

Financial Auditing and Reporting: 2005-2006

General Report by the Comptroller and Auditor General for Northern Ireland

*Presented pursuant to sections 10(4) and 11(3)(c) of the Government
Resources and Accounts Act (NI) 2001.*

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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 Parliament on the economy, efficiency and effectiveness with which departments and other bodies have used their resources.

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Report by the Comptroller and Auditor General for Northern Ireland

This Report brings together the results of financial audit work undertaken by the Northern Ireland Audit Office over the last twelve months and highlights issues arising from it. The aim of this work is to provide the Northern Ireland Assembly and Parliament with independent assurance that accounts are properly prepared, and that income and expenditure has been applied for the purposes intended.

Part 1

General

Strengthening Corporate Governance in Central Government Bodies

1. In my report last year I indicated that my office intended to be more proactive in encouraging good governance practice in the bodies we audit.
2. There has been a significant focus on corporate governance arrangements in central government bodies within the last year and I particularly welcome the strengthening of departmental boards by the recruitment of non-executive members. I note that departments have provided intensive induction training to the new non-executive board members. My staff have also been directly involved in the training and briefing of these non-executive members on their role and responsibilities. The introduction of non-executive members to departmental boards will, of course, need time to embed but I can report that early indications are that non-executives, recruited to departmental boards are already providing important support to the Accounting Officer, exercising a challenge function where necessary and adding value.
3. All central government bodies, that is, departments, agencies and non-departmental public bodies now have audit committees. My staff attend all of these audit committees, which now number over one hundred. In addition to the provision of training to audit committee members, through presentations and workshops, my office continues to provide support and guidance to audit committees. It is a key role for audit committees to examine the risk management process and once again I note the significant contribution non-executive members can bring to this review through their challenge and scrutiny of the procedures. During this year my office introduced a new form of report to those charged with governance within departments. The aim of the report was to provide a comprehensive and clear overview of the audit and the findings from the audit. I can report that the report was well received by audit committees and it is my intention to extend it to all central government bodies for the 2006-07 audits.
4. In my report last year, I encouraged departments to re-examine the governance arrangements between themselves and the bodies they sponsor to ensure the balance of monitoring is sufficient for the risks involved. In May 2007, I published a review of the governance arrangements currently operating between a number of departments and their sponsor bodies. The report 'Good Governance – Effective Relationships between Department and their Arm's Length Bodies' (HC 469) outlines principles for establishing and maintaining effective sponsoring relationships and uses a number of good practice examples to illustrate these.
5. The Northern Ireland public sector is moving into a period of significant change through the establishment of new organisations and dissolution of others as a result of the Review of Public Administration (RPA). In my report last year I endorsed the HM Treasury Code of Good Practice; 'Corporate Governance in Central Government Departments' and the publication from the Independent Commission on Good Governance in Public Services 'The Good Governance Standard for Public Services' both of which outline the principles of good governance. In my view it is important that new public bodies set up following RPA aim to be fully compliant with these principles. Good governance arrangements are also required in the organisations which are being wound up. My office will work closely with the organisations to advise and support them in the transitional phase.

Auditors and potential conflicts of interest

Introduction

1. The independence of auditors is an essential element in the satisfactory execution of an audit. Independence in this context can be defined as a freedom from situations and relationships which might mean that a reasonable and informed third party would conclude that objectivity had been or could have been impaired. It is important to note that it is not the opinion of the auditors or their client that is important but rather the opinion of a reasonable third party. This is because of the need to maintain public confidence in the impartiality of auditors if the results of the audit are to be relied upon.

Background

2. It is one of the Northern Ireland Audit Office's objectives to encourage good governance, and in line with this, I decided to review whether the independence of internal or external auditors of public bodies could be seen as having been impaired by the provision of other consultancy services by those auditors. This is particularly relevant because over the last number of years accountancy firms have done considerable amounts of work for the Northern Ireland public sector, especially in relation to Public Private Partnership financing deals.

Guidance in respect of the appointment of accountancy firms to carry out audit and other assignments in the public sector is primarily set out in DAO (DFP) 16/99 with a supplement provided by DAO (DFP) 06/03 which deals specifically with 'those bodies whose appointed external auditor is a private sector firm'. This guidance states that there is a presumption that it would be exceptional for one firm to undertake both external audit and other consultancy work except where the value of the consultancy work was less than the higher of £25,000 or 20% of the external audit fee.

DAO (DFP) 16/99 addresses the issue of a potential conflict of interest where the same firm acts as both external and internal auditor but is not specific in circumstances where internal audit is provided by a firm who also provide consultancy work to the body concerned. However, Government Internal Audit Standards state that "objectivity could be impaired if an audit contractor also provides other services to the organisation" and that "steps should be taken to avoid or manage such conflicts of interest". In line with this guidance I have assumed for the purposes of this report that the same requirement as to the acceptable value of consultancy work that the Department of Finance and Personnel apply to external audit work should also apply to internal audit work.

I certify the accounts of most of the bodies in the Northern Ireland public sector. In some of these bodies I contract out the detailed audit work to private sector accountancy firms to carry out the work on my behalf. In each of these cases I have ensured that arrangements are in place so that consultants performing external audit work on my behalf are strictly controlled as to the amount and type of other consultancy work they can carry out. There are however a number of bodies where I do not certify their accounts and therefore have no role in appointing their external auditor or preventing potential conflicts (although this matter is being addressed

under the Companies Act 2006). These bodies would include the further education sector, public corporations and companies limited by guarantee.

In addition all public sector bodies are required to determine their own internal audit arrangements. While larger bodies such as Departments normally have their own internal audit branches smaller bodies often contract out internal audit to accountancy firms which could therefore give rise to conflicts.

Investigation and examples of issues arising

3. I contacted all Departments, larger NDPBs, Public Corporations, Further Education colleges and Health Trusts in Northern Ireland to identify their internal and external audit arrangements over the last three years. Where accountancy firms had been used to carry out internal or external audit work, I also asked if those firms had also been engaged in the provision of any other consultancy services.

The result of the work has given me assurance that conflicts of interests arising from audit arrangements are generally well controlled in the Northern Ireland public sector. Out of 78 bodies surveyed, 61 were found to have generally satisfactory arrangements and there were some issues with 17 bodies. Where issues have arisen I will write separately to each of the Departments responsible setting out my findings and asking them to take action where appropriate. Issues that arose included:

- The Northern Ireland Transport Holding Company which had PricewaterhouseCoopers as its internal auditors in 2004-05 and 2005-06 at a cost of over £100k per year and also incurred other consultancy costs from that firm of £100k in 2004/05 and £171k in 2005/06. The Company also used Ernst & Young as its external auditor at a cost of around £44k per year and incurred £155k in consultancy and other non-audit work with that firm over a three year period. The governance arrangements in this company form part of a report that I issued on 22 March 2007.
- In the Further Education sector I noted a number of significant issues in relation to internal and external auditors also being engaged to carry out consultancy work.
- In a number of bodies internal audit work was being carried out by 'in-house' internal audit branches but significant amounts were being paid for internal audit staff seconded-in from accountancy firms who also carried out consultancy work for those bodies. Such secondments are often necessary and sensible and this type of conflict is not as significant as in bodies where the whole internal audit is contracted out. However it is still important that bodies are aware of the need to manage any potential conflicts.

Conclusion

4. The result of my work has given me assurance that there is generally good control over potential conflicts of interest arising from audit arrangements in the Northern Ireland public sector. Nevertheless I would recommend to all Departments that they ensure that arrangements

are in place to prevent potential conflicts of interest from arising in their internal audit arrangements and in the internal and external audit arrangements of their sponsored bodies. Indeed this should be regularly reviewed as part of the process supporting the Statement of Internal Control. I would also recommend that the Department of Finance and Personnel expands its guidance to refer to potential conflicts of interest in relation to internal audit as well as external audit.

Part 2

Resource Accounts 2005-06

Department of Agriculture and Rural Development Resource Accounts 2005-06

Waste disposal services - non compliance with procurement rules

Background

1. The Department of Agriculture and Rural Development undertook animal health and welfare statutory, diagnostic, analytical and research work through its Veterinary Science Division (VSD) until 31 March 2006. This function was then transferred to the Agri Food and Biosciences Institute, a newly formed Non Departmental Public Body, which the Department sponsors.
2. A by-product of this work is clinical waste, which must be disposed of in accordance with appropriate legislation. The incinerator at the VSD site in Stormont is authorised by the Department under Animal By Products legislation, to destroy animal carcasses and associated waste. It is also authorised by the Environment and Heritage Service (EHS) Industrial Pollution and Radiochemical Inspectorate to dispose of small quantities of radioactive waste. In recent years there has been incineration of a large number of brain tissue samples and their associated containers, resulting from surveillance required by an EC Directive for Transmissible Spongiform Encephalopathies (TSE), a group of brain diseases which includes BSE and scrapie. These samples are examined in high level containment facilities. Under Animal By Products legislation this waste needs to be disposed of by incineration. EHS did not consider these samples and their containers, which were sent to VSD separately from the animal carcass, to be associated waste. In February 2004, following one of EHS's regular inspections it informed the Department that this practice must cease unless it applied to have its authorisation upgraded and complied with the requirements of the Waste Incineration Regulations (Northern Ireland) 2003.
3. During my audit of the 2005-06 resource accounts I noted that the Department had subsequently employed the services of a contractor to dispose of this waste without following proper procurement procedures. A charge of £411,078 is included in the Department's 2005-06 Accounts for the provision of waste disposal services by this supplier, of which approximately 90% relates to clinical waste.
4. I also noted that the Department's replacement of an incinerator at its Omagh site, costing £280,000 was not conducted in line with proper procurement procedures.

Options available for the disposal of waste from TSE monitoring

5. The incineration of this waste at the Department's Stormont site had to cease in Spring 2004 when EHS informed the Department that it would have to apply for its authorisation to be upgraded and that it would have to comply with the Waste Incineration Regulations (Northern Ireland) 2003. The Department had been consulted on the draft regulations in April 2003 and

should therefore have been aware that it created emission limits and monitoring requirements that the existing incinerator could not achieve without extensive modification. It could therefore have used this opportunity to consider the options available, which would have reduced the need for interim measures which the Department undertook to dispose of this waste. The Department told me that it was subsequently advised by the incinerator manufacturer that it would not be cost effective or achievable to upgrade the present incinerator to comply with these regulations.

6. In February 2004 the Department asked the supplier of the existing incinerator for an estimate for a replacement which was compliant with the regulations. I asked the Department to explain why it had not sought a range of quotes. The Department told me that “the purpose of this request was to inform an indicative strategic bid to the Budget 2004 process. It was aware that a range of options would have to be considered for a definitive solution to the waste disposal problem and considering the complexity of the issue, that this would take some time. Should installation of a clinical waste disposal plant prove to be the most cost effective and safe option then it would be important to have future monies earmarked to finance this in the future. Hence the Budget 2004 bid.” The supplier provided two quotes for a combined animal carcass and clinical waste incinerator, and a dedicated clinical waste incinerator for medical and laboratory waste. The Department viewed this as an initial step to identify the options for clinical waste disposal in a process of active consultation with EHS, the Health and Safety Executive (HSE) and the Department of Finance and Personnel’s Central Procurement Directorate (CPD).

7. In my view, once the Department became aware of the requirement to comply with the Waste Incineration Regulations (Northern Ireland) 2003 it would have been prudent to undertake a business case, assessing relevant options using a range of quotes from several suppliers and considering the cost effectiveness of the options over the medium to long term, before verbally agreeing an interim measure with the waste disposal contractor. The Department told me that even had action been taken immediately it became aware of the nature of the Waste Incineration Regulations 2003, considering the timescale required for such deliberations, it would not have been possible for these to have been completed in time to avoid having to put in place an interim arrangement. However, whilst I accept this, in my view, the Department should have commenced drawing up a business case at an earlier juncture and ensured that the interim arrangement was only used in the short term. As such the Department’s actions have not resulted in the most cost effective solution to the problem and have not been based on sound financial data. In the absence of a proper business case, the Department cannot be confident about the value for money of any of the procurement decisions taken in respect of its waste disposal solutions.

