Northern Ireland Audit Office

Financial Auditing and Reporting

General Report by the Comptroller and Auditor General for Northern Ireland – 2009

REPORT BY THE COMPTROLLER AND AUDITOR GENERAL
7 July 2010

N I A O

Northern Ireland Audit Office

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I present this report pursuant to Sections 10(4) and 11(3) (c) of the Government Resources and Accounts Act (Northern Ireland) 2001.

K J Donnelly
Comptroller and Auditor General

Northern Ireland Audit Office
7 July 2010

The Comptroller and Auditor General is the head of the Northern Ireland Audit Office employing some 145 staff. He, and the Northern Ireland Audit Office are totally independent of Government. He certifies the accounts of all Government Departments and a wide range of other public sector bodies; and he has statutory authority to report to the Assembly on the economy, efficiency and effectiveness with which departments and other bodies have used their resources.

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Abbreviations

AADB	Accountancy and Actuarial Discipline Board
AMB	Agency Management Board
APP	Actual Penny Product
BELB	Belfast Education and Library Board
BMC	Belfast Metropolitan College
BSF	Building Schools for the Future
BSP	Building Sustainable Prosperity
BT	British Telecommunications
C&AG	Comptroller and Auditor General
CMED	Child Maintenance and Enforcement Division
CMT	Case Monitoring Team
CSA	Child Support Agency
CS2	Child Support 2 System
CSCS	Child Support Computer System
DAO	Dear Accounting Officer
DE	Department of Education
DEL	Department for Employment and Learning
DFP	Department of Finance and Personnel
DHSSPS	Department of Health, Social Services and Public Safety
DIVER	Atlantis DI Diver [an off the shelf analysis tool product]
DLA	Disability Living Allowance
DOE	Department of the Environment
DSD	Department for Social Development
DWP	Department of Work and Pensions
EBT	Emerging Business Trust
EC	European Commission
EJO	Enforcement of Judgements Office
EPP	Estimated Penny Product

ERD	Error Reduction Division
ERDF	European Regional Development Fund
ESA	Employment and Support Allowance
EU	European Union
FEC	Further Education College
FRS	Financial Reporting Standard
GAAP	Generally Accepted Accounting Principles
GTCNI	General teaching Council for Northern Ireland
GB	Great Britain
ICAI	Institute of Chartered Accountants in Ireland
ICT	Information and Communication Technology
IFReM	International Financial Reporting Manual
IFRS	International Financial Reporting Standard
IT	Information Technology
ITN	Invitation to Negotiate
JSA	Job Seekers Allowance
LPS	Land and Property Services
LRNI	Land Registers of Northern Ireland
MHRA	Medicines and Healthcare products Regulation Authority
MOD	Ministry of Defence
MPMNI	Managing Public Money Northern Ireland
MTF	Michael Townsley and Firm
NCR	Net Cash Requirement
NDPB	Non Departmental Public Body
NDVR	Non Domestic Vacant Rating
NI	Northern Ireland
NIA	Northern Ireland Assembly
NIAO	Northern Ireland Audit Office

Abbreviations

NIBTS	Northern Ireland Blood Transfusion Service
NICF	Northern Ireland Consolidated Fund
NIFRS	Northern Ireland Fire and Rescue Service
NIHE	Northern Ireland Housing Executive
OCL	Order Charging Land
OFMDFM	Office of the First Minister and Deputy First Minister
OIP	Operational Improvement Project
OSNI	Ordnance Survey of Northern Ireland
PAC	Public Accounts Committee
PMG	Paymaster General
PPE	Post Project Evaluation
PPP	Public Private Partnership
RPA	Reform of Public Administration
RfR	Request for Resources
SAB	Stop All Bills
SERC	South Eastern Regional College
SIB	Strategic Investment Board
SSA	Social Security Agency
SSE	Spring Supplementary Estimate
UK	United Kingdom

Foreword

This report to the Northern Ireland Assembly summaries the results of the financial audit work undertaken on my behalf by the Northern Ireland Audit Office, primarily on the 2008-09 accounts. It does not include the results of my examination of the accounts of those bodies within the health and social care sector. A separate General Report on this sector was published on 30 June 2010.

The prime function of financial audit is to provide independent assurance, information and advice to the Northern Ireland Assembly on the proper accounting for and use of public resources. In addition, we strive to assist audited bodies to improve their financial management processes, governance and propriety in the conduct of public business through our mainstream financial audit work.

Despite a challenging environment for all concerned, I consider the standards of financial accounting remain high, demonstrated by the quality and timeliness of financial reporting in 2008-09. The vast majority of accounts submitted received an unqualified audit opinion. Such attainments help to build public confidence in the process of accountability and governance. I have summarised the qualified opinions and reports issued on the resource accounts and other accounts for 2008-09 in Section 1 of my report.

Other sections of the report highlight some of the key outcomes from our financial audit work. In conducting this work I am always mindful of the need to provide 'added value' to the audited bodies. During 2008-09 audited bodies implemented a significant number of changes as a result of recommendations arising from our financial audit work.

In conclusion, I wish to take this opportunity to thank all the staff of the Northern Ireland Audit Office for their continued professionalism in delivery of the financial audits. I am also very grateful to the staff in the Finance Divisions of the public bodies audited for their cooperation. As the newly appointed C&AG it is my intention to build upon the relationships established by my predecessor, Mr J Dowdall CB, and to embrace the ongoing changes facing the public sector in times of great economic uncertainty.

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7 July 2010

Section One:
Financial Audit

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Financial Audit

1.1 Qualified Opinion and Reports on Accounts

Qualified Opinions – Departmental Resource Accounts

1.1.1 The quality of resource accounts submitted for audit has significantly improved since the introduction of accrual based accounting in central government from 2000-01. In the 2008-09 accounting period five out of seventeen resource accounts were qualified (29 per cent). Several of the qualifications were as a result of irregular expenditure due to failures in obtaining proper approval for business cases to provide consultancy support for large scale projects. **Figure 1** illustrates the number of qualifications on resource accounts and other accounts for a five year period 2004-05 to 2008-09.

1.1.2 Each year there are in the region of seventeen departmental resource accounts subject to certification. The majority of these receive an unqualified audit opinion. When qualifications arise, this is generally indicative of weaknesses in financial control that can compromise the ability of departments to provide sound accountability to the Northern Ireland Assembly. **Figure 2** contains brief details of the five resource accounts which received qualified audit opinions for the 2008-09 financial year.

Figure 1: Number of Qualifications for Accounting Periods 2004-05 to 2008-09

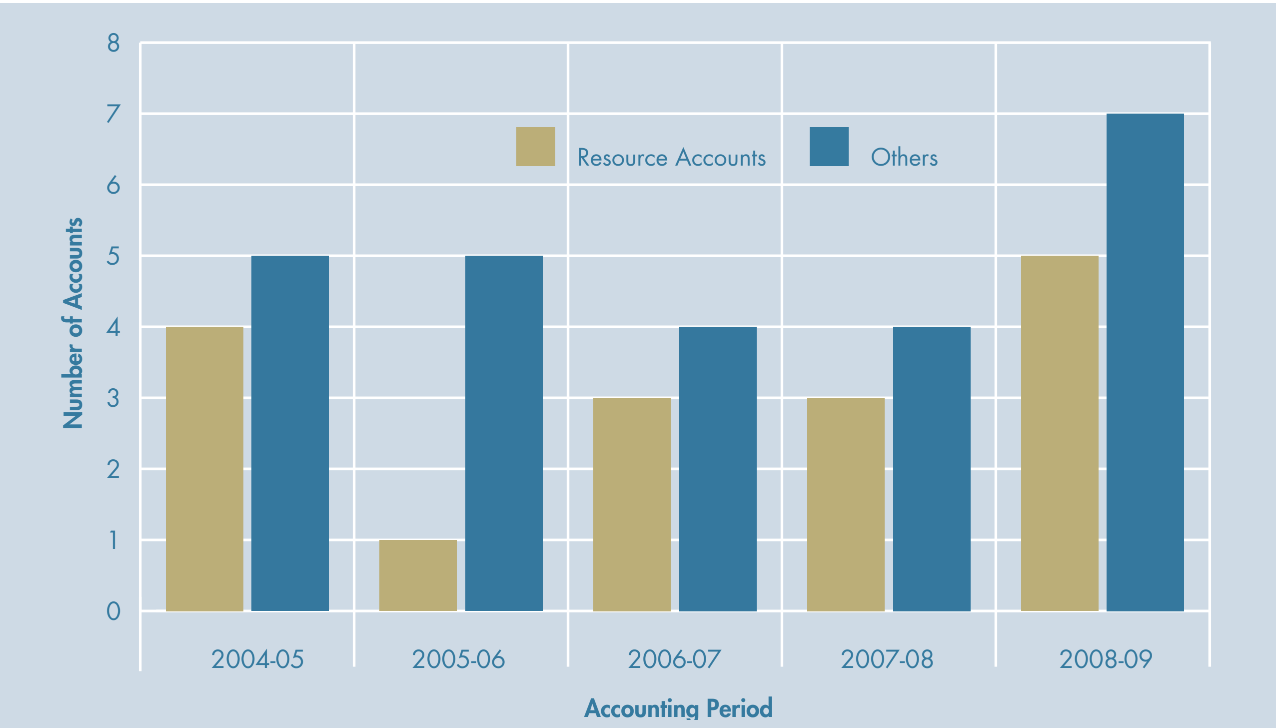

Figure 2

Department	Nature of the Qualification
Department of Culture, Arts and Leisure (DCAL)	DCAL engaged consultants to establish rights to claim ownership to all property assets under the responsibility of inland waterways and inland fisheries. The findings of this work resulted in DCAL being unable to provide evidence of legal ownership for certain land and buildings. The report also identified other assets including land, locks, bridges and weirs which DCAL may own, but are not included within tangible fixed assets. The accounts were therefore qualified on the basis that the Comptroller and Auditor General (C&AG) was unable to obtain sufficient appropriate evidence to support: • The recognition of assets valued at £3,922,000 within land and buildings; and • Non-recognition of other land and buildings which may be owned by DCAL.
Department for Employment and Learning (DEL)	The accounts regularity opinion was qualified for two specific reasons: • Irregular expenditure incurred in respect of funding provided to two Further Education Colleges (FECs) for advisory fees on Public Private Partnerships (PPP); and • Irregularity arising from net cash expenditure in excess of amounts authorised by the Northern Ireland Assembly.
Department of Health, Social Services and Public Safety (DHSSPS)	The accounts were qualified on two counts of irregular expenditure: • In June 2009, DHSSPS requested approval from Department of Finance and Personnel (DFP) Supply for thirteen virements[1] in relation to those subheads, previously agreed in the Spring Supplementary Estimates, which had been exceeded. DFP approved all virements except for an overspend of £1,153,000 on administration expenditure. DFP

1 The total expenditure on any Request for Resources (RfR) must not exceed the amount granted by the Assembly. However, there are certain flexibilities available to departments to move expenditure within RfRs. Where a department wishes to switch gross provision between lines within a RfR, approval to do so must be obtained from DFP. This process is known as virement.

Section One:
Financial Audit

Figure 2 Continued

Department	**Nature of the Qualification**
	considered that, although overall estimate cover was available for the exceeding, the breach of an administration limit was in contravention of DFP regulations; and • The Northern Ireland Blood Transfusion Service (NIBTS) incurred expenditure of £130,000 on consultancy between June and December 2008. DFP refused to give retrospective approval, because a suitable business case had not been completed and approved prior to engaging the services of the consultants.
Department of the Environment (DOE)	The accounts were qualified due to irregularity arising from an excess of £505,000 in relation to the Net Cash Requirement authorised by the Northern Ireland Assembly. The excess arose primarily as a result of variances between estimates and outturn in respect of movements in working capital; use of provisions, proceeds from Fixed Asset disposals; and non-cash items.
Department for Social Development (DSD)	The accounts regularity opinion was qualified because of the material levels of estimated fraud and error in benefit expenditure, other than state pension, administered by DSD through the Social Security Agency. (SSA) DFP estimated that in 2008 losses of £57.2 million had arisen through overpayments, representing 1.3 per cent of total benefit expenditure. The Department also estimated that underpayments of benefits in 2008 amounted to £20.9 million which is 0.5 per cent of total benefit expenditure.

Qualified Opinions – Other Entities

1.1.3 We qualified five sets of accounts of other entities for the 2008-09 year, and two sets of accounts of other entities for the 2007-08 year. Details are outlined at Figure 3. [Note that details of the qualification of a further eight accounts in the Health sector, are contained in the C&AG's Health General Report published on 30th June 2010.]

Figure 3

Name of Public Body	Nature of the Qualification
Land and Property Services	The accounts were qualified due to the ongoing disagreement over the accounting treatment for the Ordnance Survey of Northern Ireland (OSNI) Topographic Database. We consider the data held in the database should be capitalised and recorded in the balance sheet, but the Agency does not agree that the data meets the conditions for capitalisation.
Northern Ireland Fire & Rescue Service	The accounts were qualified as a result of irregular payments arising from an increase in non-uniformed Directors' pay scales which was not authorised by DHSSPS. The total sum of these irregular payments, including employer's national insurance and pension costs, amounted to £50,840.
Northern Ireland Housing Executive (NIHE)	The opinion on the accounts was qualified on regularity due to the estimated fraud and error of £10.7million within Housing Benefit as identified by the Disability, Incapacity and Benefit Security Directorate Standards Assurance Unit of the SSA, for the year 1 January to 31 December 2007.
Social Security Agency	The accounts regularity opinion was qualified because of the level of estimated fraud and error in certain benefit expenditure.
Department for Social Development – Child Maintenance and Enforcement Division[2]	The accounts were qualified due to: • The absence of adequate documentation to support the level of debt included within the account; and • Limited evidence available to confirm the accuracy of the maintenance assessments which form the basis of the debt balances.

2 The former Child Support Agency ceased to be an Agency on 31 March 2008 and from 1 April 2009 its operations were delivered by the Child Maintenance Division within the DSD.

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Figure 3 (continued)

Name of Public Body	Nature of the Qualification
	The regularity opinion was also qualified because where the maintenance assessments had been calculated incorrectly, it was considered that the financial transactions did not conform to the authorities which govern them.
South Eastern Regional College	The 2007-08 accounts were qualified as a result of irregular expenditure incurred in respect of advisory fees on a PPP project. DFP declined to grant retrospective approval for the uplift in the costs, therefore the overspend of £804,539 was deemed to be irregular.
Belfast Metropolitan College	The 2007-08 accounts were qualified due to irregular expenditure incurred in respect of advisory fees on a PPP project. DFP declined to grant retrospective approval for the uplift in advisory fees therefore the increase of £668,988 over the original approved sum of £600,000 was deemed to be irregular.

Reports on Accounts by the C&AG

1.1.4 In the 2008-09 accounting period we issued reports on accounts other than those associated with a qualification and the following are contained in this overall report:

- Department of Education (see Section 3.6)
- Invest Northern Ireland (see Section 5.2)
- General Consumer Council (see Section 5.3)
- General Teaching Council for Northern Ireland 2006-07 (see Section 5.4)
- Strategic Investment Board Limited (see Section 5.6)

Conclusion

1.1.5 The majority of departments and other public entities are producing good quality accounts for audit scrutiny which result in unqualified audit opinions. However, there are still a small number that contain inadequate audit evidence to enable us to express an unqualified audit opinion or lead to a public interest report being attached to the accounts. All qualifications are indicative of weaknesses in internal control and compromise the entity's ability to provide sound accountability to the Northern Ireland Assembly. Generally there is no consistent pattern to the type of qualifications arising however, in this particular accounting period, several of the qualifications were as a result of irregular expenditure due to lack of proper business case approvals for consultancy costs to support large scale projects. This is an issue which we will keep under review.

1.2 International Financial Reporting Standards Shadow Accounts Audit Summary

1.2.1 International Financial Reporting Standards (IFRS) are the international principles for the preparation of accounts. In the public sector, accounting and budgeting rules have been based on UK Generally Accepted Accounting Principles (UK GAAP). However, in order to be in line with international best practice, HM Treasury decided that for public sector accounting, IFRS will replace the current rules. In order that accounts retain alignment with budgets and with the rest of the UK public sector, DFP has required that the change in accounting principles be adopted in Northern Ireland. This is to be introduced within central government from 2009-10 with a shadow preparatory year in 2008-09.[3]

1.2.2 The transition from UK GAAP to IFRS is the largest change to UK public sector reporting since the introduction of resource accounting in 2001-02.

1.2.3 The implementation of IFRS has caused a significant amount of work for public sector organisations and their auditors as most areas of the accounts had to be re-examined to see if changes are required under the new rules.

Delivery of Shadow Accounts

1.2.4 DFP required Departments, Agencies and Non Departmental Public Bodies to produce 2008-09 "shadow" accounts. These shadow accounts restated the published 2008-09 accounts from UK GAAP to IFRS principles. The shadow accounts were prepared using the new IFRS rules rather than UK GAAP rules that applied to the published accounts. The restated IFRS based 2008-09 financial information is needed for the preparation of the 2009-10 accounts. The shadow accounts were audited by the Northern Ireland Audit Office (NIAO) but not published.

1.2.5 DFP stated that one of the main advantages of producing accounting information on an IFRS basis prior to the 2009-10 accounts was for Accounting Officers to gain assurances that their staff had fully understood the implications of the move for Departments' 2009-10 estimates and budgets, which also were

3 Local government will apply IFRSs from 2010-11. Shadow accounts will be prepared for 2009-10.

Section One: Financial Audit

to be prepared for the first time under IFRS rules. DFP pointed out that having this information audited would provide further comfort that unexpected impacts, such as Excess Votes, were less likely to arise.

1.2.6 In respect of the Northern Ireland Public Sector there were over 70 IFRS shadow accounts submitted for audit. DFP set a deadline of 30 September 2009 for the completion and submission to NIAO of 2008-09 shadow accounts, with the audits being completed by 31 December 2009. Three of the four new Health and Social Care Bodies were given until 30 October 2009 to complete their accounts to allow time to complete the transfer of functions and merger accounting adjustments required due to the reorganisations under the Reform of Public Administration. The fourth new health body, which is small in monetary terms, was not required by DFP to prepare shadow accounts.

1.2.7 All major bodies submitted accounts to NIAO by the September deadline and the audits were completed on time. While ten other bodies missed the September deadline, the audits of six of these were completed on time. Three of the four remaining bodies had not completed their shadow accounts as of the end of February 2010 - two as their statutory UK GAAP based accounts were still outstanding and one due to an IFRS technical issue. The audit of the remaining body's shadow accounts cannot be completed until the audit of its statutory accounts is finalised.

1.2.8 The three new Health and Social Care bodies which were required to submit shadow accounts by the extended October deadline did not submit them until the end of November. These three audits have now been completed.

Key Risks/Main issues arising

1.2.9 In general, finance teams applied the new IFRS rules most competently, seeking occasional guidance and advice from DFP on issues requiring clarification. Our audits identified some common areas that caused difficulty. These were:

- **Leases:** there were issues around the identification of all leases within bodies and lease disclosures;
- **Operating Segments:** there were instances of disagreement between auditors and management where bodies appeared to be managed as multiple segments but accounted for as a single segment. More financial information should be disclosed if there is more than one operating segment as defined by IFRS; and
- **Disclosure:** the most common issue was non disclosure of Financial Reporting Manual requirements. Those bodies that completed a disclosure checklist, as recommended by NIAO, had least disclosure issues.

Other issues: there were also issues around the accounting treatment of Property Plant and Equipment, Private

Finance Initiative, intangible assets and employee benefits that were identified but were not material.

Instances of good practice

1.2.10 *Quality Working papers:* All bodies submitting IFRS shadow accounts were advised by NIAO in advance of the conversion that good quality supporting papers would be essential to ensuring that sufficient audit assurance was available to support our audit of the shadow accounts. We also advised that working papers should be subject to formal quality review by management and should contain sufficient justification for accounting judgements.

1.2.11 Although there were instances across different bodies where working papers were inadequate, on the whole, the working papers provided in support of the shadow accounts were satisfactorily prepared. As the implementation of IFRS beds in, we anticipate the quality of working papers will improve for 2009-10 onwards as a result of greater familiarisation of the finance teams, the audit process and our comments from the audit of shadow accounts.

1.2.12 *Engagement of Audit Committee:* In April 2009 we issued a document produced by the National Audit Office called "IFRS Briefing for Audit Committees". This document set the scene for, and role to be played by, audit committee members for the IFRS transition. Points included:

- assessing the adequacy and suitability of management's plan, in particular - the timing and adequacy of resources; and

- reviewing the suitability and appropriateness of key accounting policies – in particular, as international standards require accounting policies to explain any areas of judgement within the accounts and provide an indication of uncertainties around accounting estimates.

1.2.13 In the IFRS restatement exercise, engagement of Audit Committees was more frequent in the larger bodies. Such engagement, particularly in areas requiring judgement, is a key management control.

Qualifications

1.2.14 The majority of accounts were provided with an unqualified shadow opinion. There were twelve accounts which received unqualified shadow opinions overall except for certain issues which did not appear to comply with IFRS requirements. These included all five Education and Library Boards, the Belfast, Northern and Western Health and Social Care Trusts, DSD, SSA, Invest Northern Ireland and Arts Council of Northern Ireland.

1.2.15 'Except for' matters related mainly to instances of non compliance with elements of accounting standards or lack of supporting evidence for material disclosures. We would expect that raising these issues should lead to them being resolved satisfactorily in the 2009-10 accounts. The main issues raised were:

- Operating Segments – disagreement over composition of segments;
- Employee Benefits – no accrual included or insufficient justification for omission; and
- Leases – clarification needed on treatment of long lease assets where there are doubts over legal title and an incomplete record of leases held by bodies.

Conclusion

1.2.16 There are still challenges ahead for both Departments and NIAO in implementing IFRS requirements for the 2009-10 accounts. However, the preparation and audit of IFRS shadow accounts was a major exercise which was on the whole well managed by Departments.

Section Two:
Northern Ireland Consolidated Fund 2008-09 – Revenue Accounts

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Northern Ireland Consolidated Fund 2008-09 – Revenue Accounts

2.1 Northern Ireland Consolidated Fund 2008-09 - Revenue Accounts

2.1.1 The total revenue paid into the Northern Ireland Consolidated Fund in 2008-2009 amounted to £12,527 million as analysed at **Figure 4**:

2.12 In fulfilment of the C&AG's statutory duty we examined the departmental accounts of the receipts of revenue, and we checked that adequate regulations and procedures had been framed to ensure effective assessment, collection and proper allocation of revenue. We have also sample checked the correctness of the sums brought to account. We have noted a number of significant issues in relation to the Statement of Rate Levy and Collection, which have affected the C&AG's ability to fulfil his statutory duty. These are detailed later in this section. We have also noted once again some issues in relation to amounts held in the Paymaster General Account, detailed at paragraph 2.1.6.

Consolidated Fund Issues

2.1.3 Issues from the Consolidated Fund fall into two categories:

- those to meet expenditure on services for which financial provision is voted annually by the Northern Ireland Assembly (Supply Services); and
- those to meet expenditure on services for which the Northern Ireland Assembly, by statute, has authorised a continuing charge not subject to annual vote procedure (Consolidated Fund Services).

Issues for Supply Services are accounted for in the Resource Accounts and issues for Consolidated Fund Services are accounted for in the Public Income and

Figure 4

	2008-09 £ million	**2007-08 £ million**
Receipts from the United Kingdom Government:		
Block Grant	11,420	10,334
Other revenues:		
Rates	940	833
Interest on loans and advances	107	117
Excess Accruing Resources[4]	16	88
Other Receipts and Transfers[5]	44	208
	12,527	**11,630**

14 Decrease in Excess Accruing Resources largely due to fall in amounts received from DSD (2007-08 £53 million: 2008-09 Nil). NIHE Housing and Land Sales in 2007-08 took place in a rising property market and realised more than has been expected.

15 Decrease in Other Receipts and Transfers mainly reflects that there had been an Excess of Public Expenditure over Income in 2007-08 (£115 million).

Expenditure Account which is certified by the C&AG under Section 2 of the Exchequer and Financial Provisions Act (Northern Ireland) 1950.

Consolidated Fund Services

2.1.4 The Public Income and Expenditure Account has been published separately as a White Paper Account. The account broadly distinguishes:

(i) issues for payments deemed to have been made out of public income for the year which includes interest on borrowings, district councils' share of revenue from rates, statutory charges on the Consolidated Fund for certain salaries and expenses and advances to funds and bodies;

(ii) issues for payments of a capital nature made out of borrowings which include public debt repayments, advances to funds and bodies to meet capital expenditure; and

(iii) investments of surplus monies in the short-term money market and temporary advances for Civil Contingencies to fund urgent services on which spending by departments cannot await approval in a Supply Estimate.

2.1 5 Total issues in 2008-2009 amounted to £6,422 million compared with £9,105 million in 2007-2008. The decrease in issues of £2,683 million relates to decreases in amounts invested temporarily (£2,745 million) and interest (£8 million), offset by increases in the issues in respect of the redemption of public debt and borrowings (£44 million) and increases in amounts issued to district councils (£26 million).

Paymaster Generals' Account

2.1.6 The Paymaster General's Account (PMG) is used as a form of suspense account for receipts passing to the Northern Ireland Consolidated Fund and for payments made from the Fund. For a number of years we have recommended to DFP that the amounts held in the PMG Account (excluding temporary investments, which are accounted for in future years) should be minimised so that amounts held in the Public Income and Expenditure account or in Departmental Resource Accounts are not misstated. Although the balance has reduced, it is still high. The sum held in the PMG Account (excluding temporary investments) at 31 March 2009 was £74 million (in 2008 it was £92 million). Most of the sum held relates to European Union (EU) funds received.

2.1.7 DFP advised us that the following action has been taken to reduce the balance held in the PMG account which related to old EU programmes:

- Monies remaining in the PMG Account in respect of the old EU programmes relates mainly to the BSP and Peace II Operational Programmes. These programmes are both in closure stage with final claims being prepared for submission to the European Commission (EC) in order to

Section Two:
Northern Ireland Consolidated Fund 2008-09 – Revenue Accounts

formally close them and draw the final amounts due. Reconciliations have been ongoing to validate expenditure included in final claims to ensure that EU income is properly attributed to relevant departments;

- EC audit issues have been identified in departments late in the lifetime of the programme. Therefore it has been deemed prudent to reconcile all expenditure back to final declarations to ensure monies transferred were made to the appropriate departments; and

- DFP European Division continues to keep the position under constant review and is conscious of the need to reduce the balances as a matter of urgency. However, it is expected the final Peace II European Regional Development Fund claim will not be made until early 2010-11.

2.1.8 DFP issued guidance to departments on the accounting treatment for advances in relation to the new EU programmes covering the period 2007-13. This guidance, which was issued in July 2009, requires departments to draw down such advances from the PMG Account as soon as they are received, thereby ensuring that amounts are reflected in Departmental resource accounts.

2.1.9 We recommend that DFP continues in its efforts to reduce the balance held in the PMG Account.

2.2 Statement of Rates Levy and Collection 2008-09

2.2.1 Land and Property Services (LPS), an Executive Agency of DFP, produces the Statement of Rate Levy and Collection, which accounts for all rate assessments levied and the means and extent to which these have been discharged during the financial year.

2.1.2 The Exchequer and Audit Act (Northern Ireland) 1921 requires the C&AG to examine accounts of receipts of revenue and 'ascertain that adequate regulations and procedure have been framed to secure effective check on assessment, collection and proper allocation of revenue'. This includes an examination of the Statement of Rate Levy and Collection. There is no statutory requirement for LPS to lay an audited Statement before the Northern Ireland Assembly.

2.2.3 This section of the report brings to the Northern Ireland Assembly's attention significant matters arising from the examination of the Statement of Rate Levy and Collection 2008-09. In addition it provides an update on progress made in addressing issues raised in previous years' reports and in the Public Accounts Committee's Report on the 2006-07 Statement of Rate Levy and Collection.[6]

2.2.4 A summary of rate levy and collection in the year, as presented by LPS, is shown at **Figure 5** and a reconciliation of receipts disclosed in the Statement with the Northern Ireland Consolidated Fund is at **Figure 6**.

