National Standards Authority of Ireland – 2002

Supplement to Audit Report

The Code of Practice for the Governance of State Bodies lays down a best practice framework for the effective governance and oversight by boards of the executive functions and performance of bodies. In the case of the National Standards Authority of Ireland (NSAI) the members of the board of the Authority discharge these governance responsibilities.

A key element in governance is the oversight of the internal and external reporting functions including the approval of annual budgets and corporate plans and the production of annual reports and accounts. The board must be supplied in a timely fashion with information which is of a suitable quality to enable it to satisfactorily discharge its duties.

The Authority is also responsible for maintaining proper books of account that enable it to determine with reasonable accuracy at any time its financial position, correctly record and explain its transactions and enable its accounts to be readily and properly audited.

Audit Opinion

I have audited the financial statements of the Authority for 2002 and have issued an unqualified audit opinion as regards the 'truth and fairness' of the accounts. However I noted that in my opinion the Authority did not keep proper books of account. This was because the books did not allow the Authority to determine its financial position with reasonable accuracy in a timely manner nor enable its financial statements to be readily and properly audited. The Authority subsequently took steps to correct the books of account and revise its draft financial statements which enabled my audit to be completed. The audited financial statements are in agreement with the books of account.

Adjustments to Accounts submitted for Audit

The audit of the 2002 financial statements of the Authority commenced in January 2005 based on management accounts which showed a deficit for the year of €361,290. The Authority encountered problems in preparing accurate financial statements and several significant revisions were made to the initial set of accounts as follows

- In February 2005 draft financial statements were presented which contained a number of differences from the management accounts and which showed a deficit of €692,066.

- In November 2005 the deficit was adjusted to €1.125 million due to adjustments to correct overstatement of income and the write back of a duplication of income from the US subsidiary.

- In May 2006 the deficit was further adjusted to €1.695 million due mainly to corrections to the initial overstatement of income.

While most of the adjustments stemmed from accounting errors the largest single adjustment of €319,000 related to arrears for an unanticipated pay award.

The audit of the 2001 financial statements had encountered similar delays and significant adjustments were made to initial figures supplied for audit before the accounts were certified in December 2004.

Weaknesses in the Financial Reporting Process

A number of difficulties had arisen in the Authority in the period in the production of financial information

- The performance of the accounting system was poor in that it did not provide accurate information on the main operations including outturn against budgeted income
- Key accounts personnel left and there was a time gap in their replacement
- There were a number of key financial procedures which were not operating effectively and which militated against timely and accurate financial information being available.

Governance by the Board of the Authority

Regular reports on the financial position and performance of the Authority were presented to the board of the Authority at their meetings. Over the period the board discussed and took action to address deficiencies.

- Early in 2002 the board expressed its concern at the budgeted deficit for the year and members directed management to pursue corrective measures to address this. The Chief Executive devised a Viability Plan for Certification businesses which incorporated a number of cost control measures. The plan also included a voluntary early retirement scheme which was approved by the Department of Enterprise, Trade and Employment. In addition the board sought additional funding from the Department to address an anticipated cash deficit of €1 million.

- Updated projections were provided at subsequent meetings in the year which indicated that certain activities would operate at a loss for the year. Additional funding of €1.3 million was provided by the Department. However, the extent of the losses was ultimately underestimated by the Authority.

- Subsequent to the year end the board was advised of a number of adjustments to the deficit for 2002. It expressed its concern at the amendments and the untimely

nature of their reporting. A number of actions were taken by the board and management to ensure that the financial information and procedures were sound. Assurances were given to the board by the Chief Executive regarding the completeness of invoicing for all monies owed to the Authority.

These difficulties in producing timely and accurate financial information militated against the board's ability to fully assess and respond to the emerging deficit and underlying difficulties. These difficulties also resulted in significant delays in producing an accurate and complete set of financial statements for 2002.

In addition under enhancements introduced in 2002 in the Code of Practice the members of the Authority were also required to review the effectiveness of the Authority's system of internal controls, including financial, operational and compliance controls and risk management. Although the board had put in place a number of the key elements of the system of internal financial control including an Audit Committee and internal audit function, it did not formally review the effectiveness of the internal financial controls for the year as was required under the Code of Practice.

Remedial Actions

In response to the deficit and the weaknesses in financial reporting the Authority undertook a number of measures

- The CEO prepared a Viability Plan in 2003, approved by the board, for the Certification businesses. Amongst other things the plan included a Voluntary Early Retirement scheme, closure of an office in San Jose, California, closure of The Granary Office in Limerick, substantial reduction in use of Irish Auditors in the US, agreement of performance targets for Irish Auditors, rollout of PMDS and review of use of sub-contractors in Ireland and the US. In addition the Authority reviewed pricing across all divisions with consequent increases that reflected the costs involved in providing both commercial and non-commercial activities.

- A process of improvements to financial procedures was commenced in early 2004. This included an internal review of income and billing and an assessment of financial systems. An external contractor completed a detailed review of the income and billing for each project on a look back basis in 2005 which formed the basis of corrections made to the financial statements. Experts in the accounting software also undertook a review of its performance and outlined corrective actions. Changes were made in operational areas to ensure the accuracy and completeness of client billing and revenue recognition. A new post of Director of Finance was sanctioned and an appointment made in late 2005. The Chief Executive assured me that the remedial actions to address accounting deficiencies were put in place, he is satisfied that the internal control environment is robust, that the structures now in place allow for consistent and accurate revenue recognition and he now has full confidence in the management accounts.

- A firm of accountants was engaged in 2004 to undertake a comprehensive review of the accounting and control weaknesses and an action plan was devised to

address these deficiencies. Revised financial procedures were implemented from 2004 to address the weaknesses identified. Follow-up reviews were conducted by the firm in 2005 and 2006 to assess management's response to the action plan. The Chief Executive has assured me that outstanding action points as highlighted in their final report have been addressed.

- Regular financial reports were given to the board during 2004, 2005 and 2006 which the Chief Executive has assured me were an accurate reflection of the outturn of activities of the Authority and permitted the board to address the ongoing financial performance and development of the Authority.

John Purcell
Comptroller and Auditor General

16 March 2007