Northern
Ireland
Office

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

Contents

Preface

I am pleased to make this second report to Parliament under section 11(1) of the Northern Ireland (Monitoring Commission etc) Act 2003. It covers the twelve month period from 18 September 2004 to 17 September 2005.

This report contains the audited accounts of the Independent Monitoring Commission (IMC) for the first fifteen months of their operation. This fulfils my predecessor's commitment to bring the accounts before Parliament.

The IMC's reports provide an independent assessment of any continuing activity by paramilitary groups. Now that a commitment has been made by the Government to a package of security normalisation measures, the IMC will also monitor whether those commitments are being fully implemented in the light of its assessment of the paramilitary threat and the British Government's obligation to ensure the safety and security of the community as a whole. This is an important role in the transition to a peaceful society and stable and inclusive devolved Government in Northern Ireland.

I am very grateful to the Commissioners for their valuable contribution and the work they have undertaken over the past year.

PETER HAIN MP

SECRETARY OF STATE FOR NORTHERN IRELAND

Introduction and Background

Introduction

1.1 The Northern Ireland (Monitoring Commission etc.) Act 2003[1] ('the 2003 Act') makes provision associated with the Independent Monitoring Commission (IMC), established by an Agreement between the British and Irish Governments.

1.2 Section 11 of the 2003 Act requires an annual report to be laid before Parliament. The report must cover two matters:

- the operation of the Agreement that established the IMC; and
- the operation of those parts of the 2003 Act that amend the Northern Ireland Act 1998.

Background

1.3 The Agreement between the British and Irish Governments that led to the establishment of the IMC was published on 1 May 2003 alongside a Joint Declaration[2] from the Governments on steps necessary to build trust and confidence amongst the Northern Ireland political parties with a view to restoration of the Belfast Agreement institutions.

1.4 The Agreement set out the functions of the new body. The IMC would monitor and report on ongoing paramilitary activity, a programme of security normalisation measures initiated by the British Government (when that commenced) and it would consider claims that a party sitting in the Northern Ireland Assembly was in breach of its commitments under the Belfast Agreement.

1.5 The IMC was established by means of an International Agreement between the British and Irish Governments. Supplementary legislation was required in each country. In the UK, that has been the 2003 Act and the Northern Ireland (Monitoring

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

Commission etc.) Act 2003 (Immunities and Privileges) Order 2003[3]. These pieces of legislation established the IMC as an independent body in international law and allowed it to operate in the United Kingdom and Ireland.

1.6 The effect of this legislation is to permit the Northern Ireland Assembly to take remedial action in the light of an adverse report from the IMC. The Northern Ireland Act 1998[4] ('the 1998 Act') was amended to allow the Assembly to take a number of measures against parties and Ministers on the basis of a cross-community vote. The 1998 Act already provides for the Assembly to vote to exclude a party or a Minister. These amendments added the ability to reduce MLA salaries and party funding and to vote on a motion of censure.

1.7 If the Assembly were to fail to give effect to an IMC recommendation, it would be for the British Government, in consultation with the Irish Government and the parties, to resolve the matter in a manner consistent with the IMC report. The legislation has therefore made provision to enable the Secretary of State to exclude a party of Minister in circumstances where the IMC had recommended that and where the first Assembly motion for an exclusion resolution failed to attract cross-community support.

1.8 While the operation of the Northern Ireland Assembly is suspended under the Northern Ireland Act 2000[5], the Secretary of State has the ability to respond to IMC reports by reducing MLA salaries and party funding. The Northern Ireland Act 1998 and Northern Ireland Act 2000 (Modification) Order 2004[6] makes provision for this situation.

1.9 The IMC was formally established on 7 January 2004.

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[3] SI 2003 No 3126
[4] c47
[5] c1
[6] SI 2004 No 1164

IMC Activities

Administration

2.1 During the period this report covers, work was undertaken on the corporate governance arrangements for the IMC in order to codify the relationship between the IMC and the British and Irish Governments. Under Article 14 of the International Agreement, the Commission is required to keep proper accounts and proper records of all moneys received or expended by it and, at the joint request of the two Governments, appoint auditors who shall audit the accounts of the Commission. The reports of the auditors shall be submitted to both Governments. Under Article 12 the two Governments must provide, on a basis to be determined by them, such monies, premises, facilities and services as may be necessary for the proper functioning of the Commission.

2.2 This work is still underway. An update will be included in the next report.

Reports

2.3 The IMC made four reports during the year. These are commented on in more detail in the next section of this document.