8. The current limit over which such contracts should be advertised in the EC’s Official Journal is £93,738 and is defined in The Public Contracts Regulations 2006. Procurement procedures such as public advertisement are an important control in the prevention of fraud and ensuring value for money. Services for clinical waste disposal had not been awarded using these procedures, and the Department could not tell me when general waste services were last subject to public advertisement. I would at least have expected the Department to take action during 2004-05 when information on its financial systems should have alerted it that the Official Journal limit had been breached. I asked the Department in the absence of these procedures being followed how it ensured that value for money was being achieved. The Department told me that it had established that due to the specialized nature of the waste any contractor appointed would be forced to use either of the only two commercial clinical

waste incinerators in mainland GB. The Department already used a contractor to transport hazardous chemical waste to these GB incinerators and for general waste disposal. It told me that it had therefore engaged this contractor to dispose of the TSE waste as an interim emergency measure and recognising the increasing volume of material being transported had been proactive in renegotiating two price reductions for this waste transport.

9. Public procurement procedures do not permit so large an addition to an existing contract, since it significantly changes the contract. In my opinion this interim measure has surpassed any reasonable time limit and seems to have been undertaken without a clear action plan to resolve the issue. The Department told me that it had been involved in a process of active consultation with EHS, HSE and CPD to develop an action plan to resolve the issue. As part of this process it had recently employed consultants to conduct a waste audit and recommend the best course of action for the future disposal of clinical waste. The Department expects this report by January 2007. However, even if the procurement of a new incinerator for clinical waste is recommended the Department has estimated that it would take a number of years to make operational. In the intervening period the Department would have to continue to fund contractor's costs for clinical waste disposal.

10. The Department was unable to provide me with copies of contracts for either clinical waste, or general waste disposal. The absence of a formal contract creates a risk that the terms and conditions have not been clearly defined or communicated to the contractor. This is critical to ensuring that the disposal of this waste complies with relevant legislation. The Department told me that it ensured that it engaged an EHS-licensed hazardous waste carrier/broker. The contractor is given written details of the volume and type of waste in each batch and DARD has carried out physical checks to ensure that the contractor was transporting to point of transfer for authorised disposal sites. However the absence of a written contract still increases the risk of non compliance with legislation.

Procurement of replacement incinerator for Omagh site

11. I note that the Department replaced an incinerator at its Omagh site during 2005-06. The procurement process for this was conducted through CPD. A contract had been awarded to both design and build (D&B) the structure, meaning that a single contractor was responsible for the entire project. This original contract was however terminated by mutual agreement and CPD then decided to split the project into separate contracts for works and supplies. The new contract for the incinerator itself was awarded to the same company which the initial design and build contractor was going to use. The nature of the contract had changed considerably, but CPD had awarded it without going back to the market place.

12. The cost of this new incinerator was £280,000 and therefore should have been advertised in the EC's Official Journal in accordance with public procurement rules. I asked the Department and CPD why proper procurement procedures had not been followed in this case. CPD told me that the original contract was well below the works threshold for advertising in the EC's Official Journal. However when the contract was terminated and it was decided to procure the incinerator separately from the works, the supply of the incinerator exceeded the much lower EC threshold for supplies. CPD told me that this point had not been appreciated at the time of procurement. However it said that value for money was not adversely affected, as it was able to procure the incinerator for the same price as in the original contract, which therefore represented a fair market price. It also assured me that, to avoid a recurrence, a revision of

the Contracts Code is soon to be published which gives clear advice about dealing with this specific situation.

13. The renewal of this incinerator would seem to have provided the Department with a potential opportunity to resolve the clinical waste disposal problem. The Department told me that:

- In its view this would not have been a safe long term, or cost-effective option. Most waste was generated at the Stormont site and would therefore require transportation 80 miles to Omagh;
- The old incinerator at Omagh required replacement before new emission standards came into legal force in January 2006. The long and unpredictable lead-in time for a new incinerator due to public procurement procedure, planning, public consultation etc, would have meant that carcass incineration had to cease at Omagh until any new clinical waste incinerator had been commissioned. Until then DARD would have had insufficient incinerator capacity to dispose of carcass material, including that which might have arisen from outbreaks of notifiable disease;
- To conclude that installation of a clinical waste incinerator was the best solution would also pre-empt the outcome of the waste audit currently underway by external consultants.

Lessons arising

14. Key lessons arising from my examination of this issue are:

- It is essential that those responsible for procuring goods and services within the Department are fully aware of procurement rules, and that any non compliance, such as the use of interim measures, is reported immediately to senior management and carefully monitored to ensure that the position is regularised as soon as possible;
- The terms and conditions relating to the procurement of goods and services should be clearly defined in a written contract;
- The Department should ensure that staff are familiar with relevant legislation, and that the impact of the legislation is assessed and action taken on a timely basis;
- All options should be carefully researched and evaluated so that value for money can be secured. This should be well documented and should not restrict the consideration of cost to short term implications.

15. I asked the Department what action it intended to take in this instance, and how it would prevent a similar issue arising in the future. The Department told me that as soon as it was informed that formal contracts did not currently exist for waste disposal services, it took urgent action in conjunction with CPD to rectify the situation and this is ongoing. A specification for tenders for disposal of the clinical waste from AFBI sites is presently with CPD. The Department has detailed procurement procedures in place and is taking steps to remind relevant staff of the importance of complying with these procedures through seminars and guidance notes provided by CPD.

16. I am concerned that during the consultation process on the draft legislation the Department did not fully consider the impact of the new legislation on its own waste disposal and therefore may have missed the opportunity to implement a more cost effective, planned solution.

17. It is important for the Department to disseminate the lessons from this report throughout the organisation to ensure that value for money is secured, and procurement processes are open and transparent.

Department for Social Development Resource Account 2005-06

Part 1 : Introduction and Executive Summary

Summary

Introduction

1.1 The Department for Social Development 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 and the Northern Ireland Child Support Agency, the Department is responsible for the administration of social security benefits and child support. The Northern Ireland Housing Executive is responsible for administering Housing Benefit. The Department's financial assistance to the housing and urban regeneration sectors is administered through its Resources, Housing and Social Security Group and the Urban Regeneration and Community Development Group respectively. In 2005-06, the Department accounted for expenditure of £4.6 billion on these areas, including associated administration costs, in its consolidated Resource Account.

1.2 This report:

- summarises the results of my audit and sets out the reasons for my qualified audit opinion (Part 1);
- reviews the results of my audit of expenditure on social security benefits and social fund benefits administered by the Social Security Agency and explains the reason for removing the previous qualification on benefit overpayment debtors (Part 2); and
- reviews the results of my audit of expenditure by the Department on urban regeneration and community development grants (Part 3).

Executive Summary

On the reasons for my qualified audit opinion

1.3 I have qualified my opinion on the account because of:

- significant levels of estimated fraud and error in certain social security benefits; and
- weaknesses in the financial control and monitoring of expenditure in relation to urban regeneration and community development grants to voluntary and community bodies.

Fraud and Error in Social Security Benefits

1.4 The estimated level of losses through fraud and error in social security benefits in 2005-06 is £151 million which is 4.0 per cent of expenditure on benefits.

1.5 I have qualified my audit opinion on the account because of significant levels of estimated fraud and error in certain social security benefits.

Debtor Balances – removal of previous qualification

1.6 In previous years I qualified my audit opinion as there was significant uncertainty over the accuracy and completeness of the amounts due to the Agency in respect of benefit overpayments and the Agency were unable to provide me with a sufficient audit trail to test the balances included. In 2005-06 the Agency undertook a significant amount of work on these debtor balances and I have been satisfied that the amounts included as overpayment debtors are not materially misstated, consequently I have not qualified my audit opinion on this issue this year.

Financial Control Weaknesses over Urban Regeneration and Community Development Grants to Voluntary and Community Bodies

1.7 On the basis of my audit findings, I have concluded that, although further progress has been made, the Department's financial controls and monitoring of expenditure in relation to grants to voluntary and community bodies is still not satisfactory. The basis for this conclusion is detailed in Part 3 of this report.

1.8 The Department has or is currently implementing some new initiatives to improve financial control and monitoring of expenditure. These are detailed at paragraphs 3.19 to 3.26 of this report.

1.9 As a result of the weaknesses in the Department's financial controls and monitoring of this expenditure I am unable to determine whether the expenditure was applied to the purposes intended and was regular. I have therefore qualified my audit opinion on the financial statements.

Part 2: Qualified Audit Opinion Arising from the Level of Estimated Fraud and Error in Social Security Benefits

Introduction

2.1 The Departmental Resource Account (Request for Resources A) provides for expenditure by the Department for Social Development (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.”

2.2 During 2005-06, the Department accounted for expenditure of £1.76 billion on non-contributory Social Security benefits, £1.57 billion on contributory Social Security benefits and £71 million on Social Fund expenditure, administered by the Social Security Agency. This included Income Support £462 million, Jobseeker’s Allowance £79 million, Disability Living Allowance £583 million, Attendance Allowance £187 million, Carer’s Allowance £82 million, Pension Credit £284 million, Retirement Pension & Bereavement Benefits £1,228 million, Incapacity Benefit £322 million and Social Fund £71 million. Additionally, the Department accounted for expenditure of £380 million on Housing Benefit, which is administered by the Northern Ireland Housing Executive (NIHE).

2.3 This part of my report sets out:

- the background and the accounting arrangements for this expenditure (paragraphs 2.4 to 2.6);
- NIAO audit approach (paragraphs 2.7 to 2.10); and
- summary of audit findings and conclusion (paragraphs 2.11 to 2.38).

Background and the accounting arrangements for this expenditure

2.4 Part 1 of this report explains the structure of the Department. The Social Security Agency (the Agency) is an Executive Agency within the Department. As the Agency is part of the Department, benefits expenditure accounted for within the Agency Account is also included within 2005-06 DSD Resource Account programme expenditure.

2.5 My audit of the 2005-06 Social Security Agency Account has now been completed. The Agency Account was qualified because of significant levels of estimated fraud and error in certain social security benefits. This qualification of the Agency Account also impacts upon the Department’s Resource Account.

2.6 As well as the Social Security Agency’s benefit expenditure, the Department’s Resource Account also includes Housing Benefit which is administered by NIHE and accounted for by the Department. I reported the results of my audit of the 2005-06 NIHE Accounts on 30 June 2006. The NIHE Accounts were qualified because of a limitation of audit scope as a result of the estimated losses due to fraud and error within Housing Benefit. This qualification also impacts upon the Department’s Resource Account.

NIAO Audit Approach

2.7 The Agency's Standards Assurance Unit examines statistical samples of all benefit awards on a continuous basis. From these samples they are able to monitor the accuracy of payments made, the quality of decision making and estimate the gross monetary value of error. The Unit also completes a programme of benefit reviews which are designed to produce a reasonable estimate of the level of customer fraud and error in benefit awards.

2.8 As part of our audit work in this area my staff examined and reperformed a sample of the Unit's non – contributory and social fund case work during the year for both the caseload accuracy and decision making and the benefit review exercises. I can report that I am content that the work undertaken continues to be of good standard and the results produced by the Unit are both accurate and complete. The Agency also administers contributory benefit expenditure on behalf of Her Majesty's Revenue and Customs (previously known as the Inland Revenue). As part of their work on the Northern Ireland National Insurance Fund, NAO also examine and reperform a sample of contributory benefit cases and have indicated that they consider the work of the Unit to be of a good standard.

2.9 The benefit review reports give an estimate of the levels of customer fraud and error. The information included within benefit review reports enables the Agency to consider how effective their processes have been at addressing these levels over time. The Agency also carries out financial accuracy exercises which estimate the levels of internal Agency error.

2.10 In previous years evidence available to me to support significant benefit overpayment debtor balances was limited. My staff reviewed progress made by the Agency in addressing this issue. The results of the review of this matter are outlined in paragraphs 2.32 to 2.36.

Findings

2.11 This section reviews the results of my audit of expenditure on contributory, non –contributory and means tested social security benefits administered by the Social Security Agency and NIHE.