6 Report on the Statement of Rate Levy and Collection 2006-07, Third Report Session 2008/2009.

Figure 5: Statement of Rate Levy and Collection 2008-09

	2008-09 £ million	2007-08 £ million
Arrears at 1 April	124	88
Assessments during the year[7]	1,088	1,044
Refunds	27	14
Credit carried forward to next period[8]	22	16
	1,261	**1,162**
Discharged during the year by:		
Credits brought forward from last period[8]	16	10
Receipts	969	894
Vacancies and Vacant Rating Relief & Exemptions	60	66
Rebates and Discounts	36	33
Other Reliefs and Allowances[9]	36	34
Written-off as irrecoverable	6	1
Arrears at 31 March	138	124
	1,261	**1,162**

Source: Land and Property Services

Figure 6: Reconciliation of Receipts in the Statement of Rate Levy and Collection to the Northern Ireland Consolidated Fund (NICF)

	2008-09 £ million	2007-08 £ million
Receipts *(see Figure 5)*	969	894
Refunds	(27)	(14)
Movement in cash account balance	(2)	3
Amounts Transferred to NICF *(Figure 4)*	**940**	**883**

Source: NIAO analysis

7 Assessments are made up as follows:

	2008-09 £ million	2007-08 £ million
Gross Assessments	1,220	1,158
De-rating	(120)	(114)
Vacancies	33	32
Vacancies - adjustment	(45)	(32)
	1,088	1,044

8 Credits carried forward to next period are amounts which have not yet been refunded. Usually these arise as a result of Certificate of Revision valuation reductions. Credits brought forward from last period are the credits carried forward figure on the previous year's Statement.

9 Comprising Allowances/Disabled Person's Allowance, Residential Home Relief, Rate/Education Relief, Transitional/Capping Relief and Lone Pensioner Allowance

Section Two:
Northern Ireland Consolidated Fund 2008-09 – Revenue Accounts

Conclusion from the Examination of the 2008-09 Statement

2.2.5 There is no requirement for an audited account of the Statement of Rate Levy and Collection to be laid before the Northern Ireland Assembly. However, in the 2006-07 Report[10] we advised that if the C&AG was required to provide an audit opinion on the 2006-07 Statement, his opinion would have been qualified[11] and a disclaimer issued due to a lack of audit trail and significant system problems.

2.2.6 In the 2007-08 Report[12] we advised that as a result of improvements made by LPS with regards to the audit trail in respect of receipts and vacancies, although the C&AG would still qualify any opinion which he would have given on the 2007-08 Statement, he would not disclaim his audit opinion.

2.2.7 LPS continues to address issues raised in previous years' reports. However, there continue to be certain aspects where we were unable to obtain sufficient assurance that adequate regulations and procedures have been framed to secure effective checks on assessment, collection and proper allocation of the rate revenue recorded in the 2008-09 Statement.

2.2.8 Consequently, if the C&AG was required to provide an audit opinion on the 2008-09 Statement of Rate Levy and Collection, his opinion would be qualified in respect of the following:

- concerns over completeness of the property listing upon which rates assessments are raised (see paragraphs 2.2.15 and 2.2.49 below);
- vacancies (see paragraph 2.2.21 and 2.2.50 below); and
- significant control problems (see paragraphs 2.2.22 to 2.2.32 below).

Issues arising

Assessments

2.2.9 The accuracy of Assessments included in the Statement of Rate Levy and Collection is dependent on the accuracy and completeness of the Capital Value (Domestic Properties) or Net Annual Value (Non-domestic Properties) held on the Valuation Lists which are administered by the Commissioner of Valuation and District Valuers within LPS.

2.2.10 LPS uses a number of sources of information from its wider activities and councils, including supervisory checks, as well as information from ratepayers about changes to a property, to maintain the currency of the Valuation Lists.

2.2.11 In its Domestic and Non Domestic Rating Report issued in March 2009, Internal Audit provided limited assurance over the maintenance of the Valuation Lists due to

10 Financial Auditing and Reporting: 2006-07, General Report by the Comptroller and Auditor General for Northern Ireland
11 In accordance with professional auditing practices adopted by all UK national audit agencies, a qualified opinion is appropriate when *'the auditor concludes that an unqualified opinion cannot be expressed but that the effect of any disagreement with management, or limitation on scope is not so material and pervasive as to require an adverse opinion or a disclaimer of opinion'* (International Standards on Auditing (UK and Ireland) 700, paragraph 37)
12 Financial Auditing and Reporting: 2007-08, General Report by the Comptroller and Auditor General for Northern Ireland

the heavy backlog in cases waiting to have Valuation Certificates issued.

2.2.12 Internal Audit found that at the end of February 2009 there were a total of 44,859 new domestic properties and domestic alterations which still had to be valued. We note that this figure continued to increase into 2008-09, from the total included in the C&AG's 2007-08 report (namely 37,713 at 31 March 2007). We asked LPS why the backlog has been increasing. It acknowledged that the backlog position that existed in 2007-08 and 2008-09 was unsatisfactory. Work to complete Revaluation 2010 was a priority and with limited additional resource available, this had reduced the actual resource available for backlog clearance. However, a special project commenced in 2008-09 which substantially reduced the number of outstanding domestic properties by the year end. LPS advised that the backlog was actually reduced from 44,859 at the end of February 2009 to 31,941 by 31 March 2009. Reductions have continued and at 31 January 2010, 27,499 domestic cases remained as work-in-hand. LPS acknowledges the need to continue to target this work.

2.2.13 We note that in March 2009 Internal Audit reported that on average it takes LPS 229 days to process a new domestic property and 1,040 days to process a domestic alteration. We asked LPS why it took this length of time to process these cases. LPS advised us that these figures relate to the average age of outstanding new domestic and altered domestic casework, and are directly linked to the backlogs referred to in paragraph 2.2.12. By 31 January 2010 performance had substantially improved to 94 days and 769 days respectively. The new domestic figure is currently 94 days, and improvements are continuing; the altered domestic property cases continue to be targeted.

2.2.14 The Valuation Directorate currently relies mainly on other LPS staff or Councils' Building Control staff notifying them that a property's use has been altered or the occupier has changed before reviewing whether de-rating or other exemptions continue to apply. For example, exemption applies where a property is used for charitable purposes or de-rating where used for industrial purposes. LPS informed us that although it has plans to carry out a systematic review[13] of all properties where exemptions or de-rating apply, no such reviews have occurred due to other major rating casework combined with resource constraints. The Agency advised that the systematic review may result in field inspections for certain properties.

2.2.15 Testing of assessments provided us with sufficient assurance over the existence of assessments recorded on the system. However, due to the concerns raised in relation to the currency of the Valuation Lists upon which rates assessments are raised, we are unable to confirm completeness and accuracy of assessments.

13 A systematic review is a risk based analysis of available information to determine whether there is sufficient evidence or not to confirm the current appropriateness of the dinstinguishment/relief held.

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Vacancies

2.2.16 Due to staff resource issues and competing priorities, LPS staff had been unable to complete inspections to verify the vacant status of all properties for which a deduction was made. Therefore, at the beginning of 2008, and in partnership with four Councils, LPS undertook a pilot study to validate the status of properties recorded on the rating database as vacant.

2.2.17 Following discussions the exercise was rolled out to 25 Councils in the 2008-09 financial year. Magherafelt District Council chose not to participate and LPS staff are currently undertaking an exercise, including inspections, to confirm vacancy status in this council area.

2.2.18 As part of the vacancy inspection exercise, 62,000 inspection sheets were returned by the Councils. The results of the exercise are summarised in **Figure 7**.

2.2.19 As at 31 January 2010 bills to the value of £33.9 million were issued in respect of those properties which had been incorrectly recorded as vacant on the system or where no bill had issued due to the difficulty of collecting full billing information. Further bills may be issued in respect of the 24,000 properties still being processed.

2.2.20 We note that LPS paid the Councils £0.46 million to undertake this exercise on its behalf and that work continues to cleanse data across LPS systems as a result of the findings of this exercise.

2.2.21 The results of the vacancy inspections and the work still to be undertaken in relation to a number of properties means that there was insufficient evidence to confirm entitlement to vacancy reliefs which total £60 million. Consequently, we are unable to confirm completeness, existence and accuracy of vacancies.

Significant Control Problems

IT System Problems

2.2.22 The current IT system, ABBACUS, was introduced to replace an obsolescent IT system, improve services in rate collection and Housing Benefit and to

Figure 7: Results of vacancy inspections

Properties confirmed as vacant	21,000
Properties for which bills have now been issued	17,000
Properties requiring further billing information, valuation action or under investigation to confirm their status	24,000
Total	**62,000**

Source: Land and Property Services

meet new requirements in rating reform. Implementation of the system was phased, with full implementation planned for February 2007.

2.2.23 Phase 1 (Core Rate Collection) became operational in October 2006. However, delivery of Phase 2 (Management Information) did not take place until April 2007, while Phase 3 (Housing Benefit) took place in July 2008. The key elements of Phase 4, which consisted of the rating reforms to be implemented on 1st April 2007, were delivered on schedule in February 2007. Subsequent to this there has been a programme of additional rating reforms, mainly as a result of the NI Executive Review and these have been delivered in line with the change control process contained in the contract. Each reform has had its own individual timetable.

2.2.24 In previous years' C&AG's Reports we noted some of the problems arising from the introduction of the new IT system, namely inadequate system functionality and specification and the lack of validation checks.

2.2.25 We note that as part of the wider Financial Review project, the Agency is in the process of specifying and implementing a number of system and business process improvements to address the weaknesses identified.

2.2.26 Although a validation check on input information is a basic element of most IT systems, the system specification and the system subsequently provided by the supplier included limited prompts or controls built into the system surrounding the input of values into key data fields. Consequently, ratepayer numbers were incorrectly input into the value fields and bills for incorrect amounts issued to ratepayers.

2.2.27 We are pleased to note that the Agency has undertaken a review of system input screens to identify all financial data input fields and introduced a system control whereby data input is checked against occupancy reference numbers. Where there is a match the system prompts the user to check that the value input is correct. However, this control only became operational from July 2009 and thus was not in place during the year of our examination.

2.2.28 In its Report (paragraph 2.2.3) PAC recommended that all outstanding system problems are resolved as a matter of urgency. In light of this, we asked LPS when it envisaged that the residual system issues would be addressed. LPS advised that funding in 2009-10 (and potentially in subsequent years) is limited and work on improving the IT system has had to be prioritised alongside further rating reform development work. The Financial Review project is addressing finance-related problems and subject to the availability of funding will be completed by the end of 2010-11. A programme of work to address data related issues is ongoing but due to funding constraints this work has had to be re-prioritised and only the key

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problem areas will be completed by the end of 2010-11.

Internal Control Problems

2.2.29 Although considerable work had been undertaken by LPS to implement previous Internal Audit recommendations, a number of significant issues remain in relation to rate collection and valuations.

2.2.30 Consequently, Internal Audit concluded that overall only a limited level of assurance could be provided on LPS internal control systems for the period 1st April 2008 to 31st March 2009. In accordance with HM Treasury Government Internal Audit Standards, the limited rating of internal audit assurance is defined as 'There is considerable risk that the system will fail to meet its objectives. Prompt action is required to improve the adequacy and effectiveness of risk management, control and governance.'

2.2.31 The key outstanding issues identified were:

- control deficiencies within rates collection including access to and permission to reallocate suspense account payments, the absence of approved authorisation limits and inadequate management checks;
- significant domestic and non-domestic valuation backlogs, which could potentially impact on the timing and value of rate collection; and
- internal control weaknesses relating to data processing, storage and transmission on LPS Information and Communication Technology (ICT) systems (see paragraph 2.2.32).

2.2.32 While an overall limited opinion was given, we noted that Internal Audit concluded that an unacceptable level of assurance was appropriate in relation to the review of ICT systems. The unacceptable rating of Internal Audit is defined as 'The system has failed or there is a real and substantial risk that the system will fail to meet it objectives. Urgent action is required to improve the adequacy and effectiveness of risk management, control and governance'.

Other significant concerns arising from our audit work

2.2.33 The following issues were also noted as part of our audit work.

Ratepayer Debt

Debt at 31 March 2009

2.2.34 In the 2007-08 Report we advised that LPS had completed a significant restructuring exercise to reallocate 80 staff towards dealing with rate accounts that were in arrears in order to reduce the arrears carried forward at 31st March 2008 (£124 million). LPS also advised that the successful implementation of a revised arrears strategy had reduced the level of debt to £67 million at 31st December 2008 and that work continued to further reduce this debt. However, by

31st March 2009 ratepayer debt had risen to £138 million. We asked LPS why ratepayer debt had doubled within this four month period and is greater than the already high level of ratepayer debt at 31st March 2008. LPS advised that the £67 million debt at 31st December 2008, referred to prior year debt, which was further reduced to £53 million at the year end. The figure of £138 million is made up of prior year debt and rates not fully discharged by the end of the rating year. £85 million relates to assessments created during 2008-09 and particularly in relation to assessments created during the year where less than 12 months is available to collect the rates due. Despite concerted efforts by LPS to target debt during 2008-09 through the allocation of additional staffing resources and increasing the number of ratepayers taken to court, the current economic climate has had a significant impact on ratepayers' ability to pay in-year, and consequently debt has increased on that for the previous year.

2.2.35 During our review of ratepayer debt at 31st March 2009 we were surprised to note that a number of debtors were public sector bodies and large companies. One public sector body owed £0.845 million, while one high street store owed £0.49 million. We asked why such bodies would be in arrears at the year end. LPS advised that delays in notifying it of changes to properties results in a percentage of bills being issued to the wrong people or with the wrong information, leading to delays in payment until queries are resolved.

2.2.36 LPS advised that the following action has been taken to improve collection of public sector rates:

- In April and May 2009, it reviewed all billing addresses and contact details for public bodies and a number of large organisations to ensure that bills were issued to the correct people in the relevant organisations at the appropriate time. As a result, 90 per cent of bills were issued by 30th June 2009; and

- LPS has initiated a project to introduce new billing and payment arrangements for public sector ratepayers with effect from 1st April 2010.

Stop all Bills

2.2.37 The IT system allows LPS to stop the automatic issue of bills to ratepayers where for example, there is an agreed payment arrangement; NIHE direct credit payments; NI Social Security Agency direct deduction cases; and complicated Continuous Revision cases. In our 2007-08 Report we advised that in several instances the 'Stop all Bills' (SAB) status had been in place on individual ratepayers' accounts for a considerable period of time with no evidence of any activity on the part of LPS to remove the 'stop'. Consequently we queried what action had been taken by LPS to ensure that such stops are removed from a ratepayers' account on a timely basis. LPS advised us that a large-scale review of SABs had been completed. Following this, regional office managers have

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been required to review an ABBACUS report of SABs each month and take any remedial action.

2.2.38 However, during our examination of the 2008-09 Statement we noted that the report produced by LPS only details SABs that have been put in place during the current month. Therefore, unless a SAB is removed in the month in which it is raised, it will not be actioned in subsequent months.

2.2.39 Following the major SAB exercise at the end of August 2008, the number of SABs was reduced to 7,163 cases with a combined financial value was £15.3 million. Although LPS advised us that outstanding SABs all existed for valid reasons, the process of only reviewing SABs activated in the current month means that there may be a considerable number of ratepayer accounts where a SAB status is in place which may no longer be valid. In such cases rates bills should have been issued.

2.2.40 We asked LPS to provide details of the value and number of all SAB cases at 31st March 2009 and what action it was taking to ensure that all SAB cases were valid. LPS advised us that it is unable to report on the SAB position at 31st March 2009, because Abbacus operates as a billing system and therefore focuses on current values; it is not designed to roll back to past dates. LPS told us that there were 18,795 SAB cases, totalling £46 million at 15th February 2010. LPS advised us that staff continue to action the SAB report on a monthly basis but the current report from ABBACUS only provides details on SABs put in place in the past month. A new report has now been developed from the debt model in the DIVER analysis tool for reporting on and analysing accounts with a SAB. This report is undergoing final test checks, and once signed off will be actioned promptly.

Write-offs

2.2.41 We note that at 31st March 2009 there was a significant amount, £6 million, of ratepayer debt which dates back to 2004-05 or earlier years. The continued delay in recovery increases the risk of a significant loss of public funds. Whilst write-offs have historically been low, delayed recovery may lead to higher write offs, as amounts in arrears approach the Statute of Limitations deadline for recovery. LPS advised us that the £6 million of outstanding debt has been reduced to £1.3 million as at 22nd February 2010, with £247,000 fully enforced.

2.2.42 Following NIAO and Assembly interest, LPS undertook a review of write-off arrangements. This review, which was completed in August 2008, found that:

- No write-off action had been taken in Regional Offices since September 2006 due to the introduction of the new system and a number of IT and operational issues; and

- The total value of cases eligible for write-offs was estimated at £8m, with the Councils' share estimated at £3.6m.

The Agency told us that the system delivered by the IT supplier included write-off functionality in line with the original specification, which was similar to that included in the previous rating IT system. However, further functionality requirements were later identified to permit immediate write-offs, given the cases that had accumulated for write off during the migration to the new IT system.

2.2.43 We note that work to deliver full functionality of IT write-offs was not completed until February 2009 and that as a result of a recent review of a sample of 200 cases, LPS has estimated that 11,000 Regional Office cases are eligible for write-off.

2.2.44 LPS consider that in the current economic climate it would be prudent to budget for an increase in the level of debt which needs to be written off. To reduce the impact on Councils and the administrative burden on LPS, LPS has proposed addressing the write-off backlog over a two year period, with £5 million to be written off in 2008-09 and £10 million in 2009-10. The Councils' Estimated Penny Product for 2009-10 will reflect these write-offs.

Order Charging Land

2.2.45 During our examination of the 2008-09 Statement we were informed that LPS has the power to secure a debt against a property by lodging an Order Charging Land (OCL) with the Enforcement of Judgements Office (EJO). This means that the owner cannot sell the property until the debt is paid. In addition, LPS has priority over other creditors such as banks or mortgage companies.

2.2.46 However, there is currently no functionality in ABBACUS to register an OCL with the Registration section of LPS. LPS told us that manual administration would require more resources than are currently available and that there are currently insufficient funds to finance the required change to the IT system. However, a manual workaround has been put in place and, although no OCLs were registered during 2008-09, 248 applications have been registered during the 2009-10 financial year.

Non Domestic Vacant Rating

2.2.47 Since the introduction of Non Domestic Vacant Rating (NDVR) in April 2004 LPS has been unable to establish full ownership details of non domestic vacant properties on which a charge should be made. In the C&AG's 2007-08 Report we advised that as at February 2009 there were only 78 NDVR properties where ownership remained unknown, with an annual rating liability of £0.195 million.

2.2.48 However, during our examination of the 2008-09 Statement we were advised that the figures provided in previous years did not include "closed cases", that is, properties where the current ownership is known but where there was a period where ownership details were unknown and therefore no payment was received. There are currently 982 closed cases.

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2.2.49 In addition to the above cases, LPS advised that there are 377 properties which have never been assessed for rates. Consequently, the value of assessments and the NDVR exemption disclosed in the 2008-09 Statement of Rate Levy and Collection is understated.

2.2.50 LPS advised us that the NDVR team is required to carry out reviews of all properties where NDVR status has been in place for more than one year. However, although there are approximately 1,000 such properties, no review had taken place to confirm vacant status. LPS advised that reviews commenced in January 2010.

Fraud Risk

2.2.51 During the examination of the 2008-09 Statement we identified instances where the same officer created and authorised manual adjustments to ratepayers' accounts. We also noted that there were no limits restricting the amount that each grade of staff may authorise. As a result there was an increased risk that staff may amend data to gain financial advantage for themselves or others.

2.2.52 The findings of Internal Audit in respect of system failings (noted at paragraph 2.2.31) also raises concerns regarding the risk of fraud.

2.2.53 LPS advised us that from 3rd June 2009 ABBACUS system controls are in place which require that account adjustments are created and authorised by different grades of staff in accordance with the approved limits.

Housing Benefit

2.2.54 LPS are responsible for assessing rebates for owner occupiers who are claiming Housing Benefit and need help to pay their rates. Rebates increased to £32 million in 2008-09 from £29 million in 2007-08.

2.2.55 The Social Security Agency Resource Account for 2008-09 was qualified as a result of fraud and error. The Department for Social Development estimated that approximately £1.2 million of Housing Benefit for owner occupiers was overpaid through fraud and error in 2008-09. There is therefore, in our view, an inherent risk that the rebates given by LPS may be at risk of fraud and error.

National Fraud Initiative

2.2.56 During 2008-09 LPS participated in the National Fraud Initiative (NFI). This exercise matched Rates data with Electoral Office data. Housing Benefit for Owner Occupiers data was matched with a number of other sources of data, for example, pensions and Housing Rents. A total of 89,762 matches needed to be investigated by LPS, for example, where an individual is registered to vote but their address is not registered for rates.

2.2.57 The investigation process is ongoing. Checking of the Housing Benefit matches identified 458 fraud cases and 441 errors, totalling £0.893 million in housing benefit payments as at 15th February

14 Rate evasion is the failure to disclose information regarding an occupancy that would enable an assessment to be raised.

2010. Amounts arising from evasion[14], fraud or errors in respect of Rates matches have yet to be quantified and 23,267 matches are under investigation by LPS. LPS anticipates that investigation of these matches will generate substantial new revenues as a result of rates evasion. It is important that LPS processes these items as soon as possible to ensure that no fraud or error goes undetected.

2.2.58 The C&AG will report more fully on the NFI later this year.

Interest Payments

2.2.59 During 2008-09 LPS paid £1.1 million to ratepayers in respect of interest. We asked the Agency why such payments were necessary.

2.2.60 LPS advised that The Rates (Payment of Interest) Regulations NI 2007 facilitated the introduction of interest payments from 1 April 2007 where an amount received by DFP is subsequently repaid or off-set against a rates bill.

2.2.61 Payment of interest was initially introduced in respect of appeals resulting from the revised domestic rating system based on Capital Values. LPS advised that following legal advice, the payment of interest regulations were extended to include all refunds/off-sets (with specified exceptions) to satisfy human rights obligations.

2.2.62 We asked LPS what steps it has taken to reduce the amount of interest paid. LPS advised that the primary factor influencing the payment of interest is the clearance of backlogs within the valuation and operational processes. LPS is currently working across Directorates to streamline the end-to-end rating service by designing and implementing a service delivery model.

Accountability Developments

2.2.63 As noted at paragraph 2.2.5 there is currently no statutory requirement for a published, audited account of the Statement of Rate Levy and Collection to be laid before the Northern Ireland Assembly. In order to improve accountability and corporate governance of the significant amount of public funds recorded in this account, we have recommended that DFP pursue with urgency the preparation of a full set of audited financial statements.

2.2.64 DFP advised that a project has commenced that will enhance the accountability in due course. LPS has appointed a professionally qualified accountant to lead the project team to deliver a fully auditable resource based collection account, which will include an annual report, by 2010-11.

2.2.65 LPS recently prepared a shadow resource based account for 2008-09 and this is being examined by NIAO. Issues arising from our work will be brought to LPS's attention in order that they are addressed prior to submission of the 2010-11 accounts for audit.

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Public Accounts Committee

2.2.66 The findings from NIAO's examination of the 2006-07 Statement of Rate Levy and Collection were considered by the Northern Ireland Assembly's Public Accounts Committee (PAC) in September 2008 and in November 2008 PAC issued its Report[15] on the reasons for the financial and operational difficulties at LPS. PAC made a number of important recommendations to ensure that what had gone wrong was fixed and that the resulting adverse consequences to ratepayers, Councils and staff were addressed. DFP has since set out an action plan to address these recommendations[16].

2.2.67 Progress towards implementation of the 14 accepted recommendations which fall to LPS to implement is monitored by the LPS Audit and Risk Committee which meets quarterly. At the meeting held in January 2010, the Committee was advised that six of the 14 recommendations had been fully implemented, seven partially implemented and the remaining one was in hand. The recommendation in hand is that referred to at paragraph 2.2.28 of this report.

2.2.68 Regular updates on outstanding PAC recommendations which fall to DFP were provided to the Departmental Board during 2009. At its meeting in October 2009 the Board agreed that in future, outstanding recommendations would be reported to and monitored by the Departmental Audit and Risk Committee. LPS completes a quarterly report for DFP on progress against the recommendations, which is included in DFP's review of progress against all PAC recommendations. In addition, LPS provides a quarterly update of progress against its recommendations to the Assembly Finance & Personnel Committee.

The Penny Product

2.2.69 An Estimated Penny Product (EPP) for the incoming year and an Actual Penny Product (APP) following the close of a financial year are produced by LPS. Information from the Statement of Rate Levy and Collection is used by LPS in the calculation of the APP.

2.2.70 LPS uses available data from the valuation lists, factors in various components such as vacancy levels, allowances and write-offs, and the cost of collection and then estimates the income each Council could raise through one penny on the district rate. Councils then use the EPP for their financial planning and strike the District Rate. DFP uses the EPP to pay monthly instalments of revenue to each council.

2.2.71 At the end of the rating year, LPS then calculates the actual amount that has been collected in each council area. This calculation is known as the Actual Penny Product (APP).

2.2.72 If the APP is higher than the EPP, that is, the amount collected is more than the amount paid over by DFP, the Council gets an additional payment. If the APP

15 Report on the Statement of Rate Levy and Collection 2006-07, Third Report Session 2008/2009.
16 Department of Finance and Personnel Memorandum on the Third and Fourth Reports from the Public Accounts Committee Session 2008-09.

is lower than the EPP, that is, the amount collected is less than the amount paid over by DFP, the difference is 'clawed back' from the Council.

2.2.73 In the 2007-08 Report we advised that the Ministry of Defence (MOD) and British Telecom (BT) had been successful in their appeals, regarding the valuation of a number of their properties and assets and that the total BT refund was £5.3 million and the estimated total MOD refund was £9.9 million. As a result the APP for a number of councils was significantly less that the EPP. In order to assist councils with their budgetary process and in an attempt to reduce any hardship in the current economic climate, the Minister for Finance and Personnel announced a number of measures. These included, for those councils which were facing a 'claw back' position, allowing them to spread the repayment of the MOD and BT reductions over a period of five years.

2.2.74 A Penny Product Working Group was established in July 2007 to discuss issues such as the methodology for calculating the EPP and APP and ways to improve these calculations. The group comprises representatives from LPS, Local Government Finance Officers, DOE Local Government Division and DFP Rating Policy Division.

Increased costs

2.2.75 Total expenditure for the IT Replacement Project for the period 2004-05 to 2011-2012 was estimated at £10.5 million. However, the estimated total cost of the project at the time of its closure in June 2008 was £13 million. LPS advised us that £13 million is still a realistic estimate for the total cost of the project. However, we note that this cost does not include expenditure for ABBACUS in relation to the Rating Reform Project (estimated at £1.5 million) and the Financial Review Project (estimated at £2.9m), as both these requirements emerged after the signing of the ABBACUS contract.

Conclusion

2.2.76 PAC considered the findings on the 2006-07 Statement of Rate Levy and Collection in November 2008 and made 28 recommendations for improvement. DFP's response to these recommendations in January 2009[17] was positive and various actions have been implemented or are on-going to resolve financial and operating system problems. For example:

- Progress had been made in improving accountability by the production of shadow accruals based accounts, together with an annual report and supporting notes;
- Vacancy inspections were undertaken in conjunction with the Councils resulting in the issue of bills totaling £32.6 million by 22 December 2009;
- Increased co-operation with Councils through the setting up of a LPS-Local Authority Strategic Steering Group; and

17 Set out in the Department of Finance and Personnel Memorandum on the Third and Fourth Reports from the Public Accounts Committee Session 2008-09.

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- Input validation controls were introduced in July 2009.

2.2.77 As a result, we have noted improvements on the issues recorded in the 2006-07 and 2007-08 Reports. However, as indicated above, DFP and LPS had not been able to address all of the issues prior to the preparation of the 2008-09 Statement and work continues to:

- Ensure that residual system issues are addressed;
- Cleanse data within the IT system;
- Improve rate collection;
- Investigate remaining vacancy inspection data; and
- Ensure the completeness and accuracy of the Valuation Lists.

2.2.78 As a consequence, any opinion on the 2008-09 Statement would be qualified.

Section Three:
Resource Accounts

Section Three:
Resource Accounts

3.1 Department for Social Development 2008-09

3.1.1 The Department for Social Development (DSD) is responsible for administering a wide range of expenditure aimed at helping those in need, promoting measurable improvements to housing in Northern Ireland and tackling disadvantage amongst individuals and communities. Through the Social Security Agency (SSA), DSD is responsible for the administration of social security benefits. On behalf of DSD, the Northern Ireland Housing Executive (NIHE) is responsible for administering Housing Benefit Rent and Rates for tenants and LPS is responsible for administering Housing Benefit Rates for owner occupiers.

3.1.2 The Departmental Resource Account (Request for Resources A) provides for expenditure by DSD on "a fair system of financial help to those in need and to ensure that parents who live apart maintain their children; encouraging personal responsibility and improving incentives to work and save."

3.1.3 During 2008-09, DSD accounted for £3.88 billion in benefits administered by SSA, including £1.91 billion on non-contributory Social Security benefits, £1.88 billion on contributory Social Security benefits and £87.3 million on Social Fund expenditure. Additionally, DSD accounted for expenditure of £482 million on Housing Benefit, comprising £398 million for Housing Benefit Rent and £52 million for Housing Benefit Rates (tenants) which are both administered by NIHE and £32 million for Housing Benefit Rates (owner occupiers) which is administered by LPS.

