are plans in place to further strengthen and improve these practices. Agencies continue to embed risk management as part of decision making and management processes.

- Internal controls, including financial controls, have continued to improve during the year so that I am able to provide substantial assurance on internal control in all parts of the organisation other than in the Highways Agency. Significant effort has been made to improve internal controls in the Highways Agency and management is working on a continuous programme to improve controls further. However some of our audits identified scope for improvement. Accordingly I am able to provide partial assurance on internal control arrangements in the Highways Agency. Notwithstanding this level of assurance, no weaknesses were identified that are sufficiently significant or material to require disclosure in the Statement on Internal Control.
- Improvements have been made to the Governance process in the Department and in the agencies during the year leading me to provide substantial assurance."

David Rowlands
Accounting Officer

15 September 2006

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

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

Respective responsibilities of the Accounting Officer and Auditor

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

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

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

Basis of audit opinion

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

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

Opinion

In my opinion

- the account properly presents the receipts and payments of the Secretary of State for Transport in respect of advances made to the Harbours Authority for the year ended 31 March 2006 and the balances held at that date and has been properly prepared in accordance with Section 43(5) of the Harbours Act 1964 and the directions made thereunder by the Treasury; and
- in all material respects the receipts and payments have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

I have no observations to make on these financial statements.

John Bourn
Comptroller and Auditor General

25 September 2006

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

Accounts of Loans with Central Government

Northern Ireland (Loans) Act 1975

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

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

Foreword

Scope of the Account

- 1 This account prepared under Section 3(1) of the Northern Ireland (Loans) Act 1975, for the year ended 31 March 2006 is required to show
 - i the sums issued to the Secretary of State for Northern Ireland out of the National Loans Fund under section 1(8) of the 1975 Act to enable him to make loans under section 1(1) to the Consolidated Fund of Northern Ireland;
 - ii the loans so made by the Secretary of State;
 - iii the sums received by the Secretary of State in respect of interest on, and repayment of
 - a loans made under the 1975 Act (section 1(7));
 - b loans made under previous enactments (section 2(1));
 - iv the payment into the National Loans Fund of the sums received under (iii).

The Secretary of State's Powers in respect of loans

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

Limits on loans outstanding

- 3 Section 1(2) of the 1975 Act as amended by section 1(1) of the Northern Ireland (Loans) Act 1985 specified a maximum of £1,700 million for the aggregate amount outstanding by way of principal in respect of certain loans. The Northern Ireland (Loans) (Increase of Limit) Order 1995 increased the limit in section 1(2) of the 1975 Act by £300 million to £2,000 million. At 31 March 2006 the aggregate amount outstanding was £1,503,491,076 as detailed in the Note to the Account.

Loans made during the year

- 4 The amounts issued to the Secretary of State out of the National Loans Fund and advanced to the Consolidated Fund of Northern Ireland during the year ended 31 March 2006 was £162,944,000.

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

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

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

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

Jonathan Phillips
Accounting Officer
Northern Ireland Office

18 December 2006

Northern Ireland (Loans) Act 1975

Account, prepared under Section 3(1) of the Northern Ireland (Loans) Act 1975, of the Receipts and Payments of the Secretary of State for Northern Ireland under Sections 1(1), 1(7), 1(8), 2(1) and 2(3) of that Act for the year ended 31 March 2006.

Receipts

	£	Previous year £
Issues from the National Loans Fund (s.1.(8))	162,944,000	168,726,000
<i>From the Consolidated Fund of Northern Ireland</i>		
i Loans under previous enactments (s.2(1))		
Repayment of principal	15,216,290	14,069,277
Interest	7,991,480	9,138,491
ii Loans under the 1975 Act (s.1(7))		
Repayment of principal	84,728,015	86,162,228
Interest	110,293,552	108,993,111
	<u>381,173,337</u>	<u>387,089,107</u>

Payments

	£	Previous year £
Loans to the Consolidated Fund of Northern Ireland (s.1(1))	162,944,000	168,726,000
<i>Payments to the National Loans Fund (ss.1(8) and 2(3))</i>		
Repayment of principal	99,944,305	100,231,505
Interest	118,285,032	118,131,602
	<u>381,173,337</u>	<u>387,089,107</u>

Note

Under Section 1(2) of the 1975 Act as amended by Section 1(1) of the Northern Ireland (Loans) Act 1985 the aggregate amount outstanding by way of principal of loans to the Consolidated Fund of Northern Ireland under this and previous enactments shall not exceed £1,700 million. The Northern Ireland (Loans) (Increase of Limit) Order 1995 increased the limit in Section 1(2) of the 1975 Act by £300 million to £2,000 million. The amounts outstanding at 31 March 2006 were

Loans under previous enactments	85,575,369
Loans under the 1975 Act	<u>1,417,915,707</u>
	1,503,491,076

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

Jonathan Phillips
Accounting Officer
Northern Ireland Office

18 December 2006

Statement on the System of Internal Control

The scope of responsibility

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

The purpose of the system of internal control

The system of internal control is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control has been in place in the Northern Ireland Office for the year ended 31 March 2006 and up to the date of approval of the annual accounts, and accords with Treasury guidance.