Total levels of estimated fraud and error

2.12 In order to assist me in determining my opinion on the Department's accounts, I have prepared (see Figure 1 below) an estimate of the total level of fraud and error for 2005-06 which indicates a level of £151 million. I welcome the Agency's work in estimating total levels of fraud and error for benefits administered by it and note that the Agency intends to disclose this information in a note to the Annual Accounts in future years.

2.13 The level of fraud and error of £151 million represents 4.0 per cent of total benefit expenditure for the year, indicating a small increase from the 3.9 per cent of total benefit expenditure reported in 2004-05. I have used the Department's estimate of total levels of fraud and error for 2004-05 as those are more comparable than the figures I stated in my report last year.

2.14 I remain concerned with the overall levels of fraud and error. I recognise the considerable efforts and resources committed by the Department to address fraud and error but it is my view that these levels continue to be unacceptably high and can be reduced.

2.15 In response to the reported levels of fraud and error the Department has told me that reducing losses from fraud and error is one of the Social Security Agency's five key priorities for benefits within the Agency's control. I am concerned by the increase in the level of fraud and error for Housing Benefit from the previous year and would encourage the Department to continue to employ strategies to reduce the levels of loss. The Department has told me that the Northern Ireland Housing Executive has implemented a new Housing Benefit Strategy in 2005-06 which includes measures to prevent overpayments such as the use of information on the causes of overpayment to target client groups and problem areas. The Department advised that the Housing Executive has increased the use of datamatching and has begun a programme of regular interventions to help the reduction of fraud. Furthermore the Department has also indicated that with regard to helping reduce the level of official error the Housing Executive has introduced a programme of refresher training for existing staff in the latter part of 2005-06. The Department expects that all these measures will help address the levels of fraud and error from Housing Benefit.

Figure 1: Estimated level of fraud and error 2005-06

Benefit		2005-06 £ million	% of benefit expenditure	2004-05 £million [#]	% of benefit expenditure
Non-contributory	Income Support	25.6*	5.4	24.2*	5.0
	Jobseeker's Allowance	4.1*	4.4	6.3*	6.4
	Disability Living Allowance	54.7**	9.5	52.2**	9.5
	Attendance Allowance	4.2***	2.2	5.7***	3.1
	Carer's Allowance	7.5**	9.0	7.7**	9.0
	Pension Credit	16.3*	5.7	15.2*	5.5
	Housing Benefit	14.0*	3.7	11.6*	2.9
National Insurance Fund Contributory	Retirement Pension & Bereavement Benefits	9.2***	0.8	4.7***	0.4
	Incapacity Benefit	13.8**	4.3	13.8*	4.3
Social Fund	Payments, grants and loans	1.6***	2.3	1.5***	2.1
TOTAL		151.0		142.9	
% of benefit expenditure			4.0%		3.9%

* Benefit Review undertaken in year

** No Benefit Review undertaken during 2005 – figures estimated by applying percentage error from most recent Benefit Review

*** Financial Accuracy figure only (i.e. internal Agency error only)

[#] Restated, where necessary, to reflect most recent figures available and enhance comparability

Source: Figures provided by the Department

2.16 The Department emphasised that different factors contribute to fraud and error and referred to the comments made in a report by the House of Commons Committee on Public Accounts (the Committee) "Tackling the Complexity of the Benefits System" published in April 2006 (HC 765). The Department noted that in this report the Committee said that "the complexity of the benefits system is a key factor affecting performance" and that "the consequences of complexity include high levels of error by staff and customers. It also helps create a climate in which fraud against the benefit system can more easily take place and go undetected." Furthermore the Department highlighted that the Committee had considered the factors that are required to improve the levels of fraud and error within the complexity of the benefit system specifically stating, that "Managing complexity requires well trained staff supported by accessible guidance and assistance and efficient information technology systems." The Department also referred to an earlier report from the Committee "Fraud and Error in benefit expenditure" (HC411 published in October 2005) where it was stated that "the complexity of means tested benefits remains a key problem" "but fraud and error are unlikely ever to be brought under proper control without further action to simplify the rules". The Department highlighted that simplification of the benefit system and improvements to existing information technology are not within its control.

2.17 The Department also indicated that while the overall value of error reported has increased from £142.9m in 2004-05 to £151m in 2005-06 the actual percentage this represents of total benefit expenditure remains approximately the same at 4.0 per cent for 2005-06 compared to 3.9 per cent for 2004-05 and the increased monetary amount is mainly due to increased benefit expenditure.

2.18 The Department advised that it has in place programme protection plans to improve accuracy and identify areas for action to reduce levels of customer fraud and error and in implementing these plans it has checked almost 209,000 cases of Income Support, Jobseeker's Allowance, Disability Living Allowance, Incapacity Benefit, Retirement Pension and Pension Credit between April 2005 and March 2006 in order to prevent and detect fraud and error. The Department noted that this has resulted in a change in the amount of benefit paid, totalling £38.2m and also during this same period over 2,600 fraud cases were successfully concluded and benefit was adjusted to the value of £13.3m. The Department also indicated that in addition 985 benefit fraud sanctions such as prosecutions, Administrative Penalties and cautions were imposed.

2.19 The Department told me it is continuing to pursue vigorously its strategy of identifying and removing fraud and error that has penetrated the system while at the same time securing the gateways into the benefits system. The Department emphasised that it should also be recognised that external fraud and error is not within the direct control of the Department and there are therefore limitations on how much this can be effectively reduced. The Department also told me that improvement plans are in place across all benefits to drive up standards and reduce the levels of official error. The Department also referred me to the 2004-05 report of the Comptroller and Auditor General for the United Kingdom on the resource accounts of the Department for Work and Pensions in order to contextualise the issues facing it in relation to reducing fraud and error within a complex benefit system. In particular the Department noted that in qualifying the accounts of the Department for Work and Pensions for the sixteenth year in succession, the Comptroller and Auditor General for the United Kingdom also commented on "those aspects of complexity in the benefit system which I have long maintained are the main cause of the repeated qualification".

Disability Living Allowance

2.20 Figure 1 indicates that the level of fraud and error for this benefit represents 9.5 per cent of the expenditure on this benefit. Whilst I recognise that this is a complex benefit to administer I am concerned that the level of fraud and error remains high. I have recently issued a report on this benefit where I made a number of recommendations regarding the levels of error in the decision making process. The Agency has advised me that it has implemented specific recommendations detailed within the NIAO report and has put in place an action plan to improve performance.

2.21 I note that the most recent benefit review for this benefit related to 2003-04. I also note that the majority of cases where customer error was found were categorised as 'benefit correct, change in circumstances'. This is a new category which identifies cases where a customer's condition has improved or deteriorated but the customer has not notified the Agency of their change in condition and therefore the benefit payment is incorrect. The Agency further clarified that this category included cases where a customer's condition had improved or deteriorated but at the time of the payment the customer was not deemed at fault in not recognising the gradual change of circumstances – the resulting payments are therefore in excess of, or less than, the actual entitlement due, but still procedurally correct. My staff have had a number of discussions with Agency staff regarding this category of error and in particular methods the Agency can employ to ensure customers are more actively encouraged to inform the Agency of any change in their circumstances. In response to this issue, the Agency told me it has adopted a risk-based approach and worked with statisticians to identify the existing customers most likely to fall within this category. In April 2006 the Agency indicated that a programme has commenced which over the next 3 years will see these 'at risk' customers contacted either for a formal review or through a mailshot.

2.22 I welcome the action taken by the Agency and will monitor the impact on the levels of error for this very important and complex benefit.

Financial Accuracy

2.23 Figure 2 below indicates the total estimated level of internal Agency error reported by the Agency's Financial Accuracy process. This process is a continuous programme of measurement of the level of internal Agency error in the main social security benefits. Figure 2 also contains the estimated monetary value of error and the financial accuracy correctness as a percentage of expenditure for each benefit and the targets set by the Agency for the main benefits. The Department told me that while there is no financial accuracy target set for Housing Benefit, the NIHE currently include a Processing Accuracy Target which is set at 95 per cent of claims. The Department informed me that this target relates to the percentage of cases for which the calculation of the amount of benefit due was correct on the basis of the information available. The Department told me that the outturn for 2005-06 was 95.4 per cent.

2.24 The 2005-06 Financial Accuracy programme has indicated an estimated level of internal error of £79.8 million. Although there has been no change in financial amount and in percentage of error from 2004-05, I am concerned by the level of internal Agency errors as this type of error is within the Agency's control and significant resources have been committed to reducing these errors. I asked the Agency to comment on the seemingly static position in the levels of internal Agency error and the Agency told me that it recognises the concern

of the Comptroller and Auditor General regarding the level of internal error. The Agency indicated that the complexity of the Benefits system is one issue contributing to staff making mistakes as highlighted by the Committee of the Public Accounts (see paragraph 2.16) but, nevertheless the Agency is pursuing this problem and is working steadily to drive up quality standards. The Agency told me that in 2005-06, very demanding targets were set for financial accuracy. The Agency highlighted that, for example, Income Support, Jobseeker's Allowance, Retirement Pension and Incapacity Benefit had financial accuracy targets set at 99 per cent and that Income Support, Attendance Allowance, Carer's Allowance, Incapacity Benefit and Social Fund all exceeded 97 per cent financial accuracy. The Agency also stated that in reality it is a very difficult task to maintain these levels of financial accuracy let alone improve them especially in the context of staff headcount reductions. The Agency also pointed out that the financial accuracy calculation is a statistical estimating process based on random sampling and sample sizes used have a tolerance of around +/- 1 per cent, so actually measuring the limited improvements now possible in most benefits is becoming increasingly difficult to do with statistical precision. The Agency feels that overall the financial accuracy results do reflect the major effort that has been made to improve accuracy across all benefits and realistically fulfils expected performance improvement year by year. However, the Agency does concede that there is still room for improvement in Disability Living Allowance and Pension Credit and are working to that objective. The Agency told me that in both of these benefits a lot of the error lies in the caseload and efforts are being focussed on 'at risk' cases to seek improvement.

2.25 I would encourage the Agency to continue to consider methods and processes to reduce the levels of these errors and I would expect to see a decreasing trend when I consider these figures during my 2006-07 audit.

2.26 Figure 2 also indicates that six financial accuracy targets covering the major benefits were set by the Agency. In 2005-06, three of the six targets set were achieved. The Agency told me that the target for Incapacity Benefit was also achieved as its result was within the statistical tolerance level. The Agency also told me that it considers that the very exacting targets which have been set attest to the Agency's commitment to do better and that improvement plans are in place across all benefit areas to drive up standards.

Figure 2: Internal Agency Financial Accuracy

Benefit	2005-06 Monetary Value of Error £million	2005-06 Financial Accuracy Correctness as a % of Expenditure	2005-06 Target	2004-05 Monetary Value of Error £million	2004-05 Financial Accuracy correctness as a % of expenditure	2004-05 Target
Non-contributory						
Income Support	11.0	97.7%	99.0%	11.0	97.8%	98.5%
Jobseeker's Allowance	0.7	99.2%	99.0%	1.6	98.4%	98.5%
Disability Living Allowance	37.3	93.5%	96.0%	36.0	93.5%	95.0%
Attendance Allowance	4.2	97.8%	Not available*	5.7	96.9%	Not available*
Carer's Allowance	1.1	98.7%	Not available*	0.9	98.9%	Not available*
Pension Credit	11.0	96.2%	96.0%	12.7	95.4%	95.0%
National Insurance Fund Contributory						
Retirement Pension & Bereavement Benefits	9.2	99.2%	99.0%	4.7	99.6%	95.0%
Incapacity Benefit	3.7	98.8%	99.0%	5.7	98.2%	98.5%
Social Fund						
Payments, grants and loans	1.6	97.7%	Not available*	1.5	97.8%	Not available*
TOTAL	79.8	97.7%		79.8	97.6%	

* Not available as targets not set for these benefits

Tackling Customer Fraud and Error

2.27 As part of the ongoing efforts to address the level of customer fraud and error, the Agency established the Benefit Security Directorate in 1998 to coordinate and drive strategies for reducing fraud and error. Following from this, the Benefit Investigation Service (BIS) was introduced to contribute to the reduction in customer generated benefit fraud. BIS's services are also extended to cover Housing Benefit under a Service Level Agreement with NIHE. In 2005-06, BIS's work lead to benefits being adjusted in over 40 per cent of their investigations.