3.1.4 This section of the report reviews the results of my audit of the benefit expenditure and sets out the reason for my qualified audit opinion. My audit of this expenditure examined the work undertaken by DSD to establish the estimated level of fraud and error within the benefit system. I also provide an update on the issues I reported on last year.

3.1.5 For a considerable number of years I have qualified my audit opinion because of significant levels of fraud and error in benefit expenditure. I published a detailed report[18] on Social Security Benefit Fraud and Error on 23 January 2008 which was considered by PAC who subsequently published a report[19] on social security benefit fraud and error. PAC acknowledged that while the vast majority of benefits are correctly paid to customers the levels of inaccuracy remained disappointingly high, despite improvements made by DSD in tackling fraud and error. PAC was particularly concerned about the level of official error made by SSA staff leading to overpayments and underpayments of benefit, although it recognised that the complexity of the benefit system, and the limitations of the IT system contribute to the high levels of official error.

18 NIA 73/07-08 Social Security Benefit Fraud and Error
19 26/07/08R Public Accounts Committee

Background and the accounting arrangements for this expenditure

3.1.6 The SSA is an Executive Agency within DSD. Benefit expenditure accounted for within the 2008-09 Agency Account is also included within the 2008-09 DSD Resource Account.

3.1.7 My audit of the 2008-09 SSA Account has been completed and I reported on the results on 29 June 2009. I qualified my opinion on regularity because of material levels of estimated fraud and error in benefit expenditure, other than State Pension which accounts for a high level of the total benefit expenditure and has a low level of error (see paragraph 3.1.16).

3.1.8 DSD's Resource Account also accounts for Housing Benefit expenditure. Housing Benefit Rent and Housing Benefit Rates (tenants) are administered by NIHE and Housing Benefit Rates (owner occupiers) is administered by LPS.

3.1.9 I reported the results of my audit of the 2008-09 NIHE Accounts on 25 June 2009. I qualified my opinion on regularity because of significant levels of estimated losses due to fraud and error in Housing Benefit.

DSD's arrangements for monitoring and reporting

3.1.10 DSD continues to regularly monitor and measure the estimated levels of fraud and error within the benefit system. Essentially this involves two main exercises, Financial Accuracy monitoring and Benefit Reviews, the results of which are combined to establish the total estimated level of irregular payments due to fraud and error within the benefit system resulting in overpayments and under payments.

3.1.11 Financial Accuracy monitoring provides a measure of internal SSA error (Official Error), while Benefit Reviews provide a measure of customer fraud and customer error. Official error for Housing Benefit is estimated as part of the Benefit Review process. DSD examines statistical samples of benefit awards on a continuous basis for the purposes of Financial Accuracy monitoring and on a rolling programme basis for the purposes of Benefit Reviews. A common sample is used for both exercises.

3.1.12 Financial accuracy testing involves examination of customer case papers to ascertain if the customer is receiving the correct amount of benefit according to their present circumstances. The measurement of customer fraud and error through the Benefit Review exercises involves a thorough review of the person's entitlement to, and the level of, benefit in payment to establish if it is correct or incorrect by means of a visit to, and detailed interview with, the customer. If incorrectness due to overpayments and underpayments is detected this is reported as either customer fraud or customer error based on criteria laid down in the Benefit Review Guide as to whether it is due to a deliberate attempt to deceive DSD or an unintentional error by the customer.

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3.1.13 DSD presents the results of these exercises in Note 41 (entitled 'Payment Accuracy') to the resource accounts. This note also explains the extent of statistical uncertainty inherent within the estimates of fraud and error. The estimate of fraud and error disclosed in the accounts is, nevertheless, the best measure available.

3.1.14 As part of our audit work in this area my staff examined and reperformed a sub-sample of DSD's case work during the year for both the Financial Accuracy and Benefit Review exercises. My staff also reviewed the methodologies applied by DSD in carrying out these exercises. I can report that I am content that the work undertaken continues to be of a good standard and the results produced are reliable and complete.

Qualified opinion due to irregular benefit payments

3.1.15 I am required to report my opinion as to whether the financial statements give a true and fair view. I am also required to report my opinion on regularity, that is, whether in all material respects the expenditure and income have been applied for the purposes intended by the Northern Ireland Assembly and the financial transactions conform to the authorities which govern them.

3.1.16 Note 41, referred to in paragraph 3.1.13, discloses the best estimate of all such irregular payments. This shows that some £1.44 billion (34 per cent) of total benefit expenditure relates to State Pension payments made in 2008. DSD estimates that in 2008 fraud and error within State Pension payments resulted in overpayments of £2.2 million (0.15 per cent of related expenditure) and underpayments of £2.3 million (0.16 per cent of related expenditure). DSD also estimates that for other benefits, fraud and error gave rise to overpayments of £55.0 million (2.0 per cent of relevant expenditure) and underpayments of £18.6 million (0.7 per cent of relevant expenditure).

3.1.17 I have therefore qualified my opinion on the regularity of benefit expenditure other than State Pension because of the level of overpayments attributable to fraud and error which do not conform to the intention of the Northern Ireland Assembly; and because of the level of under and over payments in such benefit expenditure which are not in conformity with the relevant authorities.

Estimated levels of fraud and error

3.1.18 DSD estimates that in 2008 losses of £57.2 million have arisen through overpayment of benefits to claimants, representing 1.3 per cent of total benefit expenditure. Figure 8 shows the value and percentage of estimated overpayments over the last five years.

3.1.19 DSD has introduced a number of improvements to its measurement processes over these years. New methodologies have most recently been introduced in 2008. The figures for 2007 have been re-calculated using the new methodologies to enable a consistent

Figure 8: Estimated Overpayments due to fraud and error in benefit expenditure

	2008* £million	2007 * £million	2006 £million	2005 £million	2004-05 £million
Overpayments					
Official error	19.8	25.2	29.2	25.2	34.7
Customer error	21.7	19.1	18.8	21.0	17.8
Customer fraud	15.7	15.2	21.4	32.6	31.1
TOTAL	**57.2**	**59.5**	**69.7**	**78.8**	**83.6**
% of benefit expenditure	**1.3%**	**1.5%**	**1.8%**	**2.1%**	**2.3%**

Figure 9: Estimated Underpayments due to error

	2008* £million	2007 * £million	2006 £million	2005 £million	2004-05 £million
Underpayments					
Official error	17.6	23.9	19.6	19.6	8.6
Customer error	3.3	3.2	2.9	4.2	3.9
TOTAL	**20.9**	**27.1**	**22.5**	**23.8**	**12.5**
% of benefit expenditure	**0.5%**	**0.7%**	**0.6%**	**0.6%**	**0.3%**

Footnotes:
1. As indicated in Note 27 to the accounts the estimates in both tables are quoted to the nearest £0.1m and presented with 95 per cent confidence intervals, which include adjustments to incorporate some non-sampling sources of uncertainty.
2. From 2005 onwards estimates for fraud and error have been reported on the calendar year basis rather than the financial year.
3. Figures in the above tables contain individual parts that have been rounded to the nearest £0.1 million for presentational purposes.

* State Pension has been included for comparative purposes only. In 2007 and 2008 the audit opinion was not qualified in respect of fraud and error relating to this benefit.

comparison to be made. Figures prior to 2007 have not been re-calculated as it was not practical or cost-effective to do so and are therefore not directly comparable to 2007 and 2008. However DSD is of the opinion, based on the recalculation of the 2007 total estimated fraud and error figures, that changes arising from the new methodology in relation to previous years' figures would be minimal. Notwithstanding these differences there is a general trend of overall reduction in overpayments due to fraud and error year on year, both in the value of fraud and error reported and also in the percentage of total benefit expenditure that the value of fraud and error represents. The decrease in overpayments is mostly

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attributable to a continual reduction each year in the level of both customer fraud and official error.

3.1.20 Within total benefit expenditure of £4.27 billion in 2008, State Pension accounts for £1.44 billion (34 per cent). Excluding State Pension the level of error in estimated overpayments reported by DSD this year is 2.0 per cent (£55.0 million).

3.1.21 DSD also estimates that underpayments of benefits in 2008 amount to £20.9 million or 0.5 per cent of total benefit expenditure. Figure 9 gives a more detailed analysis of estimated underpayments and the impact of the changes in measurement processes referred to in paragraph 3.1.19 applies to these figures also. In contrast to the overall reduction in overpayments, there has been a general increase in underpayments due to error over the last five years from £12.5 million (0.3 per cent of total benefit expenditure) in 2004-05 to £20.9 million (0.5 per cent of total benefit expenditure) in 2008. However there has been a reduction in estimated underpayments in 2008 as compared to the previous year.

3.1.22 Errors in benefit awards can arise because of internal departmental error (official error), customer error or customer fraud. Figures 8 and 9 show the estimated levels of overpayments and underpayments due to each of these. Estimated customer error levels have not changed significantly over the period, perhaps indicative of the lower level of control that DSD has over this. However, there has been progress since 2004-05 in reducing the estimated levels of customer fraud.

3.1.23 Estimated official error levels have varied over the five year period but there has been a general overall reduction from 2004-05 to 2008. I continue to highlight this category of error as it is my view that this is the area where DSD continues to have the most control. The total estimated levels of official error reported by DSD for 2008 are £19.8 million of overpayments and £17.6 million of underpayments. This represents an average accuracy rate of 99.1per cent and is a further improvement from last year. SSA set financial accuracy targets for the six major benefits that it is responsible for administering and targets were achieved for four, with a further one achieving the target within the statistical levels of tolerance set.

3.1.24 There is no financial accuracy target set for Housing Benefit. It is my understanding that NIHE has set a Processing Accuracy Target of 96 per cent that relates to the percentage of cases for which the calculation of the amount of benefit due was correct. DSD told me that the outturn for 2008-09 was 97 per cent.

3.1.25 Benefit Reviews of Housing Benefit were not completed for 2008. The levels of fraud and error have been estimated by applying the percentage error from earlier years, from 2007 for Housing Benefit for tenants and from 2004-05 for Housing Benefit for owner occupiers. I asked DSD why a Benefit Review has not been carried out since 2004-05 on Housing Benefit for owner occupiers. DSD told me that a Benefit Review has been scheduled for 2009-10.

3.1.26 The total estimated monetary value of losses due to official error for all benefits except for Income Support, Carer's Allowance, and State Pension has decreased when compared to last year. The total estimated monetary value for underpayments due to official error for all benefits, except for Income Support, Incapacity Benefit and Social Fund payments, has also decreased when compared to 2007. I particularly welcome the significant reduction in losses due to official error for Disability Living Allowance (DLA) from £5.0 million in 2007 to £0.9 million in 2008 and the corresponding reduction in official error underpayments from £2.8 million in 2007 to £1.0 million in 2008, and the one per cent increase in financial accuracy rates. This is a complex benefit to administer and SSA has done well to reduce official error rates.

3.1.27 Performance across different benefits varies significantly. The benefits system is complex and some benefits are easier to administer than others. Note 41 of DSD's resource account shows that levels of fraud and error are lowest for those contributory benefits, such as State Pension, which are easier to claim, relatively easy to determine and largely unaffected by changes in circumstances. Fraud and error is more frequent in means tested benefits, where a claimant's financial circumstances are required to be taken into account.

3.1.28 State Pension Credit is a means tested benefit introduced in 2003. I have been concerned about the significant levels of estimated fraud and error reported by DSD for this benefit. The estimated level of overpayments due to fraud and error in State Pension Credit for 2008 remains high at £13.5 million and this represents 4.0 per cent of benefit expenditure, an increase from £12.2 million, 4.0 per cent of benefit expenditure, in 2007. The estimated levels of customer fraud in this benefit are proportionally low (£1.1 million, 0.3 per cent of benefit expenditure) and this is likely to be attributable to the apparent lower propensity to commit fraud in certain age groups. It is the level of error, both customer and official, that is a matter of concern, £5.4 million (1.6 per cent of benefit expenditure) of estimated overpayments in State Pension Credit is due to customer error but the majority of overpayments (£6.9 million, 2.1per cent of benefit expenditure) is because of official error. This situation is also evident in relation to State Pension Credit underpayments with £1.6 million (0.5 per cent of benefit expenditure) due to customer error and the majority of underpayments, £8.7 million (2.6 per cent of expenditure) due to official error.

3.1.29 Last year DSD advised me that it had developed a specific State Pension Credit Accuracy Improvement Plan for 2008-09 to co-ordinate activities that will impact directly on accuracy levels for this benefit. Following this financial accuracy levels have improved from

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94.3per cent in 2007 to 95.3per cent in 2008 suggesting that these activities may have had some impact. Despite this DSD has again failed to achieve its financial accuracy target for this benefit.

3.1.30 I recommend that DSD continues to improve financial accuracy performance for this benefit.

3.1.31 In general, I acknowledge the considerable effort and resources that DSD has put into reducing the incidence of fraud and error. It currently has a number of ongoing programmes in place aimed at counteracting the levels of benefit fraud and error.

Changes in Circumstances

3.1.32 Note 41 of DSD's resource account highlights a specific category of DLA cases where, as a result of a review of entitlement, the benefit allowance is adjusted because the customer's condition has gradually improved or deteriorated to an extent that it now impacts on their care and/or mobility needs resulting in a change in the DLA award. These cases are categorised as 'benefit correct, change in circumstances'. It is not possible, within the legal rules governing the benefit, to establish with any certainty a retrospective date from which to adjust the benefit because the change has occurred gradually. In these circumstances the legislation governing the administration of DLA determines there are no overpayments or underpayments and the benefit is adjusted from the date of the review. Therefore these cases are omitted from the estimated overpayments and underpayments reported by DSD.

3.1.33 For 2008, DSD estimates that the amount customers are receiving in excess of DLA entitlement for this specific category of cases totalled £38 million (2007: £22.2 million) and the amount customers are receiving below their DLA entitlement totalled £19.4million (2007: £47.1 million). Results from the DLA benefit review performed in 2008 show that almost one in five (18.2 per cent) cases reviewed contained a change in customer circumstances – a reduction from the 22.3 per cent of cases reported in the previous DLA Benefit Review in 2006 where changes in circumstances were detected. I acknowledge that these cases are legally and procedurally correct. However, identifying when customers' circumstances change at the earliest opportunity is important for both DSD and the customer and I therefore encourage DSD to continue to look for ways to further reduce the incidence of change in circumstances cases. I asked DSD what was being done to manage this. DSD told me that it will continue to robustly apply its DLA intervention strategy which is designed to identify and review those cases where a change in the customer's circumstances is thought most likely to occur necessitating an adjustment in the rate of benefit. This risk based approach analyses results in conjunction with Statistics and Consultancy Branch on an ongoing basis to update the criteria used to identify the high risk DLA cases for review in order to optimise intervention outcomes.

Recent developments

Economic downturn

3.1.34 The recent downturn in the economy has had a significant impact on the work of DSD. Unemployment benefit registers have grown. New Jobseekers Allowance (JSA) claims for December 2008 were 130 per cent higher than the same month in the previous year. I acknowledge that DSD is working hard to manage the increased workload. On 26 January 2009 the Minister announced plans to recruit an additional 150 new staff to the SSA's Job Seekers Allowance frontline. DSD has told us that it undertook a range of proactive measures including reprioritising resources to assist with JSA claims processing, and the use of full time working for part time staff and additional overtime with staff agreement where available.

Employment and Support Allowance

3.1.35 In June 2007 the Welfare Reform Act (NI) was passed by the NI Assembly. This Act introduced a new work-focused benefit for those who are out of work due to illness or disability. The new Employment and Support Allowance (ESA) replaces Incapacity Benefit and Income Support on the grounds of incapacity. Since its introduction in October 2008, DSD has paid out £4.6 million in ESA claims. It is anticipated that formal targets may be introduced in 2010-11 for this benefit.

3.1.36 Some internal checks were performed in 2008-09 on ESA decision making but these have not been formally reported. It is anticipated that formal targets may be introduced in 2010-11.

Benefit Security Review

3.1.37 During 2008 a comprehensive review of the work of Benefit Security was performed with a view to exploring the opportunity for delivering improved outcomes. A review team was established and terms of reference approved by the Agency Management Board (AMB). The approach of the team included benchmarking with similar organisations, extensive consultations with internal stakeholders and preliminary discussion with SSA Trade Union Side. The Steering Group approved a draft report which was presented to AMB on 2 December 2008.

3.1.38 The report identified areas for improvement and made recommendations for action in several areas including fraud prevention, fraud detection, customer error, official error and measurement of performance.

3.1.39 I asked DSD when the formal consultation on the report will be completed and what the timetable for implementation of the recommendations is and DSD confirmed that consultation with staff and Trade Unions has now taken place and an implementation plan is being developed. The report contains 31 recommendations and, while some are more detailed than others and timescales will therefore vary, it is intended that the majority of the reports' recommendations will be implemented during 2009-10.

Close working with GB

3.1.40 DSD is closely aligned with the GB Department of Work and Pensions (DWP) on its counter fraud activity and

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is fully involved with DWP colleagues in contributing to the development of policies and initiatives which build on successes in tackling fraud. However a recent review by SSA identified the scope for closer working with DWP and the need for a more integrated approach to counteracting error to be adopted. SSA's Error Reduction Division (ERD) has further developed regular communication and sharing with the DWP fraud and error team and is now represented on DWP's Error Reduction Board.

3.1.41 DSD has extended ERDs remit to mirror DWP's Fraud and Error Strategy Division and an SSA Error Reduction Board has been established. The initial aim of the Error Reduction Board is to ensure that ongoing error reduction initiatives are developed and integrated into a published Error Reduction strategy. It is envisaged that these developments will contribute to the achievement of financial accuracy targets and the reduction of losses arising as a result of fraud and error.

3.1.42 I welcome these developments and will monitor their impact on future performance.

Conclusion

3.1.43 DSD has continued to address the matters which give rise to the longstanding qualification of my opinion and I welcome the efforts being made to further improve the accuracy of benefit payments. Total levels of fraud and error have continued to decrease and in the past five years estimated levels of overpayments as a percentage of benefit expenditure have almost halved. I acknowledge that, having made significant progress in recent years, it is increasingly more difficult for DSD to make further significant improvements. It has had particular challenges to overcome this year including efficiencies as a result of the 2008-2011 budget settlement, the ongoing delivery of its modernisation programme and the impact of the economic downturn, and I am therefore encouraged to note that there has been a further improvement in overall performance. DSD has reported success in reducing the amount of official error over and under payments due to fraud and error from £25.2 million, and £23.9 million respectively in 2007, to £19.8 million overpayments and £17.6 million underpayments in 2008 (as shown in Figures 8 and 9).

3.1.44 Alongside this, I recognise the difficulties faced by DSD with regard to the complexity of many of the benefits, the limitations with the IT systems and the resourcing pressures arising as a result of the current economic downturn. I continue to support the various initiatives that aim to lower the levels of fraud and error in benefit expenditure and I encourage DSD to continue with the positive action.

3.1.45 I consider that the estimated levels of fraud and error reported are material and I have qualified my regularity opinion on the accounts.

Department for Social Development

3.2 Child Maintenance and Enforcement Division

Client Funds Account 2008-09

3.2.1 The former Child Support Agency (CSA) ceased to be an Agency on 31 March 2008 and from 1 April its operations were delivered by the Child Maintenance and Enforcement Division (CMED) within DSD. CMED's main purpose is to promote and secure effective child maintenance arrangements for children who live apart from one or both parents.

3.2.2 DSD is required, under directions from DFP to prepare a CMED Client Funds account, which reports the receipts of child maintenance from non-resident parents and payments to parents with care, and to the SSA, where the parent with care is in receipt of benefit. The directions also require DSD to provide information on the level of debt outstanding and its assessment of how much of this debt is likely to be collectable. The administrative costs of the division are included within DSD's Resource Accounts.

3.2.3 This section of the report provides a summary of the significant matters arising from my audit of the 2008-09 CMED Client Funds Account and the basis for the qualification of my opinion. My opinion on this Account has been qualified since 1993.

Qualified Audit Opinion

3.2.4 I am required to examine and certify the CMED Client Funds Account and report the results to the Northern Ireland Assembly. I am required to obtain sufficient evidence to satisfy myself that, in all material respects:

- the account properly presents the receipts and payments for the year ended 31 March 2009;
- Note 6 to the account presents a true and fair view of the debt outstanding as at 31 March 2009;
- the account has been properly prepared in accordance with the Government Resources and Accounts Act (Northern Ireland) 2001 and DFP directions made thereunder; and
- the financial transactions conform to the authorities[20] that govern them, the 'regularity' opinion.

3.2.5 In respect of my view on the debt outstanding, I am unable to form an opinion as the scope of my audit was limited because of insufficient evidence to support the accuracy and completeness of the debt balances totalling £80.9 million. I have also qualified my regularity opinion as I do not consider the financial transactions conform to the authorities which govern them where the maintenance assessments have been calculated incorrectly.

20 Child Support (Northern Ireland) Order 1991;Child Support (Northern Ireland) Order 1995; Child Support, Pensions and Social Security Act (Northern Ireland) 2000; Child Maintenance Act (Northern Ireland) 2008

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Basis of Qualified Audit Opinion

3.2.6 In 2008-09 DSD collected £16.0 million from non-resident parents (2007-08 £13.7 million) and made payments of £12.8 million (2007-08 £10.5 million) to parents with care. In addition, £2.5 million (2007-08 £3.1 million) was transferred to the SSA where persons with care were in receipt of benefit.

3.2.7 My opinion on the CMED Client Funds Account 2008-09 has been qualified for the following reasons:

- the absence of adequate documentation to support the level of debt included within the account; and
- limited evidence available to me to confirm the accuracy of the maintenance assessments which form the basis of the debt balances.

I will explain these issues further in the following paragraphs.

Absence of adequate support documentation

3.2.8 DSD maintains the CMED Client Funds accounting records on the Child Support Computer System (CSCS) and on the Child Support 2 (CS2) system. Both of these systems have a long history of problems and are unable to directly generate the information needed to prepare the Account. The maintenance outstanding at 31 March 2009, disclosed in Note 6.1 to the Account, is derived from the total debt balances recorded on these two systems, in conjunction with a series of complex manual workarounds. However, this debt cannot be broken down on an individual case by case basis. In the absence of a satisfactory audit trail, my examination of debt balances was severely limited, therefore I conclude that there is a significant uncertainty over the accuracy and completeness of the debt balances reported in the Account. Consequently I have qualified my audit opinion on the basis that the scope of my audit was limited in this regard.

Accuracy of maintenance assessments

3.2.9 The accuracy of the calculation of a maintenance assessment for child support is a key element in the process as the assessment forms the basis of the payments made by non-resident parents to persons with care and also the calculation of the amount due where a debt builds up. My staff's audit of debt balances and maintenance assessments over the last fifteen years has identified a significant number of errors. DSD is unable to demonstrate to me that other assessments made in previous years and recorded as a balance due, have been reviewed and corrected. I have therefore concluded that the level of error within the system is still material. In 2008-09 my staff tested a small sample of debt balances as a means of assessing the percentage rate of error in the sample without estimating the value of error in the whole population. My staff examined 28 cases and found 12 errors indicating an overall case error rate of 43per cent (2007-08 37 per cent), due largely to errors in maintenance calculations but also due to errors in records caused by IT issues. In one instance debt owing was overstated by over £22,000 as a result of CMED failing to take into account that the non-resident parent had been in receipt of benefits since 2004. In another case debt was understated by almost £4000, because non-resident parent's income was taken as monthly pay rather than four- weekly pay.

3.2.10 Testing carried out by DSD's CMED Case Monitoring Team (CMT) indicated that there was an increase in the level of cash value accuracy. CMT has reported cash value accuracy of 96 per cent for 2008-09 (92 per cent in 2007-08). These figures relate to the accuracy of new maintenance assessments and reassessments of existing cases undertaken by CMED during the year. In recognising the improved accuracy of current work we understand that it will take a number of years for improvements to be reflected in the whole caseload.

3.2.11 It is therefore my opinion that the level of error within assessments continues to be unacceptable. I asked DSD to comment on these levels of error. DSD told me that there continues to be a strong focus on accuracy with managers committed to continuous improvement. The focus on last decision accuracy remains an important aspect of the improvement process, providing management with independent feed back on the current accuracy position. DSD also explained that at key stages of the case, for example prior to referral for enforcement action a full review of the maintenance assessment and debt balance is undertaken.

Debt levels

3.2.12 The Department is required to disclose the balances outstanding from non resident parents in respect of maintenance assessments. Where a non-resident parent does not make payments in accordance with the maintenance assessment and DSD is responsible for collecting those payments, any missed, or shortfall in, payments will be recorded as debt. To date DSD has had no legislative powers to write off debt. Debt outstanding has accumulated since the inception of child support in 1993 and there was a further increase in 2008-09. In Note 6 to the Account DSD reports gross debt outstanding of £80.9 million as at 31 March 2009, (£77.2 million[21] at 31 March 2008). The gross debt outstanding increased by £3.7 million between 31 March 2008 and 31 March 2009 compared to £5.6 million between 31 March 2007 and 31 March 2008. Note 6 also reports that DSD's current assessment is that £33.3 million (41.2 per cent) is likely to be collectable (2007-08 £34.9 million[21]; 45.2 per cent).

3.2.13 These balances comprise almost 32,000 individual cases of debt, some of which date back to 1993 and DSD has estimated that £47.6 million (2007-08 £42.3 million[21]) is deemed probably and possibly uncollectible. I continue to be concerned at the increasing level of debt in the Account and the proportion of the debt that is unlikely to be recovered.

3.2.14 In response to a previous recommendation arising from my audit, a collection target

21 Debt balances for 2007-08 have been restated since my report on 2007-08 accounts (see note 41 of 2008-09 annual accounts)

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for debt arrears was introduced in 2007-08 (£1.5 million). In my report last year I expressed my disappointment at the low target level set and was of the view that it was not sufficiently challenging. In 2007-08 the amount of debt collected was £2.5 million. The target was increased to £2.5 million for 2008-09 and £2.8 million was collected. For 2009-10 the target has been further increased to £2.8 million. I note there has been a 12 per cent improvement in the amount of debt collected in 2008-09 compared to 2007-08. However, in my opinion, the target levels still fall well short of that which I would consider to be stretching and are still lower than the amount by which debt is increasing year on year. I will continue to monitor debt levels and will report again next year on the progress made in reducing the level of debt. DSD told me that many of the improvements implemented as part of the Operational Improvement Project (OIP) have enhanced ability to collect child maintenance. DSD also advised that the separation of arrears collections from the collection of ongoing maintenance enhances management information available. However, the key to stemming the increase in debt levels is as much about early assessment and ensuring cases do not fall into arrears in the first place. In addition to the £16 million collected by DSD in 2008-09 (2007-08 £13.7 million), DSD has advised me it also secured maintenance arrangements of £6.8 million in 2008-09 (2007-08 £6.0 million). By securing effective maintenance arrangements from the outset, DSD is guarding against the growth of child maintenance debt.

Costs of Collection

3.2.15 I have continued to monitor the costs of collection for CMED Client Funds because of concerns that the rate of return is low, particularly in comparison to how Great Britain performs in this area. CMED running costs are included within DSD's resource accounts but are separately identified. In response to my previous concerns DSD introduced a new cost of collection target in 2008-09. DSD told me that the target has been achieved with an actual cost of collection of 72 pence (2007-08: 84 pence) for every £1 collected against a target of 82 pence. I note that DSD has set a target to achieve a cost of collection of 70 pence for every £1 collected in 2009-10. DSD has stressed the need for a more complete understanding of caseload and geographical variances between Great Britain and Northern Ireland. Further analysis shows the impact of differing earnings levels in Northern Ireland compared with Great Britain and the impact of variances in caseloads, such as the proportion of non resident parents on benefit, or with Nil assessments. DSD believes that taking these factors into account, collection costs are comparable with those of the Great Britain Agency. DSD confirmed that the importance of value for money and efficiency would continue to be a key consideration.

Recent Developments

3.2.16 DSD has continued with the former agency's commitment to roll out the OIP which is nearing completion. Alongside improving the quality of service to clients and the improved accuracy of maintenance assessments, this project is addressing significant problems with the computer systems which are central to case management and the accounting processes. DSD is dependent on improvements in Great Britain in IT services and during 2008-09 two major upgrades of the CS2 system were implemented. In addition to these enhancements to the computer systems, DSD has also introduced further new initiatives aimed at improving debt enforcement and reducing the level of debt, including the launch of an Enforcement Media Campaign that highlighted the enforcement powers that DSD can and will apply. While it is too early to assess the full benefit that all of these changes and initiatives will bring, DSD has indicated that initial results are positive. In addition, DSD told me that the OIP had brought about significant improvements in performance through changes to business processes, operating models and IT systems. It advised me that as a result of OIP over 3,600 more children benefited from child maintenance arrangements and an additional £2.7million of regular child maintenance and an additional £2million of arrears were collected. Uncleared new scheme applications have reduced significantly and 86 per cent of new applications are now cleared within 18 weeks. I will keep under review DSD's continued focus on performance improvement and modernisation of child support through its redesigned implementation process.

