

Report by the Comptroller and Auditor General to the Northern Ireland Assembly

Agri-Food and Biosciences Institute 2016-17

Introduction

1. This report highlights significant matters arising from my audit of the Agri-Food and Biosciences Institute's (AFBI) financial statements for 2016-17. These matters reflect failures in governance and involve funding from the Centre for Innovation and Excellence in Livestock (CIEL).

Background

2. The Agri-Tech Strategy was launched in 2013 by the Department of Business, Energy and Industrial Strategy (BEIS) in Westminster. A key component of the strategy involved the establishment of four Agri-Tech Centres whose primary role was to bridge the gap between industry and academia across the different areas of agriculture. Funding is provided by BEIS to each of the Agri-Tech centres through Innovate UK (IUK), an executive non-departmental public body sponsored by BEIS.
3. CIEL was incorporated as one of the four Agri-Tech Centres in December 2015 as a company limited by guarantee. CIEL is a collaboration between industry, academia and government and its role is to promote and deliver industry-led research to make the livestock sector more efficient, resilient and profitable. AFBI was one of the founder members and shareholders of CIEL.
4. As a 'Category A' member, AFBI is allocated a proportion of the funding from CIEL that is provided by BEIS. There are a number of agreements in place that set out the relationship between the various parties and the various conditions under which the agreements operate.
5. The Individual Funding Agreement (IFA) between AFBI and CIEL stipulated that funding was to be provided for the purchase of new state of the art research equipment across AFBI's dairy, beef, sheep and pig research platform at its Hillsborough research facility. AFBI's allocated share of the funding totalled £3.6 million for the financial years ending 31 March 2016 to 31 March 2019.

AFBI created invoices in advance of expenditure in order to secure funding

6. During 2015-16 and 2016-17 AFBI made several transactions with CIEL that were not in line with accepted practice in financial management. No eligible assets were purchased by AFBI in 2015-16, but in March 2016 AFBI issued three sales invoices totalling £0.5 million to CIEL. In March 2017, AFBI issued a 'pro-forma'¹ invoice to CIEL totalling £1.267 million, again without eligible expenditure having been incurred.

¹ A pro forma invoice is an estimated invoice sent by a seller to a buyer in advance of an actual financial transaction, for example, delivery of goods or services.

7. Table 1 summarises the transactions between AFBI and CIEL in 2015-16 and 2016-17. By the end of 2016-17, £1.767 million of allocated funding had been invoiced by AFBI, but only £436,460 of eligible expenditure had been incurred.

Table 1: Summary of accounting information provided to CIEL

Financial Year	Date of Invoice	Invoice Total (£) Exc. VAT	Authorised by	Eligible Assets Purchased by Financial Year (£)
2015-16	30-03-16	260,000	Chief Executive (1)	Nil
2015-16	30-03-16	180,000	Chief Executive (1)	
2015-16	30-03-16	60,000	Chief Executive (1)	
2016-17	16-03-17	1,267,000 *	Chief Executive (2)	436,460
Total		1,767,000**		436,460

* Pro-forma Invoices issued by AFBI

** All assets purchased by AFBI utilising the £1.767m funding allocation from CIEL were delivered and available for use by December 2017

(1) Chief Executive in place at 30-03-2016

(2) Chief Executive in place at 16-03-2017

8. AFBI told us that this action was taken in the full knowledge and acceptance of CIEL as the carryover of funding to future years is not allowed by BEIS and allocated funding, if not used in a financial year, would effectively be lost. In fact, the invoices issued in 2016 were seven months in advance of the signing of the funding agreement between CIEL and AFBI.
9. The provision of invoices by AFBI facilitated the drawdown of funding by CIEL that was not compliant with the agreements that were in place and to which there was no entitlement at that time. The use of a pro-forma invoice in this context is particularly concerning. Not only are these instruments outside the accepted practice in public sector accounting and financial management, the use was not reflected in the 2016-17 financial statements and AFBI failed to disclose its existence to my staff over several months during the course of the audit.
10. AFBI did not draw funding from CIEL until eligible expenditure was actually incurred. The invoices were intended to ensure that AFBI would be able to draw down the full budget allocation in future years. What is of most concern is that these actions were taken with the full knowledge of senior management and authorised by AFBI's Chief Executive(s).

The agreement with CIEL generated a serious conflict of interest

11. One officer within AFBI who led the CIEL project was also appointed as a Director of CIEL as a temporary measure during the start-up phase. Nevertheless, it is evident that key decisions were being made at this time in relation to funding arrangements and funding allocations to 'Category A' members that included AFBI.

12. While AFBI recognised that an inherent conflict of interest existed that “presented a significant risk to AFBI”, no declaration of a conflict was made formally. Neither is it clear what safeguards, if any, were put in place to mitigate the conflict. When the Directors of CIEL were replaced by a new Board, this officer continued to play a key role within AFBI on CIEL related matters.

Actions taken by AFBI

13. AFBI told us that the arrangement entered into with CIEL and IUK was a new way of working for AFBI, but that lessons would be learned in relation to areas of governance, accounting, reporting and monitoring in order to ensure that the standards laid out in Managing Public Money NI are fully met as a Non-Departmental Public Body.
14. A number of actions have been identified by AFBI to ensure that similar issues do not arise in the future:-
- Governance - An internal project board has been set up that will be chaired by a non-executive Board member with the relevant skills to ensure adequate oversight of this and similar projects. The first meeting of this new Board took place in April 2018.
 - Financial Accounting & Reporting - AFBI told us that the use of pro-forma invoices has stopped with immediate effect and future VAT invoices will only issue when accompanied by a supporting claim for assets purchased and will be subject to an approvals process agreed with DAERA.
 - Resourcing - Resources in the finance team will be increased as existing resources have been significantly stretched with vacant posts being filled where possible on a temporary basis.
 - Training – AFBI will assess whether any further governance and financial training should be undertaken.

Conflict of interest

15. AFBI told us that the appointment of an AFBI employee as a director of the CIEL board on 25 February 2016 was an interim measure to ensure that AFBI was properly represented. While this conflict was known to all parties to the agreement, AFBI accepts that additional measures should have been established to manage the conflict arising from the employee’s interim position on the CIEL Board.
16. A revised Conflicts of Interest policy was implemented in line with recognised best practice on 15 September 2016. AFBI told us that staff will be reminded to complete conflict of interest returns. A review of monitoring arrangements will be conducted to ensure that all registers of interests are maintained and reviewed to ensure any issues arising are highlighted and additional measures established if necessary.

Embedding lessons learned - Board oversight & internal audit

17. AFBI will seek the services of internal audit to assist in the review of the issues raised in the Governance Statement and in this Report to ensure that any changes are made in line with best practice. Reports from internal audit are reported to and monitored by the AFBI Audit & Risk Assurance Committee and will also be reported to the Board. AFBI is also working closely with DAERA to provide assurance on the actions taken.

Conclusions

18. My report raises a number of significant matters involving funding from CIEL. In my view, these matters represent evidence of behaviour and standards that fall far short of those a public sector body should display. In particular, they demonstrate a fundamental disregard for the principles of public sector accounting and financial management within Managing Public Money NI and a lack of understanding of the role and responsibilities of the Accounting Officer.

19. AFBI has identified a number of actions to ensure that the matters raised in this report do not occur again in the future. I will keep this under review in the coming year.

K J Donnelly
Comptroller and Auditor General
Northern Ireland Audit Office
106 University Street
Belfast
BT7 1EU

23 October 2018