Accounts and Recoupment

2.4 The IMC's first set of accounts, covering the period of the establishment of the Commission in January 2004 to the end of the following financial year in March 2005 were completed and subject to audit. These accounts are included later in this report. On the basis of those accounts, a recoupment exercise was conducted to recover half of the costs of the Commission from the Irish Government. The costs of the IMC are borne equally by the two Governments

Accessibility of IMC

2.5 Under Article 8 of the International Agreement the IMC must be accessible to all interested parties and must consult as necessary on the issues mentioned in Articles 4 to 6 in preparing its reports and making recommendations as described in Article 7. The IMC continued to make itself available. As part of this, they travelled to the USA in March 2005. This raised the profile of the Commission and allowed them to hear the views of interested parties.

Normalisation

2.6 The Provisional IRA made a statement on 28 July 2005 that announced an end to armed conflict and other activities. In response to this statement, the British Government announced on 1 August 2005 that it was satisfied that an enabling environment would be achieved and it launched a security normalisation programme. This envisages the gradual reduction of the security response in Northern Ireland over a two-year period.

2.7 Under Article 5(1) of the International Agreement that established the IMC, when the British Government makes a commitment to a package of security normalisation measures the Commission has an obligation to monitor whether those commitments are being fully implemented, in the light of its assessment of the paramilitary threat and the British Government's obligation to ensure the safety and security of the community as a whole. The International Agreement requires the IMC to report its findings to the two Governments at six-monthly intervals.

Paramilitary Activity Reports

3.1 The IMC published four reports during the period covered by this report. This report focuses on the requirements of section 11 of the 2003 Act. It does not attempt to summarise in any detail IMC's reports, which are available publicly[7].

Requirements for Reports on Paramilitary Activity

3.2 Article 4 of the Agreement requires the IMC to monitor any continuing activity by paramilitary groups and it sets out the activities to be covered in reports. Article 4 also requires the IMC to assess whether the leaderships of paramilitary groups are directing or seeking to prevent continuing activities and it requires the IMC to assess trends in security incidents. The IMC must report to the two Governments at six-monthly intervals and can produce further ad hoc reports if it sees fit to do so or at the request of the Governments. Under Article 9 of the Agreement, the Governments must take steps to publish Article 4 reports and the 2003 Act further requires that reports must be laid in Parliament.

3.3 Article 7 of the IMC Agreement requires the IMC to recommend any remedial action considered necessary when reporting on paramilitary activity under Article 4. The Commission may also recommend what measures, if any, the Northern Ireland Assembly should take but is limited in this respect to recommending measures provided for in the Northern Ireland Act 1998 as amended by the 2003 Act (exclusion, reduction of salaries, reduction of financial assistance to parties and censure).

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

3.4 The third report, made under Articles 4 and 7 of the Agreement, was laid in Parliament on 4 November 2004 by means of a Written Ministerial Statement. The report covered the period from 1 March to 31 August 2004. It concluded that while some paramilitary groups had scaled back the intensity of their activity, none

[7] via the Northern Ireland Office's website www.nio.gov.uk

had materially wound down their capacity to commit violent or other crime. Paramilitary violence in the form of murder, shootings and assaults had considerably reduced, but remained at a disturbingly high level.

3.5 The report made a number of recommendations to counter paramilitary crime and other manifestations of paramilitary activity, but it did not recommend any measures under Article 7.

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

3.6 The fourth report, made under Articles 4 and 7 of the Agreement, was laid in Parliament on 10 February 2005 by means of a Written Ministerial Statement. This report was prepared on an ad hoc basis under Article 4(c) of the Agreement. The Commission has the ability to make ad hoc reports if requested by the two Governments or if it sees fit to do so. The report responded to the theft of approximately £26.5m from a branch of the Northern Bank in Donegall Square in Belfast in December 2004. IMC felt that an ad hoc report was justified because of the seriousness of the crime. The Commission described it as a high risk crime which required careful and lengthy advance planning. They concluded firmly that the robbery was planned and undertaken by the Provisional IRA. They also concluded that the Provisional IRA was responsible for a series of other robberies that had enabled the organisation to gain very significant resources over a period of months.

3.7 IMC concluded that Sinn Féin must bear its share of the responsibility for the incidents. They said that had the Northern Ireland Assembly been sitting they would have recommended the full range of measures available to them, including exclusion from office. As the Assembly was suspended, the Commission recommended that the Secretary of State should exercise his powers to implement financial measures. Paul Murphy, then Secretary of State for Northern Ireland, directed that Sinn Féin would not be entitled to the financial assistance payable to parties in Northern Ireland for 12 months from 29 April 2005[8].

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

3.8 The fifth report, made under Articles 4 and 7 of the Agreement, was laid in Parliament on 24 May 2005 by means of a Written Ministerial Statement. This report continued the six-monthly cycle required by the International Agreement. The analysis and conclusions of the fourth (ad hoc) report were included in the full account of paramilitary activity contained in the fifth report. This report concluded that paramilitary groups continue to be active in violent and other crime and that none had materially wound down their capability to commit violent or other crime. The downward trend in paramilitary violence had continued, although the number of paramilitary murders was comparable to that in the previous two six-month periods.