3.2.17 The Child Maintenance Act (Northern Ireland) 2008, introduced during 2008, places a duty on DSD to raise awareness among parents of the importance of taking responsibility for the maintenance of their children and to provide relevant information and guidance to help establish effective and appropriate maintenance arrangements for children. It also provides for the introduction of a redesigned scheme in 2011 with more simplified rules for the calculation of maintenance and gives DSD additional powers in respect of recovering and settling debt.

Conclusion

3.2.18 I have qualified my opinion on the debt balances in Note 6 to the Accounts, because of the absence of adequate documentation to support the level of debt included within the Account, and also the limited evidence available to me to confirm the accuracy of the maintenance assessments which form the basis of the debt balances. I have also qualified my regularity opinion as I do not consider the financial transactions conform to the authorities which govern them where the maintenance assessments have been calculated incorrectly.

3.2.19 Fundamental challenges remain in terms of the extent of error within debt balances and the levels of accuracy in the maintenance assessment calculations. I welcome the significant efforts by DSD to address the long-standing problems and I will continue to monitor the impact on performance.

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Department of Culture, Arts and Leisure 2008-09

Basis of audit opinion

3.3.1 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 and the part of the Remuneration Report to be audited. It also includes an assessment of the significant estimates and judgments made by the Accounting Officer in the preparation of the financial statements, and of whether the accounting policies are most appropriate to the Department of Culture, Arts and Leisure's (DCAL) circumstances, consistently applied and adequately disclosed.

3.3.2 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 and the part of the Remuneration Report to be audited are free from material misstatement, whether caused by fraud or error, and that in all material respects the expenditure and income have been applied to the purposes intended by the Assembly and the financial transactions conform to the authorities which govern them. However, the evidence available to me was limited due to a failure to provide adequate supporting evidence for ownership of certain fixed assets and as a result I was unable to obtain sufficient appropriate audit evidence to support:

- The recognition of assets valued at £3,922,000 within land and buildings; and
- Non-recognition of other land and buildings which may be owned by DCAL.

3.3.3 In forming my opinion I also evaluated the overall adequacy of the presentation of information in the financial statements and the part of the Remuneration Report to be audited.

Qualified opinion arising from limitation in audit scope

3.3.4 Except for the financial effects of such adjustments as might have been determined to be necessary had I been able to obtain sufficient audit evidence concerning the legal ownership of land and buildings, in my opinion:

- the financial statements give a true and fair view, in accordance with the Government Resources and Accounts Act (Northern Ireland) 2001 and directions made thereunder by DFP of the state of DCAL's affairs as at 31 March 2009, and the net cash requirement, net resource outturn, net operating cost, net operating costs applied to departmental strategic objectives, recognised gains and losses and cash flows for the year then ended;

- the financial statements and the part of the Remuneration Report to be audited have been properly prepared in accordance with DFP directions issued under the Government Resources and Accounts Act (Northern Ireland) 2001; and
- in my opinion, information which comprises the Directors' Report and the Management Commentary included within the Annual Report, is consistent with the financial statements.

3.3.5 In respect alone of the above limitation on my work relating to the legal ownership of land and buildings:

- I have not obtained all the information and explanations that I considered necessary for the purposes of my audit; and
- proper accounting records have not been maintained.

Opinion on Regularity

3.3.6 In my opinion, in all material respects, the expenditure and income have been applied to the purposes intended by the Assembly and the financial transactions conform to the authorities which govern them.

Report

3.3.7 DCAL engaged consultants to establish rights to claim legal ownership to all property assets under the responsibility of inland waterways and inland fisheries. The findings of this work resulted in DCAL being unable to provide evidence of legal ownership for certain land and buildings. The report also identified other assets including land, locks, bridges, and weirs which DCAL may own, but are not included within tangible fixed assets. I noted:

- The financial statements include tangible fixed assets with a net book value of £19,707,000. Included in this amount are land and buildings with a net book value of £10,245,000 of which DCAL cannot prove legal ownership for £3,922,000; and
- The report of the consultants identified approximately fifty assets which may belong to DCAL, but are not included in tangible fixed assets.

3.3.8 There were no procedures I could have undertaken as part of my audit to satisfy myself regarding verification of ownership for these assets. I will keep DCAL's actions and progress in resolving this matter under review.

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Department of Health, Social Services and Public Safety 2008-09

3.4 Irregular Expenditure

3.4.1 In this section of the report I comment on three issues impacting on the Department of Health, Social Services & Public Safety's (DHSSPS) Resource Account in 2008-09. Two of these arise from expenditure not being approved by DFP and consequently I have qualified my regularity opinion on these issues. The third issue has led to a regularity qualification in one of DHSSPS's sponsored bodies' accounts, the NI Fire & Rescue Service, and I report on it here in the context of the department's sponsorship arrangements.

Regularity issue arising from DFP refusal to approve virement request

3.4.2 The Northern Ireland Assembly annually approves estimates for each department which set out in detail the resources required for public services for that financial year. The estimates are subdivided into "Requests for Resources" (RfR), each of which equates to a departmental objective. Beneath these, each RfR contains one or more functional lines known as sub-heads. The Assembly approves resource consumption at RfR level and actual expenditure is reported against the estimate within Note 2 to the Resource Account.

Qualified opinion on regularity of financial transactions within the Resource Account

3.4.3 Virement relates to the reallocation of resources between sub-heads, but below RfR level, without the need for Assembly approval. DFP approval is required to move between different sections within an RfR, although, during the year, budget movements are approved by the Executive. On 16 June 2009, DHSSPS requested approval from DFP Supply for thirteen virements, in relation to those subheads previously agreed in the Spring Supplementary Estimates which had been exceeded.

3.4.4 All virement requests were approved except for an outstanding administration sum. This amount is in relation to administration expenditure for Health and Social Care policy development within sub-head RFR A and is an overspend of £1,153,000. DFP considered that, although overall estimate cover is available for this exceeding, an administration limit is being breached in contravention of DFP regulations. Consequently, I consider this expenditure is irregular as it did not obtain all the approvals required and I have qualified my regularity opinion in respect of this matter.

3.4.5 I encourage DHSSPS to revisit and strengthen its estimates and supporting budgetary control systems given the regularity issue that has arisen.

Conclusion

3.4.6 On the basis of this finding, in one material respect, I identified that expenditure did not conform to the authorities which governed it.

Regularity issue arising from the Northern Ireland Blood Transfusion Service

3.4.7 In my report on the financial statements of DHSSPS for 2007-08, I identified that expenditure was not applied for the purposes intended by the Northern Ireland Assembly and that the transactions did not conform to the authorities which governed it in one material respect. This related to costs incurred in the employment of specialist advisors for the Developing Better Services project by one of the DHSSPS's sponsored bodies, the Western Health & Social Care Trust, and concerned the absence of business case approvals for expenditure of £2.4 million.

3.4.8 I am disappointed to note that a similar issue has arisen in another arms' length body this year. The Northern Ireland Blood Transfusion Service (the Service), established in 1946, is one of a number of Special Agencies, sponsored by DHSSPS. The core purpose of the Service is the collection, processing, testing and distribution of blood and blood components. Under the Blood Safety and Quality Regulations 2005, the Service is required to hold a Blood Establishment Authorisation (Licence) which is granted by the Medicines and Healthcare products Regulation Authority (MHRA). The latter inspect the Service on a regular basis to ensure its compliance with relevant standards and failure to satisfy an inspection could, in extremis, result in withdrawal of its Licence.

3.4.9 An MHRA inspection in April 2008 revealed a number of serious control weaknesses with respect to the Service's Quality Management System. MHRA concluded that significant failings in elements of good practice meant that the operation was insufficiently robust and had the potential to result in patient harm, although there was no evidence that any patient had come to harm. The Service was advised that failure to take the necessary remedial action within the specified timescale could result in the loss of its accreditation. In response to these weaknesses, the Service developed and implemented a comprehensive action plan. Following a subsequent inspection later in the year, MHRA confirmed that all of the serious control weaknesses identified had been addressed.

3.4.10 To support it in responding to the MHRA's inspection findings, the Service engaged external consultants to assist in:

- a formal root cause analysis to identify the causes of failure which had to be submitted to MHRA along with a corrective plan by 10 June 2008; and
- the implementation of this plan.

3.4.11 The Service submitted its first business case for £85,500 (representing expenditure on consultants for the period

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8 June to 30 November 2008, excluding expenses) to DHSSPS for approval at the end of July 2008. This was revised in liaison with DHSSPS and a final business case for £112,000 (which included expenses) was submitted to DFP in mid November 2008. A second business case for £31,600 was submitted to DFP on 3 December 2008 seeking approval to extend the use of consultants to 31 December 2008. DFP approved £13,600 of the second submission two days later but in February 2009, advised DHSSPS that, while it accepted that the expenditure incurred was fully justified and legitimate, retrospective approval on £130,000 expenditure (i.e. £112,000 from the first submission plus £18,000 of the second) incurred between 8 June and 3 December 2008, would not be granted and was therefore irregular. This was because a suitable business case had not been completed and approved prior to engaging the services of the consultants in June 2008. DFP also noted that this was further compounded by the fact that the Minister for Health had not given approval for this project prior to engaging the consultants.

Qualified opinion on regularity of financial transactions within the Resource Account

3.4.12 I am content that, except for the appropriate approval from DFP, there is proper documentation to support the expenditure incurred. However, I consider this expenditure to be irregular as it did not conform to the authorities which governed it at the time and I have qualified my regularity opinion in respect of this matter.

3.4.13 There is no doubt that this expenditure was necessary and urgent, but the failure of the Service and DHSSPS to submit the business case in time contravened DFP regulations, established in response to criticisms made by the PAC of the use of consultancy in the public sector. Also of concern is the question of how controls within the Service deteriorated to the extent identified by MHRA.

3.4.14 I welcome the open and full disclosure of this matter in the DHSSPS Accounting Officer's Statement on Internal Control. DFP has acknowledged that both the Permanent Secretary and Director of Finance of DHSSPS have written to management within the department and the wider health and social care sector stressing the absolute requirement to have proportionate business cases approved prior to any decision to incur expenditure on consultants. DFP is content that DHSSPS has now taken steps to ensure there is no recurrence of consultancy expenditure without the necessary prior approvals in line with Annex 2.3 of Managing Public Money NI.

3.4.15 There may also be a need for DHSSPS to liaise with DFP to determine what action should be taken in urgent cases where it is not practical to strictly follow DFP regulations.

Conclusion

3.4.16 On the basis of my findings, in one material respect, I identified that expenditure was not applied for the purposes intended by the Northern Ireland Assembly and that the transactions did not conform to the authorities which governed it.

3.4.17 I will keep developments under review and may comment further in my Health General Report in due course.

Overall conclusion on regularity issues impacting on the Resource Account

3.4.18 Other than the findings identified above, in all other material respects, income and expenditure was applied for the purposes intended by the Assembly and the financial transactions conformed to the authorities which governed them.

Regularity qualification on the Northern Ireland Fire & Rescue Service Accounts 2008-09

3.4.19 Northern Ireland Fire & Rescue Service (NIFRS) is an executive non-departmental public body sponsored and funded by DHSSPS. In my opinion the expenditure and income of NIFRS is regular except for £50,840 of expenditure on a pay award which was progressed without departmental approval. A report on this matter has been included with the NIFRS accounts (see Section 5).

3.4.20 My NIFRS report notes that the pay award to non-uniformed Directors was made without the requisite approval of DHSSPS and before the matter was referred to the NIFRS Board or its Remuneration Committee. I welcome DHSSPS's prompt and comprehensive response to what I consider to be a serious breach of NIFRS corporate governance. This included:

- a restriction of NIFRS delegation limits; and
- seeking assurances from NIFRS that responses would be put in place to ensure such breaches of control would not be repeated.

3.4.21 In my Financial Auditing and Reporting: 2007-08 Report (NIA 115/08-09), I recommended that DHSSPS reviewed the sponsorship procedures which apply to NIFRS. Having examined this latest NIFRS matter, I note again that DHSSPS's sponsorship procedures could be improved, although I accept this may have been insufficient to prevent the irregular expenditure incurred by NIFRS. DHSSPS's response to the NIFRS pay award provides a means by which my recommendation can be implemented. In particular, I intend to monitor progress on two issues:

- the clarification and application of the NIFRS Financial Memorandum; and
- DHSSPS's role in monitoring the application of DFP pay remit guidance to its sponsored bodies.

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NIFRS Financial Memorandum

3.4.22 NIFRS processed the pay award to non-uniformed Directors following a job evaluation commissioned by the Chief Fire Officer without the approval of DHSSPS. The Chief Fire Officer informed my staff that in his view, the NIFRS Financial Memorandum, established by DHSSPS in 2005, caused some confusion due to ambiguity in two of its clauses. This included paragraph 4.1.8 which required NIFRS to follow National Joint Council Terms and Conditions (which the job evaluations did) and paragraph 4.1.5 which required departmental approval of all substantive changes of duties to employees above Area Manager (the non-uniformed Directors were above this level).

3.4.23 I recommend the NIFRS Financial Memorandum is clarified as to the limits of departmental delegation which apply to pay awards and job evaluations.

Application of DFP Pay Remit Guidance

3.4.24 The requirement to seek prior departmental approval for pay awards is set out in the annual 'Pay Remit Approval Process and Guidance' issued by DFP. I am concerned with DHSSPS's handling of DFP's 2008 pay remit guidance as it applied to NIFRS. The 'Pay Remit Approval Process and Guidance' is issued to all departments who are responsible for distributing it to their sponsored bodies, and for the Finance Directorate's review and approval of sponsor body submissions before they are forwarded to DFP. I found that:

- DHSSPS had no record of forwarding the pay remit guidance to NIFRS who have told me that it received this from another source;

- the NIFRS pay remit submission was forwarded by DHSSPS to DFP without Finance Directorate approval and the issue of the non-uniformed Directors' pay award being picked up. It was DFP, not DHSSPS, which noted that a business case to support an increase in these circumstances was absent. Indeed, DHSSPS only became aware of these fundamental breaches of financial control when DFP asked questions about the submitted NIFRS pay remit; and

- three other NIFRS pay remits relating to 2008-09 had been scrutinised and approved by DHSSPS and received DFP approval.

3.4.25 I recommend that the requirements of DFP's pay remit guidance are applied in future to all NIFRS pay remit submissions. I note that DFP has requested details of the steps that DHSSPS is taking to ensure that all its arm's length bodies are adhering to proper financial and governance controls and I will continue to review this matter.

Department for Employment and Learning 2008-09

3.5 Irregular Expenditure and Excess Vote

3.5.1 This section of the report explains the basis of the qualified audit opinion I have placed on the 2008-09 Resource Accounts for the Department for Employment and Learning (DEL).

3.5.2 This section is divided into two parts as my regularity opinion was qualified for two specific reasons:

- irregular expenditure incurred in respect of funding provided to two Further Education Colleges (FECs) on advisory fees on Public Private Partnerships (PPP) (paragraphs 3.5.3 to 3.5.20); and
- irregularity arising from net cash expenditure in excess of amounts authorised by the Northern Ireland Assembly (paragraphs 3.5.21 to 3.5.28).

Qualification arising from the irregular expenditure incurred in respect of funding provided to two FECs on advisory fees on PPPs

3.5.3 The resource account for DEL includes expenditure in respect of funding for the six FECs. This year's account includes part funding of expenditure incurred on PPP projects by two FECs – Belfast Metropolitan College (BMC) and the South Eastern Regional College (SERC) which were established in August 2007. Much of the expenditure referred to in this report was incurred by the legacy FECs which now form part of BMC and SERC.

3.5.4 These large scale procurement projects required the colleges to appoint advisory teams of technical, legal and financial experts. In accordance with the delegated limits for approval of expenditure the colleges sought and received Ministerial and DFP approval to appoint these experts in 2002 for BMC and 2003 for SERC. The approval limits were up to, but not exceeding, £600,000 for the BMC project and £400,000 for SERC.

3.5.5 DEL advised me that the procurement process for the advisory team was managed by the Government Purchasing Agency (now Central Procurement Directorate).The contracts were both on a fixed price basis and the same advisory team was appointed to each project. The advisory team accepted the overrun risk where the management of that risk was considered to be within its control.

3.5.6 The funding agreement in place between the colleges and DEL stipulated that DEL would reimburse 90 per cent of the expenditure incurred by each of the colleges.

BMC

3.5.7 The advisory team appointed was to provide support for the procurement phase of the project to replace the College Square East and Brunswick Street campuses with a new facility at Titanic Quarter.

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3.5.8 When the contract was tendered the accepted bid was for a total of 340 consultancy days at a discounted cost of £300,000 or half the approved fee ceiling.

3.5.9 As the project was nearing completion, towards the end of 2008, it became apparent that the final cost of the advice provided was in the region of £2,200,000, more than seven times the contracted for amount. Following negotiations between the consultants and BMC this was reduced to £1,500,000, subject to the achievement of the final date for signing off the project. DEL has advised that the financial closure of this project was achieved on 2 April 2009 and no further consultancy costs were incurred (see Section 5).

SERC

3.5.10 In this case the advisory team was appointed to provide support for a project of new builds in Downpatrick, Ballynahinch, Lisburn and Newcastle.

3.5.11 The accepted bid for the SERC contract was for 423 consultancy days at a cost of £358,000. The final position however revealed that the total costs were, in fact, £1,347,000 or almost four times the contracted for amount (see Section 5).

Qualified opinion on regularity of consultancy spend

3.5.12 Once the projects were underway they were both subject to a series of delays and variations. These variations led to further work being carried out on the part of both advisory teams. In both cases the colleges and DEL considered that the reasons for the delays were outside the control of the advisory teams.

3.5.13 Despite the fact that DEL had a representative on the project board of each College it did not contact DFP for approval to the additional costs as they arose but instead waited until the final cost overrun was known. DEL approached DFP for retrospective approval to pay the fees in mid March 2009. It sought approval for the following:

- BMC - an increase from the original approval limit of £600,000 to £1,500,000 (an increase of £900,000); and
- SERC - an increase from the approval limit of £400,000 to £1,347,000 (an increase of £947,000).

The total increase in the two projects was therefore £1,847,000 with DEL's 90 per cent share of the additional expenditure being £1,662,000.

3.5.14 In its reply to DEL, DFP stated that retrospective approval could only be granted in line with the rules contained in `Managing Public Money' and as such two conditions needed to be satisfied;

- Approval would have been granted had DFP been approached properly in the first place; and

- DEL was taking steps to ensure there was no recurrence.

3.5.15 With regard to the first condition, DFP interpreted this to mean that a department had already completed a business case to support the decision to spend, but had neglected to forward it to DFP for approval. With regard to the second condition it interpreted this to mean that specific measures had already been put in place to ensure that the need to seek retrospective approval did not happen again.

3.5.16 Whilst DFP recognised the DEL Minister had asked for a paper to be prepared on the lessons learned from this experience and thus DEL had in part satisfied the second condition, as a business case had not been submitted to support the approval request for either project then the first condition had not been satisfied. DFP could not therefore, grant retrospective approval to the request.

3.5.17 I asked DEL to explain how the failure to obtain appropriate DFP approval for this expenditure had arisen. DEL told me that these procurements had been complex and subject to significant delays which meant that the envisaged timescales of 16 months for each project extended to five years for the SERC project and seven years in the case of BMC. Furthermore DEL explained that given the complexities of the projects it would not have been practicable to change advisers during the procurements. DEL also informed me that during these long procurements, advisory fees were not monitored against approvals and hence it did not seek approval for the increased costs. As part of a "lessons learned" exercise in respect of this procurement DEL has advised it will be taking steps to ensure there is no recurrence of this oversight and DFP advice and guidance is fully complied with.

Conclusion

3.5.18 I am concerned that large contract overruns were incurred in both of the contracts described above. I refer to a recent PAC report on the 'Use of Consultants' which made reference to such a circumstance as follows;[22] 'Frequent and large-scale increases in contract costs raise doubts about the standard of project appraisal, management and control; are often non-competitive in nature; and can hinder the achievement of value for money.'

3.5.19 As noted above, under the terms of the funding agreement between DEL and the colleges, each college was due to be reimbursed 90 per cent of the expenditure incurred. As DEL accepted that the additional costs were an inescapable commitment for the colleges they, in turn, had an expectation that they would be funded by DEL. As DEL has now recognised this expenditure in its resource account, I consider it to be irregular as it did not conform to the authorities which governed it at the time as DFP did not give retrospective approval. I have qualified my regularity opinion in respect of this matter.

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3.5.20 I welcome the open and full disclosure of this matter in the DEL Accounting Officer's Statement on Internal Control.

Qualified opinion on regularity arising from the net expenditure being in excess of the amounts authorised by the Northern Ireland Assembly.

Explanation and description of the 'excess'

3.5.21 In 2008-09 DEL spent more cash than the Northern Ireland Assembly (the Assembly) had authorised it to and by so doing, DEL breached the Assembly's control over its expenditure. It has therefore incurred what is termed an `excess', for which further Assembly approval is required. I have qualified my opinion on DEL's resource account on this breach of Assembly control.

3.5.22 As part of my audit of DEL's resource account, I am required to satisfy myself that, in all material respects, the expenditure and income shown in the resource account have been applied to the purposes intended by the Assembly and conform to the authorities which govern them; that is, they are `regular'. In doing so, I have had regard to the limits the Supply Estimates, as approved by the Assembly, have set on expenditure.

3.5.23 The Assembly authorises and sets limits on expenditure on two bases - `resources' and `cash'. Such amounts are set out in the Supply Estimates for which approval and authority is given in the annual Budget Orders.

3.5.24 There is a single `Net Cash Requirement (NCR)' for DEL. This represents the maximum amount of cash that may be provided to DEL from the Consolidated Fund to meet its funding requirements.

3.5.25 The Statement of Parliamentary Supply included within the DEL resource account for 2008-09 shows that the NCR outturn was £780,947,570.98 which is £15,767,570.98 or 2.1per cent greater than the Estimate NCR of £765,180,000.00

DEL's explanation for the Excess Vote

3.5.26 DEL told me that the reasons for the Excess Vote were:

- An adjustment was required to the treatment of Student Loans Interest Receivable as a result of clarification received, post year end, from DFP on the correct budgetary treatment. The consequence of this adjustment is that the NCR figure in the Spring Supplementary Estimates was understated by the amount of Student Loans Interest Receivable. The net impact of this adjustment accounts for £10,130,570.98 of the over spend. A detailed reconciliation of Resources to Cash Requirement is given in Note 4 to the Resource Account; and

- Due to an administrative error in Account NI a payment of £5,637,000.00 to the Student Loan Company which was to be paid on the 1 April 2009 was processed on 31 March 2009.

Action taken by DEL to help prevent a recurrence

3.5.27 I asked DEL what it had done to ensure this situation does not recur and it informed me that:

- Student Loan Interest Receivable will be addressed, in line with the new DFP guidance, during the in-year Annually Managed Expenditure forecasting exercise;
- It will review its cash management procedures against external guidance and in comparison to other Northern Ireland Departments, to ensure they are as robust and effective as possible; and
- Account NI has confirmed that procedures have been enhanced to mitigate against the risk of a recurrence.

Summary

3.5.28 In forming my opinion on the DEL 2008-09 resource accounts, I am required to confirm whether, in all material aspects, the expenditure and income have been applied for the purposes intended by the Assembly and the financial statements conform to the authorities which govern them. On the basis of my findings, I conclude that the outturn net cash requirement of £780,947,570.98 was in excess of the £765,180,000 authorised by the Assembly. The excess of £15,767,570.98 is therefore irregular and will require an `Excess Vote' to be approved by the Assembly. My audit opinion has been qualified in this respect.

Conclusion

3.5.29 Except for the irregular expenditure incurred where proper approval was not obtained from DFP and cash expenditure incurred which was in excess of that authorised by the Northern Ireland Assembly, the expenditure and income have been applied for the purposes intended by the Assembly and the financial transactions conform to the authorities which govern them.

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Department of Education Resource Accounts 2008-09

3.6 Irregular Payments to External Consultants

3.6.1 In accordance with the requirements of Managing Public Money Northern Ireland (MPMNI) and DAO(DFP) 06/05, DFP has delegated to departments authority to enter into commitments and to spend within defined limits, subject to certain restrictions. Prior DFP approval is required for each separate engagement of external consultants expected to cost over £75,000 (or otherwise agreed with DFP). DFP approval in such instances is only granted on completion of a satisfactory business case.

3.6.2 It is a general condition of DFP approval that it must be notified if at any time costs or any other key assumptions vary by more than 10 per cent from the estimates given in the business case upon which the approval was based, or if implementation is delayed by more than 24 months.

3.6.3 If a department wishes to make any significant change to a project or to its proposal for procurement, after approval has been granted, DFP agreement must be obtained before any expenditure is committed and before procurement is commenced.

Retrospective Approval

3.6.4 If expenditure has been committed or procurement commenced without DFP approval then DFP may be prepared to consider granting retrospective approval in exceptional circumstances and only under specific conditions as defined in MPMNI, namely:

Condition 1 – where it would have been granted approval had it been approached properly in the first place. DFP may consider this condition satisfied where a department had completed a suitable business case prior to committing the expenditure, but neglected to forward it to DFP for approval; and

Condition 2 – the Department is taking steps to ensure there is no recurrence. Evidence of specific remedial actions will be required to satisfy this condition.

3.6.5 In March 2009, DFP advised the Department of Education (DE) that retrospective approval had not been granted on consultancy costs for three projects, namely Holy Cross College Strabane and Derry Diocese (comprising St Cecilia's College Derry and St Mary's College Derry) Public Private Partnerships (PPPs), and the Reform of Public Administration (RPA) Project Management Consultancy Support. DFP copied the correspondence to me in line with guidance in MPMNI.

Holy Cross College and Derry Diocese PPPs

3.6.6 Management, financial and legal external consultancy costs of £352,122 to support both Holy Cross and Derry Diocese PPP projects were approved in 2002. The final consultancy spend in the projects was £807,263 for Holy Cross and £877,083 for Derry Diocese. Most of the expenditure was incurred prior to 2008-09. In 2009-10 DE has advised that £101,109 additional expenditure in respect of Holy Cross and £138,654 for Derry Diocese has been incurred. This expenditure is due to an uplift in consultancy rates as a result of the expiration of the original consultancy framework, as advised by DE. In the context of the 2009-10 accounts, based on current circumstances, this expenditure is irregular. The total overspend represents an increase of £1,332,224 which is 378 per cent in excess of the approved spend. I asked why there was such a significant increase and DE advised me that this was due to a combination of factors. A significant change in the project took place when the original single PPP project was split into two separate projects. Additional changes in the scope of the project occurred as a result of emerging Government policy on the use of PPP. Further to the increased expenditure brought about by these changes in scope, the associated delays in procurement resulted in an increase in the daily rates charged by the consultants.

3.6.7 In considering retrospective approval on the Holy Cross PPP project, DFP stated that:

"given the financial close for the PPP project was reached in September 2006 and the fact that DFP only received the consultancy business case in July 2007 and again in January 2009, we are not convinced that the business case was completed at the appropriate time."

and

"it is particularly worrying from the Department's response that the Department does not have an understanding of where retrospective approval is required. There have been a number of occasions where DE have recently sought retrospective approval and this clearly shows that the Department has not been successful in taking steps to ensure that there is no recurrence."

3.6.8 In the case of the Derry Diocese PPP project, DFP acknowledged that, particularly in PPP projects, there may be a pressing need to continue consultancy support and that it would be impossible to halt this support whilst a consultancy business case is being prepared. Nonetheless there is an expectation that as a very minimum DE would be expected to inform DFP of the situation and complete a business case as soon as possible and not to wait until the work has been completed. The Derry Diocese PPP financial close was in December 2008 but the business case was not forwarded to DFP until January 2009.

3.6.9 DFP repeated its concern that DE had not been successful in taking steps to ensure no recurrence of requests for retrospective approval.

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RPA Project Management Consultancy Support

3.6.10 The total approved expenditure for this consultancy was £320,000. An additional £27,900 expenditure was incurred. According to DFP it was the submission of a Post Project Evaluation (PPE) that revealed a substantial change in the scope of the consultancy contract. DFP stated:

"this change was so substantial that it would have been necessary to submit a revised business case to DFP for approval. As DFP was not consulted it is clear that retrospective approval of this change in scope is required."

