

From: PER Govacc <Govacc@per.gov.ie>
Sent: Thursday 13 May 2021 17:08
To: Martin Hughes
Cc: Public Accounts Committee; Patricia Hennessy (PER)
Subject: RE: Minutes of the Minister in response to PAC focused Report
Attachments: Minute of the Minister.pdf

Importance: High

Categories: Correspondence for future meetings

R0583 PAC33

Dear Martin,

Please see attached the Minute of the Minister for Public Expenditure and Reform in response to the Committee of Public Accounts report on the Examination of the Department of Public Expenditure and Reform's and the Department of Finance's 2019 Appropriation Accounts and Related Financial Matters published in April.

Regards

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Tá an fhaisnéis atá sa ríomhphost seo (agus in aon cheangaltáin) faoi rún agus is don fhaighteoir/do na faighteoirí beartaithe é agus é/iad sin amháin. Mura tusa an faighteoir beartaithe, níor cheart duit an teachtaireacht seo ná aon chuid di a úsáid, a nochtadh, a chóipeáil, a dháileadh ná a choinneáil. Sa chás gur trí earráid a fuair tú an ríomhphost seo, tabhair fógra dom láithreach faoi sin agus scríos gach cóip den ríomhphost seo ó do ríomhchóra(i)s. Tabhair faoi deara go bhféadfaidh an ríomhphost seo agus aon fhreagra air bheith faoi réir iarraidh ar a eisiúint de bhun an Achta um Shaoráil Faisnéise

Minute of the Minister for Public Expenditure and Reform in response to the Committee of Public Accounts Report on the Examination of the Department of Public Expenditure and Reform's and the Department of Finance's 2019 Appropriation Accounts and Related Financial Matters

The Minister for Public Expenditure and Reform has examined the Committee's Report and has taken account of its recommendations. In relation to the Committee's recommendations, the Department of Public Expenditure and Reform has engaged with the Department of Finance and the response to each recommendation is as follows:

Issue 1: Department of Public Expenditure and Reform – Modernisation of Central Government Financial Reporting:

The Committee was informed that the State has a unique approach to financial management that is underpinned by the *Exchequer and Audit Departments Act 1866* (as amended by *Comptroller and Auditor General (Amendment) Act 1993*). The legislation is aided by a system of financial principles and procedures that are maintained by the Department of Public Expenditure and Reform (DPER). At present, Appropriation Accounts are prepared on an annual basis detailing the financial transactions of Government Departments. Appropriation Accounts are a cash-based record of receipts and payments made by a Government Department in an individual year. The accounts are displayed alongside the amounts provided for in that year's Budget and the figures for the previous year for comparative purposes.

In "*Financial Reporting in Ireland*" (2019) the Organisation for Economic Co-operation and Development (OECD) recommended that the State improve the completeness of its financial reporting by incorporating elements of accrual accounting. Accrual accounting would include the maintenance of a State balance sheet that would present the State's net worth including its liquid assets and continuous liabilities. The OECD also recommended that the State reduce the timeframes for publishing financial reports and harmonise accounting practices across each branch of governance. DPER stated that the Government has accepted the approach recommended by the OECD and that the changes required will be implemented on a phased basis.

The Committee acknowledges that the incorporation of accrual accounting principles represents one of the most significant changes ever undertaken regarding the State's financial reporting. Nevertheless, the Committee is of the opinion that the changes required to implement such necessary reforms must remain a priority and requested information on the timeframe envisaged, and the challenges that currently exist in implementing these changes.

DPER stated that the two most pressing challenges facing the Department in regard to these changes were IT systems and human resources. The IT systems need to be upgraded to a shared financial management system.

The first change that will take place will be the required update of the IT systems used to track the State's spending. DPER informed the Committee that this will cost approximately €100 million. It stated that this process had been delayed due to the COVID-19 pandemic but that progress should be made in 2021. DPER also informed the Committee that initial priorities have been identified and that these will be reviewed in quarter three 2021.

The Committee acknowledges that the implementation of the OECD recommendation to incorporate elements of accrual accounting into the State's financial reporting is a significant change and one that will take time. However, the Committee remains concerned that DPER could not provide a clear timeline for the implementation of the necessary reforms to move to accrual accounting.

Recommendation 1:

The Committee recommends that a timeline for the completion of the implementation of the OECD recommendations regarding the incorporation of accrual accounting principles is provided to the Committee by the end of quarter three 2021. The Committee requests that the plan contains detailed benchmarks for the incorporation of accrual accounting principles for each Department. The Committee also recommends that DPER provides the Committee with an annual progress report regarding same.

The Minister for Public Expenditure & Reform accepts this recommendation.

The Department is actively implementing the Government decision to move to a standards-based accrual framework for future financial reporting. This is a very complex task, with a number of elements to be undertaken, over a period of years. The key elements include:-

- Review of the IPSAS framework to consider its suitability for the Irish system.
- Consideration of legislative adjustments that may be necessary to ensure compatibility of approach with the standards-based framework.
- Supporting Departments through appropriate communication and training to ensure that they are prepared for new requirements.
- Development of new technology through the Financial Management Shared Services System to meet the new reporting requirements.

The Department accepts the recommendation from the committee and will provide a timeline for the Committee by the end of Q3 2021 and further annual reports thereafter.

Issue 2: Department of Finance – Accounts of the Credit Union Restructuring Board:

The Committee expressed concern that the last audited accounts of the Credit Union Restructuring Board were published in 2016. Since then no Financial Statements have been audited or published. The Department states that all of the Restructuring Board's employees' contracts expired on or before 31 July 2017 and that all Board members have resigned. The Department informed the Committee that legislation for the formal dissolution of the Board was at an advanced stage.

The Department also explained the issue that was delaying the audit of the Financial Statements of the Board. As the Committee understands it, the draft 2017 Financial Statements were submitted to the C&AG for audit in 2018. However, the Department has not been able to reconcile a note to the accounts to the satisfaction of the C&AG and therefore, the audit has not been completed. Until this issue is resolved the 2017 draft accounts cannot be audited and this has delayed the audit of the 2018 draft accounts as it cannot be undertaken until the 2017 accounts have been closed. The Department explained that it has taken the decision to procure external accounting advice to assist in completing the audit and that the tender process would commence shortly. However, no timeline for the completion of the tender process was provided. The Committee remains unsatisfied with this situation and is of the opinion that it must be resolved promptly to ensure proper oversight of State funds can take place.

Recommendation 2:

The Committee recommends that the Department complete the tender process to procure external accounting advice without delay. The Committee further recommends that the tender contract includes a specific date for the provision of the advice and that the Department submits the accounts for audit by the C&AG within three months of the advice being received.

The Minister for Public Expenditure & Reform is informed by the Department of Finance that it accepts this recommendation.

On 22 December 2020 the Credit Union Restructuring Board (ReBo) issued a Request for Quotation to six firms seeking external accountancy services to assist the completion of the audit of its 2017 accounts. EisnerAmper Ireland was confirmed as the successful tenderer in March 2021 and signed a contract for services to be concluded within two months, with an extension of a further two months at the discretion of ReBo to allow for engagement with the OCAG. EisnerAmper Ireland has commenced its work and expects to have concluded its review by end May 2021. Once

EisnerAmper Ireland has concluded its review, ReBo will consider its findings before resubmitting the accounts to the OCAG for finalisation.

Given under the Official Seal of the Minister for Public Expenditure and Reform on this the **13** day of May, 2021.



L.S.

A handwritten signature in blue ink, appearing to read 'David Moloney', written over a horizontal line.

David Moloney

Secretary General

Department of Public Expenditure and Reform