3.9 The IMC made one recommendation to tackle paramilitary crime and also recommended that the Secretary of State continue the financial penalties in force in respect of the Progressive Unionist Party (PUP). The Secretary of State indicated he was minded to accept this recommendation and asked for representations from the PUP. The delivery of the IMC's Sixth Report (see below) meant that the Secretary of State delayed making a final decision on financial penalties.

The Sixth Report on Paramilitary Activity

3.10 The sixth report, made under Articles 4 and 7 of the Agreement, was made to the Secretary of State in early September 2005. This report is an ad hoc report. It was made by the Commission in response to evidence of a loyalist feud occurring in Northern Ireland over the summer of 2005. The Sixth Report was not published by the Secretary of State until 22 September 2005. This is after the period covered by this report. The content of the report and the actions taken as a result of it will be discussed in the next report.

[8] Following the IMC's report, the House of Commons also debated and passed a Government motion to suspend Sinn Féin's Westminster allowances for 12 months from 1 April 2005

Arrangements for IMC Reports on Security Normalisation

4.1 The IMC Agreement makes two distinct provisions for the IMC to report on security normalisation activities undertaken by the British Government. The IMC's main responsibility is to monitor a programme of security normalisation triggered once an enabling environment had been achieved. Article 5(1) of the Agreement requires the IMC to monitor whether security normalisation commitments made by the British Government are being delivered within agreed timescales, in the light of the Commission's assessment of the paramilitary threat and the Government's obligations to ensure the safety and security of Northern Ireland. The security normalisation activities to be included in these reports, to be delivered to the two Governments at six-monthly intervals, are set out in the Agreement. They include:

- the demolition of towers and observation posts in Northern Ireland;
- the withdrawal of troops from police stations in Northern Ireland;
- the closure and dismantling of military bases and installations in Northern Ireland;
- troop deployments and withdrawals from Northern Ireland and levels of British Army helicopter use; and
- the repeal of counter-terrorism legislation particular to Northern Ireland.

4.2 Following the Provisional IRA's statement of 28 July 2005, the Secretary of State determined that an enabling environment had been achieved. On 1 August 2005 he published a two-year programme of security normalisation that would commence immediately. At the same time, he formally commenced IMC's obligation to monitor that programme under Article 5(1). The Secretary of State wrote to the IMC and to Michael McDowell (Irish Minister for Justice, Equality and Law Reform) under Article 15 of the International Agreement on 2 August 2005. This letter informed them that he was formally triggering the IMC's role in monitoring a programme of security normalisation under Article 5(1). The first report under Article 5(1) will therefore cover the period August 2005 to January 2006.

4.3 Before that enabling environment had been attained and the security normalisation programme triggered, the Agreement also allowed the British

Government to commission the IMC, under Article 5(2), to prepare a report on such normalisation activities over such a specified period as are notified by the British Government. No report was requested under this article during the reporting period. When the security normalisation programme was announced and Article 5(1) was commenced, Article 5(2) ceased to have effect.

Arrangements for Article 6 Reports

5.1 Article 6 of the Agreement enables the Commission to consider a claim by a party represented in the Northern Ireland Assembly that another party or Minister was, broadly speaking, in breach of their commitments under the Belfast Agreement.

5.2 Article 6(1) defines the claims the Commission may consider. These are claims that a Minister or party is not committed to non-violence and exclusively peaceful and democratic means; or that a Minister has failed to observe any other terms of the pledge of office; or that a party is not committed to such of its members as are or might become Ministers observing the other terms of the pledge of office.

5.3 Article 6(2) makes clear that any claims that relate to the operation of the institutional arrangements under Strand 1 of the Belfast Agreement can only be considered by the Commissioners appointed by the British Government (Lord Alderdice and John Grieve). Article 6(3) provides that such reports shall be made to the British Government only. Other reports under Article 6 are to be made to both Governments.

5.4 Otherwise, the arrangements that apply to reports on paramilitary activity apply to Article 6 reports; the IMC can make recommendations as to remedial action and measures to be taken by the Assembly, and its Article 6 reports will be made public.

5.5 The Article 6 reporting arrangements are intended to operate in the context of a sitting Assembly. As such, no reports have been made by the IMC under Article 6 during this reporting period.