3.6.11 It is my understanding that DFP could not be sure that a business case was completed at the appropriate time because DE was unable to trace documentation of the change in scope. In addition, DFP was not satisfied that DE was taking adequate steps to prevent this situation arising again and the lack of records kept in this case suggests that DE was failing to follow the correct business case process.

Need for further Retrospective Approvals

3.6.12 Following notification of the above three cases, DE was asked by DFP and my Office to determine whether it was aware of any other projects where DFP approval had not been sought. DE identified a further three consultancy projects which had not complied with the requirements of MPMNI and where retrospective approval from DFP would be sought (Figure 10). The three projects are Down and Connor De La Salle PPP, Lagan/Tor Bank PPP and Belfast Education and Library Board (BELB) Strategic Partnership (which is a hybrid of PPP and conventional procurement).

3.6.13 I am informed that all of these cases incurred additional expenditure which exceeded the 10 per cent threshold. Most of this expenditure was incurred prior to 2008-09. The Department has advised that in the case of BELB Strategic Partnership project there has been no

Figure 10: Projects identified that require retrospective approval from DFP

Project Title	Approved Expenditure £	Additional Expenditure £	Additional Expenditure as a % of Approved Expenditure
Down and Connor De La Salle PPP	442,000	158,000	36%
Lagan/Tor Bank PPP	321,000	174,000	54%
BELB Strategic Partnership	1,034,000	1,769,000	171%
[DE responsible for 50 per cent of this expenditure]	*517,000*	*884,500*	

expenditure since 2007-08. However, in relation to Down and Connor De La Salle, expenditure of £199,159 is expected to occur in 2009-10 and for Lagan College/Tor Bank expenditure of £224,762 and £46,508 is expected to occur in 2009-10 and 2010-11 respectively, as completion of milestones still remain outstanding in both instances.

3.6.14 I asked DE why the expenditure on the BELB Strategic Partnership project was so much in excess of that approved and it advised me that the original proposal was in relation to a six school PFI cluster. The project scope increased significantly to a new Building Schools for the Future (BSF) type strategic partnership with this as phase 1 and consequently the Invitation to Negotiate (ITN) documentation had to be redrafted to take account of the additional requirements the strategic partnership had produced. The project was originally scheduled to have a duration of 17 months, however the revised project ran for 49 months.

3.6.15 The total approved expenditure in these three cases was £1,797,000 compared to a final figure of £3,898,000, giving rise to irregular expenditure of £2,101,000 in previous and future years for which DE is responsible for £1,216,500.

DE's internal controls

3.6.16 In February 2007 DE's Finance Director issued guidance on business case clearance procedures within the department and to its Non-Departmental Public Bodies (NDPBs). The guidance highlights the need for sufficient time to be built into the business case process to allow consideration by the department's Finance Division and DFP. It also indicates that approvals in principle should not be granted, nor should commitments to funding be given prior to completion of a satisfactory business case and in advance of the Finance Director's or DFP's approval.

3.6.17 The guidance also stipulates that in submitting business cases for consideration, Heads of Division and Chief Executives' of NDPBs should confirm that they are content with the regularity, propriety and value for money of the project. These conditions are also contained in a letter, issued by the Finance Division on 9 May 2008, to Heads of Division and Branches within DE. Heads of Division were asked to ensure that a copy was sent to their respective NDPBs. This additional guidance was underpinned by a seminar held in June 2008 for all Heads of Divisions and Heads of Branches within DE and representatives of its NDPBs.

3.6.18 DE recognises that the failure to obtain the necessary approvals is a major breakdown in the project management of the six cases and that this breakdown and failure to obtain retrospective DFP approval resulted in the additional consultancy expenditure being irregular.

3.6.19 I welcome the disclosure of this matter in the Accounting Officer's Statement on Internal Control and the proposed actions

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to be undertaken over the coming months to enhance the arrangements within DE and its funded bodies to ensure robust and effective processes are in place.

Conclusion

3.6.20 Expenditure amounting to £2,576,624 has been identified for which DE has not obtained the necessary DFP approval. This expenditure did not conform to the authorities and is irregular. This expenditure has been accounted for in years other than 2008-09 and therefore I was content not to qualify my 2008-09 regularity opinion.

3.6.21 I will keep developments under review and will follow up with DE to ensure that the proposed actions are fully and properly implemented.

Department of the Environment Resource Accounts 2008-09

3.7 Excess Vote

3.7.1 In 2008-09, the Department of the Environment (DOE) spent more cash than the Assembly had authorised it to spend and by so doing, breached the Assembly's control over its expenditure. It had therefore incurred what is termed an 'excess' for which further Assembly approval is required. I have qualified my opinion on the DOE 2008-09 resource account on this breach of Assembly control.

3.7.2 This section of the report explains the reasons for this qualification and provides information on the extent and nature of the breach to inform the Assembly's further consideration.

3.7.3 As part of my audit of DOE's resource accounts, I am required to satisfy myself that, in all material respects, the expenditure and income shown in the resource account has been applied to the purposes intended by the Assembly and conform to the authorities which govern them; that is, they are 'regular'. In doing so, I have had regard to the supply limits set on expenditure by the Assembly.

Background to the Excess

3.7.4 The Assembly authorises and sets limits on expenditure on two bases – 'resources' and 'cash'. Such amounts are set out in the Supply Estimates for which approval and authority is given in the annual Budget Orders.

3.7.5 There is a single NCR for the Department. This represents the maximum amount of cash that may be provided to DOE from the Northern Ireland Consolidated Fund (NICF) to meet its funding requirements.

3.7.6 The NCR limit was set out in the Northern Ireland Main Supply Estimates for 2008-09, as amended by the Northern Ireland Spring Supplementary Estimates. The Spring Supplementary Estimates (SSEs) 2008-09 set the limit on this NCR at £130,569,000. The breach reported below is against this limit.

Breach of limit on NCR

3.7.8 The outturn NCR in the Statement of Supply to DOE's 2008-09 resource account is £131,073,478.76 which is £504,478.76 (0.39% per cent) in excess of the amount authorised (2007-08 comparators: outturn £129,614,000; estimate £135,670,000).

3.7.9 DOE now proposes to ask the Assembly to authorise a further grant of supply from the NICF of £504,478.76 by way of an Excess Vote.

Explanations for the Excess Vote

3.7.10 As explained in the footnote to the Statement of Parliamentary Supply and Note 4 to the resource accounts, the excess arose primarily as a result of variances between estimates and outturn in respect of the:

- movement in working capital (variance of £1,434,000 between estimates and outturn). The directive to pay invoices within 10 days of receipt issued by the Finance Minister generated a reduction in creditors which was not foreseen at the time the SSEs were finalised. This reduction was particularly pronounced in relation to the early payment of grants;
- use of provisions (variance of £942,000 between estimates and outturn). A contributory factor to this variance was the payment of the legal costs associated with judicial reviews in March which had not been anticipated at the SSE stage;
- proceeds of fixed asset disposals (variance of £300,000 between estimates and outturn); and
- non-cash items (variance of £803,000 between estimates and outturn).

The above issues are necessary to reconcile the resource outturn to the NCR. Although there was a resource outturn underspend of £2,886,000 in 2008-09, the reconciling items detailed above resulted in the excess NCR of £505,000.

Action to be taken by DOE to help prevent a recurrence

3.7.11 I have asked DOE what it will now do to ensure that its estimate procedures are sufficiently robust to avoid future excesses. It informed me that improvements will be needed in forecasting, specifically in relation to contributing items detailed

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above; namely movement in working capital, the use of provisions, proceeds of fixed asset disposals and non-cash items. DOE therefore proposes to engage more robustly with all business areas, but more specifically its three Executive Agencies (Planning Service, the Northern Ireland Environment Agency and the Driver and Vehicle Agency), following the provision of estimated figures for its SSEs. As these estimates are usually requested by mid December from all business areas, DOE now intends to seek final clarification of these figures by mid January prior to the SSEs going to 'print'.

3.7.12 DOE has also advised me that Central Finance staff will also now monitor the cash drawn down over the period January to the end of March against the estimated NCR figure in the SSEs. If it is envisaged that the estimated NCR figure might be exceeded, the departmental Board will be advised as a matter of urgency so that timely corrective action can be taken.

Summary and conclusion

3.7.13 In forming my opinion on the DOE 2008-09 resource accounts, I am required to confirm whether, in all material respects, the expenditure and income have been applied to the purposes intended by the Assembly and the financial statements conform to the authorities which govern them. On the basis of my findings above, I concluded that the outturn NCR of £131,074,000 was in excess of the £130,569,000 authorised by the Assembly, resulting in an excess of £505,000, and that it was therefore irregular. My audit opinion has been qualified in this respect.

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Land and Property Services 2008-09

Accounting for the Topographic Database

4.1.1 Land and Property Services (LPS) is an Agency within DFP. From 1 April 2008, following the merger of LPS with Land Registers of Northern Ireland and Ordnance Survey of Northern Ireland (OSNI), LPS has been responsible for the official surveying and topographical mapping of Northern Ireland and it aims to maintain a topographic database to standards of currency, completeness and accuracy that meets the needs of its customers.

4.1.2 The topographic database is a definitive computerised map of Northern Ireland and consists of geodetic networks and topographic information from large scale survey accumulated over many years. Income arises from sales and licensing of maps, data, copyright and other repayment tasks arising from the database. Apart from the commercial application of the database an element of the data is collected and maintained in the national interest. To date no value has been placed on this element of mapping work.

4.1.3 The topographical database comprises two key elements: topographical data (the database) and software (the database management system). The database management system which is a combination of the software and licenses for the use of third party software that allows data to be organised, retrieved and manipulated, has been capitalised in the LPS accounts as tangible fixed assets in line with both FRS 10 Goodwill and Intangible Assets and FRS 15 Tangible Fixed Assets. I consider this to be the appropriate treatment.

4.1.4 However, as disclosed by LPS at note 1.17 to the accounts, the database is not reflected in the balance sheet. On-going costs of maintaining the database have been charged to the operating cost statement as incurred. LPS has not capitalised the database as it considers that it is an internally generated intangible fixed asset which should only be capitalised where there is a readily ascertainable market value, evidenced by an active market in similar assets. LPS has advised that as its data is unique and has never been actively traded, it considers that no value could be attached to it in the financial statements. LPS also stated that the cost to maintain the database exceeded the income generated.

4.1.5 In my reports on the 2000-01 OSNI accounts and each subsequent year's accounts since then I have carefully considered the accounting treatment of the database and disagreed with LPS's accounting treatment because I regard the database as a tangible fixed asset which should be capitalised in accordance with FRS 15.

4.1.6 Having considered the representations made by LPS it remains my opinion that the database has physical substance and is held for use in the production of goods and services on a continuing basis.

4.1.7 In my reports on the 2006-07 and 2007-08 accounts I advised that there was evidence that the database has a material value and consequently my opinion on those years' account was qualified, as by not recognising the value of the database in accounts, the underlying value of LPS and its operating costs are materially misstated.

4.1.8 The 2008 Budget announced that, from 2009-10, the accounts of government departments and bodies in the wider public sector will be produced in accordance with international financial reporting standards (IFRS) as interpreted by a IFRS–based Financial Reporting Manual (iFReM). In the 2007-08 financial statements OSNI advised that it had given careful consideration as to how the introduction of IFRS would provide a basis for resolution of the issue and it had already prepared a draft accounting policy to deal with the introduction of IFRS. Accordingly, post merger, LPS proposes to capitalise elements of the topographical database as intangible fixed assets.

4.1.9 In my 2007-08 Report I welcomed the significant early consideration given to this matter but advised that the qualification issue would continue to apply until the introduction of IFRS.

4.1.10 I have therefore qualified my opinion on LPS's 2008-09 accounts because of my continuing disagreement with the decision not to capitalise the database this year and the evidence of a material value of the database.

Surplus Registry Income

4.1.11 Under Section 84 of the Land Registration Act (Northern Ireland) 1970 (the 1970 Act) and Section 16(1) of the Registration of Deeds Act (Northern Ireland) 1970, DFP has the power to make an order prescribing the fees to be charged by the Land Registers of Northern Ireland (LRNI) for services provided.

4.1.12 The 1970 Act, as amended by The Registration (Land and Deeds) (Northern Ireland) Order 1992, states that fees are to be at a sufficient level to enable LRNI "to meet so much of the operating expenses of the Land Registry as is attributable to its registration functions".

4.1.13 Since the merger of LRNI with LPS from 1st April 2008, full details of the fee income and the cost of services for the three separate registers (the Land Registry, the Registry of Deeds and the Statutory Charges Registry) are shown at Note 3 to the LPS Annual Accounts.

4.1.14 In my Report on the LRNI Annual Report and Accounts 2006-07 (NIA 41/06-07) I noted my concerns regarding the level of surplus income generated by LRNI since 2003-04 which has arisen primarily from Land Registry services, since the introduction of the Land Registry (Fees) Order (Northern Ireland) 2003 (the 2003 Order). I also noted that there had been an escalating upward trend, with £19.08million of surplus income generated by LRNI since 2003.

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4.1.15 The Land Registry (Fees) Order (Northern Ireland) 2007 and The Registration of Deeds (Fees) Order (Northern Ireland) 2007, both of which came into operation on 1 April 2007, substantially reduced fees paid for many transactions. However, despite this surplus income of £9.37million was generated in 2007-08 and although there was a downturn in the economy in 2008-09, LPS still generated surplus income in respect of registry services of £2.24million. Consequently, the surplus income generated since 2003 has risen to £30.69million.

4.1.16 The 1970 Act, as amended, requires that fees should meet the operating expenses of the Land Registry as is attributable to its registration functions. As in previous years, the surplus income in the Land Registry was used to cover deficits in the Registry of Deeds and Statutory Charges Registry, with net surpluses arising in respect of registry services continuing to be surrendered to DFP at the end of each financial year. It appears therefore that the surpluses are being used for purposes wider than those specifically permitted by the 1970 Act.

4.1.17 My Report on Land Register's "LandWeb" Project (NIA 168/07-08), stressed the importance of not generating excessive surpluses, as this indicates that LRNI customers are paying too much for the service provided. Indeed any excess could be considered as a form of taxation. The Report also recommended that DFP and LRNI re-examine the fee structure currently in place and realign the fees to reflect the cost of delivering the services.

4.1.18 My Report on the Land Registers of Northern Ireland Annual Report and Accounts 2007-08 (NIA 174/07-08) further advised on the importance of LRNI (now LPS) continuing to make efforts to reduce surplus income through regular review and revision of fees, in light of changes in the property market. I asked DFP and LPS what action they had taken with regard to this and whether my recommendation that past surpluses earned are taken into account when setting revised fees. I was advised that LPS, in conjunction with DFP, consider if a fees order is needed each year. As part of this process past surpluses and future housing market activity are considered when deciding if a revision to fees is required. LPS is forecasting that fees for the current year will decline compared to 2008-09 levels and it is expected that no surplus will be generated.

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5.1 Northern Ireland Housing Executive 2008-09

5.1.1 In accordance with Article 21(3) and (4) of the Housing (Northern Ireland) Order 1981, as amended by the Audit and Accountability (Northern Ireland) Order 2003, I have audited the accounts of the Northern Ireland Housing Executive for the year ended 31 March 2009 and I now report thereon.

Housing Benefit

5.1.2 Levels of fraud and error for Housing Benefit are reported on a calendar year by the Disability, Incapacity & Benefit Security Directorate Standards Assurance Unit of the Social Security Agency. My report for the year ended 31 March 2008 highlighted the fact that the levels of fraud and error for Housing Benefit for the year 1 January 2007 to 31 December 2007, issued in May 2008, highlighted estimated levels of fraud and error of £10.7m overpayments (customer fraud £2.8m, customer error £6.7m and official error £1.2m) and £1m underpayments (customer error £0.7m and official error of £0.3m), some 2.8 per cent of housing benefit expenditure. At the date of reporting the Social Security Agency 'Fraud and Error for Housing Benefit' Report for the year 1 January 2008 to 31 December 2008 is not available.

5.1.3 I recognise the considerable efforts and resources committed by the Housing Executive to address housing benefit fraud and error. The Housing Executive has a robust Fraud and Error Strategy in place to detect and prosecute instances of customer fraud and to minimise instances of customer error. A major review of the strategy was undertaken this year and a plan drawn up addressing current issues and actions to be undertaken over the next two years to ensure that the strategy remains focused and relevant in addressing this important matter. This includes the Housing Executive's involvement in the National Fraud Initiative and a substantial investment in additional staff resources. I would encourage the Housing Executive to continue to employ strategies to reduce the levels of loss.

5.1.4 I remain concerned about the losses of this amount and have qualified my opinion on the financial statements on regularity.

5.2 Invest NI Accounts 2008-09

5.2.1 In February 2006, the Westminster Committee of Public Accounts (PAC) considered significant conflict of interest issues relating to the establishment and management of Emerging Business Trust; the standards of corporate governance in the Local Enterprise and Development Unit, and the Department of Enterprise, Trade and Investment's stewardship of its NPDBs.

5.2.2 In its report, PAC noted that it was worrying that the blatant conflicts of interest and other major control weaknesses in this case were not detected by the auditors. One of the PAC recommendations was that these matters were brought to the attention of the relevant professional body. A copy of the PAC report was sent to the Institute of Chartered Accountants in Ireland (ICAI) for consideration. In June 2006, ICAI referred the matter to the Accountancy and Actuarial Discipline Board[23] (AADB).

5.2.3 The AADB investigated the conduct of EBT's auditors, McClure Watters, and the role and conduct of Mrs Theresa Townsley, a Director of EBT, her husband, Michael Townsley and their firm MTF Chartered Accountants. In January 2009 the Disciplinary Tribunal of AADB upheld the complaints brought by the AADB and fined McClure Watters and Mr Rollo McClure, the relevant audit partner, £6,000 each. Mr McClure was also reprimanded. McClure Watters was ordered to pay costs of £60,000.

5.2.4 In March 2009, AADB then concluded that, having considered the evidence and external counsel's advice, there was no realistic prospect that a disciplinary tribunal would make an adverse finding in respect of the conduct of Theresa Townsley or Michael Townsley. The investigation was closed and it was concluded that no further action would be taken against them.

5.2.5 I understand the appointed Company Inspector has completed his investigation into the conduct of the directors of Novatech Ltd. The Department is currently considering the way forward in this case, in consultation with the Department of Finance and Personnel.

5.2.6 The Department agreed, in the Memorandum of Reply[24] published in July 2006, that it would provide an update to the Committee on the outcome of these investigations. Progress reports were provided to the Northern Ireland Assembly PAC in November 2006, March 2008 and November 2008. A further progress report will be provided to the Northern Ireland Assembly PAC later this year 2010.

5.3 General Consumer Council Accounts 2008-09

5.3.1 As disclosed in the Statement on Internal Control, section 7, Significant Internal Control Problems, the General Consumer Council incurred expenditure on a stakeholder engagement event. The Acting Accounting Officer is undertaking a review of the internal controls around this expenditure, and hospitality in general. I will report further on the outcome of this review, if necessary.

5.4 General Teaching Council for Northern Ireland Accounts 2006-07

Non-compliance with the Legislative Requirements for Audit in 2005-06

5.4.1 The General Teaching Council for Northern Ireland (GTCNI) was established by the Education (Northern Ireland) Order 1998 and came into existence in October 2002. In accordance with paragraph 12 of Schedule 1 to the 1998 Order, GTCNI shall, in respect of each financial year, prepare and submit

23 The Accountancy and Actuarial Discipline Board (AADB) is the independent, investigative and disciplinary body for accountants and actuaries in the UK. The AADB is responsible for operating and administering independent disciplinary schemes for these professions.

24 Northern Ireland Department of Finance and Personnel Memorandum on the 46th Report from the Public Accounts Committee Session 2005-06. (CM 6879)

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to the Comptroller and Auditor General (C&AG) and the Department of Education (the Department) a statement of accounts which the C&AG shall examine and certify.

5.4.2 The first set of GTCNI accounts were produced for 2005-06. The Department, on behalf of GTCNI, tendered and appointed a private sector firm to provide external audit provision. The legislative requirement for the accounts to be examined and certified by myself was, however, unintentionally overlooked.

5.4.3 The 2005-06 accounts were audited and certified by the appointed external auditors and the accounts laid before the Assembly. However, during the course of the 2006-07 audit the oversight in the audit arrangements for GTCNI were identified and my Office was advised accordingly.

5.4.4 Following discussions and correspondence with the Department and GTCNI a reasonable course of action was agreed which I consider meets the necessary audit and accountability requirements stipulated in the 1998 Order.

5.4.5 In relation to the 2005-06 accounts my staff carried out a review of the audit documentation and other supporting papers to ensure that sufficient and relevant audit evidence had been obtained by the appointed external auditors to form an opinion on the accounts.

5.4.6 In light of this review, I am satisfied that the unqualified opinion on the 2005-06 accounts is supported by the audit evidence.

5.4.7 The audit arrangements for the 2006-07 accounts onwards have now been regularised.

5.5 Northern Ireland Fire and Rescue Service 2008-09

Irregular expenditure following Pay Awards to non-uniformed Directors

Overview

5.5.1 In accordance with Schedule 1 section 15(4a) of the Fire and Rescue Services (Northern Ireland) Order 2006, I have audited the financial statements of the Northern Ireland Fire and Rescue Service (NIFRS) for the year ended 31 March 2009. I have qualified my opinion as a result of irregular payments arising from an increase in non-uniformed Directors pay scales which was not authorised by the Department of Health, Social Services and Public Safety. The total sum of these irregular payments, including employer's national insurance and pension costs, amounts to £50,840.

5.5.2 The Chief Fire Officer of NIFRS commissioned Belfast City Council in June 2007 to perform an independent job evaluation review for each of the Board's three non-uniformed Directors. The outcome of this review was that in August 2008 NIFRS awarded the non-uniformed Directors increases in their pay scales with payments of arrears backdated to April 2007. Although the Chief Fire Officer informed the Chairman, these job evaluations and the subsequent pay awards, were not brought to the attention of the NIFRS Board or the NIFRS Remuneration Committee and prior approval was not sought from the NIFRS sponsor department, the Department of Health, Social Services and Public Safety (the Department), as required by:

- The Fire and Rescue Services (Northern Ireland) Order 2006 (including the Department's NIFRS Financial Memorandum prepared in accordance with the Order); and
- Department of Finance and Personnel (DFP) pay remit guidance.

5.5.3 This matter was identified by DFP in November 2008 and drawn to the attention of the Department. The Department's Internal Audit unit completed an investigation of the issues leading to the irregular expenditure and as a result of the findings the Department instigated a number of actions. These included:

- a restriction of NIFRS delegation limits; and
- seeking assurances from NIFRS that responses would be put in place to ensure such breaches of control would not be repeated.

Commissioning of non-uniformed Directors' job evaluations review

5.5.4 In April 2007, informal discussions between two of the three non-uniformed Directors and the Chief Fire Officer took place regarding the perceived lack of equality of pay scales between the non-uniformed Directors when compared to uniformed Principal Officers. This perceived inequality gap had been widened further as a result of a 4 per cent reward paid, without Departmental objection, to NIFRS uniformed Principal Officers in 2007-08. These discussions prompted NIFRS to undertake a job evaluation review of the three non-uniformed Director posts. The posts included the Director of Finance and Performance, the Director of Human Resources and the Director of Planning and Corporate Affairs.

5.5.5 Although there was an underlying perception of inequality of pay scales at senior management level NIFRS did not seek legal advice on the matter.

5.5.6 Belfast City Council (BCC) was commissioned by the Chief Fire Officer to complete the job evaluation of the non-uniformed Directors. Paragraph 4.1.8 of the NIFRS Financial Memorandum outlines that employees of NIFRS are subject to levels of remuneration and terms and conditions of service as agreed by the National Joint Council (NJC). The selection of BCC was made on the grounds that NIFRS believed the Council to be one of the few Northern Ireland sources for this type of job evaluation,

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and due to a long standing arrangement, where BCC had provided this service to NIFRS for many years for employees at all levels. There is no documentation to support this nor is there evidence of consultation with Central Procurement Directorate of DFP. The arrangement by which BCC was selected to undertake the job evaluation does not follow public procurement best practice as established by HM Treasury and endorsed by DFP. NIFRS are in the process of subjecting job evaluation work to tender.

5.5.7 The job evaluation recommended that the three non-uniformed Directors posts could be ranked on equal merit and that the pay scales should be increased. My staff were informed that this was based on a desktop review. This analysed the results of a questionnaire completed by each Director and other information, which indicated that the roles and responsibilities of all three posts had significantly increased since an independent review in 2003.

Implementation of the findings of the job evaluations review

5.5.8 The Chief Fire Officer accepted the recommendation from the job evaluation and approved the pay awards. Payment began in August 2008 and was backdated to 1 April 2007, the approximate date when concerns over the equality of remuneration within the organisation had been raised.

5.5.9 NIFRS has a Remuneration Committee, comprised of Board members, whose primary role is to report and make appropriate recommendations to the Board on the salaries and conditions of service for uniformed Principal Officers and non-uniformed Directors. It was not until January 2009, after the Department had met with the Chairman the previous month to discuss this matter, that the Board and its Remuneration Committee became aware of the non-uniformed Director's job evaluation and the pay awards. This was five months after the increased payments had begun and after the Department's Internal Audit unit had conducted its investigation.

5.5.10 In accepting the findings of the job evaluation the Chief Fire Officer did not seek prior approval from the Department. The Chief Fire Officer informed my staff that, in his view, the NIFRS Financial Memorandum, established by the Department in 2005, caused some confusion due to ambiguity in two of its clauses. This included paragraph 4.1.8 which required NIFRS to follow National Joint Council (NJC) Terms and Conditions (which the job evaluation did) and paragraph 4.1.5 which required Departmental approval of all substantive changes of duties to employees above Area Manager (the non-uniformed Directors were above this level). The Chief Fire Officer however did not attempt to seek clarification from the Department. Paragraph 11.1 of the Financial Memorandum outlines that the Department will resolve any questions arising from the interpretation of any of its statements, after consultation with NIFRS. The failure to seek clarification on the job evaluation has meant that the pay awards, subsequently implemented, were in breach of the Financial Memorandum and consequently irregular.

5.5.11 The non-uniformed Directors had at least a perceived conflict of interest in a job evaluation which examined their roles in NIFRS. On one level they potentially stood to personally gain from the successful implementation of the recommendations of the job evaluations while at the same time they would have been the key source of advice to the Chief Fire Officer. Such advice should have included assurance that the job evaluation was being progressed in accordance with proper procedures, including Departmental and DFP authorisation, and represented value for money. There is no record that the merits of independent advice or assurance were examined by the Chief Fire Officer and the non-uniformed Directors.

The Department's response to the pay wards made to non-uniformed Directors

5.5.12 The requirement to seek prior Departmental approval for the pay award is set out in the annual *'Pay Remit Approval Process and Guidance'*. This process is updated annually and issued in the form of guidance by DFP. The guidance identifies the need for prior Departmental approval of this type of expenditure and states that public bodies covered by the Executive's authority must not enter into pay commitments prior to the appropriate approvals being sought. It also states that commitment to or execution of a pay award without appropriate approvals will be deemed irregular expenditure and treated as such.

5.5.13 I note that the 2007-08 NIFRS pay remit submission in January 2008 did not include any detail of the possible pay awards for non-uniformed Directors even though the job evaluation had begun by June 2007. Whilst it would have been too early in the review process to provide any accurate detail, it should have been an opportunity to provide the Department and DFP with enough information to indentify a potential future pay commitment.

5.5.14 The Department first became aware of the pay award in November 2008 as a result of the 2008-09 NIFRS pay remit submission. This was three months after the pay award had been made to the non uniformed Directors. In addition, the pay remit guidance requires a pay increase of this size to be supported by a business case. No business case was provided. The pay awards which had already been implemented by this date were in breach of the DFP pay remit guidance and consequently irregular.

5.5.15 I am concerned with the Department's handling of DFP's 2008 pay remit guidance as it applied to NIFRS. The *'Pay Remit Approval Process and Guidance'* is issued to all Departments who are responsible for distributing it to their sponsored bodies, and for the Finance Directorate's review and approval of sponsor body submissions before forwarding them to DFP. I found:

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- The Department had no record of forwarding the pay remit guidance to NIFRS who have told me that they received this from another source; and

- The NIFRS pay remit submission was forwarded by the Department to DFP without Finance Directorate approval and the issue of the non-uniformed Directors pay awards being picked up. It was DFP, not the Department, which noted that the non-uniformed Director's pay award breached HM Treasury limits and that a business case to support an increase in these circumstances was absent.

5.5.16 Responding to the identification of the pay awards the Department's Internal Audit unit conducted an immediate investigation. The key conclusion of this investigation was that NIFRS had breached its own governance and accountability controls and that this had contributed to the proposed pay awards being paid without approval from the Department. Consequently this expenditure has been held by the Department to be irregular and no retrospective approval has been granted.