2.28 The following two case studies illustrate the positive work being done by BIS.

Case Study 1 – Claiming benefit during a period of employment

This case arose from a data matching process which identified that the customer had been working during the time he was claiming and receiving Job Seekers Allowance. Checks performed on the benefit system revealed that the customer had been employed for a 12 week period before he had ceased to claim the benefit. The employer was contacted and the employment details confirmed. The customer was interviewed under caution and, after initially denying the allegations, admitted to the circumstances on seeing the evidence. The overpayment was confirmed as £668.28 and the benefit Decision Maker deemed an administrative penalty of £200.48 appropriate. Procedures were followed and a decision was taken to offer the customer to pay an ‘administrative penalty’. The customer accepted the decision and the repayment of the amounts due from the customer has now commenced.

Case Study 2 – Living together as husband and wife

An anonymous telephone call was received in alleging that Customer X was claiming benefit and living with their partner. Various lines of enquiry were pursued and details were taken from the Driving Vehicle Licensing Agency showing that the Customer’s partner’s car was registered to the Customer’s address. Authorised surveillance was carried out over an extended period of time and showed that the Customer’s partner may reside at that address. The Customer, accompanied by a solicitor, was interviewed under caution and denied the allegation. The benefit Decision Maker accepted the evidence and raised an overpayment of £5,086.19. The information was gathered and passed to the Public Prosecution Service (PPS) who confirmed that the case would be taken forward for prosecution. The Customer was found guilty and received a conditional discharge on two counts for 12 months each. The Customer has now commenced repayment of the amounts fraudulently claimed.

2.29 I note the recently published report from the Criminal Justice Inspection Northern Ireland ‘Inspection of the Benefit Investigation Service of the Social Security Agency.’ The report highlighted a number of areas of good practice within BIS but noted that there is scope for improvements. In particular, a joined up approach to manage counter fraud activities within the Agency and using the information the system generates to target fraud would help tackle fraud more effectively. In response to the Report, the Agency has developed an action plan to implement the major recommendations as soon as possible. I will monitor the Agency’s progress on this action plan.

2.30 The progress of the Agency in tackling issues related to fraud and error in the administration of social security benefits will also be addressed in a value for money report on Social Security Fraud and Error which I am currently undertaking.

2.31 As noted in paragraph 2.10 my staff reviewed the progress made by the Agency in respect of Social Security programme debtor balances.

Contributory and Non Contributory Benefit Overpayment debtors - Removal of previous audit qualification

2.32 In previous years I qualified my audit opinion on the Department's account because of the uncertainties regarding the amounts included as benefit overpayments. In 2005-06 the Social Security Agency undertook a significant amount of work on the debtors balance and I can confirm that as a result of the testing completed by my staff I am able to remove the previous qualification on these balances.

2.33 Overpayments to customers arise as a result of fraud or error on the part of the customer, and to a lesser extent errors by officials. Currently when an overpayment is identified, local social security offices notify Debt Management Unit (DMU). DMU records the amount of the overpayment on their debt management system, the Overpayment Recovery System (OPREC) and pursue recovery. These and subsequent movements in debt outstanding are posted to the Programme Accounting Computer System (PACS) general ledger in total rather than by the individual amounts. In previous years the debtor balance recorded in the PACS general ledger was considered to be more accurate, and being lower, more prudent and this was the balance that was included within debtors in the accounts. However, the PACS system cannot provide a listing of individual customers owing money for my staff to test. A listing of individual balances was available from the OPREC system but the total overpayments did not agree with the balance recorded on the PACS system. In previous years the Agency were unable to satisfactorily reconcile the two balances and as a consequence I was uncertain about the accuracy and completeness of the overpayment debtors balance in the accounts and I had qualified my audit opinion on the basis that the scope of my audit was limited.

2.34 However, in 2005-06 a significant amount of work has been invested by Agency staff to address my concerns about the overpayment debtor balance. An exercise to validate and update the individual customer balances on the OPREC system was undertaken and the results indicated that the debtor balances on OPREC were robust to the extent that it was considered more accurate for the overpayment debtor in the 2005-06 Agency accounts to be based on the OPREC balance. Consequently my staff had access to an overpayment debtors listing that agrees with the balance shown in the accounts to perform audit work on.

2.35 I previously had concerns about the completeness of customer overpayment debt. However, this year in preparation for the Debt Modernisation Project the Agency has put significant effort into addressing my previous audit concerns over completeness and as a result they have identified a high level of debt cases which have not yet been fully assessed and included on OPREC at the year end. These cases are considered to be "potential debt" until operational staff have correctly established whether a genuine overpayment debt does in fact exist. Using historical statistical information the Agency has estimated the value of this "potential debt" to be £8.5 million and this figure has been accounted for within debtors in the 2005-06 accounts. I am concerned that such a significant level of unassessed debt (27,990 cases) exists within the Agency and strongly encourage the Agency to take immediate steps to fully assess the amounts due and pursue the outstanding balances. I asked the Agency to comment on this matter and it told me that a reduction in the level of unassessed debt is one of the priority areas for the Debt Modernisation Project. The Agency informed me that operational managers have put in place recovery plans to clear the backlog of unassessed debt cases. Furthermore the Agency indicated that the objectives of the Debt Modernisation Project will also contribute to more streamlined debt management processes and the more efficient management of benefit overpayment debt.

2.36 The Agency acknowledge that the systems for handling overpayment debtors have been largely unsatisfactory for a number of years and it is currently introducing an IT system, a revised management structure and business processes as part of the Debt Modernisation Project. The new IT system (Debt Manager) will replace OPREC and will be operational by October 2006. I will closely monitor the anticipated improvements that this new system will deliver in terms of accuracy of debt information and recovery of debt in future audits.

Summary of audit findings

Fraud and Error in Social Security Benefits

2.37 I have estimated the total level of fraud and error for 2005-06 as £151 million, which represents 4.0 per cent of total benefit expenditure.

Conclusion

2.38 In forming my audit opinion I am required to confirm that the account is free from material misstatement, whether caused by error, fraud or irregularity. I have qualified my audit opinion on the account due to the material level of estimated fraud and error in benefit expenditure totalling £151 million (see Figure 1).

Part 3 : Qualified Audit Opinion Arising from Weaknesses in Financial Control and Monitoring of Expenditure in Relation to Urban Development and Community Development Grants to Voluntary and Community Bodies

Request For Resource C : Urban Regeneration And Community Development

Introduction

3.1 The Departmental Resource Account (Request for Resource C) includes expenditure by the Department for Social Development on urban regeneration and community development. During 2005-06 the Department paid out £69 million (2004-05 £75 million), in respect of expenditure on Urban Regeneration and Community Development grant. Much of the expenditure is administered through third parties such as Intermediary Funding Bodies, community groups, voluntary organisations and statutory bodies.

3.2 I have qualified my audit opinion on the expenditure in this area for the past six years on the basis of weaknesses in the Department's financial controls and monitoring of this expenditure. My examination of the 2005-06 expenditure in this area has revealed that, although significant progress has been made and a number of new developments introduced, the Department's control and monitoring of grants made to voluntary and community bodies is still not satisfactory. I explain the basis of my opinion in paragraphs 3.3 to 3.18 below. I have also revisited and commented on major new initiatives that have been introduced or developed in 2005-06.

NIAO Audit Opinion

3.3 I have formed my audit opinion on the basis of the following audit approach;

- a review of the findings of the work completed by the Department's Internal Audit Unit and in particular its annual assessment made of this area of the Department's expenditure (paragraphs 3.4 to 3.7);
- specific testing of the operation and adequacy of key financial controls by examining a sample of projects funded by the Department during the year (paragraphs 3.8 to 3.11); and
- a review of the work carried out by the Quality Assurance and Improvement Unit (paragraphs 3.12 to 3.17).

Review of Internal Audit findings

3.4 The Department's Internal Audit Unit prepares an annual audit plan, based on a risk assessment for each major part of the Department's activities. Internal Audit then reports progress and findings to the relevant audit committees and presents an annual assurance report to the Department's Accounting Officer. The annual assurance report includes an

overall opinion, based on internal audit's findings from the agreed programme of work. The opinion ranges from no assurance¹, then limited assurance², substantial assurance³ and full assurance⁴.

3.5 Internal Audit's annual assurance report for 2005-06 concluded that the overall assurance rating for the Urban Regeneration and Community Development Group (URCDG) remains at 'limited assurance' as given in 2004-05. This conclusion was an overall evaluation of the URCDG's activities based on the audit testing which included administration and programme expenditure.

3.6 In arriving at the limited assurance rating, Internal Audit stated in the annual assurance report that there was already evidence of a number of positive signs which are being explored further in the current audit programme. Internal Audit will review the position upon completion of the current work. The report further noted that as a number of new processes were bedding in during 2005-06, Internal Audit will reassess this assurance rating next year.

3.7 In considering the overall assurance for programme expenditure Internal Audit acknowledged the continued improvement within URCDG.

NIAO examination of project payments

3.8 My staff examined a sample of urban regeneration and community development projects funded by the Department during the year. I noted a significant decrease in the number of weaknesses found in these projects from that in previous years. However, I am still concerned at the nature of the weaknesses found and in particular that the majority of the weaknesses found during my testing were due to non-adherence to the Department's own procedures.

3.9 During 2005-06 URCDG introduced an enhanced checking regime and a system of reporting the results of management checks for some parts of the group. Since October 2005 the URCDG management group now consider the findings from management checks at its monthly meeting. As a result of the review of these management checks, the necessary remedial action is taken and this can include specifically tailored training sessions.

3.10 I am encouraged by this demonstration of senior management commitment within the group to addressing the weaknesses identified. The process of performing management checks and the review of these was operating for part of the 2005-06 year. Internal Audit have reviewed the checking and review process and have raised a number of issues that relate to the presentation and interpretation of the information contained within the monthly reports.

1 No assurance - control is generally weak, leaving the system open to significant error or abuse and/or non-compliance with basic controls leaves the system open to error or abuse.

2 Limited assurance - weaknesses in the system of control are such as to put the system objectives at risk and/or level of non-compliance puts the system objectives at risk.

3 Substantial assurance - while there is, basically, a sound system, there are weaknesses which put some of the objectives at risk and/or there is evidence that the level on non-compliance may put some of the system objectives at risk.

4 Full assurance - there is a sound system of control designed to achieve the system objectives and the controls are being consistently applied.

These need to be addressed by the Group Management Board with the aim of enhancing its monitoring role within the process. I will review the effectiveness of the management checks during my 2006-07 audit when the process is fully embedded.

3.11 As noted above my audit testing of project payments indicated a smaller number of weaknesses than in previous years. However, in my view the types of weaknesses my staff found continue to be within the Department's control. I am encouraged with the additional steps taken by the Department in 2005-06 and remain cautiously optimistic that such initiatives will lead to further improvements in 2006-07.

Quality Assurance & Improvement Unit

3.12 URCDG established Quality Assurance and Improvement Units in three of its areas over the last number of years. In October 2005 the group centralised the quality assurance function establishing a new Quality Assurance and Improvement Unit (QAIU) which later incorporated the Central Advice and Guidance Unit (CAGU).

The aims of QAIU are:

- To strengthen its quality assurance arrangements;
- to provide group management with independent assurance on the quality and adequacy of evidence held on project files to support funding decisions and claims for payment;
- to assist in the monitoring and evaluation of projects and funding programmes; and
- in conjunction with the CAGU function to make recommendations to improve quality across the Group by addressing any significant concerns identified.

3.13 During 2005-06 the centralised QAIU function performed checking of project application and payment made in three of its offices, Belfast Regeneration Office (BRO), North West Development Office (NWDO) and the Regional Development Office (RDO) from October 2005. The results of these checks are reported to the monthly Group Management Board and submitted to the Departmental Management Board for discussion. I have reviewed these reports for the period in operation and am pleased to report that there is a general improvement in the standard and output of the management checks from the individual business areas.