Foreword to the Accounts

for the period 7 January 2004 to 31 March 2005

History and statutory background

The Independent Monitoring Commission (IMC) was established on 7th January 2004 under the Northern Ireland (Monitoring Commission etc) Act 2003 and the Agreement between the Government of the United Kingdom of Great Britain and Northern Ireland and the Government of Ireland. It became operational on 7 January 2004. Its purpose is to help promote the establishment of stable and inclusive devolved government in a peaceful Northern Ireland. The accounts have been prepared in a form directed by the Secretary of State for Northern Ireland in accordance with the agreement between the Government of the United Kingdom of Great Britain and Northern Ireland and the Government of Ireland.

Principal activities

The duty of the Commission is to report to the Governments on the activity by parliamentary groups, on the normalisation of security measures in the province, and on claims by Assembly parties that other parties, or Ministers in a devolved Executive, are not living up to the standards required of them. The four Commissioners are entirely independent of both Governments.

Review of activities

Corporate Governance

Work has been undertaken on the corporate governance arrangements for the IMC in order to codify the relationship between the IMC and the British and Irish Governments. Under Article 14 of the International Agreement, the Commission is required to keep proper accounts and proper records of all moneys received or expended by it and, at the joint request of the two Governments, appoint auditors who shall audit the accounts of the Commission.

Reports

The IMC made four reports during the financial period.

Accessibility

Under Article 8 of the International Agreement the IMC must be accessible to all interested parties and must consult as necessary on the issues mentioned in Articles 4 to 6 in preparing its reports and making recommendations as described in Article 7. As part of this, they travelled to the USA in March 2005. This raised the profile of the Commission and allowed them to hear the views of interested parties.

Membership of the Commission

Lord Alderdice
Dick Kerr
Joe Brosnan
John Grieve

Results for the year

The results of the IMC are set out on pages 22 to 34. The deficit for the year was £543,320.

Future developments

The Commission will continue to monitor as directed by its remit and produce reports on a regular cycle or as directed by the two Governments or on it's own initiative. It will continue to remain accessible and meet with a wide range of people.

Events since the end of the financial year

There have been no significant events since the end of the financial year which would affect the results for the year or the assets and liabilities at the year end.

Disabled employees

It is the policy of the IMC to promote equality of opportunity. The Commission will provide equal opportunity for all job applicants and employees. All recruitment, promotion and training will be based on a person's ability and job performance and will exclude any consideration of an applicant's/employee's religious beliefs, political opinion, sex, marital status or disability.

Health and safety

The Commission is committed to providing for staff and visitors an environment that is as far as possible safe and free from risk to health.

Employee involvement

The IMC recognises the importance of good industrial relations and is committed to promoting and maintaining effective communication and consultation with its staff, and to creating and maintaining good morale. Staff involvement is maximised through regular team meetings and staff briefings. NIPSA is the Commission's recognised trade union.

Prompt payment

The Commission is committed to the prompt payment of bills for goods and services received in accordance with the Confederation of British Industry's Prompt Payers Code. Unless otherwise stated in the contract, payment is due within 30 days of the receipt of the goods or services, or presentation of a valid invoice or similar demand, whichever is later.

On their receipt invoices are promptly sent for processing to the Northern Ireland Office. During the 15 month period ended 31 March 2005, the NIO paid 89.5 % of the invoices received were paid within 30 days of receipt.

Audit

These accounts have been audited by the Comptroller and Auditor General. A fee of £5,000 has been charged by the National Audit Office in respect of audit services provided during the year.

Going concern

The Balance Sheet as at 31st March 2005 shows net liabilities of £59,764. This reflects the inclusion of liabilities falling due in future years, which may only be met by future deficit funding from the Commission's sponsoring Department, the Northern Ireland Office. This is because, under the normal conventions applying to parliamentary control over income and expenditure, such funding may not be issued in advance of need.

Deficit funding for the 15 month period ended 31 March 2005, taking into account the amounts required to meet the Commission's liabilities falling due in that year, has already been included in the Department's estimates for that year, which have been approved by Parliament. There is no reason to believe that the Department's future funding from the Department of Justice in Republic of Ireland and future parliamentary approval will not be forthcoming. It has accordingly been considered appropriate to adopt a going concern basis for the preparation of these financial statements.

Stephen Boys Smith

STEPHEN BOYS SMITH
Accounting Officer

Date: ***14 September 2006***

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

Under the Agreement between the Government of the United Kingdom of Great Britain and Northern Ireland and the Government of Ireland the IMC is required to prepare accounts in the form and on the basis determined by the Secretary of State, with the approval of Treasury. The accounts are prepared on an accruals basis and must give a true and fair view of the IMC's state of affairs at the year-end and of its income and expenditure, total recognised gains and losses and cash flows for the financial year.