5.5.17 The Department informed NIFRS of Internal Audit's findings in January 2009 and instructed NIFRS to instigate a number of actions designed to restrict NIFRS delegation limits and to enable NIFRS to provide assurances that such breaches of control are not repeated in the future. These actions included:

- Returning the pay of the non-uniformed Directors to the previous levels which occurred with effect from February 2009;

- Recovery of the irregular payments;

- Widening the remit of the Remuneration Committee to all job evaluations and pay remits;

- Commissioning an independent job evaluation for both uniformed Principal Officers and non-uniformed Directors in NIFRS;

- Departmental attendance at Board meetings and all other committee meetings, including Remuneration Committee meetings;

- Significant amendment of the delegated authority granted to NIFRS. This included removing the delegated authority to implement any job evaluations;

- Increasing the regularity of the Departmental accountability reviews of NIFRS to four a year;

- Initiation of a quinquinnial review to examine all aspects of the NIFRS/Departmental relationship, financial arrangements and corporate governance; and

- Seeking NIFRS to consider the competence of its officers in their respective roles based on the outcome of the Department's investigation and take managerial or disciplinary action as appropriate in line with NIFRS policies and procedures.

5.5.18 In response to this the Board held a number of workshops and established a special sub-committee to look into the pay awards issue, address the concerns of the Department and action the points outlined in paragraph 16. The sub committee established an action plan to address Departmental concerns and my understanding is that each of these is being addressed.

Conclusion

5.5.19 I am concerned that the systems of corporate governance in NIFRS were unable to prevent the pay awards to non-uniformed Directors being made without the requisite approval of the Department and before the matter was referred to the NIFRS Board or its Remuneration Committee. This led to a serious breach of NIFRS corporate governance. I will monitor the assurances that NIFRS have provided to the Department and in particular the enhanced role for the Remuneration Committee. It is important that NIFRS ensure in future that the necessary approvals are in place before expenditure on pay or any other matter is incurred.

5.5.20 There was at least a perceived conflict of interest for the non-uniformed Directors with regards this job evaluation. They stood to gain from the findings of the job evaluation yet it was also their role to provide advice and guidance to the Chief Fire Officer that such issues were processed in accordance with prescribed procedures and offered the best value for money. This conflict was not identified by anyone in NIFRS. I recommend that NIFRS is alert to such conflicts and addresses these where they occur.

5.5.21 In its report on *Job Evaluation in the Education and Library Boards* (18/07/08R) the Public Account Committee noted that job evaluation schemes should feature checks and balances such as monitoring and reporting schedules. The Remuneration Committee, comprising Board members, should ensure NIFRS job evaluations are subject to checks and balances where conflicts of interests may be an issue for NIFRS staff.

5.5.22 I note the incomplete documentation supporting the job evaluation, including the origins of the evaluation, the basis for the appointment of BCC to undertake the evaluation and the absence of a business case in the 2008 pay remit return. I am surprised that a job evaluation, prompted by perceived employment equality concerns, was progressed without the benefit of legal advice setting out the precise relevance of this issue and any potential liabilities arising. NIFRS has now sought legal advice.

5.5.23 As required by the Department NIFRS halted the pay increases in February 2009 and sought to recover the sums irregularly paid. To date NIFRS have recovered £7,240 by withholding the annual inflationary uplift due to the non-uniformed Directors in 2007-08 and

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2008-09. NIFRS is to seek legal advice on its position with regards both the recovery and returning the non-uniformed Directors to their previous rates of pay. I will follow up developments on these legal issues.

5.5.24 I welcome the Department's prompt and comprehensive response to this matter. In my *Financial Auditing and Reporting: 2007-08 Report* (NIA 115/08-09) I recommended that the Department reviews the sponsorship procedures which apply to NIFRS. The response to the non-uniformed Director's pay awards provides a means by which my recommendation can be implemented. I will monitor the Department's progress and will be looking for the Department to ensure that:

- The NIFRS Financial Memorandum is clarified as to the limits of Departmental delegation which apply to pay awards and job evaluations; and
- The requirements of DFP pay remit guidance for sponsor Departments to review and approve sponsored body submissions are applied.

5.6 Strategic Investment Board Limited Accounts 2008-09

Report on the Composition of the Board of Directors

5.6.1 The Strategic Investment Board Limited (SIB) is a company limited by guarantee,established by the Office of the First Minister and deputy First Minister (OFMDFM). SIB's role is to inform and help implement Ministers' policy for improving public infrastructure.

5.6.2 The principal activities of the company are to provide advice to the Northern Ireland Executive in relation to the formulation and implementation of its programme of major investment projects and to provide advice and assistance (including research,consultancy, advisory and other services) to bodies in relation to the implementation of their investment projects.

5.6.3 In the 2008-09 year, SIB had five directors. Its directors are appointed by OFMDFM. Two of these directors were executive directors and the remaining three were non-executive directors.

5.6.4 The term of appointment of one of the three non-executive directors ended on 30 September 2008. He has been reappointed for a further term from 1 October 2008. The terms of appointment of the remaining two non-executive directors came to an end on 31 March 2009.

5.6.5 Going forward into the 2009-10 year, SIB therefore has one non-executive director and two executive directors. This is a departure from best practice in the public sector. Its significance must be judged in the context that SIB is a high profile body with a demanding set of risks and, as a non-departmental body sponsored by OFMDFM, should be supported by governance arrangements which should fully reflect the high standards required by the public sector.

5.6.6 This current position is undesirable and contravenes SIB's corporate governance arrangements. In particular, there was a serious risk that the remaining non-executive director would have had to chair the board and all the sub committees including the audit committee. I am advised that, as an interim measure, SIB has engaged an independent person who is not a member of the Board to chair its Audit Committee; otherwise there would not be a separation of function between the Chairman and Chair of the Audit Committee in accordance with the guidance within HM Treasury's handbook for audit committees. While such an arrangement is an acknowledgement of the requirements of the guidance, nonetheless it cannot be regarded as ideal practice. The Audit Committee should have a quorum of two non-executive Directors. Non-executive directors also have an important role in advising and challenging executive directors which a single non-executive director cannot fulfil fully. As SIB was established as a limited company, best practice is that the non-executive directors should outnumber the executive directors.

5.6.7 Two open competitions have been held to identify suitable candidates to serve as non-executive directors for SIB, the latest of which concluded in March 2008. The appointments have yet to be made.

5.6.8 OFMDFM told me that it accepts that the present situation with regard to the number of non-executive directors on the Strategic Investment Board is not ideal. OFMDFM told me that it has been carefully considering the risks and other issues highlighted by NIAO since the departure of the two outgoing non-executive directors, and it has sought to mitigate the risks as far as possible. OFMDFM fully supported SIB's action in engaging an interim independent chair for its audit committee to avoid a conflict of roles for the company chairman.

5.6.9 Furthermore, OFMDFM noted that it has kept Ministers fully appraised of corporate governance issues as these have emerged and has sought to ensure that SIB can continue to function having regard to its Articles of Association, relevant statutes and relevant DFP guidance and it continues to monitor the situation closely.

5.6.10 OFMDFM advised me that Ministers are currently considering the issue of appointing further non-executive directors to SIB based on the most recent competition.

5.7 Belfast Metropolitan College Report

Qualification arising from irregular expenditure incurred in respect of advisory fees on a Public Private Partnership project

Introduction

5.7.1 I was appointed as auditor of Belfast Metropolitan College (BMC) under the Institutions of Further Education (Public Sector Audit) Order (Northern Ireland)

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2008. I am required to examine, certify and report upon each statement of accounts prepared by the College.

5.7.2 The purpose of this report is to explain the background to my qualification of BMC's financial statements for 2007-08, and to comment on the delay in producing the Annual Report and Accounts.

Background

5.7.3 BMC is funded by the Department for Employment and Learning (the Department) and was created on 1 August 2007 from a merger of the Belfast Institute of Further and Higher Education (BIFHE) and Castlereagh College of Further and Higher Education (CCFHE). BMC has over 53,000 students enrolled on full-time and part-time courses making it one of the largest colleges of Further and Higher Education in the UK. There are over 1,000 full-time and 800 part-time staff employed in the College and its annual budget is some £45 million.

5.7.4 It is led by a Director with Accounting Officer status, responsible for ensuring that the College maintains an appropriate system of financial management and for ensuring that there are adequate procedures, controls and structures within the College to ensure that it conforms to the requirements of propriety and of economical, efficient and effective financial management. The College also has a Governing Body, responsible for securing the efficient and effective management of College activities and property.

5.7.5 Since the College's formation on 1 August 2007 it has experienced a number of challenges, including:

a. A number of changes within senior posts, with three different Chairs of the Governing Body and four different Directors to date. At present the posts of the Deputy Director of Business Services and the Head of Finance, who reports directly to the Deputy Director, are vacant although interim post holders have been appointed on a consultancy or agency basis;

b. The College has experienced financial difficulties which led the Department in September 2009 to commission consultants to carry out an Efficiency Review[25] of the College. The financial difficulties that concerned the Department included:

- there was lack of clarity over the precise financial position of the College;
- the College's financial forecasts had been significantly revised on a number of occasions;
- the financial forecasts provided showed significant projected deficits for the current and future years; and
- the College's internal auditors could not provide the necessary level of assurance over the adequacy and effectiveness of controls within the finance department.

25 An Efficiency Review is undertaken in accordance with Article 18 of the Further Education (Northern Ireland) Order 1997 - "The Department may arrange for the carrying out (whether as part of an inspection under Article 102 of the 1986 Order or otherwise) by any person of studies designed to improve economy, efficiency and effectiveness in the management or operation of an institution of further education."

c. The two legacy colleges merged their accounting systems but the implementation of the new system created a number of significant problems in producing reliable financial information. For example, the College had not produced any management accounts for the year ended 31 July 2009 until 18 December 2008 and for a time during 2007-08, the balance on the College's bank statements could not be properly reconciled; and

d. The College changed bankers leading to problems when third parties lodged money into the wrong bank account, creating difficulties for BMC in accessing these funds.

Efficiency Review

5.7.6 The Efficiency Review was completed in April 2009 and its findings included:

a. weaknesses in the performance of the senior management team;

b. a significant number of weaknesses in financial controls due to a weak control environment. Problems included: a new financial system that was inadequately tested; delays in processing and recognising purchase invoices; bank accounts not reconciled; delays in recovering debtors; and a lack of proper control over staff costs;

c. concerns over the College's ability to achieve a balanced budget in 2008-09, the College having incurred a deficit of £6.2 million in 2007-08;

d. poor management information including a lack of clear processes for handling key student information and a complex reporting system that was not user-friendly;

e. there was little synergy, within strategic planning, between corporate planning, curriculum, estate and financial planning, and there was no comprehensive estates strategy; and

f. delays in implementing audit recommendations;

5.7.7 In the Memorandum of Response to a Public Accounts Committee report on financial management in the further education sector in Northern Ireland[26] the Department told the Committee that it was working with the Governing Body and senior management to compile and implement a college improvement plan by December 2009 to address the findings of the Efficiency Review. The plan would establish a revised strategic and financial plan setting out the actions required to stabilise the College's position, and appropriate targets and performance indicators against which processes can be assessed. The College appointed consultants in January 2010 to assist them in producing the College Improvement Plan.

5.7.8 I note that the Efficiency Review regarded "the early appointment of a permanent Director for BMC as critical to its future

26 Department of Finance and Personnel Memorandum on the Twelfth and Thirteenth Reports from the Public Accounts Committee, Session 2008-09, dated 16 September 2009.

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success". This post was subsequently filled in November 2009. However the Efficiency Review also referred to skills gaps within the finance function, and concluded that the capacity constraints in that department "must be addressed immediately". I am concerned that positions which are key for the financial management of the College are currently vacant:

- The Deputy Director of Business Services had been absent from 3 June 2009 and subsequently left the employment of Belfast Metropolitan College on 31 October 2009. However one of the consultants from the team referred to in paragraph 5.7.7 above has undertaken this role since 4 January 2010.
- The Head of Finance post has been vacant since 30 September 2009. However since that date this role has been undertaken on an interim basis by a temporary member of staff.

5.7.9 I am concerned in light of the issues that the College faces that key financial positions are being conducted through interim short term appointments and would urge the College to address this as a matter of urgency.

Issues with the timeliness and quality of financial statements presented for audit

5.7.10 I received a copy of the College's draft financial statements in October 2008 and conducted a preliminary review to ensure they were of sufficient quality to allow audit work to commence. I noted a number of significant errors and omissions within the draft financial statements originally presented to me for audit. Although some of the delay was caused in accounting for the Public Private Partnership (PPP) at the Millfield campus, most of the delay was due to the poor quality of the draft financial statements and the subsequent delay in bringing the financial statements up to a standard expected of a public body.

5.7.11 The poor quality of the draft financial statements presented to me for audit, the number of drafts required to eventually bring them up to an acceptable quality over a significant period of time, and the significant control problems noted in paragraphs 5.7.5 and 5.7.6 above, were unacceptable. However the College was subsequently able to present me with a reasonable set of financial statements and I obtained sufficient appropriate audit evidence to enable me to form an opinion on them.

Qualification arising from irregular expenditure incurred in respect of advisory fees on a Public Private Partnership project

5.7.12 In 2001, the Department authorised one of the legacy further education colleges[27] which now forms part of the BMC to initiate a procurement process to replace two of its city centre buildings with a single building based at the Titanic Quarter. This project was to be procured as a PPP.

27 The former legacy College undertaking this procurement was Belfast Institute of Further and Higher Education (BIFHE). Castlereagh College, the other legacy College, which merged with BIFHE in August 2007 to form BMC, was not involved in this procurement.

5.7.13 A team of technical, legal and financial advisors was required to assist with this large scale procurement exercise. In January 2002, in accordance with the delegated limits for approval of expenditure, the legacy College's sponsor department sought Department of Finance and Personnel (DFP) approval to appoint advisors. DFP approved expenditure up to a limit of £600,000.

5.7.14 The procurement process was managed by the Procurement Service (now known as the Central Procurement Directorate, CPD). The contract for the appointment of the consultancy advisors was awarded in December 2002 on a fixed price basis. The accepted bid was for 340 consultancy days at a cost of £300,000 (excluding VAT). This cost included any overrun risk where the management of that risk was considered to be within the contractor's control, that is, the bid of £300,000 covered the cost of any overrun which could be directly controlled by the contractor. The Department agreed to reimburse the legacy College 90 per cent of the expenditure incurred.

5.7.15 At the time of the appointment, the advisory team's tender proposals envisaged that their services would be provided over a thirteen month period. However once the PPP procurement project was underway, a series of issues led to delays and variations to the PPP contract. Additional time was incurred by the advisory team which they considered to be outside of their control, leading to additional costs over and above the original PPP consultancy contract. Issues included:

- uncertainty surrounding the College's potential involvement in the Springvale Campus and the ramifications this might have had on the College's wider estate strategy;
- prevailing economic conditions led to funding terms from the Bidder's intended financier being revised twice within five months, which then led to the Bidder seeking to renegotiate its charge to BMC;
- the Bidder experienced funding constraints which then led to further delays and additional work whilst another financier was found;
- the materialisation of a planning requirement leading to the need for a new design solution for car parking, which involved negotiations on funding between December 2006 and June 2008;
- delay in the receipt of planning permission; and
- the proposal to build the campus at Titanic Quarter led to protracted negotiations with a number of bodies to secure the lease for the land.

5.7.16 As a result of these changes, the PPP procurement phase was not completed by the advisory team until April 2009, over five years after the date envisaged at the time of the appointment of the

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advisors. The advisory team submitted a schedule reflecting proposed charges to BMC for 2,247 consultancy days at a cost of £2,152,898 (excluding VAT), an increase of £1,852,898 and over seven times higher than the original agreed price. I have been unable to confirm the £2.2 million proposed charge, since the College could not provide me with a copy of the original schedule of costs to be billed.

5.7.17 BMC conducted a review of the costs billed and negotiated a reduction of £652,898 in the invoiced costs to £1,500,000 (excluding VAT) provided that the financial close date for the PPP procurement was no later than 15 January 2009. The PPP advisors subsequently agreed to extend this deadline to 31 March 2009, however, the financial close was only agreed in December 2009. As a result the PPP advisors quoted £110,250 (excluding VAT) for additional work conducted between 1 April and 3 April 2009. BMC settled fees of £30,070 (excluding VAT) for this additional work. Although most of the reduction from the quotation was due to the work being significantly less than envisaged, a small element was achieved through negotiation. Since BMC can only reclaim two per cent of VAT incurred, the total PPP consultancy cost to the College was actually £1,776,063. BMC told me that of this amount £372,499, incurred before 2007-08, was expensed by the legacy college pre-merger and £896,489 was accounted for by BMC in 2007-08 as consultancy expenditure. With £1,268,988 incurred by 2007-08, the balance of £507,075 will be accounted for within the College's 2008-09 accounts.

5.7.18 The College's review of costs noted above was conducted to verify the validity of the total hours claimed and the fee rates applied, and the Department, CPD and the Strategic Investment Board were consulted as part of this exercise. This process was endorsed by the Department which acknowledged the obligation of BMC to pay the advisory team for all services legitimately delivered in support of the PPP procurement activity. The College told me that the reasons for the large reduction in costs originally invoiced by the consultants (see paragraph 5.7.17 above) were mainly as a result of a review and benchmarking of the claim with other standards. The benchmarking conducted consisted of:

- a benchmark comparison with a standard fee, used for client advisers, in the Programme for Schools (PfS) . In this programme, a figure of three per cent of the capital value of a project was used for business cases. The PfS business cases did differ significantly from the College's circumstances in that the BMC procurement process clearly took longer to close than envisaged by either the College or the advisors; and

- a local benchmark comparison with the Belfast Education and Library Board (BELB) schools project. During the College's project, a number of policy and client alterations occurred which modified the work required and hence its cost. The BELB project also had a number of complexities which needed to be accounted for. This benchmarking guided the College towards a consultancy charge of £1.5 million, so long as it was fully supported by verifiable documentation.

5.7.19 I am concerned that a large contract overrun was incurred. I refer to a Public Accounts Committee 'Report on the Use of Consultants'[28] where the committee makes reference to such a circumstance when it said:

'Frequent and large-scale increases in contract costs raise doubts about the standard of project appraisal, management and control; are often non-competitive in nature; and can hinder the achievement of value for money.'

5.7.20 In December 2008 BMC submitted an explanation for the cost overrun to the Department. In March 2009 the Department then wrote to DFP seeking retrospective approval for an uplift in the advisory fees from the original limit of £600,000, approved in January 2002, to £1,500,000 (an increase of £900,000) more than double the approved limit.

5.7.21 In its reply, DFP noted that retrospective approval could only be granted in line with the rules contained in 'Managing Public Money Northern Ireland'[29] which required two conditions to be satisfied:

- DFP had been approached properly in the first place; and
- the Department was taking steps to ensure there was no reoccurrence.

5.7.22 DFP recognised that the Minister for the Department had asked for a paper to be prepared on the lessons learned from this experience and that the Department had partly satisfied the second condition. However, DFP refused the Department's request as it did not consider that the first condition had been satisfied since a revised business case had not been submitted to support the approval request for the additional consultancy costs.

5.7.23 In April 2009 the Department notified BMC that DFP had declined to grant retrospective approval for the uplift in PPP procurement advisory fees. The Department acknowledged the obligation of the College to pay the advisory team for all services legitimately delivered in support of the PPP procurement activity and confirmed that it would uphold the agreement with the legacy College to reimburse 90 per cent of the advisory fees incurred.

Conclusion

5.7.24 As part of my audit of BMC's financial statements, I am required to satisfy myself, in all material respects, that the expenditure and income shown in BMC's accounts have been applied to the purposes intended by the NI Assembly and that the financial transactions conform to the authorities[30] which govern them, that is, that they are "regular". Since DFP approval had only been received for consultancy costs of £600,000 but £1,268,988 of costs had been incurred

28 Report: 16/07/08R Public Accounts Committee
29 Managing Public Money Northern Ireland issued by DFP is the authoritative guide to the principles for dealing with resources used by public sector organisations in Northern Ireland.
30 Authorities include the legislation authorising the expenditure, the regulations issued to comply with that legislation, Assembly or Parliamentary authority, and DFP authority.

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up to 31 July 2008, £668,988 is irregular. I have therefore decided to qualify my audit opinion on the regularity of this expenditure.

5.7.25 The project governance arrangements required the appointed advisory team to report through the legacy College's Project Team to the PPP Project Board, made up of members of the legacy College's Board of Governors, the legacy College's Senior Management and representatives from the Department. While it became apparent that additional work was required, the extent of this work proved difficult to quantify and the financial, propriety and accountability implications were therefore not adequately controlled. The College told the Department that it only became aware of the possibility of additional consultancy costs in 2007. It is difficult to accept however that the Project Board could not have predicted, given the delays, that additional costs would be incurred and had not sought to manage these costs in advance of that date. This breakdown in controls has not only led to the legacy College incurring irregular expenditure, but also the Department, through its funding of the College[31]. Although BMC did achieve a level of abatement in the additional costs, the lack of contract management control during the legacy period of the project, makes it difficult to assess whether value for money has been obtained in terms of the consultancy costs incurred.

5.7.26 Neither the Department nor BMC have been able to provide me with reliable evidence of whether or not DFP's approved limit for these costs was effectively communicated to the legacy College at the time. However both the Department, (at Principal grade) and the legacy College were represented on the Project Board so it is surprising that there appears to have been no awareness of the approval limit, no monitoring against it, and no action taken before the limit was breached.

5.7.27 I asked the Department and the College to explain how the failure to obtain approval for this additional expenditure had arisen and what lessons had been learnt. The Department and BMC told me that the procurement had been complex in nature for the reasons outlined at paragraph 5.7.15 above. As a result, the original timescale, which had envisaged the completion of the project within 16 months, was found to be unrealistic in light of the significant delays which arose as a result of the complexities of the project. As a result, during this prolonged procurement process, a significant amount of additional work was required which increased advisory fees in excess of the levels agreed within the contract and those approved by DFP. There were insufficient financial monitoring mechanisms and controls in place and so the increases in professional fees were not identified in advance of the limits being exceeded. As a result, the legacy Colleges and DEL did not seek approval for increased costs as they were unaware of the magnitude of the additional costs accrued. The Department has commissioned an independent internal review of the issues

31 The Department for Employment and Learning's 2008-09 resource accounts were also qualified for funding the College's irregular expenditure and similar irregular expenditure incurred by another College.

which will highlight and report upon the weaknesses in the control systems and make recommendations for future Private Finance Initiative procurement.

5.7.28 I reported on 30 November 2009 on a similar issue in the 2007-08 financial statements of South Eastern Regional College (SERC), again on PPP consultancy costs. I note that the same team of technical, legal and financial advisors were appointed by SERC following a separate procurement process. Significant, additional costs were also incurred by SERC over and above the contract value without having received DFP prior approval.

5.7.29 Legal advisors assisting SERC with its review of increased consultancy costs relating to its PPP project noted that the contract required either the Department or the advisory team to request any variation in the contract and agree the associated pricing implications. Similar conditions applied to the contract for consultancy costs with BMC's legacy College but it appears not to have agreed the associated pricing implications to contract variations. This placed the public sector in a weak position legally since the Department and the legacy College knew that additional tasks were being conducted, upon which additional costs were likely to be incurred, and allowed them to continue.

5.7.30 I asked the Department why the terms for contract variations were not followed. The Department told me that the consortium providing professional procurement advice was asked on numerous occasions to quantify the additional costs but failed to do so in a timely manner. On assuming responsibility for the project in August 2007 the only sanction available to BMC would have been to stand the consultants down. It was considered that this course of action would not be practicable, however, as to have done so could have led to the abandonment of the process losing all the time, resources and funding that had been expended to date, leaving the College with an urgent need that would have had to be addressed by appointing additional professional advisors and would have risked a claim from the Bidder for recovery of its bidding costs.

5.7.31 As noted in paragraph 5.7.17 above, further irregular expenditure on these PPP consultancy costs of £507,075 will be accounted for in the 2008-09 accounts. I will consider the impact of this on my audit opinion on the 2008-09 accounts, when my audit of these accounts is finalised later this year. In addition, I will continue to monitor the progress of the College in implementing the College Improvement Plan which addresses the recommendations of the Efficiency Review. As part of this, I will monitor the progress made in seeking to achieve the financial stability of the College. I will also continue to monitor the Titanic Quarter capital project and may, if appropriate, report on any further matters of importance.

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5.8 South Eastern Regional College 2007-08

Qualification arising from irregular expenditure incurred in respect of advisory fees on a Public Private Partnership project

5.8.1 The South Eastern Regional College (SERC) was formed on 1 August 2007 from the merger of three Further Education Colleges. Prior to this in 2003 two of the legacy Colleges[32] undertook a single procurement approach for the delivery of two capital investment projects with a total capital value of £58.4 million for the development of 4 new college campuses, at Downpatrick, Ballynahinch, Lisburn and Newcastle. This combined project was procured as a Public Private Partnership (PPP).

5.8.2 In May 2003 the two legacy Colleges jointly appointed a team of technical, legal and financial advisors for this large scale procurement exercise. In accordance with the delegated limits for approval of expenditure, the legacy Colleges' sponsor department, the Department for Employment and Learning (the Department) sought Department of Finance and Personnel (DFP) approval for the legacy Colleges to appoint the advisors. DFP approved expenditure up to a limit but not exceeding £400,000.

5.8.3 The procurement process was managed by the Government Purchasing Agency (now known as the Central Procurement Directorate). The contract for the appointment of the consultancy advisors was awarded in December 2003 on a fixed price basis. The accepted bid was for 394.5 consultancy days at a cost of £357,508 (excluding VAT). This cost included any overrun risk where the management of that risk was considered to be within the contractor's control. The Department agreed to reimburse the legacy Colleges 90 per cent of the expenditure incurred.

5.8.4 At the time of the appointment, the advisory team's tender proposal envisaged that the procurement phase of the PPP project would be completed within sixteen months, by April 2005. However the PPP procurement project, once it was underway, was subject to a series of issues that led to delays and variations to the PPP contract. Additional time was incurred by the advisory team which they considered to be outside of their control, leading to additional costs over and above the original PPP consultancy contract. Issues included:

- one of the bidders experienced financial difficulties and was taken over by another company leading to a new pre-qualification submission;
- the Lisburn development was originally to be built over two sites but the unexpected availability of adjacent land led to a more favourable solution becoming available that required assessment by the advisory team;
- the imposition of planning conditions at the Lisburn site led to the need for a new design solution;

32 The two former colleges undertaking this procurement were East Down Institute of Further and Higher Education and Lisburn Institute of Further and Higher Education. North Down and Ards Institute of Further and Higher Education, the other legacy college, was not involved in this procurement.

- new statutory sustainability requirements were introduced during the procurement phase requiring elements of the buildings to be redesigned; and

- car parking numbers at the Downpatrick campus were underestimated, leading to a redesign to accommodate the greater need and any impact on planning conditions.

5.8.5 As a result of these changes, the PPP procurement phase was not completed by the advisory team until April 2008, three years after the date envisaged at the time of the appointment of the advisors. The advisory team submitted an invoice to SERC in January 2008, six months after the college was formed, for 1,155 consultancy days at a cost of £1,325,436 (excluding VAT), an increase of £967,928, almost three times higher than the agreed time and bid price. SERC conducted a due diligence review of the costs billed. This led to 206 consultancy days being omitted and a reduction in the invoiced costs of £282,529 to £1,042,907 (excluding VAT). As SERC can only reclaim two per cent of VAT incurred, the total PPP consultancy cost is actually £1,204,539. SERC told me that £382,785 of this amount was expensed by the legacy colleges pre-merger when no extension to the PPP consultancy contract had been agreed. The balance of £821,754 was accounted for by SERC in 2007-08 as part of the cost of buildings under construction. SERC advised me that £601,232 of the £934,358 buildings under construction costs were incurred pre-merger, but not accounted for by the legacy Colleges at that time.

5.8.6 The due diligence process noted above was conducted to verify the validity of the total hours claimed and the fee rates applied. This process was endorsed by the Department which acknowledged the obligation of SERC to pay the advisory team for all services legitimately delivered in support of the PPP procurement activity. SERC experienced difficulties in obtaining relevant supporting evidence. As a result the process took one year to complete. The £282,529 reduction in the advisory team's fee was mainly due to a reduction in project management costs when SERC challenged the reasonableness of claiming for the numbers of consultants attending meetings, SERC's liability for certain tasks billed and the applicability of certain fee rates.

5.8.7 I am concerned that a large contract overrun was incurred. I refer to a July 2008 Public Accounts Committee 'Report on the Use of Consultants'[33] where the Committee make reference to such a circumstance when it said:

'Frequent and large-scale increases in contract costs raise doubts about the standard of project appraisal, management and control; are often non-competitive in nature; and can hinder the achievement of value for money.