3.14 Internal Audit also reviewed the new centralised QAIU and commented that it considers QAIU to be a well founded concept and that the work of the Unit, to date, is of the required standard and can be relied upon by management. Internal Audit also acknowledged that management are still developing the role of the Unit along with formalising the processes, procedures and targets for the work carried out by QAIU. The review by Internal Audit identified some issues which are currently being taken forward by QAIU to enhance the operations and effectiveness of the unit.

3.15 I am particularly encouraged by the involvement of both the Group and Departmental management in the consideration of the findings from the checks carried out by both local management and the Quality Assurance and Improvement Unit. I acknowledge that the Unit is still developing and welcome the extension of QAIU to all operational areas. I recommend

that URCDG implements the recommendations made in the Internal Audit reports on this area as soon as possible.

3.16 The QAIU checks and the reporting of these checks increases the profile of the quality improvement measures being taken by the group. The Department told me that QAIU will continue to sample in those areas deemed to be of greater risk. The Department notes that it considers that significant progress has already been made since the introduction of the QAIU checks and reporting process.

3.17 The establishment of a centralised Quality Assurance and Improvement Unit has undoubtedly contributed to the improvements in control realised by URCDG during 2005-06. I note that the centralised QAIU has been operational since the 31 October 2005 and therefore consider that the actual benefits of the enhanced process will take some time to bed in. I will review the work of QAIU during my 2006-07 audit.

Overall Conclusion

3.18 As part of my audit of the Department's financial statements, I am required to satisfy myself, in all material respects, that the expenditure and income shown in their accounts have been applied to the purposes intended by Parliament and conform to the authorities⁵ which govern them, that is, that they are "regular". It is my view, on the basis of the audit findings in paragraphs 3.4 to 3.17 above, that, although significant progress has been made, the Department's financial controls and monitoring of expenditure in this area are still not satisfactory. These system weaknesses are sufficiently significant for me to have insufficient assurance that URCDG expenditure has been applied to the purposes intended by Parliament and conforms to the authorities which govern them. I have therefore decided to qualify my audit opinion on the regularity of this expenditure.

New or ongoing initiatives within the Urban Regeneration and Community Development Group

Central Advice & Guidance Unit

3.19 The New Common Systems Project was set up to provide URCDG with a standardised system for grant administration in June 2005. The project has now established a Central Advice and Guidance Unit (CAGU) who have a varied remit which includes providing timely and accurate advice to staff within URCDG, updating procedural guidance as necessary, providing training and monitoring accuracy levels throughout URCDG in conjunction with QAIU. I am pleased to report that this has bedded in well and that this approach provides a sound basis for ensuring that projects are subjected to a consistent and robust system of control supplemented by the various checking regimes. CAGU is now incorporated within the centralised QAIU as detailed in paragraph 3.12 above.

⁵ Authorities include the legislation authorising the expenditure, the regulations issued to comply with that legislation, Parliamentary authority and DFP authority.

Approval and Review Panels

3.20 The Department told me that it has established Approval Panels in both BRO and RDO and consider the panels are operating effectively. The Approval Panels are made up from members of the respective Senior Management Teams and the panel is required to examine grant applications or projects and decide on whether they should be approved or rejected. In addition to the Approval Panel's consideration of submitted projects, the Department has told me that the Approval Panels often suggest changes that further enhance quality and this has helped BRO and RDO to learn and continuously improve.

3.21 The Department also told me that a Review Panel has been operating effectively in NWDO since September 2004. The Review Panel's remit is to examine pre approval projects and make recommendations on funding. It is the Department's view that the operation of the Review Panel in NWDO has realised the same level of quality improvement benefits as the Approval Panels in BRO and RDO.

3.22 It is my view that the introduction of the Approval and Review Panels has strengthened the decision-making process within BRO, RDO and NWDO. However I would encourage the Department to monitor the requirement for the Approval and Review Panels to assess all projects where indications are that the standards of decision making are continuing to increase. The Department told me that it considers that the current panel approval procedures are working well and have been integrated into the routine management meetings. The Department considers that these panels help promote a consistency of approach and have been instrumental in improving decision making and promoting best practice. In addition the Department believes that these improvements in governance have helped to improve the internal audit rating for this area, and it will only consider reducing the remit of the panels, with the possibility of moving to a risk based model, when internal audit move the Group to a substantial assurance rating.

Risk Based Assessment

3.23 My previous reports on this area have indicated that, in my view, the Department should make greater use of risk assessment in its consideration of the required levels of monitoring and verification to ease the burden of grant administration on the voluntary and community sector. This issue was also raised by the House of Commons Committee of Public Accounts (the Committee) in its report "Working with the Voluntary Sector" (HC717) where it was stated "the sector should expect to account for public monies received, but monitoring should be proportionate to the level of funding provided as excessive procedures undermine value for money." I concur with this view of the Committee and recommend that the Department continue to consider its procedures to ensure that they are proportionate not only to the level of funding provided but reflect also other relevant risk factors.

3.24 In the 2004-05 year, formal approval was given for a pilot to commence to develop an improved system of grant expenditure verification which would be of benefit to the Volunteer Development Agency (VDA), to the groups they assist and Voluntary Community Unit (VCU) in the longer term. The pilot exercise consisted of risk assessments performed on the controls operating within funded bodies to determine whether a reduction in the level of vouching could be achieved. The pilot was undertaken with a view to roll out the risk management process to other programmes throughout URCDG. Internal Audit carried out a review on the

pilot and its report acknowledges that VCU have established the basic key elements of the risk management approach in respect of the grant verification work and have developed and produced relevant documentation to carry out this process. Internal Audit also recognised in its report that initial training has been provided by management for both the voluntary groups and VCU staff through seminars to communicate the new risk based approach and improve the understanding of risk management of all the interested parties. However, there are a number of improvements, which have been identified by Internal Audit which will enhance the current process resulting in a more robust risk management.

3.25 I asked the Department when it plans to extend this risk assessment to all areas of URCDG. The Department told me that the risk management approach to vouching payments is a developing process and that since April 2006 the payments team has transferred from VCU to the Finance, Planning & Governance Unit. The Department also informed me that that the risk based assessment process is currently being enhanced by VCU through the implementation of the recommendations from Internal Audit and the Group are also testing the risk based payments system as a centralised function in a pilot environment using VCU programmes. The Department indicated that following an evaluation of both the robustness and effectiveness of the centralised risk based approach, further consideration will be given to extending the process to the remaining operational areas.

3.26 I am disappointed that this risk based approach to monitoring and verification has not been expanded to other business areas within URCDG. I would strongly recommend that the risk based method of considering the extent of grant verification and monitoring required is implemented across URCDG after the improvements identified by Internal Audit have been incorporated into the process. The Department told me that URCDG is to commission an exercise to review its current grant administration procedures to ensure there is a balance between proper governance and improving support to the voluntary and community sector. The Department believe this will contribute to implementing change that will be consistent with government's intent to support the voluntary and community sector to enable better engagement in the delivery of services through more efficient and effective funding procedures. I will continue to monitor developments in this area during my next audit.

Part 3

Executive Agency and Non- Departmental Public Body Accounts

Northern Ireland Child Support Agency

Client Funds Account 2005-06

Executive Summary

Introduction

1. The Northern Ireland Child Support Agency is an Executive Agency of the Department for Social Development.
2. The Agency's Client Funds Account shows that £13.2 million was received from non-resident parents during 2005-06, £9.8 million was paid to persons with care and £2.9 million was paid to the Department for Social Development, where persons with care are in receipt of income support. At 31 March 2006, the value of maintenance balances outstanding from non-resident parents, and considered collectable, totalled £26.3 million.
3. I am required under section 11(3) of the Government Resources and Accounts Act (Northern Ireland) 2001 to examine and certify the Northern Ireland Child Support Agency Client Funds Account. This report brings to Parliament's attention significant matters arising from my examination of the Account for 2005-06.

Audit Examination of the Client Funds Account for the year 2005-06

4. I have qualified my audit opinion on the Agency's Client Funds Account for 2005-06 because, following my examination of a representative sample of cases, 6 per cent of receipts from non-resident parents, 48 per cent of full maintenance and maintenance calculation debt balances and 20 per cent of interim maintenance and default maintenance debt balances were for the wrong amount. This is mainly as a result of errors in the underlying maintenance assessments and incorrect adjustments to customers' accounts.
5. Based on the 2005-06 results, I estimate that overpayments by non-resident parents amounted to £25,512, while underpayments amounted to £347,015. I also estimate that at 31 March 2006 recoverable debt relating to full maintenance assessments and maintenance calculations contained overstatements of £1,853,046 and understatements of £1,773,344, and debts relating to interim maintenance assessments and default maintenance decisions contained overstatements of £678,558 and understatements of £254,735.

Current and future developments in the Child Support Agency

6. Child Support Reforms that implemented simplified rules (known as "new scheme" rules) relating to maintenance assessments were introduced in March 2003 after some delay because the testing of the new computer system had not been satisfactorily completed. These

Reforms were intended to result in more accurate and timely maintenance assessments and improved compliance with maintenance obligations. However the continuing functionality deficiencies with the new computer system has delayed the transfer of all cases to the new computer system and to the simplified new scheme rules. The bulk of the Agency's caseload remains based on the old scheme rules and therefore the impact is that the reduced error rates and improved service delivery expected from the Reforms have still not yet materialised. Part 3 of my report refers to the Agency's current action plan to address its operational problems.

Part 1 : Background to the Agency

Introduction

1.1 The Northern Ireland Child Support Agency is an Executive Agency of the Department for Social Development. It was established in April 1993 to operate a system of child maintenance introduced by the Child Support (Northern Ireland) Order 1991 and implement changes within the Child Support (Northern Ireland) Order 1995 and the Child Support, Pensions and Social Security Act (Northern Ireland) 2000. The principal activities of the Agency are as follows:

- **establishing child support** – contacting non-resident parents, arranging the resolution of paternity disputes and calculating child maintenance;
- **establishing regular payment patterns** – notifying non-resident parents and persons with care of the amount of maintenance to be paid and arranging a payment method between both, monitoring payments to ensure that a pattern of regular payments is established, collecting and relaying payments at the request of either party, pursuing late or missed payments promptly and taking action to recover arrears using the full range of the Agency's enforcement powers; and
- **maintaining child support** – by keeping assessments up to date when a change is reported, preparing and presenting appeals to be heard by the Appeals Service and liaising with other Government Departments, Agencies and public bodies.

1.2 Prior to the introduction of the Child Support Reforms, which became effective from the 3 March 2003, child maintenance was calculated on the basis of formulae laid down in legislation. This report refers to maintenance assessments under the legislation as "old scheme" and assessments calculated under the Child Support Reforms as "new scheme". The official terminology for cases under "old scheme" is initial and final maintenance assessments and those cases under "new scheme" are default maintenance decisions and maintenance calculations. Note 5.2 to the Client Funds Account gives wider definitions to these terms.

1.3 The anticipated conversion of all old scheme cases into new scheme has not yet been achieved due to the ongoing problems with the stability and functionality of the new computer system. Therefore the majority of transactions in the CSA Client Funds Account for 2005-06 are based on the old scheme. The old scheme calculations were inherently complex as it was necessary to obtain personal details of both the non-resident parent and the person with whom the child mainly resides (the "person with care"). This involved gathering information on income, housing costs and other expenses from customers who may have been reluctant

to provide it. Consequently there was significant risk of error occurring in the assessment process. The aim of the new scheme is to substantially simplify the calculation of maintenance assessments with a view to speeding up the process and reducing the level of errors. Any new applications are assessed using the new scheme rules.

Part 2 : Examination of the Client Funds Account

Introduction

2.1 This part of my report outlines the form of the Client Funds Account, sets out the basis of my examination of the account, summarises the outcome of my audit of transactions and balances and explains why I have qualified my audit opinion on the Account.

The Northern Ireland Child Support Agency's Client Funds Account

2.2 The Northern Ireland Child Support Agency's Client Funds Account is prepared on a cash basis and shows the amounts received by the Agency from non-resident parents, the maintenance subsequently paid over to persons with care and the sums paid to the Department for Social Development, where persons with care are in receipt of income support. The Agency maintains accounting records on its Child Support Computer System and on the Child Support 2 (CS2) system for individual non-resident parents. The maintenance outstanding at 31 March 2006 disclosed at note 6.1 to the Client Funds Account is derived from the balances on these individual accounts from the two systems.