In preparing the accounts the Accounting Officer is required to:

- observe the accounts direction issued by the Northern Ireland Office on behalf of the Secretary of State including the relevant accounting and disclosure requirements, and apply accounting policies on a consistent basis;

- make judgements and estimates on a reasonable basis;

- state whether applicable accounting standards have been followed, and disclose and explain any material departures in the financial statements;
- prepare the financial statements on the going concern basis, unless it is inappropriate to presume that the entity will continue in operation.

The Accounting Officer for the Northern Ireland Office has designated the UK Joint Secretary to the IMC as the Accounting Officer for the IMC for Northern Ireland. His relevant responsibilities as Accounting Officer, including his responsibility for the propriety and regularity of the public finances and for the keeping of proper records, are set out in the Non-Departmental Public Bodies' Accounting Officers' Memorandum issued by the Treasury and published in Government Accounting.

Statement on Internal Control

1. Scope of responsibility

As Accounting Officer, I have responsibility for maintaining a sound system of internal control that supports the achievement of IMC'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 my letter of designation as Accounting Officer. The IMC is governed by a management statement and financial memorandum still to be finalised by the NIO.

2. 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 can provide only reasonable and not absolute 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 system of internal financial control is based on a framework of regular management information, administrative procedures including the segregation of duties, and a system of delegation and accountability. In particular, it includes:

- Comprehensive budgeting systems with an annual budget which is reviewed and agreed by management;
- Regular reviews by the management of periodic and annual financial reports which indicate financial performance against forecasts;
- Setting targets to measure financial and other performance;
- Clearly defined capital investment control guidelines; and
- As appropriate, formal project management disciplines.

The IMC's Internal Audit is contracted out to Moore Stephens, Chartered Accountants, who as part of their duties carry out independent checks on the control process on my behalf. Operating to standards defined in the Government Internal Audit Manual they have carried out a programme of risk based audits. They have submitted reports which include their independent opinion on the adequacy and effectiveness of the commissions system of internal control together with recommendations for improvement.

3. Capacity to handle risk

The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of the IMC'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 work of the internal audit is informed by an analysis of the risk to which the IMC is exposed, and annual internal audit plans are based on this analysis. At least annually, Moore Stephens will provide me with a report on internal audit activity within the commission. The report includes Moore Stephens independent opinion on the adequacy and effectiveness of the Commission's system of internal financial control.

4. The risk and control framework

Risk management and internal control will be considered on a regular basis during the year and will be incorporated into future corporate planning and decision making processes. The risk register is still to be finalised. When completed it will be reviewed and where appropriate updated by the IMC.

5. 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 management within the Commission 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.

Stephen Boys Smith

STEPHEN BOYS SMITH
Accounting Officer

Date: ***14 September 2006***

The Report of the Auditor to the Government of the United Kingdom of Great Britain and Northern Ireland and the Government of the Republic of Ireland

I have audited the financial statements on pages 22 to 34. These financial statements have been prepared under the historical cost convention and the accounting policies set out on pages 25 and 26.

Respective responsibilities of the Independent Monitoring Commission, the Chief Executive and Auditor

As described on page 17, the Independent Monitoring Commission and Chief Executive are responsible for the preparation of the financial statements in accordance with Article 14 of the agreement establishing the Independent Monitoring Commission and the subsequent accounts direction given by the Secretary of State for Northern Ireland. The Independent Monitoring Commission and Chief Executive are also responsible for the preparation of the Foreword and other contents of the Secretary of State's Second Report. In discharging my responsibilities, as independent auditor, 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 give a true and fair view and are properly prepared in accordance with the agreement establishing the Independent Monitoring Commission and the accounts direction given thereunder. I also report if, in my opinion, the Foreword is not consistent with the financial statements, if the Independent Monitoring Commission 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 19 reflects the Independent Monitoring Commission's 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 Independent Monitoring Commission's corporate governance procedures or its risk and control procedures.

I read the other information contained in the Secretary of State's Second Report and consider whether it is consistent with the audited financial statements. This other information comprises the preamble, introduction and background, IMC activities, paramilitary activity reports, arrangements for IMC reports on both security normalisation and article 6 reports, together with the foreword to the account. I consider the implications for my report if I become aware of any apparent misstatements or material inconsistencies with the financial statements.

Basis of audit opinion

I conducted my audit in accordance with United Kingdom Auditing Standards 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 significant estimates and judgements made by the Independent Monitoring Commission and Chief Executive in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Independent Monitoring Commission's circumstances, consistently applied and adequately disclosed.