Capacity to handle risk

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

The risk and control framework

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

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

Review of effectiveness

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

Jonathan Phillips
Accounting Officer
Northern Ireland Office

18 December 2006

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

I certify that I have audited the financial statements on page 80 under the Northern Ireland (Loans) Act 1975. These financial statements have been prepared in the form and on the basis determined by Treasury.

Respective responsibilities of the Accounting Officer and Auditor

The Accounting Officer is responsible for the preparation of financial statements in accordance with the Northern Ireland (Loans) Act 1975 and Treasury directions made thereunder and for ensuring the regularity of financial transactions.

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

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

I review whether the statement on page 81 reflects compliance with HM Treasury's guidance on the Statement on Internal Control and I report if it does not. I am not required to consider whether the Accounting Officer's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the Northern Ireland (Loans) Act 1975 corporate governance procedures or its risk and control procedures.

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

Basis of audit opinion

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

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

Opinion

In my opinion

- the account properly presents the receipts and payments of the Secretary of State for Northern Ireland in respect of advances to the Consolidated Fund of Northern Ireland for the year ended 31 March 2006 and the balances held at that date;
- the account has been properly prepared in accordance with the Northern Ireland (Loans) Act 1975 and the directions made thereunder by the Treasury; and
- in all material respects the payments and receipts have been applied to the purposes intended by Parliament and conform to the authorities which govern them.

I have no observations to make on these financial statements.

John Bourn
Comptroller and Auditor General

25 January 2007

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

Housing Associations Act 1985

Advances to the Housing Corporation

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

Foreword

Scope of the Account

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

Limits on borrowing

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

Repayment of loans

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

Transactions during the year ended 31 March 2006

- 5 A total of £2,800,000 was issued to the First Secretary of State out of the National Loans Fund for advancement to the Housing Corporation.
- 6 The Corporation repaid £2,800,000 in respect of advances made to them. Taking into account advances made in previous years, the outstanding amount of advances to the Housing Corporation at 31 March 2006 was £1,400,000. The Corporation also paid interest totalling £66,178

Events after the end of the year

- 7 On 5 May, a new Department was formed – the Department for Communities and Local Government (DCLG). This new Department will take forward the work of the Office of the Deputy Prime Minister (ODPM). As these accounts relate to the period ended 31 March 2006, some references are still to the ODPM.

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

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

Peter Housden
Accounting Officer
Office of the Deputy Prime Minister

9 October 2006

Housing Associations Act 1985

Receipts and Payments of the First Secretary of State under Section 72 of the Housing Associations Act 1985 for the year ended 31 March 2006

Receipts

	2005-2006	2004-2005
	£	£
Issues from the National Loans Fund [S.92(5) of the 1985 Act]	2,800,000	2,600,000
<i>Payments by the Housing Corporation</i>		
Repayment on advances	2,800,000	2,400,000
Interest on advances	66,178	53,292
	<u>5,666,178</u>	<u>5,053,292</u>

Payments

	2005-2006	2004-2005
	£	£
Advances to the Housing Corporation [S.92(1) of the 1985 Act]	2,800,000	2,600,000
<i>Payments to the National Loans Fund</i>		
Repayment of advances	2,800,000	2,400,000
Interest on advances	66,178	53,292
	<u>5,666,178</u>	<u>5,053,292</u>

Note

The amount of advances outstanding at 1 April 2005 was £1,400,000. The amount of advances outstanding at 31 March 2006 was £1,400,000.

Peter Housden
Accounting Officer
Office of the Deputy Prime Minister

9 October 2006

Statement on Internal Control

Introduction

This statement is given in respect of the Housing Associations Act 1985, Advances to the Housing Corporation National Loans Funds account and incorporates the transactions that pertain to this account.

Scope of responsibility

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

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

In addition some of the responsibilities are delegated to an Additional Accounting Officer and the relationship with the Principal Accounting Officer is set out in written statements.

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

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

The purpose of the system of internal control

The system of internal control is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve policies, aims and objectives. It can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of the Department's policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively, and economically. The system of internal control has been in place in ODPM for the year ended 31 March 2006, and following the creation of the new Department, in DCLG from 5 May 2006, up to the date of approval of these White Paper accounts. This statement accords with Treasury guidance.