2.3 The Client Funds Account shows that during 2005-06 the Agency received £13.2 million (2004-05 £12.9 million) from non-resident parents. Based on this amount £9.8 million (2004-05 £9.1 million) was paid over to persons with care and £2.9 million (2004-05 £3.5 million) to the Department for Social Development, where persons with care are in receipt of income support. Further payments of £0.3 million (2004-05 £0.3 million) comprised refunds of overpayments to non-resident parents.

2.4 At 31 March 2006, the balance of full maintenance assessments and maintenance calculation debt outstanding totalled £19.2 million (2004-05 £11.4 million) while the balance of interim maintenance assessments and default maintenance decisions debt outstanding totalled £7.1 million (2004-05 £2.6 million). The balances disclosed in notes 6.1 and 6.2 in relation to full maintenance, maintenance calculations, interim maintenance and default maintenance decision amounts outstanding exclude balances that the Agency regards as probably and possibly uncollectable.

2.5 Note 6.1 to the Account shows that probably and possibly uncollectable debt has resulted in full maintenance assessment and maintenance calculation balances shown in note 6.1 being reduced by £21.1 million and interim maintenance assessment and default maintenance decision balances shown in note 6.1 being reduced by £11.2 million at 31 March 2006.

2.6 The probably and possibly uncollectable amounts relate to amounts which are likely to be very difficult to collect due, for example, to the lack of recent payments from the non-resident parent or the personal circumstances of the non-resident parent. However, the amounts outstanding on individual cases still remain due in full and the Agency continues to consider any new facts brought to its attention regarding collectability. It has not waived its discretion to take action in the future to collect any amount outstanding which becomes collectable.

Audit Results

Basis of Testing

2.7 I have examined representative samples of receipts from non-resident parents and maintenance debt balances. The results of these examinations allow me to confirm the existence of material error within the account but are subject to margins of statistical uncertainty. In 2005-06 my staff examined 70 receipts, 50 full maintenance assessment cases / maintenance calculations involving some 227 assessments (2004-05; 190 assessments), and 30 interim maintenance assessment cases/ default maintenance decisions involving 34 assessments (2004-05; 32 assessments).

Receipts and Payments

2.8 From the representative sample of receipts from non-resident parents in 2005-06, I found that in 94 per cent of cases examined the receipts were correct. In 6 per cent of cases the receipts were for the wrong amount because of errors in the underlying maintenance assessments.

2.9 The Agency's independent Case Monitoring Team reported that the accuracy of the cash value of decisions made on old scheme cases in 2005-06 was 97 per cent against a target of 85 per cent. This is an increase in performance from 2004-05 where an 89 per cent accuracy rate was achieved. The accuracy performance achieved for new scheme cases was 97 per cent against a target of 91 per cent. This also represents an increase in performance where a 92 per cent accuracy rate was achieved in 2004-05 for new scheme assessments.

2.10 The Agency's method of calculating cash value accuracy was changed from 2001-02 so that only the accuracy of the last decision on an assessment is measured, rather than looking back over decision making throughout the life of the claim. My audit, on the other hand, examines the cash value of client funds received each year and subsequently paid out by the Agency, together with the amount of maintenance outstanding at the year-end. This involves examining each assessment decision over the life of the claim. Due to this difference in approach and reporting methodology the Case Monitoring Team's results are not directly comparable to my results in respect of receipts. Nevertheless, in my view, both sets of results show unacceptable levels of inaccuracy.

2.11 In my report last year I expressed concern that the targets set by the Agency in respect of cash value accuracy for 2005-06 were lower than those previously achieved. I note that the targets set for 2006-07 in respect of cash value accuracy is 90 per cent for the old scheme and 92 per cent for the new scheme. Both these targets are less than previously achieved. I asked the Agency to explain the basis for setting the targets at a reduced level. The Agency told me that the targets set for 2006-07 were higher than those set for 2005-06, were in line with those

set for the Great Britain Child Support Agency and were agreed in the knowledge that the work associated with the Agency's Operational Improvement Project could adversely affect performance in the short-term.

2.12 The regular reports produced by the Case Monitoring Team are examined by the Standards Committee. The Standards Committee is chaired by an independent chairperson and reports annually to the Agency's Chief Executive. A copy of the report is also laid in the Northern Ireland Assembly. My staff recently met with the Standards Committee Chairman to discuss our respective review and reporting methodologies and to discuss the findings of my audit and the results of the Case Monitoring Team's work during the year. This proved to be mutually beneficial.

2.13 The sampling techniques used in the audit have enabled me to extrapolate the results to provide an estimate of the level of monetary error in the receipts and payments account. I estimate that overpayments by non-resident parents amounted to £25,512 (0.2 per cent of total receipts) while underpayments amounted to £347,015 (2.6 per cent of total receipts). On this basis, the total estimated overpayments and underpayments are a material sum and I have therefore qualified my opinion.

Maintenance Balances

2.14 I examined a representative sample of balances due from non-resident parents in 2005-06. This required verification of all transactions supporting each balance and a re-performance of the assessments, charges, transactions and adjustments made throughout the lifetime of the case. This examination identified errors in 48 per cent of full maintenance and maintenance calculation balances and 20 per cent of interim maintenance and default maintenance decision balances. However, as interim maintenance and default maintenance decision assessments are set at punitive rates which do not take into account the non-resident parent's ability to pay, these balances have been reduced by approximately 61 per cent in the Account as probably and possibly uncollectable.

2.15 Extrapolation of the audit results indicates that the £19.2 million shown in note 6.1 to the Account as due from non-resident parents for full maintenance assessments and maintenance calculations at 31 March 2006 is likely to include overstatement errors amounting to an estimated £1,853,046 (10 per cent of the amount outstanding) with understatement errors amounting to an estimated £1,773,344 (9 per cent of the amount outstanding).

2.16 Similarly, I estimate that the £7.1 million shown in note 6.1 as due for interim maintenance assessments and default maintenance decisions at 31 March 2006 is likely to include overstatement errors amounting to an estimated £678,558 (10 per cent of the amount outstanding) with understatement errors amounting to an estimated £254,735 (3.6 per cent of the amount outstanding).

2.17 Figure 1 below indicates an increasing level of total errors per assessment from 2003-04. In my opinion the Agency should be concerned by these results which seem to indicate a continued deterioration in performance. I asked the Agency to comment on this upward trend in the number of errors. The Agency stated that it noted this increase in the number of errors detected however it was pleased that the action taken during 2005-06 had helped reduce the value of the under and over statement errors found by audit by almost 40 per cent compared to

2004-05 and it anticipated that the implementation of life cycle and case segmentation, as part of the Operational Improvement Project, will lead to further improvements in the future.

Figure 1 : Analysis of Percentage Errors found per number of assessments examined from 2005-06 examination of Full Maintenance / Maintenance Calculation and Initial Maintenance / Default Maintenance Decisions

Type of Assessment	Number of Assessments Examined	Number of Errors	2005-06 % of Errors per Assessments Examined	2004-05 % of Errors per Assessments Examined	2003-04 % of Errors per Assessments Examined
FMA / MC ¹	227	67	29%	23%	18%
IMA / DMD ²	34	8	24%	44%	19%
Total	261	75	29%	26%	18%

¹ FMA / MC – Final Maintenance Assessment / Maintenance Calculation

² IMA / DMD – Initial Maintenance Assessment / Default Maintenance Decisions

Source: Northern Ireland Audit Office audit examination

2.18 In the light of these results, I have concluded that the amounts reported in notes 6.1 and 6.2 as being due from non-resident parents at 1 April 2005 and 31 March 2006 are materially misstated. Consequently in my view these notes do not properly present the maintenance balances due and I have qualified my audit opinion.

Debt Analysis Exercise

2.19 The Agency uses a theoretical model to determine the collectability of its debt. This model is examined by my staff to determine the validity of the assumptions made within it and it is tested by the Agency and my staff to ensure that the model has been accurately applied to establish the levels of collectable, and uncollectable debt. My staff tested a sample of cases from the debt analysis exercise to ensure that the Agency had properly classified the total debt as at 31 March 2006. I note that this reperformance of the debt analysis exercise for CS2 debt carried out by both my staff and the Agency's staff indicated a significant number of incorrect classifications in the original exercise. The Agency relies very heavily on the proper execution of the debt analysis exercise to derive the correct classification of debt and therefore I would strongly encourage the Agency to ensure the exercise is carried out accurately and is properly checked.

Conclusion

2.20 The levels of error in receipts, payments and maintenance balances continue to be unacceptable. The implementation of the Child Support Reforms and the new computer system (CS2) has been problematic for the Agency and this continues to impact upon the accurate processing of cases both on the old and new schemes. My audit has indicated an unacceptable level of errors in 2005-06 both in monetary value and in percentage terms. I include further comments on the implementation of the Child Support Reforms and the CS2 in the final part of this report.

Part 3: Current and future developments in the Child Support Agency

Introduction

3.1 The operational and delivery difficulties within the Child Support Agency have drawn adverse media attention over the last few years. As indicated in the Executive Summary of the report the Child Support Reforms which aimed to simplify the rules for child maintenance assessments were introduced in March 2003. However the full implementation of the Reforms has been delayed by the functional difficulties with the new computer system (CS2). The Northern Ireland Child Support Agency (the Agency) is totally dependent on its Great Britain counterpart for the development, testing, implementation and maintenance of both the old and new computer systems it currently operates. The new computer system was procured under a Private Finance Initiative scheme and Electronic Data Systems Limited (EDS) was contracted to design, develop, test and implement the new system.

3.2 In my report last year I referred to a report¹ produced by the House of Commons Work and Pensions Committee in January 2005 when it undertook an inquiry into the performance of the Child Support Agency in Great Britain. The Committee's report was based on the Great Britain Child Support Agency but as the two Agencies work so closely together many of the issues directly impact the Agency. This part of my report considers the current position of the Agency in respect of the implementation of the Child Support Reforms and follows up on the issues highlighted in my report last year in respect of the problems it has been having with the new computer system and some other aspects impacting upon the Agency's performance.

GB CSA Operational Improvement Plan

3.3 In response to severe Parliamentary and public criticism the Great Britain Child Support Agency undertook a thorough review of its operations and a three-year Operational Improvement Plan was produced in February 2006. The objective of this plan is to dramatically change the way in which the Great Britain Child Support Agency operates with specific aims to improve services to clients, increase the amount of money collected, achieve greater compliance from non-resident parents and provide a better platform from which to implement evolving policy in the future. The Agency is in close contact with developments in Great Britain and are currently reviewing their structures and operations in light of this Operational Improvement Plan. I have been told that it is expected that many of the proposed changes will be replicated by the Agency. The actions proposed for resolving the IT problems will most certainly impact directly on the Agency. Alongside the Operational Improvement Plan, the Government announced that Sir David Henshaw would lead a project to re-design the future policy and delivery arrangements for child support. The Operational Improvement Plan is considered to be flexible enough to facilitate any implications arising from this re-design project. I acknowledge that implementation of any of these proposed changes by the Agency will take time. I intend to consider the implementation of the Operational Improvement Plan in the Agency and will report again next year on the steps taken.

¹ HC 44-1 House of Commons Work and Pensions Committee 'The Performance of the Child Support Agency'

Costs of Collection

3.4 My report last year highlighted the ratio of administration cost the Agency incurred to the amount it received from non-resident parents and compared it with an equivalent ratio for the Great Britain Child Support Agency. In response to that, the Agency examined the Cost of Collection ratio and in particular why it varies from the Great Britain Child Support Agency's ratio. The Agency's findings highlighted that there were key differences between the two Agencies in terms of the profile of receipts as well as the treatment of costs in the financial statements and concluded that a detailed review of processes in place at each Agency should be carried out to ascertain whether there are more efficient ways of carrying out the key aspects of the Agency's business with a view to establishing best practice that may be adopted by both Agencies. The Agency told me that it intends to carry out further work in this area during 2006-07 and I will report further on the actions taken as a result of this in my report next year.