I planned and performed my audit so as to obtain all the information and explanations which I considered necessary in order to provide me with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by error, or by fraud or other irregularity and that, in all material respects, the expenditure and income have been applied to the purposes intended by the governments 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 give a true and fair view of the state of affairs of the Independent Monitoring Commission at 31 March 2005 and of the deficit, recognised gains and losses and cash flows for the period then ended and have been properly prepared in accordance with the agreement establishing the Independent Monitoring Commission and the accounts direction given thereunder; and
- in all material respects the expenditure and income have been applied to the purposes intended by the Government of the United Kingdom of Great Britain and Northern Ireland and the Government of the Republic of Ireland and the financial transactions conform to the authorities which govern them.

I have no observations to make on these financial statements.

John Bourn
Comptroller and Auditor General

Date: 9 November 2006

National Audit Office
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Income & Expenditure Account
for the 15 month period ended 31 March 2005

	Note	2005 £
Income		
Reimbursement from DOJ	2	565,886
Expenditure		
Staff costs	3	405,263
Depreciation	6	4,650
Permanent diminution	13	3,133
Notional cost of capital	5	(695)
Other operating costs	4	696,855
		1,109,206
Deficit for the Period		(543,320)
Amount Transferred to Reserves		(543,320)

All amounts above relate to continuing activities and include VAT where it is not possible to reclaim the input VAT.

Statement of Recognised Gains and Losses
for the 15 month period ended 31 March 2005

Retained (deficit) for the year	(543,320)
Unrealised gain on revaluation	22
	(543,298)

The notes on pages 25 to 34 form part of these accounts.

Balance Sheet
as at 31 March 2005

	Note	2005 £
Fixed Assets		
Tangible assets	6	28,118
Current Assets		
Cash in hand		50
Debtors	9	14,623
		14,673
Current Liabilities		
Creditors (due within one year)	10	(102,555)
Net Current Liabilities		(87,882)
Total Assets less Current Liabilities		(59,764)
Financed By:		
Capital and Reserves		
General Fund	12	(59,786)
Revaluation reserve	12	22
		(59,764)

STEPHEN BOYS SMITH
Accounting Officer

Date:

The notes on pages 25 to 34 form part of these accounts.

Cash Flow Statement
for the 15 month period ended
31 March 2005

	Note	2005 £
Cash Outflow from Continuing Operating Activities	13	(448,300)
Capital Expenditure	6	(35,879)
Cash Outflow Before Financing		(484,179)
Financing		
Cash inflow from financing	12	484,229
Increase in cash		50

The notes on pages 25 to 34 form part of these accounts.

Notes to the Accounts

1. Accounting Policies

These financial statements have been prepared on an accruals basis in accordance with the Accounts Direction given by the Secretary of State for Northern Ireland and the requirements of the Annual Reports and Accounts Guidance for the Executive Non-Departmental Public Bodies issued by HM Treasury. The particular accounting policies adopted by the IMC are described below. They have been applied consistently in dealing with items considered material in relation to the accounts.

Accounting Convention

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

The accounts comply with the accounting standards issued or adopted by the Accounting Standards Board and accounting and disclosure requirements issued by the Treasury, insofar as those requirements are appropriate.

Fixed Assets

Fixed assets comprise of computer and office equipment and are revalued annually using appropriate indices compiled by Central Statistics Office. The level for capitalisation of a tangible fixed asset or group of assets is £1,000.

Depreciation

Depreciation is provided on a straight line basis on all fixed assets and is calculated to write off the cost (less any estimated residual value) of each asset over its expected useful life.

The estimated useful lives for depreciation purposes are as follows: -

Office equipment	15 years
Computer software	5 years
Computer equipment	5 years

Capital Charge

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

VAT

The Commission does not have any income, which is subject to output VAT. The Commission recovers input VAT on contracted out services in accordance with guidance.

Pension Costs

The employees of the IMC are covered by the provisions of the Civil Service Pension Scheme, which are described at Note 3. The defined benefit elements of the schemes are unfunded and are non-contributory except in respect of dependants' benefits. The organisation recognises the expected cost of these elements on a systematic and rational basis over the period during which it benefits from employees' services by payment to the Principal Civil Service Pension Scheme (Northern Ireland) (PCSPS) (NI) of amounts calculated on an accruing basis. Liability for payment of future benefits is a charge on the PCSPS (NI). In respect of the defined contribution elements of the schemes, the organisation recognises the contributions payable for the year.

2. Income

	2005
	£
Reimbursement from Department of Justice	565,886

The IMC receives income from the Department of Justice in Ireland for 50% of operational costs (excluding non-cash). All accounting transactions are processed through the NIO and are included in the NIO Resource Account.

3. Staff Numbers and Costs

Staff costs consist of:

	Directly employed staff	**Commissioners [1]**	**Staff on secondment and contract staff [2]**	**2005 Total**
	£	**£**	**£**	**£**
Wages & salaries	66,224	188,006	137,574	391,804
Social security costs	4,904	-		4,904
Pension costs	8,555	-		8,555
	79,683	188,006	137,574	405,263

[1] Commissioners are paid an agreed daily rate for their work in the Commission and are treated as being self-employed and therefore are responsible for payment of their own tax and social security costs.