Capacity to handle risk

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

During 2005-2006 risk processes and assurance continued to be applied as follows

- To December 2005, the ODPM Board reviewed corporate risks, drawn from PSA targets, business critical projects and corporate operational activities, through the monthly Performance Monitoring Report;
- From January 2006, Programme Executives developed the capability to review strategic and cross-cutting risks and those escalated from within their areas of influence. These risks are reported monthly to Ministers and the Board Executive;

- An Audit and Risk Committee, under independent chairmanship of one of the non executive directors, that reviews on an on-going basis the approach to risk management and corporate governance across the Department and approves the assessments of progress on embedding risk management reported to the Civil Service/Permanent Secretaries Management Board sub-committee on Risk annually in July. The balance of non-executive and executive members was changed in April 2006 when I appointed a third non-executive director and made a further reduction in the overall number of senior executives on the Committee. The Committee complies with all of the requirements of the Audit Committee Handbook with the exception of the recommendations on the size of the Committee and the balance of Non-Executive and Executive members. I will consider the effectiveness of the Committee during the course of 2006-2007; and
- Senior managers within the Department's Headquarters (including the Director General with responsibility for the RCU/GO Network) and the Chief Executive of the Executive Agency, reported how they were managing risk through their interim Statements on Internal Control which were provided on a half-yearly basis. From April 2006, this will be complemented by provision of directorate risk registers quarterly.

Throughout the year, processes were in place to identify, assess and manage risk through various planning and progress monitoring processes: through project and programme management, driven by the Centre of Excellence; through policy development and implementation; and through audit and in the context of preparations for CSR07.

During 2005-2006 work continued on addressing elements of the Treasury's risk framework – leadership, strategy and policies, people, partnerships, processes, outcomes and handling. Following changes in the governance and structure of the Department, more emphasis will be placed on ensuring the timely application of risk management to the development and implementation of policy and to delivery.

Review of effectiveness

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

Mechanisms exist to ensure the effectiveness of the system of internal control is regularly reviewed

- A Management Board, that includes two Non-Executive Directors, meets monthly to consider the plans and strategic direction of the Department, including strategic challenges and opportunities;
- From January 2006, I created within the Management Board, a Board Executive to co-ordinate the operations of the Department, oversee organisational development and to offer advice to Ministers and the main Board on overall strategy;
- An Audit and Risk Committee considers the adequacy of the internal control system and the risk management framework. It is chaired by a Non-Executive Director who also sits on the Management Board. In 2005-06 the Committee reviewed the approach to risk management, agreed the Internal Audit work programme, and the Department's own system for obtaining assurances from senior managers. I (and my predecessor before me) attend meetings of the Committee in the role of Principal Accounting Officer;

- The effectiveness of the Department's risk management, control and governance processes are kept under regular review by the Department's Internal Audit Services. Regular reports are made to the Audit and Risk Committee. DCLG Internal Audit operates to the standards defined in the Government Internal Audit Manual; and
- My senior managers provide me with a statement every six months on the effectiveness of their internal control and risk management arrangements.

There are no significant internal control problems to report.

Peter Housden
Accounting Officer
Office of the Deputy Prime Minister

9 October 2006

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

I certify that I have audited the financial statements on page 86 under the Housing Associations Act 1985. These financial statements have been prepared in the form and on the basis determined by Treasury.

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

As described on page 85 the First Secretary of State is responsible for the preparation of the financial statements in accordance with the Housing Associations Act 1985 and Treasury directions made thereunder. The Accounting Officer is responsible for ensuring the regularity of financial transactions and for the preparation of the Foreword.

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

I report my opinion as to whether the financial statements properly present the receipts and payments and are properly prepared in accordance with the Housing Associations Act 1985 and Treasury directions made thereunder, and whether in all material respects the receipts and payments have been applied to the purposes intended by Parliament and conform to the authorities which govern them. I also report if, in my opinion, the Foreword is not consistent with the financial statements, if proper accounting records have not been kept, or if I have not received all the information and explanations I require for my audit.

I review whether the statement on pages 87 to 89 reflects compliance with Treasury's guidance on the Statement on Internal Control. I report if it does not meet the requirements specified by Treasury, or if the statement is misleading or inconsistent with other information I am aware of from my audit of the financial statements. I am not required to consider, nor have I considered, whether the Accounting Officer's Statement on Internal Control covers all risks and controls. I am also not required to form an opinion on the effectiveness of the Department's corporate governance procedures or its risk and control procedures.

Basis of audit opinion

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

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

Opinion

In my opinion

- the account properly presents the receipts and payments of the First Secretary of State in respect of advances to the Housing Corporation for the year ended 31 March 2006 and the balances held at that date and has been properly prepared in accordance with Section 97 of the Housing Associations Act 1985 and the directions made thereunder by the Treasury; and
- in all material respects the payments and receipts have been applied to the purposes intended by Parliament and conform to the authorities which govern them.

I have no observations to make on these financial statements.

John Bourn
Comptroller and Auditor General

26 October 2006

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

For further information about the National Audit Office please contact:

National Audit Office
Press Office
157-197 Buckingham Palace Road
Victoria
London
SW1W 9SP
Tel: 020 7798 7400
Email: enquiries@nao.gsi.gov.uk

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