Debt levels

3.5 I continue to be concerned at the rising levels of debt in the Agency. The level of collectable debt in the Agency was £26.3 million at 31 March 2006 and £14 million at 31 March 2005. In addition there is a further £32.3 million debt due at the 31 March 2006 that is deemed probably and possibly uncollectable (£38.9 million at 31 March 2005). The total debt due from non-resident parents therefore represents almost over four and a half years receipts in the agency. The annual report of the Agency does not include a debt reduction target for 2006-07. The Agency told me that the Great Britain Child Support Agency has set out its strategy for dealing with debt in its Operational Improvement Plan. The Agency indicated that this strategy includes targets for reducing historic debt and increasing compliance and the Agency will be seeking to secure improvements for its clients in line with improvements planned by the Great Britain Agency. The Agency noted that these will include improvements in debt recording and enforcement. The Agency also indicated that detailed debt management information is currently being validated for use by the Agency and this will form the basis for the Agency's long-term debt strategy. Furthermore the Agency noted that it will also be investigating the potential for debt recovery through the Social Security Agency's contract framework. I note the actions being taken by the Agency in line with the Great Britain Child Support Agency to tackle the escalating levels of debt but I would strongly encourage the Agency to seek some immediate methods for decreasing the levels of debt which exist.

Conclusion

3.8 I recognise that the Agency is dependent upon Great Britain Child Support Agency for its information technology services, but nevertheless it is disappointing that problems with the new computer system continue to exist and that the transfer of all cases to the new system and new scheme has still not been achieved. As a result the benefits that the Child Support Reforms promised have not yet been realised and the Agency continues to under-perform. However, I welcome the developments proposed in the three- year Great Britain Operational Improvement Plan and Agency's development of an action plan to address those issues within

the Operational Improvement Plan which are within its control. I will continue to monitor the issues outlined within this report and report further next year.

Emerging Business Trust (EBT) and other Investigations

1. In my report on the 2004-05 accounts I advised that I was preparing a separate report on the matters arising out of Invest NI's own investigation into the EBT Loan Fund and the EBT Venture Fund. This report was published on 9th February 2006¹. In February 2006 officials from DETI and Invest NI provided evidence to the Committee of Public Accounts (PAC) on the NIAO report. The PAC hearing considered significant conflict of interest issues relating to the establishment and management of EBT; the standards of corporate governance in LEDU, and the Department's stewardship of its NDPBs.
2. In one of the recommendations of the subsequent PAC report² published on 10th May 2006, the Committee concluded that "the department has taken a long time to deal with EBT and the other investigations. It is important that the three ongoing investigations are brought to a conclusion as soon as possible so that lessons can be learnt and applied through out departments." It was also recommended that the Department should provide a report on the outcome of each investigation as it is concluded together with the findings of the liquidators report into EBT. In order to be satisfied that incomplete investigations are being expedited, PAC required that a progress report should be provided in six months.
3. The Department agreed, in the Memorandum of Reply³ to PAC published in July 2006, that it would provide an update to the committee and provided a progress report in November 2006 and will report further, later in the year, to the local PAC.

1 Governance issues in the Department of Enterprise, Trade and Investment's former Local Enterprise Development Unit, (HC 817).
2 46th report of session 2005-06 'Governance issues in the Department of Enterprise, Trade and Investment's former Local Enterprise Development Unit', (HC 918).
3 Northern Ireland Department of Finance and Personnel Memorandum on the 46th Report from the Public Accounts Committee Session 2005-06, (CM 6879).

Accountability to Parliament and Financial Control by Education and Library Boards

1. In my last three General Reports [2002-03 to 2004-05 annual accounts] I referred to delays in finalising Education and Library Boards' (Boards) accounts and various related matters. I undertook to keep progress under review and I now report accordingly.

Finalisation of Accounts

2. In my report of June 2006 [HC 1199] I noted that only three sets of accounts remained to be finalised:

Belfast Education and Library Board 2004-05 accounts and

South Eastern Education and Library Board 2003-04 and 2004-05 accounts.

All three sets of accounts have subsequently been certified. In all three instances an unqualified opinion was given on the presentation of the financial statements but a qualified opinion on the regularity of expenditure. The Education and Libraries (NI) Order 2003 prohibits Boards incurring expenditure in excess of amounts approved by their sponsoring departments. Any expenditure in excess of the Resource Allocation Plans is not in conformity with the authorities which govern them, hence the regularity qualification.

2005-06 Accounts

3. As regards the 2005-06 accounts four out of the five Boards' accounts are now up to date. The BELB accounts for 2005-06 were submitted on time but certification has been delayed due to a resource allocation issue. The Board and Department have now resolved the matter and I expect to finalise the accounts very shortly. All of the accounts certified have been given a clear audit certificate, including SEELB.

Overspending by the SEELB and BELB

South Eastern Education and Library Board

4. At 31 March 2005 the SEELB's cumulative overspend was £24.2 million. This comprised £11.9 million owing to schools and £12.3 million owing to the Department. The overall deficit position as at 31 March 2006 has shown some improvement. The cumulative overspend has reduced to £20.1 million. This comprises £7.8 million owing to schools and £12.3 million still owing to the Department.

5. SEELB had agreed with the Department of Education to repay £3 million of the deficit during 2005-06. However, this was not achieved as SEELB was required to cover an in-year budgetary pressure of £4.1 million from Centre budgets to reflect movement on the Schools' Reserve. The amount that was available for repayment was £1.167 million. However, the Minister for Education subsequently agreed that, instead of treating that amount as a repayment, it should

be carried forward to assist with budgetary pressures in 2006-07. A significant proportion of the Board's resources at the centre are designated to Special Education provision. This has had important budgetary implications for the Board over a number of years. See paragraphs 12 to 24.

6. For 2006-07 the Department topsliced £4.5 million from the Board's budget by way of repayment of the deficit. The £1.167 million referred to in the previous paragraph was later released to fund in-year financial pressures. The cumulative balance owing, assuming a breakeven position, will be in the region of £15.7 million, with £7.8 million owing to schools and £7.9 million to the Department. I cannot confirm the final position as this will not be known until the Board finalise their 2006-07 accounts, however, SEELB (unaudited) accounts for 2006-07 show that it has been able to remain within the reduced resource allocation.

7. For 2007-08 the Department opted not to topslice repayments in advance. Repayments are to be sought by the Department in the course of the financial year. The total repayment amount is approximately £3.3 million. At least £2.1 million of this must be made to the Department, with the remainder set aside to cover further drawing down by SEELB schools of surpluses that belong to them. In the event that this amount is not drawn down by schools any balance remaining is to be repaid to the Department. On the basis that the SEELB will, at a minimum, breakeven in 2006-07 and 2007-08 the balance owing will be in the region of £12.3 million, with £6.6 million owing to schools and £5.7 million to the Department.

Belfast Education and Library Board

8. At BELB the cumulative overspend was £8.5 million as at 31 March 2005. This is split between a centre deficit of £5.7 million and a schools' deficit of £2.8 million. In agreement with the Department of Education a three-year deficit recovery process was instigated.

9. During the 2005-06 year the BELB lived within budget and made repayment of £3 million to the Department. The Department top sliced a further £3m from the resource allocation plan in 2006-07. BELB's (unaudited) accounts for 2006-07 show not only that it was able to remain within this reduced allocation but has also generated sufficient reserves to allow the remaining outstanding deficit to be repaid in full.

Deficit Overview

10. BELB has made significant progress in reducing its deficit and the Department expects it will have recovered in full the deficit outstanding before the end of 2007-08.

11. SEELB has also made progress in repaying what was a significantly larger deficit, part of which is owed to its schools but it seems most unlikely that the deficit will be cleared when the Board is subsumed into the proposed new Education and Skills Authority (the Authority). The Department has explained that any outstanding deficit remaining unpaid by the SEELB at the

date when the Education and Skills Authority becomes operational would not be written off. The Authority will therefore inherit that liability along with the other assets and liabilities that would transfer from all predecessor bodies.

Special Education Expenditure in SEELB

Introduction

12. In August 1998 NIAO published a report entitled Special Education in Northern Ireland [HC 898]. The report highlighted disparities among the Boards in the level of statements in place with the South Eastern Education and Library Board (SEELB) at that time showing a significantly greater statement rate than any of the other Boards [3.9% compared to an average of 1.9% for the other Boards] and its equivalent Local Education Authority in England [3.2%].

13. At this time NIAO expressed concern at the variation in levels of statementing between Boards and that this may indicate a lack of consistent criteria for identifying pupils with special educational needs. Moreover, the definition of special education needs, as set out in legislation, may be interpreted in different ways in different Boards.

14. In response to these concerns NIAO recommended that all the Boards should expedite the development of clear criteria for the categories of special educational need and to share information on the criteria they develop as a means of achieving greater standardisation.

15. The recommendation was actioned, in that, the criteria used by each Board for identifying and assessing all categories of special educational needs set down in the Code of Practice were formally collated and shared. The Regional Strategy Group on Special Educational Needs developed regional criteria for statutory assessment which were agreed at that Group but not implemented by all Boards. SEELB implemented the regional criteria. However ten years on and the situation at SEELB has not significantly changed. SEELB currently still has a higher proportion of pupils with statements of special educational needs than any of the other Boards in Northern Ireland and most if not all Local Education Authorities in England.

16. Figures provided by the Board relating to expenditure on special education show a rapid increase year on year from 1999-2000 to 2003-04. However, expenditure from 2004-05 to 2006-07 evens out at approximately £30 million. In 2006-07 expenditure in this area accounted for 42 per cent of the Board's central budget.

17. Expenditure on special educational needs from March 2000 to March 2007 totalled £204.3 million. Expenditure increased from £16.3 million at March 2000 to £31.2 million at March 2006.

Table 1 below shows total cost for the eight year period from March 2000 to March 2007 and the percentage difference in costs year on year.

Table 1: SEELB's Annual Expenditure on Special Education Provision from 1999-2000 to 2006-07

Year ended	Total Cost £ million	% Increase
1999-2000	16.3	
2000-2001	19.3	18.4
2001-2002	21.8	12.9
2002-2003	25.0	14.7
2003-2004	30.5	22.0
2004-2005	30.3	-0.7
2005-2006	31.2	3.0
2006-2007	29.9	-4.2
TOTAL	204.3	

Source : SEELB

Figure 1 below provides a visual representation of the reduction in the level of increase in expenditure. This is represented by a smoother, flatter gradient of the annual expenditure line.

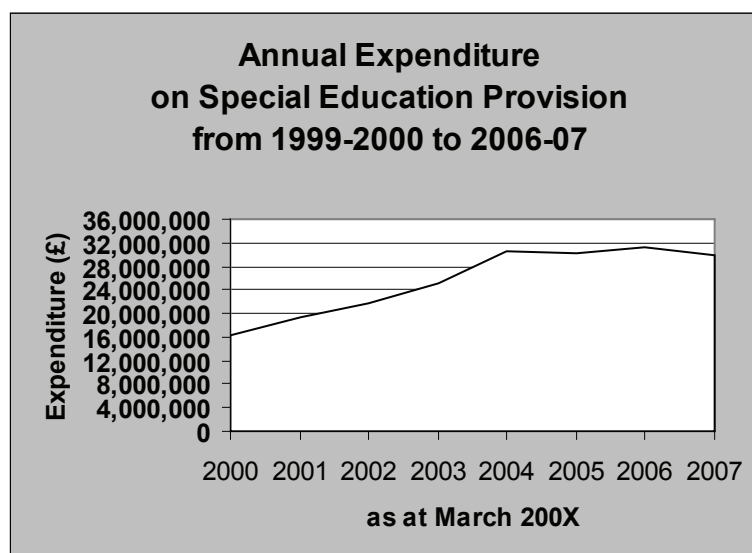


Figure 1: SEELB's Annual Expenditure on Special Education Provision from 1999-2000 to 2006-07

18. It is NIAO's view that the continued high levels of expenditure on special educational needs has meant that the Board was unable to reduce its deficit in 2005-06 and the sustained

level of provision continues to be subsidised largely by the under spend in the schools position. The Department has also made the point that special educational needs are being subsidised by efficiencies in other areas of centre spend, which places additional pressure on provision e.g. Curriculum, Advisory and Support Service, Education Welfare, Maintenance, although significant additional monies have been secured specifically for special education needs in both 2005-06 and 2006-07 and provided as part of the overall funding package to all Boards, including SEELB.