[2] Amounts payable in respect of staff on secondment and contract staff includes amounts payable to the two Joint Secretaries (including the Accounting Officer) and one member of staff seconded from the Department of Justice.

The PCSPS (NI) is an unfunded multi-employer defined benefit scheme, which produces its own resource accounts, but the IMC is unable to identify its share of the underlying assets and liabilities. A full actuarial valuation was carried out as at 31 March 2003. Details can be found in the Resource Accounts of the Cabinet Office: Civil Superannuation (www.civilservice-pensions.gov.uk)

For the 15 month period ending 31 March 2005, employer's contributions of £8,555 were payable to the PCSPS (NI) at one of four rates in the range 12 to 18.5 per cent of pensionable pay, based on salary bands.

Employer contributions are to be reviewed every four years following a full scheme valuation by the Government Actuary. The contribution rates reflect benefits as they are accrued, not when the costs are actually incurred, and reflect past experience of the scheme.

Employees joining after 1 October 2002 could opt to open a partnership pension account, a stakeholder pension with an employer contribution. Employer's contributions are paid to one or more of a panel of four appointed stakeholder pension providers. Employer contributions are age-related and range from 3 to 12.5 per cent of pensionable pay. Employers also match employee contributions up to 3 per cent of pensionable pay. In addition, employer contributions of 0.8 per cent of pensionable pay, are payable to the PCSPS (NI) to cover the cost of the future provision of lump sum benefits on death in service and ill health retirement of these employees. No employees of the commission have opted for a pension partnership account during 15 month period ended 31 March 2005.

Number of Employees

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

	2005
Employed on a full-time basis	3
Commissioners (of which there are 4 Commissioners)	2
Staff on secondment and contract staff (of which there are 3 staff)	2.5

Senior Management

The Commission do not have a senior management team. The UK Joint Secretary to the IMC is the accounting officer, who has the authority and responsibility for directing and controlling the major activities of the IMC.

Salary

'Salary' includes gross salary; performance pay or bonuses; overtime; reserved rights to London Weighting or London allowances; recruitment and retention allowances; private office allowances and any other allowances to the extent that it is subject to UK taxation.

Pension

Pension benefits are provided through the Civil Service Pension (CSP) arrangements. From 1 October 2002, civil servants may be in one of three statutory based 'final salary' defines benefit schemes (classic, premium and classic plus). The Schemes are unfunded with the cost of benefits met by monies voted by Parliament each year. Pensions payable under classic, premium, and classic plus are increased annually in line with changes in the Retail Prices Index. From 1 April 2005 these rates have increased as a result of the latest actuarial valuation to between 16.5% to 23.5%. New entrants after 1 October 2002 may choose between membership of premium or joining a good quality 'money purchase' stakeholder arrangement with a significant employer contribution (partnership pension account).

Employee contributions are set at the rate of 1.5% of pensionable earnings for classic and 3.5% for premium and classic plus. Benefits in classic accrue at the rate of 1/80th of pensionable salary for each year of service. In addition, a lump sum equivalent to three years' pension is payable on retirement. For premium, benefits accrue at the rate of 1/60th of final pensionable earnings for each year of service. Unlike classic, there is no automatic lump sum (but members may give up (commute) some of their pension to provide a lump sum). Classic plus is essentially a variation of premium, but with benefits in respect of service before 1 October 2002 calculated broadly as per classic.

For the period, employers' contributions of £8,555 were payable to the Principal Civil Service Pension Scheme at one of four rates in the range 12 to 18.5 per cent of pensionable pay, based on salary bands. From 1 April 2005 these rates have increased as a result of the latest actuarial valuation to between 16.5% and 23.5%. The contribution rates reflect benefits as they are accrued, not when costs are actually incurred, and reflect past experiences of the scheme.

Benefits in Kind

The monetary value of benefits in kind covers any benefits provided by the employer and treated by the Inland Revenue as a taxable emolument.

Commissioners Numbers and Costs

The total emoluments of the Commissioners during the 15 month period ended 31 March 2005 amounted to £188,006. The Commissioners are Non-Northern Ireland Civil Service therefore they are not pensionable.

Lord Alderdice	£33,800
Dick Kerr	£38,623
Joe Brosnan	£37,411
John Grieve	£78,172

4. Other Operating Costs

	2005 £
Other operating costs comprise	
Accommodation costs	1,416
Rent	192,113
Travel, subsistence & hospitality	41,334
Publications	20,466
IT expenses	15,523
Telecommunications	18,409
Commission's expenses	161,606
Support staff expenses	85,346
Professional advisors' service	128,941
Auditor's remuneration	5,000
Stationery, printing & postage	13,483
Other Expenditure	13,218
	696,855

5. Notional Costs

The income & expenditure account bears a non-cash charge for interest relating to the use of capital by the IMC. The basis of the charge is 3.5 per cent of the average capital employed by the commission during the 15 month period ended 31 March 2005, defined as the total assets less current liabilities.