5.8.8 In February 2009 SERC submitted a revised business case to the Department for the advisory fees overrun. In March

33 Report: 16/07/08R Public Accounts Committee

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2009 the Department wrote to DFP seeking retrospective approval for an uplift in the advisory fees for the College PPP project from the original limit of £400,000 approved in May 2003 to £1,347,000 (an increase of £947,000). This request was made using the best estimates available at the time.

5.8.9 In its reply, DFP noted that retrospective approval could only be granted in line with the rules contained in 'Managing Public Money Northern Ireland' (MPMNI)[34]. MPMNI states that 'where resource consumption of expenditure is irregular, DFP may be prepared to give retrospective approval if it is satisfied that:

- it would have granted approval had it been approached properly in the first place; and
- the Department is taking steps to ensure there is no reoccurrence.

5.8.10 DFP recognised that the Minister for the Department had asked for a paper to be prepared on the lessons learned from this experience and that the Department had partly satisfied the second condition. However, DFP refused the Department's request as a revised business case had not been submitted to support the approval request for the additional consultancy costs.

5.8.11 In April 2009 the Department notified SERC that DFP had declined to grant retrospective approval for the uplift in PPP procurement advisory fees. It acknowledged the obligation of the College to pay the advisory team for all services legitimately delivered in support of the PPP procurement activity and confirmed that it would uphold the agreement with the two legacy Colleges to reimburse 90 per cent of the advisory fees incurred.

Conclusion

5.8.12 As part of my audit of SERC's Annual Accounts, I am required to satisfy myself, in all material respects, that the expenditure and income shown in SERC's accounts have been applied to the purposes intended by the NI Assembly and that the financial transactions conform to the authorities[35] which govern them, that is, that they are "regular". As DFP approval had only been received for consultancy costs of £400,000 and as £1,204,539 in costs had been incurred, the overspend of £804,539 is irregular expenditure. I have therefore decided to qualify my audit opinion on the regularity of this expenditure.

5.8.13 The project governance arrangements required the appointed advisory team to report through the Project Team to the PPP Project Board, made up of members of the legacy Colleges' Board of Governors, the legacy Colleges' Senior Management and representatives from the Department. The Department and SERC have advised me that while it became apparent that additional work was required, the extent of this work proved difficult to quantify and therefore the financial, propriety and accountability implications were not adequately controlled. This breakdown

34 Managing Public Money Northern Ireland issued by DFP is the authoritative guide to the principles for dealing with resources used by public sector organisations in Northern Ireland.

35 Authorities include the legislation authorising the expenditure, the regulations issued to comply with that legislation, Parliamentary authority and DFP authority.

in controls has not only led to SERC incurring irregular expenditure but also the Department, through its funding of it[36]. Although SERC did achieve a level of abatement in the additional costs, the lack of contract management control, particularly during the legacy period of the project, makes it difficult to assess whether value for money has been obtained in terms of the consultancy costs incurred.

5.8.14 I asked the Department and SERC to explain how the failure to obtain approval for this expenditure had arisen and what lessons had been learnt. They told me that the procurement had been complex and subject to significant delays which meant that the envisaged timescale of sixteen months for the project extended to five years. Given the complexities of the project it would not have been practicable to change advisers during the procurement. Unfortunately during this long procurement advisory fees were not monitored against approvals and hence the legacy Colleges, SERC and the Department did not seek approval for increased costs. As part of a "lessons learned" exercise in respect of this procurement SERC and the Department will be taking steps to ensure no reoccurrence of this oversight.

5.8.15 The legal advisors assisting SERC as part of the due diligence process noted that the contract required either the Department or the legacy Colleges' advisory team to request any variation in the contract and agree the associated pricing implications. They noted that as far as they were aware this did not happen. This placed the public sector in a weak position legally as the Department, the legacy Colleges and SERC knew that such additional costs were being performed and allowed them to continue. I asked the Department why the variation in contract terms and conditions were not followed. The Department told me that, while the legal advisors were correct in stating that the contract said "either the Department or the legacy Colleges' advisory team should request variations", it should be noted that the contract was an off-the-shelf Government Purchasing Agency contract that was used between the advisory team and the legacy Colleges, and in this case the references to 'the Department' in the contract should be taken to be 'the College'. As the Department was not a signatory to the contract they had no authority to make any such requests. The Department also said that the advisory team was asked on numerous occasions to quantify these additional costs but failed to do so properly. On assuming responsibility for the project in August 2007 the only sanction available to SERC would have been to stand the consultants down but this was considered not to have been practicable. The Department noted that to have done so could have led to the abandonment of the process losing all the time, resources and funding that had been expended to date, leaving SERC with an urgent need that would still have to be addressed and risked a claim from the bidder for recovery of its bidding costs.

36 DELs 2008-09 resource accounts were also qualified for funding the College's irregular expenditure and similar irregular expenditure incurred by another College.

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6.1 Investigation of suspected fraud on Grant Funding for the Installation of Renewable Energy Boilers

6.1.1 The Department of Enterprise, Trade and Investment (DETI) paid an Interreg IIIA grant to Craigavon Borough Council (CBC), as lead project partner, for the installation of renewable energy boilers in CBC's area and throughout the Interreg region of Ireland. CBC, in turn, recompensed the six partner organisations involved in the installations. DETI offered funding up to €382,500 in 2004 for the project. The installation of the boilers was largely completed between 2004 and 2005.

6.1.2 DETI and CBC are investigating suspected fraud in tenders for the installation of the boilers. This suspicion arose following checks by funders. The value of public funds at risk is estimated by DETI as €306,842. The sterling value will depend on the exchange rate and is currently estimated to be between £210,000 and £230,000. CBC has notified the police of the suspected fraud.

6.1.3 DETI is currently considering alleged breaches of its Letter of Offer and scope to recover the funds at risk.

6.1.4 I will keep the progress of this investigation under close review and intend to report on it at a later date.

6.2 Governance arrangements for the administration of the Social Housing Development Programme

6.2.1 One of the three key objectives for the Department for Social Development (DSD) is 'to promote measurable improvements to housing in Northern Ireland'. In 2009-10 the Department incurred expenditure of £155million (2008-09: £128million) on the Social Housing Development Programme (SHDP) and in doing so provided 1,838 (2008-09: 1,136) new social houses in Northern Ireland.

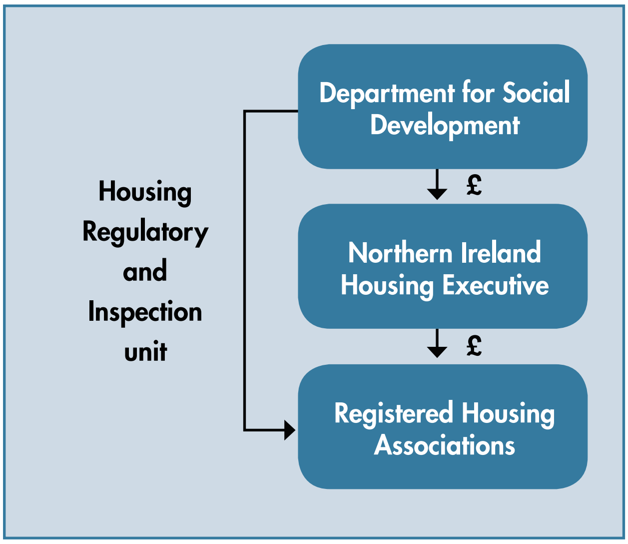
6.2.2 The SHDP is delivered primarily through grant funding to the Northern Ireland Housing Executive (the Housing Executive), a Non Departmental Public Body (NDPB) of DSD, which is responsible under legislation for the administration of grants to registered housing associations for new social housing schemes. Prior to 1 April 2007 DSD was responsible for paying grants directly to housing associations.

6.2.3 DSD is responsible for housing policy formulation and for housing association registration and inspection. Its Housing Association Guide sets out the standards and procedures that housing associations are expected to comply with. DSD has a dedicated Housing Regulatory and Inspection Unit (the Inspection Unit) which undertakes inspections of housing associations, focusing particularly on ensuring compliance with the housing association guide. Following consultation with housing associations each inspection culminates in an Inspection Report. In addition, DSD has primary responsibility for monitoring the activities and performance of the Housing Executive.

6.2.4 The Housing Executive's role is to manage and administer the SHDP. In doing so the Housing Executive has responsibility for approving and subsequently paying grant in respect of housing association social housing schemes, ensuring that all schemes adhere to DSD's housing association guide standards.

6.2.5 Housing associations are responsible for identifying sites suitable for social housing; the planning and development of scheme proposals and their subsequent construction and project management to meet SHDP targets while achieving best value for money. Housing associations are required to comply with guidance issued by DSD, and other authorities[37].

6.2.6 The resulting governing structure is as follows:-



6.2.7 In the General Report for 2007-08 the C&AG reported on DSD's Inspection Unit. We have followed up that work and considered the relationships and governance arrangements between DSD, the Housing Executive and housing associations, specifically in relation to the SHDP. Our work was also prompted by receipt of some whistleblower allegations made to the C&AG relating to housing associations.

6.2.8 The scope of this report is limited to the views expressed and evidence obtained from DSD and the Housing Executive.

DSD's oversight of the Housing Executive

Regulation and Framework

6.2.9 On 1 April 2007, the Housing (Amendment) (Northern Ireland) Order 2006 transferred the administrative arrangements for the payment of grant to housing associations from DSD to the Housing Executive. To coincide with this transfer new controls and arrangements between DSD and Housing Executive were introduced:-

- An Operating Level Agreement (OLA) setting out the processing requirements for the management of the SHDP; and
- A control document specifying procedures, policies and guidelines, regarding the SHDP, within DSD's Management Statement; Financial Memorandum; Dossier of Controls with the Housing Executive.

37 Housing order NI 1992 and the amended order dated 2006 (and determinants), Industrial and Provident societies act (NI) 1969 (and determinants), Housing Association Guide, DSD framework, DSD criteria for registration and model rules, DSD Inspections, additional guidance issued by DSD, registration with Companies House and Charities Commission, compliance with SORP and guidance issued by the Northern Ireland Federation of Housing Associations (NIFHA)

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6.2.10 We note that the Dossier of Controls states that the Housing Executive and DSD will carry out a formal review of the SHDP control document on a yearly basis. The SHDP control document has not been reviewed since it was introduced in 2007. We understand that a review is currently underway. ***We recommend that a formal review of the SHDP control document within the Management Statement; Financial Memorandum; Dossier of Controls is undertaken annually.***

Oversight monitoring

6.2.11 At a high level DSD oversees the Housing Executive largely through monthly liaison meetings, and review of the Housing Executive's risk register, quarterly assurance statements and annual Statement on Internal Control. Senior officials from both DSD and Housing Executive also meet with the Minister on a bi-annual basis. Since January 2010 a senior DSD representative attends Housing Executive Audit Committee meetings as an observer. Minutes of the Housing Executive Audit Committee meetings are tabled at DSD's Audit Committee.

6.2.12 We note that DSD's Inspection Unit's reports are not considered at either Housing Executive or DSD Audit Committee meetings. ***We recommend that all reports produced by the Inspection Unit are summarised by the Housing Division, and the summary provided to the Housing Executive and presented to its Audit Committee. A summary report should also be presented to the DSD Audit Committee.***

6.2.13 The C&AG's report on good governance between Departments and their NDPBs published in 2007 stated 'Departments and sponsored bodies should identify and evaluate shared risks and how these should be managed, and define their risk appetite'.

6.2.14 There are high level strategic monthly meetings between senior officials of DSD and the Housing Executive. There are also operational meetings to identify SHDP emerging issues. Minutes of these meetings are not retained.

6.2.15 ***We recommend that a formal process is put in place to enable DSD and the Housing Executive to identify shared risks and agree appropriate responses to risks. This could be achieved by introducing regular minuted accountability meetings at operational level.***

Operational monitoring

6.2.16 DSD's Management Statement; Financial Memorandum; Dossier of Controls with the Housing Executive sets out the controls to be exercised by DSD in respect of monitoring the Housing Executive at an operational level. This document states that DSD will require access to all documentation to 'assess adherence to the housing association guide and ensure full compliance with the requirements of the control document'.

6.2.17 The Management Statement further advises that DSD should, from an oversight perspective, periodically complete a risk assessment of the Housing Executive's activities taking into account a range of factors including public monies at stake, the Housing Executive's corporate governance arrangements and its financial performance. DSD reviews Housing Executive risk registers at both corporate and divisional level but there appears to be no formal consideration of the Housing Executive's corporate governance arrangements and financial performance in DSD's assessment of risk pertaining to Housing Executive administration of the SHDP. ***We recommend that DSD enhances its risk assessment procedures in respect of the oversight of the Housing Executive to comply with Management Statement requirements in full.***

6.2.18 DSD guidance (the housing association guide) outlines internal controls and procedures for grant approval and payment of housing association grants. However there is no overarching review by DSD of the Housing Executive's application of these controls and procedures in relation to housing association guide requirements. It is therefore unclear how DSD obtains assurance over the controls applied by the Housing Executive in respect of payment of these grants. ***We recommend that DSD reviews the Housing Executive's processes for administering the SHDP to ensure compliance with the housing association guide and that the arrangements for formally reporting assurances are appropriate.***

6.2.19 We understand that DSD may indirectly monitor the Housing Executive's compliance with the housing association guide when carrying out a review of SHDP application forms during inspections. We understand that in reviewing individual schemes the role of the Housing Executive does come under scrutiny. For this to be of real value we would emphasise the need to document the outcomes and conclusions.

6.2.20 DSD's Internal Audit unit has completed a review of the procedures in place between DSD and the Housing Executive which included ensuring that the monitoring arrangements in place over the SHDP are adequate and operating effectively. The Internal Audit report concluded there was satisfactory assurance in relation to the areas reviewed, however it made several recommendations aimed at enhancing the level of control, including:-

- The Housing Executive to provide DSD with details of schemes which have been started throughout the year including those that have been carried forward;

- DSD should put in place arrangements to facilitate regular formal meetings with the Housing Executive to discuss the progress of the SHDP;

- Performance against agreed targets should be monitored on a regular basis and a quarterly report on performance produced;

- DSD should cross reference departmental and Housing Executive

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databases to ensure the Housing Executive has referred all necessary schemes for examination; and

- DSD should ensure that the transfer of funds to the Housing Executive are authorised within the correct delegated limits.

6.2.21 We have profiled the Housing Executive's annual expenditure on the SHDP for the last three years and are concerned at the high proportion of spend in the last month of each financial year. This is illustrated in the table below:-

6.2.22 This issue was previously highlighted in our report to the Housing Executive on the results of its 2007-08 audit. The situation has not improved since then. DSD has told us that it has considered this issue many times, but given that the programme is managed on an annual basis means that delivery is significantly impacted by the various necessary approvals required for each scheme. ***We recommend that DSD in conjunction with the Housing Executive considers what practical measures could be introduced to ensure a more consistent spread of funding disbursement.***

6.2.23 We understand that in most cases a significant proportion of the overall approved funding for a SHDP scheme is paid to housing associations at the 'start on site' phase of the scheme before any or little construction work has commenced. The Housing Executive records the number of proposed houses in a project as 'new starts' at that time. For example, following DSD approval, the Housing Executive recently paid approximately £6m, in addition to land purchase costs of £10m, to fund the development of 166 units at the former Bass Brewery site in Belfast. This was paid out before any construction work began and amounted to approximately 90 per cent of the overall agreed SHDP funding. The units are not expected to be completed until 2012. This expenditure is accounted for in DSD's 2009-10 accounts, yet in effect, there is no matched delivery of housing units. DSD may be unduly exposed to risk in respect of advance funding of SHDP schemes. It has advised us that the rationale for front loading tranche payments is to avoid associations having to borrow "working capital" at too early a stage of the development which would be at much higher interest rates than mortgage rates. DSD considers risk is significantly addressed by the fact that it

Period	Housing association grant expenditure made during the year (£m)	Housing association grant expenditure made in the month of March (£m)	Percentage of expenditure in the month of March in comparison to total payments
2007-08	172	59	34%
2008-09	143	30	21%
2009-10	155	65	42%

has a legal hold on the land and all of the housing association stock with a housing association guide element, therefore in the event of a worst case scenario DSD would have a reasonable expectation of getting its funding back.

Review of governance arrangements by DSD

6.2.24 DSD, assisted by DFP, recently undertook a review of the process of its sponsorship of the Housing Executive to assist the departmental Accounting Officer by providing an evaluated opinion to him on DSD's sponsorship arrangements and the relationships with the Housing Executive. The review found that DSD's sponsorship arrangements and its relationship with the Housing Executive is satisfactory, but may benefit from some improvements being made. The review contained 14 recommendations aimed at enhancing those arrangements.

Communication

6.2.25 There are practices in place around the management and oversight of housing associations between DSD and the Housing Executive, including quarterly meetings and regular discussions, however there are currently no formal agreed procedures. In our opinion the lines of communication including the roles and responsibilities are not clearly defined. In our view this issue needs to be addressed. ***To improve communication between DSD and the Housing Executive we recommend the following practices are formalised in writing:-***

- ***Communication protocols should be agreed;***
- ***Housing Executive to provide DSD with a summary report of any concerns prior to an inspection; and***
- ***Regular progress reports on the inspection programme to be provided to the Housing Executive.***

DSD oversight of Housing Associations Framework

6.2.26 DSD's housing association guide contains the rules and procedures that housing associations must comply with in order to meet the conditions for approval and receipt of housing association grant from the Housing Executive. The guide is currently undergoing a fundamental review. New procedures in relation to Finance and Governance are in effect from 1 April 2010. Following a recommendation in the C&AG's 2007-08 General Report (reference NIA 115/08/09) a deadline of March 2010 for completion of the housing association guide review was agreed. DSD has advised that one of the reasons the guide was not completed on time was due to legal changes in procurement law which is still being updating. Chapter four of the guide deals with Procurement and it has evolved significantly in recent months. DSD felt it best to capture these as part of a new procurement strategy in updating the guide. The original timeline for the guide has been amended to reflect the extent of the work necessary to complete issues not previously included. The

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ongoing review of the housing association guide will provide consistent guidance and clarification for housing associations.

Inspection unit monitoring

6.2.27 The Inspection Unit undertakes on-site inspections of housing associations in compliance with DSD's established Regulatory Framework. The first full round of inspections (initiated in August 2005) have only recently been completed. A new round of inspections has commenced but as yet none have been finalised. The Inspection Unit has had difficulty in the past completing inspections on a timely basis and we commented on this in the C&AG's 2007-08 General Report. The Inspection Unit has now moved to a three year inspection cycle.

6.2.28 The inspection process culminates in an overall rating for the housing association based on DSD's review and assessment of the four key business areas: finance, corporate governance, property development and property management. An overall 'unacceptable' rating is applied if two or more of these areas are individually classified as such. DSD has advised us that unacceptable performing associations are subject to ongoing monitoring via an agreed Action Plan. In addition a follow-up inspection is scheduled for between 6 and 12 months from the issue of the final report. This level of scrutiny will continue until the association achieves acceptable performance. In view of the extra resources required for this approach, DSD has developed a 'lighter touch' inspection for those associations which have had previous acceptable performance. We understand that 'lighter touch' inspections will involve ensuring that controls in place are operating effectively. In our view if this leads to more frequent reviews for those housing associations assessed as high risk, this will improve the effectiveness of the process and ensure that irregularities are picked up on a timely basis.

6.2.29 We understand that DSD is currently drafting a 'lessons learned' report following the first round of the inspections. The publication of this report will provide guidance to housing associations.

6.2.30 DSD has advised us what it considers are the options available to housing associations following inspection reviews which have been noted as 'unacceptable', including implementation of an action plan to address the points raised in the inspection, a change in board personnel, management or both, or merger with another organisation. DSD may also consider implementing sanctions or Inquiry in certain areas. We note that the course of action taken varies depending on what DSD considers are serious or fundamental concerns. DSD held a seminar (organised by the Northern Ireland Federation of Housing Associations) in June 2009 where delegates from housing associations were provided with a synopsis of DSD's findings under each of the four inspection areas, including good practice, identifying trends and weaknesses, and action needed to address identified issues. DSD has also provided input into seminars held by the Northern Ireland Federation of Housing

Associations this year. ***We recommend that DSD formally provides housing associations with examples of both good and bad practice identified during the inspection process to better inform them of departmental expectations.***

6.2.31 The Inspection Unit awarded overall 'unacceptable' ratings to 14 (out of 33) housing associations following their first inspection. Examples of findings that contributed to the award of an 'unacceptable' rating included:-

Finance

- Inadequate resourcing of the finance management function. In one instance the Chief Executive was undertaking the finance manager role due to sickness absence;
- Poor arrears management in excess of the limits laid out in DSD guidance. In one instance this totalled 40.7 per cent (approximately £741,000 at 4 February 2009) of annual income vastly exceeding the 5 per cent threshold permitted by Departmental guidance;
- Absence of fixed asset registers; and
- Invoice authorisation and payment procedures not operating correctly.

Governance

- Limited skill sets or diversity of board members with no provision for training;
- Some roles and responsibilities for senior management members not clearly defined;
- No governance or management policies in place. Also where policy was in place this was not complied with;
- Management information is not reported, including no mechanisms for setting targets, budgets, performance indicators, benchmarking or risk management;
- Lack of management challenge mechanism from shareholders as the shareholders and the board members are one in the same;
- Contravention of housing association guide as property funded is not used for the purpose intended without DSD authorisation for change of use; and
- Non compliance with procurement policy.

6.2.32 The table on the next page sets out the overall results for each housing association including ratings for each individual area of business.

6.2.33 All of the housing associations awarded overall 'unacceptable' ratings, as highlighted above, developed action plans to address DSD's concerns. However we note that on several occasions DSD did not consider it appropriate to improve the assurance ratings following this process because

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Housing Association	Area inspected				Overall grading	Total Housing Stock	No. of Housing Starts in 2009/10	Amount of housing association grant funding received in 2009/10 (£)
	Finance	Corporate Governance	Property Development	Property Management				
A	Good	Good	Good	Good	Good	4496	164	11,296,047
B	Acceptable	Acceptable	Good	Good	Good	180	0	0
C	Good	Good	Good	Good	Good	812	13	496,375
D	Exemplary	Good	Acceptable	Exemplary	Good	1877	283	31,112,632
E	Exemplary	Good	Acceptable	Acceptable	Good	417	83	6,028,979
F	Good	Good	Good	Acceptable	Good	368	35	8,196,190
G	Good	Good	Good	Acceptable	Good	145	0	145,047
H	Exemplary	Good	Acceptable	Acceptable	Good	2622	196	14,174,510
I	Acceptable	Acceptable	Acceptable	Acceptable	Acceptable	537	10	569,823
J	Acceptable	Good	Acceptable	Acceptable	Acceptable	821	124	10,750,165
K	Acceptable	Acceptable	Acceptable	Acceptable	Acceptable	4059	217	13,412,740
L	Acceptable	Acceptable	Acceptable	Unacceptable	Acceptable	946	0	0
M	Acceptable	Acceptable	Acceptable	Unacceptable	Acceptable	93	29	2,235,347
N	Acceptable	Acceptable	Acceptable	Unacceptable	Acceptable	354	0	2,883,114
O	Acceptable	Acceptable	Acceptable	Unacceptable	Acceptable	743	52	2,641,698
P	Acceptable	Acceptable	Good	Unacceptable	Acceptable	259	26	1,348,926
Q	Acceptable	Acceptable	Acceptable	Unacceptable	Acceptable	0	0	0
R	Good	Acceptable	Good	Unacceptable	Acceptable	4475	427	39,517,156
S	Acceptable	Acceptable	*	Acceptable	Acceptable	323	0	0
T	Acceptable	Acceptable	Unacceptable	Unacceptable	Unacceptable	1815	79	8,253,619
U	Acceptable	Unacceptable	Unacceptable	Unacceptable	Unacceptable	333	77	45,217
V	Acceptable	Unacceptable	Unacceptable	Unacceptable	Unacceptable	367	10	1,150,348
W	Unacceptable	Unacceptable	Unacceptable	Unacceptable	Unacceptable	473	0	141,135
X	Acceptable	Acceptable	Unacceptable	Unacceptable	Unacceptable	444	0	0
Y	Unacceptable	Unacceptable	*	Unacceptable	Unacceptable	177	1	0
Z	Unacceptable	Unacceptable	Unacceptable	Unacceptable	Unacceptable	341	0	0
AA	Acceptable	Unacceptable	Unacceptable	Unacceptable	Unacceptable	194	11	490,824
AB	Acceptable	Unacceptable	Unacceptable	Unacceptable	Unacceptable	400	1	82,042
AC	Unacceptable	Unacceptable	Unacceptable	Unacceptable	Unacceptable	203	0	389,779
AD	Unacceptable	Unacceptable	*	Unacceptable	Unacceptable	987	0	0
AE	Unacceptable	Unacceptable	*	Unacceptable	Unacceptable	54	0	0
AF	Unacceptable	Unacceptable	*	Unacceptable	Unacceptable	251	0	0
AG	Acceptable	Unacceptable	Unacceptable	Unacceptable	Unacceptable	42	0	0
					Total		**1,838**	**£155m**

*Association has not developed in a number of years so this area could not be tested they were not content with the proposals in the action plan or the housing associations participation in addressing the issues was inadequate. We understand that this has resulted in three housing associations being sanctioned, namely Woodvale & Shankill, Students Housing Association Co-op and Dungannon. In these instances DSD concluded that the housing associations cannot put forward new schemes for housing association grant funding under the SHDP.

6.2.34 Inquiry option is the last course of action available to DSD and will only be initiated when all other options have been exhausted. It involves the appointment of an independent professional to review the body of evidence following the inspection and to determine potential for de-registration. Our previous report on the Inspection Unit highlighted a lack of procedures in place to address the Inquiry requirement. The position remains unchanged; however we acknowledge that DSD has placed this on its governance agenda for 2010. ***Given the significant number of unacceptable associations, we recommend that emphasis is placed on introducing procedures for Inquiry at the earliest opportunity. This should include outlining procedures for de-registering a housing association.***

6.2.35 We note as a result of preliminary findings from the second cycle of inspections, DSD has sanctioned a further three housing associations namely Habinteg, Rural and Ballynafeigh. These housing associations were also deemed unacceptable in the first round of inspections.

6.2.36 DSD adopts a risk based approach for these inspections, drawing on the results of the previous inspections and carrying out pre-inspection risk assessments using a number of indicators.

6.2.37 ***As a risk based approach is used to undertake pre-inspection assessments of housing associations we recommend that DSD publishes annually what it considers are the risks affecting registered housing associations and the registered housing association sector in Northern Ireland.*** This could act as a self-assessment tool for housing associations. We have previously recommended that inspection and composite reports should be made available on DSD's website. DSD is committed to publishing these reports from round two of inspections onwards. In our opinion the publication of these reports would improve considerably the existing awareness of key issues effecting registered housing associations.

6.2.38 We noted from a review of the most recent accounts available for registered housing associations that based on revenue reserves, in the main, housing associations are in a healthy financial position with revenue reserves totalling in the region of £130million, including £22million in respect of the 14 housing associations which were deemed unacceptable, of which revenue reserves ranged from £256,000 to £5.7million. DSD has commented that Northern Ireland housing associations have fixed assets

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totalling £500million and combined loans in excess of £250million and there are many reasons why associations should hold reserves, including to fund major long term maintenance or as a means of managing financial risks.

6.2.39 The updated Governance section of the housing association guide (effective from 1 April 2010) dictates that 'the remuneration of the Chief Executive/ Senior Officer should be openly disclosed in the Association's Annual Report and Financial Statements including pension and other benefits'. Some housing associations have already been providing this information in their Annual Report and accounts. Our review of the most recent accounts also highlighted variations in the levels of remuneration paid to senior members of staff in housing associations.

6.2.40 DSD's Housing Division has responsibility for investigating all allegations of fraud in respect of housing associations. In August 2008, DSD notified us of the closure of the investigation into suspected fraud involving the finance officer within Habinteg Housing Association. The notification advised that the details were passed on to the Police Service of Northern Ireland and DSD concluded that there was no further action to be taken. A further investigation closure notification was received in August 2009 stating that the case had been passed to the Public Prosecution Service to investigate the fraud involving the issuing and cashing of cheques totalling over £26,000. The housing association's bank refunded the loss in full and the Department determined that the case was closed and no further action was required. This case was recently heard at Downpatrick Crown Court, where the former finance officer pleaded guilty to 12 counts of forgery and fraud and was given a two year suspended sentence. We understand that this person was employed by another public sector organisation following her employment with Habinteg Housing Association. Although DSD's notification highlighted that this case was closed, it is important that all cases remain open and active until all appropriate actions are considered, including as in this instance, the criminal prosecution service. DSD advised that the fraud did not involve public money and that progress on all such frauds is monitored by the Monitoring section to the culmination of the case.