	2005 £
Cost of capital	(695)

6. Fixed Assets

Tangible Assets

	Office Equipment £	Computer Equipment £	Total £
Cost at 1 January 2004	-	-	-
Additions	3,434	32,445	35,879
Disposals	-	-	-
Revaluation	23	(3,240)	(3,217)
Cost at 31 March 2005	3,457	29,205	32,662
Accumulated depreciation at 1 January 2004	-	-	-
Charge for the year	250	4,400	4,650
Disposals	-	-	-
Backlog Depreciation	1	(107)	(106)
Accumulated depreciation at 31 March 2005	251	4,293	4,544
Net Book Value at 31 March 2005	3,206	24,912	28,118

7. Capital Commitments

There were no outstanding capital commitments as at 31 March 2005.

8. Contingent Liabilities

There were no contingent liabilities as at 31 March 2005.

9. Debtors

	2005 £
Debtors	14,549
Prepayments	74
	14,623

10. Creditors

	2005 £
Amounts falling due within one year	
Creditors	11,610
Accruals	90,945
	102,555

11. Commitments

License

The Commission is committed under a Licence Agreement for the use their office facilities. The licence may be terminated at any time on or after the expiry of eighteen months by not less than two month's clear notice in writing expiring on the first day of any subsequent month.

12. Reconciliation of Movements in Reserves

	General Fund £	Revaluation Reserve £	Total 2005 £
At 1 January 2004	-	-	-
Transfer from income & expenditure account	(543,320)	-	(543,320)
Financing from vote	484,229	-	484,229
Cost of capital	(695)	-	(695)
Surplus on revaluation of fixed assets	-	22	22
At 31 March 2005	(59,786)	22	(59,764)

13. Reconciliation of Results for the Period to Net Cash Flow from Operating Activities

	2005 £
Result for the period	(543,320)
Depreciation	4,650
Permanent Diminution	3,133
Cost of capital	(695)
(Increase)/Decrease in debtors	(14,623)
Increase/(Decrease) in creditors	102,555
Net Cash Outflow From Operating Activities	(448,300)

14. Financial Instruments

FRS 13, Derivatives and Other Financial Instruments, requires disclosure of the role which financial instruments have had during the period in creating or changing the risks an entity faces in undertaking its activities. Due to the non-trading nature of its activities and the way in which executive Non Departmental Public Bodies are financed, the IMC is not exposed to the degree of risk faced by business entities. Moreover, financial instruments play a much more limited role in creating or changing risk than would be typical of the listed companies to which FRS 13 mainly applies. The IMC has no powers to borrow or invest surplus funds and has limited end year flexibility. Financial assets and liabilities are generated by day-to-day operational activities and are not held to change the risks facing the Commission in undertaking its activities.

As permitted by FRS 13, debtors and creditors that mature or become payable within 12 months from the balance sheet date have been excluded from this disclosure.

Liquidity Risk

The IMC is budgeted through the Northern Ireland Office Request for Resources 1 and is accountable to Parliament through the Secretary of State for Northern Ireland and is not therefore exposed to significant liquidity risk.

Interest-Rate Risk

All financial assets and financial liabilities of the IMC carry nil rates of interest and therefore are not exposed to interest rate risk.

Currency Risk

The IMC does not trade in foreign currency and therefore has no exposure to foreign currency risk.

Fair Values

The book values and fair values of the IMC's financial assets and financial liabilities as at 31 March 2005 are as set out below:

Primary Financial Instruments:

	Book Value £	Fair Value £
Financial Assets		
Petty cash	50	50
Financial Liabilities		
None	N/A	N/A

15. Related Party Transactions

The IMC is an independent statutory body, established under the Northern Ireland (Monitoring Commission etc) Act 2003 and the Agreement between the Government of the United Kingdom and Northern Ireland and the Government of Ireland, and funded jointly by the Secretary of State through the Northern Ireland Office and the Department of Justice in the Republic of Ireland.

The Northern Ireland Office is regarded as a related party. During the year, the IMC has had various material transactions with the Northern Ireland Office.

In addition, the IMC has had a small number of material transactions with other Government Departments. Most of these transactions have been with the Department of the Environment for Northern Ireland, and one of its executive agencies, the Construction Service.

None of the IMC members, staff or other related parties has undertaken any material transactions with the IMC during this year.