6.2.41 The housing association guide states that 'for all Associations with more than 250 units at the start of the financial year the Board should include, with its audited financial statements, a Statement on Internal Control that refers to the annual review of the effectiveness of the Association's internal control systems'. As the table above indicates 24 of the 33 housing associations have housing stock over 250 units and are therefore required to report on the internal control framework. We reviewed accounts for each housing association and noted that six did not record any comments on internal control. This included two housing associations that were deemed unacceptable in the area of finance; therefore there was no indication in the annual report that there may have been financial control concerns. Furthermore the level of detail and disclosure provided by those housing associations who did provide Statements on Internal Control varied. ***We recommend that DSD update its monitoring arrangements to include a review of each housing association's Statement on Internal Control.***

6.2.42 The housing association guide requires that all housing associations have an internal audit function to 'appraise and evaluate compliance with their policies and procedures'. ***We recommend that DSD introduces a requirement for each housing association to provide an annual report from their Internal auditors to DSD and the Housing Executive. This should detail the extent of the internal audit work performed during the year, schemes selected for testing and the findings from the reviews.***

6.2.43 As part of the housing association guide review process DSD asked us for comments on the revised housing association guide prior to implementation. We made a number of recommendations in the housing association guide review process, but several of these comments were rejected by DSD. One of our recommended changes related to the implementation of safeguards to ensure that auditor independence of housing associations is not compromised. We recommended that the housing association guide should make it clear that internal and external audit services to housing associations should not be provided by the same organisation. DSD agrees with the sentiment of our comments, however it highlights that it is not always practical or cost effective to insist on this approach for those smaller associations. DSD therefore places reliance on housing associations demonstrating auditor objectivity and independence. ***DSD should reconsider our comments from the consultation process in the housing association guide review.***

Housing Executive oversight of Housing Associations

Monitoring and assurance

6.2.44 The Housing Executive's Internal Audit unit does not undertake any direct review of housing associations as this is the responsibility of DSD's Inspection Unit. The Housing Executive told us that its responsibility extends only to ensuring that all information received from housing associations in the administration of the SHDP is in compliance with funding controls. We note that the Housing Executive does not and has never undertaken any on-site reviews of housing associations.

6.2.45 Without a defined monitoring role, the Housing Executive does not know if all areas of the housing association guide are being complied with, for example whether architects employed by housing associations have been properly appointed.

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6.2.46 On an annual basis the Housing Executive's internal Audit function reviews the SHDP controls to ensure they operate correctly. ***As DSD is completing a fundamental review of the housing association guide, we recommend that all amendments are reviewed by the Housing Executive's Internal Audit function to ensure controls are operating and are in compliance with the new guidance.***

6.2.47 Both DSD and Housing Executive's Internal Audit have agreed to meet on a quarterly basis to discuss issues of common interest in relation to gaining assurance over housing associations and the SHDP. We welcome this and believe that this will enhance control and monitoring procedures and provide additional assurance.

6.2.48 We understand that the Housing Executive places assurance on the work of the Inspection Unit and relies on DSD informing it of issues impacting on the SHDP. We have evidenced no formal mechanism or basis on which assurance is shared. The move to lighter touch monitoring in the Inspection Unit's second round of inspections may not provide the Housing Executive with a sufficient level of assurance. DSD and the Housing Executive should formally agree how each party obtains assurance from the controls in the operation of the inspection process.

6.2.49 Until recently the Housing Executive did not receive copies of housing association inspection reports. The Housing Executive has advised that they do not review these reports for impact on the SHDP controls. ***We recommend that the Housing Executive reviews the Inspection Unit reports for impact on their controls. This process will promote knowledge sharing and accountability.***

Performance, Benchmarking and Self Assessment

6.2.50 DSD provided us with statistics following the completed first round of inspections as follows:-

	Number	Percentage
Housing Associations inspected	33*	
Housing Associations that failed the Inspection overall	14	42%
Housing Associations that failed the area of Finance	7	21%
Housing Associations that failed the area of Governance	12	36%
Housing Associations that failed the area of Property Development	10	30%
Housing Associations that failed the area of Property Management	21	64%

*The number of housing association's reduced during the year due to mergers. This is the resulting number of associations as at 11 February 2010

6.2.51 We are concerned with the high proportion of housing associations that have received unacceptable ratings in key areas. The figures suggest that there are significant problems within the registered housing association sector in Northern Ireland. Particularly concerning is the high level of underachievement for property management, an area of business which is of prime importance to social housing tenants.

6.2.52 ***We recommend that a summary of inspection results is published on DSD's website and circulated to senior management within DSD and the Housing Executive. Along with the statistics, a report should be produced detailing examples which warrant an unacceptable rating.*** It is important that persons charged with governing housing associations are fully aware of the standards that are considered acceptable.

6.2.53 In line with the other parts of the UK we believe that housing associations should be continually self assessing and benchmarking themselves.

6.2.54 Housing associations are required to submit annual information to DSD in the form of an Annual Regulatory Return (ARR). DSD uses the information in the ARR to calculate financial ratios relevant to the social housing sector for the purposes of benchmarking and monitoring. We note that in other areas of the UK, similar information of this nature is publicly available. The second round of inspections could be used as a vehicle to undertake an exercise of assisting housing associations with introducing self assessment techniques.

6.2.55 ***We recommend that DSD publish the overall sector and individual housing association statistics for information purposes.*** This could include the creation of a separate on-line profile for each housing association and would supplement DSD's annual publication of key performance indicators.

6.2.56 To further enhance the management of the SHDP, ***we recommend that DSD considers:-***

- ***Obtaining an Independent quality assurance review of the Inspection Unit; and***
- ***Reviewing the provisions governing housing associations with a view to including a requirement for housing associations to gain approval from DSD before the appointment of new members and shareholders.***

Progress on previous recommendations

6.2.57 Ten recommendations were made following our review of the Inspection Unit last year. We acknowledge that DSD has an action plan to implement our recommendations and progress has been made in key areas. For four of the ten recommendations DSD has stated they cannot be implemented because they are dependent on the completion of the new round of inspections. In our opinion two of our recommendations following

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the review of the Inspection Unit are forward looking but the remaining two are retrospective. ***We recommend that all of the recommendations regarding the Inspection Unit, from the C&AG's 2007-08 General Report are actioned as soon as possible.***

Conclusion

6.2.58 Our observations on the governance of housing associations in this report and previously, raise a significant number of concerns about the adequacy of existing arrangements. DSD shares many of our concerns about the existing performance of a significant number of housing associations. We acknowledge the efforts DSD has made to date in identifying issues and instigating remedial action. Annex 1 summarises our recommendations and we encourage DSD to consider these as a priority.

Annex 1

Summary recommendations

We recommend that:-

1. A formal review of the SHDP control document within the Management Statement; Financial Memorandum; Dossier of Controls is undertaken annually.

2. All reports produced by the Inspection Unit are summarised by the Housing Division, and the summary provided to the Housing Executive and presented to its Audit Committee. A summary report should also be presented to the DSD Audit Committee.

3. A formal process is put in place to enable DSD and the Housing Executive to identify shared risks and agree appropriate responses to risks. This could be achieved by introducing regular minuted accountability meetings at operational level.

4. DSD enhances its risk assessment procedures in respect of the oversight of the Housing Executive to comply with Management Statement requirements in full.

5. DSD reviews the Housing Executive's processes for administering the SHDP to ensure compliance with the housing association guide and that the arrangements for formally reporting assurances are appropriate.

6. DSD in conjunction with the Housing Executive considers what practical measures could be introduced to ensure a more consistent spread of funding disbursement.

7. To improve communication between DSD and the Housing Executive we recommend that the following practices are formalised in writing:-

   - Communication protocols should be agreed;

- Housing Executive to provide DSD with a summary report of any concerns prior to an inspection; and
- Regular progress reports on the inspection programme to be provided to the Housing Executive.

8. DSD formally provides housing associations with examples of both good and bad practice identified during the inspection process to better inform them of departmental expectations.

9. Given the significant number of unacceptable associations, emphasis is placed on introducing procedures for Inquiry at the earliest opportunity, including outlining procedures for de-registering a housing association.

10. DSD publishes annually what it considers are the risks affecting registered housing associations and the registered housing association sector in Northern Ireland.

11. DSD updates its monitoring arrangements to include a review of each housing association's Statement on Internal Control.

12. DSD introduces a requirement for each housing association to provide an annual report from their Internal auditors to DSD and the Housing Executive. This should detail the extent of the internal audit work performed during the year, schemes selected for testing and the findings from the reviews.

13. DSD should reconsider our comments from the consultation process in the housing association guide review.

14. As DSD is completing a fundamental review of the housing association guide, we recommend that all amendments are reviewed by the Housing Executive's Internal Audit function to ensure controls are operating and are in compliance with the new guidance.

15. The Housing Executive reviews the Inspection Unit reports for impact on their controls. This process will promote knowledge sharing and accountability.

16. A summary of inspection results is published on DSD's website and circulated to senior management within DSD and the Housing Executive. Along with the statistics, a report should be produced detailing examples which warrant an unacceptable rating.

17. DSD publishes the overall sector and individual housing association statistics for information purposes.

18. DSD considers:-

    - Obtaining an Independent quality assurance review of the Inspection Unit; and
    - Reviewing the provisions governing housing associations with a view to including a requirement for housing associations to gain approval from DSD before the appointment of new members and shareholders.

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19. All of the recommendations regarding the Inspection Unit, from the C&AG's 2007-08 General Report are actioned as soon as possible.

6.3 Middletown Centre for Autism

6.3.1 The Middletown Centre for Autism (the Centre) was officially launched in September 2004 following the purchase of the site by Middletown Centre for Autism (Holdings) Ltd in June 2004 and the signing of a memorandum of Understanding between the Department of Education (DE) and the Department of Education and Science, Republic of Ireland in May 2004, to fund the Centre on a 50:50 basis.

6.3.2 An operating company, the Middletown Centre for Autism Ltd, was incorporated as a company limited by guarantee in March 2007. This company is the management body running the Centre. The Centre's Chief Executive was appointed by the two sponsor Departments and took up post in April 2007 and was formally designated as Accounting Officer by both Departments.

6.3.3 In the previous General Report, the C&AG reported on the Centre. We indicated we would keep under review the development and progress of the Centre. Our latest observations are set out in the following paragraphs.

Funding Position

6.3.4 The Centre is currently in receipt of revenue and capital funding from the Department of Education and the Department of Education and Skills (DES) (The Department for Education and Science was renamed in 2010). Between 1 April 2007 and 31 March 2010 the Centre has received in total £2.38million revenue funding and £0.16million capital funding from the two Departments.

6.3.5 It had been expected that a new building programme at the Centre would be complete in 2010 in order to facilitate the full operation of the Centre. However to date construction of the new building has not yet commenced. In 2009, the then Department of Education and Science had announced that, due to the economic climate, it was not in a position to provide the funding required to expand the Centre as had been intended. This restriction was lifted at the end of 2009 however, at present, the capital funding from DES is restricted to that required to carry out maintenance work needed in the Centre to fulfil health and safety requirements.

6.3.6 A revised economic appraisal in support of the project is with DFP for approval. DE advised us that the current position with development of the new building is that the planning approval for the new building and major refurbishment works was received in March 2009. Detailed drawings for all buildings have now been completed and the project has been brought to Tender ready stage. After DES announced the pause in funding in

April 2009 DFP advised DE that further consideration of the economic appraisal will have to await information that DES is able to proceed. While the lifting of the DES pause was announced in December 2009, they have advised that further progress on the building project will be based on a multi-annual plan to be agreed between DE, DES and the Centre. This plan is intended to take account of international best practice and the development of autism services on the island of Ireland since the Centre was established.

6.3.7 The Centre had planned to have a staffing complement of seventy four people once fully operational in 2010-11. At present there are 18.3 full time equivalent posts. Despite the current operational position of the Centre, its Board has indicated to the Departments it remains committed to the Centre's full development through the provision of the original four key services. The services are Training Advice and Guidance, Research and Information, Educational Assessment and Learning Support. The Board has however raised a number of reservations with the Departments including its concern that the project could be damaged if the anticipated levels of funding are not made available.

6.3.8 It had been expected that the Centre, when fully operational in 2010-11 would incur £3.5million revenue expenditure per annum. In 2007-08 expenditure totalled £443,000, in 2008-09 £877,000 and draft accounts for 2009-10 expenditure is projected £1.235million. The funding of this expenditure is provided on a 50:50 basis by the two Departments.

Core Services

6.3.9 The Centre's vision is 'To create, maintain and develop a Centre of Excellence for children and young people with autistic spectrum disorders'.

6.3.10 The Centre works as a second level specialist service provider by responding to referrals from local providers of autism services, working in partnership with existing statutory and voluntary organisations to deliver it's services. The Centre anticipates that its present delivery of services will soon be at full capacity and that without a further phase of development the level of service cannot be expanded. In April 2010, we noted the position with each area of service delivery as follows:

Training, Advice and Guidance

6.3.11 The Centre advised us that between December 2007 and February 2010, it provided training to 2738 professionals/parents through the delivery of 110 training courses. A training prospectus is being developed for 2010-11, scheduling 55 training courses.

6.3.12 The Centre also advised us, it has been commissioned by representatives of the five education and library boards in Northern Ireland to develop a specialised model of training to assist education staff in the promotion of positive behaviours and learning in children with autistic

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spectrum disorders and complex needs. The centre is also working with the Special Education Support Service which provides training to schools in the South. The Centre augments and complements the level of training available to schools in the south. The role of the Special Education Support Service is to enhance the quality of learning and teaching in relation to special educational provision.

6.3.13 In September 2009, DE asked the Centre to deliver an interim outreach Advice and Guidance service to schools and/or individual children and young people. As a result, the Centre plans in Northern Ireland to provide a service to children and young people already referred to the Autistic Spectrum Disorder Advisory Service who despite focused first level intervention continue to experience difficulties within their educational setting. In Northern Ireland and the Republic of Ireland, the service will provide training to parents of children and young people with autism. We have been advised that a strong co-operative relationship has been established with the Special Education Support Service in the South which has resulted in co-joined trainings planned to be delivered throughout the year and the Centre is also working with the Inter-Board Autistic Spectrum Disorder (ASD) Group to provide training. The Centre is also in discussion with a number of universities and colleges about areas of collaboration.

Research and Information

6.3.14 The Centre considers its plans for research have been restricted because of the current level of funding and the associated impact on recruitment. Its research department has produced one formal published booklet and has conducted an informal online survey of training needs identified by teachers working in special education in Northern Ireland and the Republic of Ireland.

Educational Assessment

6.3.15 The Centre has secured the services of two professionals, an educational psychologist and an occupational therapist. These professionals are supporting the delivery of the advice and guidance service. Some work has been undertaken on developing a project to model the assessment service which will be offered from the Centre when the new assessment and learning support building is available.

Learning and Support

6.3.16 A Learning Support Centre Manager has been appointed and some work has been completed on developing policies and procedures for use in the Learning Support Centre to ensure an autism competent environment for children and young people referred to the Centre when it is completed at a future date. Until the Learning Support Centre is fully functioning, the Learning Support Centre Manager is leading the implementation of the Advice and Guidance Service.

6.3.17 We understand that an updated phased multi-annual plan for the future development of the Centre is being prepared, in conjunction with the Board and taking account of international best practice and the development of autism services on the island of Ireland since the Centre was established. We consider that, as a matter of some urgency, robust benchmarking should be put in place to compare outputs and outcomes in order to inform value for money in the context of the existing service provision.

Governance Arrangements

6.3.18 In conjunction with the Comptroller and Auditor General's office in Dublin we visited the Centre in February 2010 as a follow up to a previous visit.

6.3.19 We are content that the basic concepts of good governance are in place. We noted specifically that an appraisal process has been undertaken which considered the performance of Board members and that reviews have taken place of the work/effectiveness of the Board and Board Committees. A formal performance appraisal process has also been agreed for, and applied to, all relevant staff. We also noted that a Management Statement and Financial Memorandum is now in place and was signed on 17 September 2009 and a compliance framework has been developed.

Company Ltd by Guarantee

6.3.20 We were previously advised by DE that it was planned the Middletown Centre for Autism Ltd would be integrated into the new Education and Skills Authority (ESA) after its establishment and subject to suitable arrangements being agreed with the Department of Education and Science.

6.3.21 ESA was scheduled to commence on 1 January 2010, but was not established at that date. The delivery of educational services through existing bodies is now subject to a convergence plan with no specific date for the introduction of ESA. DE has advised us that it was not planned that the Centre would transfer to ESA immediately following the establishment of ESA. After the Centre had been given suitable opportunity to effectively embed each of its four proposed services, the transfer of the oversight of the Centre to ESA would be considered by the Department. DES agreement would be required for such a transfer to take place.

6.3.22 The Middletown Centre for Autism (Holdings) Ltd company was due to be wound up during 2009-10. DE advised us it remains committed to the winding up of the holding company but that the North/South nature of the project means the decision to wind it up can only be taken when both Departments are in agreement to do so and at present DES is considering potential tax implications.

Conclusion

6.3.23 We have undertaken two visits to this Centre in the past two years and we have liaised with DE and the Comptroller and Auditor General's office in Dublin. We would conclude that the Centre is experiencing a period of uncertainty and is unable to deliver the full range of services which had been envisaged

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in the economic appraisal in support of the Centre. Key services including working directly with young people with autistic spectrum disorders are not being achieved despite the Centre operating since 2007 and it appears unlikely that the position will change in the short term. DE should therefore be increasingly mindful of the need to demonstrate clearly that value for money is being achieved with this project. I note the intention to prepare an updated, phased multi-annual plan for the future development of the Centre and that this plan is intended to take account of international best practice and the development of autism services on the island of Ireland since the Centre was established.

6.3.24 Our research provided further assurance the Centre is mindful of complying with good governance arrangements. However it was anticipated the risks associated with its operation under a limited company arrangement would cease in 2009-10, which is no longer the case, and there is now some uncertainty around the future arrangements. This reinforces the need for robust oversight and scrutiny arrangements to be in place at Departmental level and within the Centre.

6.3.25 We will keep developments under review and will report further if appropriate.

6.4 Ulster Camogie Council

6.4.1 The Sports Council for Northern Ireland (Sports Council) is an executive non-departmental public body sponsored by the Department of Culture, Arts and Leisure (DCAL). Amongst Sports Council's primary functions is the duty to provide 'administrative services, equipment, coaching and instruction'.

6.4.2 We were informed in July 2008 that a whistleblower had raised concerns in respect of payments made by Sports Council to the Ulster Camogie Council (UCC) for coaching sessions. These concerns surrounded potentially fraudulent claims submitted to Sports Council by UCC. It was alleged that documentation used by UCC to claim grant funding from Sports Council had been falsified to reflect a higher monetary value than that actually incurred by UCC. In addition, when these irregularities were uncovered by UCC, a repayment was made to Sports Council, which Sports Council had claimed they would be unable to acknowledge. Finally, it was suggested that Sports Council had not obtained audited accounts for three years from UCC but, in contravention of the terms and conditions under which grants are paid, Sports Council continued to make payments to UCC. We informed DCAL in July 2008 and asked them to consider the matter.

6.4.3 DCAL undertook a scoping study to investigate these issues. The scoping study was completed in October 2008 and supported the assertion that irregular claims had been made and that the payments process was worthy of further scrutiny. This led to a further review being undertaken by DARD Central Investigation Service (CIS). Although CIS also found indications of fraudulent activity, they were of the opinion that the evidence available was not sufficient and reliable to meet the standard of proof required for a successful criminal investigation and that such an investigation would not be commensurate with the potential sums lost and therefore not in the public interest. A detailed investigation was completed by Sports Council and forwarded to us by DCAL on 29 December 2009. It is of substantial concern that the full investigation took over a year to complete. It is our view that when fraud arises, public sector bodies should ensure that their response is both quick and effective.[38] We asked DCAL why this investigation took such a long time to complete. DCAL told us that there were some mitigating factors, the chief one being that there were limited financial records available within UCC and the details of the financial transactions had to be compiled from Sports Council files and UCC bank account statements going back a number of years. However, DCAL are not satisfied with the length of time taken to complete this investigation. DCAL has produced a lessons learned report on this case and are satisfied that the rigorous application of the recommendations of this report, commissioned by DCAL and produced by DE Internal Audit, will ensure any future allegations are investigated with a measure of urgency.

6.4.4 The lessons learned report was produced in March 2010. We note that the recommendations included;

- Such investigations should always be carried out by persons who are completely independent of the area and events under review;
- Neither DCAL nor Sports Council can be satisfied at the length of time – 18 months – taken to bring this investigation to a conclusion. In the future, there is a clear need to treat any investigation relating to a potential irregularity as a priority engagement; and
- Communication throughout the investigation could have been better. In particular, it is recommended that the details of all meetings held should be recorded in some form.

We asked DCAL how it would ensure that all lessons learned would be properly communicated throughout the Department and its Arms Length Bodies. DCAL told us that Fraud Awareness training, which highlights the requirements of the Fraud Response Plan, has been rolled out across the Department. In addition training is planned for staff within the Arms Length Bodies in this current financial year. DCAL's Anti Fraud Policy and Fraud Response Plan are currently being reviewed to ensure that the lessons learnt are appropriately captured within the guidance.

6.4.5 During the investigation it was found that over the period 2000-08 a total of £48,502 was paid to UCC by Sports Council. Of this, £14,754 has been deemed irregular because UCC were unable to provide evidence of associated expenditure. This includes

38 Managing Public Money Northern Ireland, A.4.7.6, 'Responding quickly and effectively to fraud when it arises using trained and experienced personnel to investigate'.

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£1,690.50 relating to invoices that were allegedly falsified. This appears to substantiate a specific allegation made by the whistleblower. In addition to this, the investigation concluded that Sports Council did not receive audited accounts from UCC for the financial years 2004-05, 2005-06 and 2006-07, thereby contravening the standard terms and conditions of awards made by Sports Council. Despite this, Sports Council continued to pay grant throughout this period and made a further offer of grant to UCC for the year 2007-08.

6.4.6 In 2007, Central Camogie Council (CCC) identified irregularities and repaid £5,469 in January 2008 on behalf of UCC. Sports Council accepted and acknowledged this repayment but did not appear to have considered that these invalid claims gave rise to any suspicion of fraud.

6.4.7 Of the payments that have been deemed irregular £9,285 had not been repaid on completion of the investigation report. Since then DCAL has advised that follow up verification and claw-back procedures have been progressed. Sports Council vouched payments amounting to £5,825 to bank statements and issued a clawback notification to UCC for the remainder of the irregular amount (£3,460). Sports Council has now received all outstanding amounts due from UCC. DCAL told us that it is satisfied that all amounts have been repaid.

6.4.8 We believe that the repeated failure of UCC to submit audited accounts and the attempted repayment of 'invalid claims' offered Sports Council sufficient warning signs to have warranted further investigation. In November 2008 we reported on a fraud perpetrated in the Sports Institute for Northern Ireland,[39] a company limited by guarantee, fifty per cent owned by Sports Council. We concluded that several warning signs of possible fraud appeared to have gone unnoticed by management. As a result, the fraud was able to continue undetected for nearly ten months. It is concerning to again note that significant warning signs went unnoticed and as a result potentially fraudulent actions were able to continue unchecked.

6.4.9 Annex 4.7 of Managing Public Money Northern Ireland (MPMNI) details the obligations that public bodies have with respect to the reporting of suspected or proven fraud. NICS Departments should report immediately, to DFP and the C&AG, all frauds (proven or suspected), including attempted fraud, which affect their Departments or the Agencies and NDPBs sponsored by them.[40] It is our understanding that DCAL included the case of UCC in a fraud report issued to DFP on 4 August 2008, albeit caveated by noting that Sports Council or others have been unable to substantiate this as a fraud. We further note that the report of the investigation referred to this matter throughout as an 'irregularity' but not as fraud or suspected fraud. We understand DCAL sought the views of DARD CIS about whether or not a criminal investigation should be commenced. We asked DCAL why this matter has not

39 Internal fraud in the Sports Institute for Northern Ireland/Development of Ballycastle and Rathlin Harbours; NIA 49/08-09.
40 Managing Public Money Northern Ireland, A.4.7.8.

been referred to as fraud or suspected fraud. DCAL advised us that the view of DARD CIS is that the evidence available was inadequate to prove fraud. The term "irregularity" was agreed between Sports Council and DCAL in the absence of any proven evidence of fraudulent activity.

6.4.10 It is our opinion that there is a high inherent risk in grant-funding bodies of this type. However, many of the controls that should be present appear to have been absent in this case. PAC have reported on several occasions on the failings of public bodies in regard to grant funding including:

- Payment of grants on the basis of insufficient evidence as to entitlement; and
- Failure by departments to establish effective monitoring of NDPBs which they fund and sponsor, leading to failure to detect waste and irregularities.

It is therefore disappointing that similar issues have arisen within Sports Council and that the lessons contained within these reports have not been taken on board.

6.4.11 In March 2010, we received further information from another whistleblower concerning UCC. This information appeared to highlight additional issues. It also suggested that this information had been made available to Sports Council but had not been availed of. We were concerned at this and, with the whistleblower's permission, shared the information with DCAL. DCAL informed us that it referred the whistleblower's information to Sports Council, asking it to indicate whether this additional information materially affects its previous report and would require any alteration; or warrants a new investigation being undertaken. DCAL is satisfied, having also taken the view of DARD CIS, that this new information does not warrant either an alteration to the Sports Council report, or a new investigation.

6.4.12 Sports Council was also asked to respond to the suggestion that it failed to act on offers to provide it with the information at earlier dates. They informed us that for a period of 2 years before the information came to light Sports Council had been in receipt of numerous requests for information from a journalist who had been publishing articles in relation to the UCC. This journalist's offer of information in 2008 was treated as a press request in line with their previous dealings with him on this issue. Nevertheless DCAL is concerned that Sports Council did fail to act when they were offered information relating to a suspected fraud and will be following this up with Sports Council on conclusion of this review. We share DCAL's concern at Sports Council's failure to act. It is important that all public bodies should treat any whistleblowing allegations seriously.

6.4.13 In conclusion, whilst we recognise that DCAL had sought to learn the lessons from this investigation, it is our view that the shortcomings identified above indicate that this investigation could have been handled more effectively and should have been considered as fraud at an early point. We would expect that in future instances of this type DCAL would follow proper investigative procedures.

NIAO Reports 2009-2010

Title	HC/NIA No.	Date Published
Absenteeism in Northern Ireland Councils 2007-08	–	9 January 2009
Obesity and Type 2 Diabetes in Northern Ireland	NIA 73/08-09	14 January 2009
Public Service Agreements – Measuring Performance	NIA 79/08-09	11 February 2009
Review of Assistance to Valence Technology: A Case Study on Inward Investment	NIA 86/08-09	25 February 2009
The Control of Bovine Tuberculosis in Northern Ireland	NIA 92/08-09	18 March 2009
Review of Financial Management in the Further Education Sector in Northern Ireland from 1998 to 2007/ Governance Examination of Fermanagh College of Further and Higher Education	NIA 98/08-09	25 March 2009
The Investigation of Suspected Contractor Fraud	NIA103/08-09	29 April 2009
The Management of Social Housing Rent Collection and Arrears	NIA 104/08-09	6 May 2009
Review of New Deal 25+	NIA111/08-09	13 May 2009
Financial Auditing and Reporting 2007-08	NIA 115/08-09	20 May 2009
General Report on the Health and Social Care Sector in Northern Ireland 2008	NIA 132/08-09	10 June 2009
The Administration and Management of the Disability Living Allowance Reconsideration and Appeals Process	NIA 116/08-09	17 June 2009
The Pre-School Education Expansion Programme	NIA 133/08-09	19 June 2009
Bringing the SS Nomadic to Belfast – The Acquisition and Restoration of the SS Nomadic	NIA 165/08-09	24 June 2009
The Exercise by Local Government Auditors of their functions	–	30 June 2009
A Review of the Gateway Process/The Management of Personal Injury Claims	NIA 175/08-09	8 July 2009
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Improving the Strategic Roads Network - The M1/ Westlink and M2 Improvement Schemes	–	4 November 2009
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Improving Adult Literacy and Numeracy	–	9 December 2009
Absenteeism in Northern Ireland Councils 2008-2009	–	11 December 2009
Campsie Office Accommodation/ Synergy e-Business Incubator (SeBI)	–	24 March 2010

NIAO Reports 2009-2010

The Management of Substitution Cover for Teachers: Follow-up Report	–	26 May 2010
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Schools' Views of their Education and Library Board 2009	–	28 June 2010
General Report on the Health and Social Care Sector by the Comptroller and Auditor General for Northern Ireland - 2009	–	30 June 2010

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