Factors which have contributed to the increased expenditure in Special Educational Needs

19. Discussions with the Board have highlighted a number of factors which may have contributed to the level of expenditure in special educational needs over a number of years:

- **Higher levels of Referral for statutory assessment**

SEELB refers more cases for statutory assessment. SEELB has advised that of the total number of regional referrals in 2006 only 30 per cent related to the Board and of the number of referrals 27 per cent gave rise to statements¹.

- **High level of statementing and very low rate of discontinuation**

There are approximately 50 new statements per month. This figure will need to be lower than discharges in order to make some impact on the level of expenditure but very few are discontinued at the annual review stage. The table below shows the number of statements for 2000-01 to 2006-07 at each of the Boards. Clearly the number of statemented children has been increasing year on year at all the Boards but SEELB continues to show the highest level, [on average 27 per cent of the total numbers statemented] although the percentage increase in the number of statements at SEELB has been reducing over the last number of years.

Table 2: Number of Statemented Pupils per Board from 2000-01 to 2006-07

Board	Statemented Pupils						
	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
BELB	1,568	1,567	1,735	1,721	1,673	1,640	1,790
NEELB	1,581	1,716	1,933	2,109	2,256	2,362	2,446
SEELB	2,466	2,675	2,895	3,034	3,204	3,282	3,341
SELB	1,752	1,921	2,073	2,325	2,474	2,672	2,850
WELB	1,449	1,496	1,690	1,796	1,915	2,005	2,064
TOTAL	8,816	9,375	10,326	10,985	11,522	11,961	12,491

Source : Census data provided by DENI

¹ SEELB primary pupil population comprises approximately 21 per cent of the Northern Ireland total.

The expected numbers to exit by June 2007 are 308 and a further 336 by June 2008. However, the estimated number of new statements is approximately 400 per year.

- **High level of adult assistances and high expectation and levels of continuing support**

There is a general expectation on the part of many parents and some teachers that once statemented a child will receive one-to-one support by way of a special educational needs classroom assistant i.e. a classroom assistant is a prerequisite for a statemented child in a mainstream school. A recent survey by the Departments' Education and Training Inspectorate² suggests that such support is not necessarily conducive to the child's development if they become overdependent on a classroom assistant. The potential for 'learned helplessness' could diminish the speed at which a child develops full independence. An independent annual review of a child's needs is therefore very important. It should ensure that the effectiveness of agreed remedial action is assessed and that the need for continued support is fully appraised so that it is not supplied longer than required.

- **Statutory processes which result in Board financial accountability but over which there is a lack of direct control**

The funding required to purchase the additional support to meet the needs of statemented children in mainstream schools is met centrally by the Board and does not impact upon the Local Management of Schools budget. It is therefore only through direct involvement by the Board in the assessment and review of statements that greater control at the local level will be achieved. SEELB has indicated that resources are limited and it has difficulty attending annual reviews. Nevertheless, the Board needs to be more proactive and immediate action should be taken to ensure regular attendance at annual review meetings.

The Way Forward

20. SEELB has put together a draft business case aimed at modernising special educational needs provision. A key aspect of the Business Case is to identify areas of divergence between the SEELB and the other Boards in relation to special education provision in the preparation for the advent of the Education and Skills Authority and make recommendations on action required to ensure a consistent approach to special education provision within the Education and Skills Authority. Areas on which the Board will make recommendations include Rates of Referral, Rates of Statementing, Additional Adult Assistance and Annual Reviews.

21. A special educational needs and inclusion review is also ongoing in the Department of Education. Policy proposals are currently being developed for inclusion in a consultation document. This will be considered by the new Minister for Education before proceeding further.

2 Effective Use of Assistants for Pupils with Special Educational Needs in Mainstream Schools 2005-06 by the Education and Training Inspectorate.

The processes under devolution are likely to lengthen the timescale set for the review but it is anticipated that policy proposals will be available for public consultation early in 2008.

Conclusions

22. Previous attempts at establishing common criteria across the Boards for the process of assessing special educational needs have not given rise to any significant change in the pattern of expenditure or number of statements at SEELB. This suggests a need for more clearly defined regional criteria, driven centrally by the Department of Education. This is considered critical to any alignment of SEELB with the other Boards. The Chief Executives of the Education and Library Boards have established a 'Regional Criteria for Making Statutory Assessments Review Group' with the remit of reviewing regional criteria to ensure that the Boards remain fit for purpose, taking account of changing circumstances. To this end the group has been working closely with the SEN and Inclusion Review Team.

23. The annual review process has resulted in a low discontinuation rate. It is an opportune time for SEELB, given the current proposed strategy, to consider more closely any variations between itself and the other Boards. Special consideration should be given to the quality of information presented in the annual review report used to inform the Board's decisions on the continuation of statements and type of provision. This could be further enhanced by attendance at the review meetings by a Board representative.

24. A recent inspection survey has indicated that having a large input of adult assistance over a long period of time is not always the best approach to tackling special educational needs. This perspective requires further investigation by the Board with a view to determining the most appropriate means of instigating improvement and development in children with special educational needs.

Part 4

Northern Ireland Consolidated Fund 2005-06

Northern Ireland Consolidated Fund 2005-06

Revenue Accounts

1. The total revenue paid into the Northern Ireland Consolidated Fund in 2005-2006 amounted to £10,536 million analysed as follows:

	2005-2006 £ million	2004-2005 £ million
Receipts from the United Kingdom Government:		
Block Grant	9,030	8,950
Other revenues:		
Rates	785	717
Interest on loans and advances	150	150
Excess Accruing Resources	33	75
Other Receipts and Transfers	538	393
	10,536	10,285

2. In fulfilment of my statutory duty I examined the departmental accounts of the receipts of revenue and I checked that adequate regulations and procedures had been framed to ensure effective assessment, collection and proper allocation of revenue. I have also sample checked the correctness of the sums brought to account. I have noted a number of significant issues resulting from my review below.

3. A summary of the outturn in the year of rate levy and collection, as presented by the Rate Collection Agency, is:

	2005-2006 £ million	2004-2005 £ million
Arrears at 1 April	35	25
Assessments during the year	865	803
Refunds	13	10
Credit carried forward to next period	4	3
	917	841
Discharged during the year by:		
Credits brought forward from last period	3	3
Receipts*	796	728
Vacancies	26	26
Vacant Rating Relief	3	12
Rebates	23	21
Allowances/Disabled Person's Allowance	6	5
Discounts	4	3
Written-off as irrecoverable	2	2
Residential Home Relief	6	6
Arrears at 31 March	48	35
	917	841

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

	2005-2006 £ million	2004-2005 £ million
Receipts	796	728
Refunds	(13)	(10)
Movement in cash account balance	2	(1)
Amounts Transferred to NICF (para 1)	785	717

4. I would like to comment on a number of matters in relation to the Statement of Rate Levy and Collection.

Accountability over the Statement of Rate Levy and Collection

At present, there is no requirement for a published Account of the Statement of Rate Levy and Collection to be laid before the Northern Ireland Assembly.

Given the control issues highlighted below, and the amount of public money recorded in this account, I have asked the Department of Finance and Personnel to look at the current

accountability and corporate governance arrangements and to consider how these should be strengthened. The Department told me that it will, as a matter of urgency, consider the nature of the Statement of Rate Levy and Collection as currently included in the Annual Report to the Northern Ireland Assembly: Financial Auditing and Reporting- General Report by the Comptroller and Auditor General for Northern Ireland. The Department notes that it will consider the status and the legal authority under which a formal account could be prepared including any associated accountability and corporate governance arrangements and in addition to this there are plans to strengthen finance skills available in the newly formed Land and Property Services Agency which has assumed responsibility for rate collection.

Assessments

The database of the Valuation and Lands Agency (VLA) is used to ascertain the value of properties to assess rates payable. During 2005-06, there was no reconciliation performed between the VLA property listing and that of the Rate Collection Agency (RCA). I have therefore some concern as to the accuracy of the assessments figure at 31 March 2006. A reconciliation carried out during 2006-07 identified differences in the number of properties listed on the two systems. Investigation of the differences brought the number down to approximately 2,000 at March 2007.

The Department told me that there will always be differences between the property listing held on the valuation system and that held on the rate collection system. Differences can arise as a result of timing and not all data changes to the valuation system have an impact on rate assessments. While no specific reconciliation exercise was carried out during 2005-06 standard controls operated with regard to the transfer of information from the valuation system to the rate collection system. A major reconciliation exercise was conducted during 2006-07 and quantified the number of differences to be 2,000 from a database of some 800,000 properties. In light of this the Department does not consider that the scale of differences between the two databases would have had a material effect on assessments in 2005-06. Following the introduction of new IT systems, the Agency will be looking to introduce additional processes aimed at improving the reconciliation of data between the two systems.

Non Domestic Vacant Rating

Non Domestic Vacant Rating (NDVR) was introduced on 1 April 2004 as a charge payable on non domestic properties which are vacant. On introduction, approximately 10,000 properties fell into this category. However, at that time the RCA only had ownership details for approximately 3,000 of these properties. At 31 March 2006, ownership details relating to some 2,433 properties are still not confirmed, resulting in unbilled rates of £6.8million. The difficulty in ascertaining ownership of the properties eligible for NDVR has significantly impacted on the overall arrears figure (see below). Management has informed me that approximately £11.5 million in arrears at 31 March 2006 relates to NDVR.

I am concerned as to the large number of properties for which ownership details are not confirmed and that the delay in collection of rates on these properties may ultimately lead to a loss of public funds. The Department told me that:

- the introduction of Non Domestic Vacant Rating (NDVR) resulted in rates becoming due on a large stock of properties that had in many cases been

vacant for long periods and for which the Agency held no details with regard to ownership. Obtaining details on ownership of these properties has been a slow process often entailing labour intensive investigations and enquiries by rating staff. Concerted efforts have been made with the percentage of identified owners having been significantly increased from 30% in 2004 to 88% by March 2007 and work on this will continue. Once ownership has been confirmed, billing can be made retrospective;

- it is anticipated that given the normal movement within this sector there will always be a stock of vacant properties for which ownership details will not be held; and
- in order to ensure any loss of public funds is minimised the Agency will be taking steps to develop its recovery strategies in respect of properties where debt is accumulating and owners have not been identified and this may include vesting properties and securing charges on them.

Arrears

Arrears carried forward at 31 March 2006 are £48 million compared with £35 million at 31 March 2005. We note that the most recent indication of arrears at 31 March 2007 is £95 million.

A breakdown of the arrears figure by property provided by RCA did not reconcile to the £48 million in the account. Under the current IT system, there is no aged profile of amounts in arrears which makes timely collection more difficult. Of the £48 million in arrears at 31 March 2006, approximately £33 million relates to non-domestic rates, £14 million relates to domestic rates, and surprisingly, £1 million relates to public bodies.

I am concerned as to the significant number of domestic properties, approximately 46,000, where rates are in arrears. In my opinion, the growing increase in the value of arrears and the adequacy of debt recovery procedures are a serious cause of concern.

In response to my concerns, the Department told me that:

- in the 5 year period ending 31 March 2006 assessments increased by £216 million representing an overall increase in the collection challenge of 31%. During the same period the number of properties administered by RCA increased from 760,000 to 834,000. With increases of this magnitude the expectation must be that arrears in monetary terms will increase;
- a significant element (£11 million) of the rate arrears figure carried forward at 31 March 2006 (£48 million) relates to NDVR. Taking account of this the adjusted rate arrears figure (£37 million) shows a marginal increase to the arrears figure from the previous year (£35 million).
- notwithstanding, the Agency is concerned with the increasing levels of rate arrears and this has been exacerbated during the 2006-07 financial year primarily due to problems arising from the introduction of a new rate collection IT system. Following the introduction of the new IT system rate recovery functionality was not available resulting in no court action being taken against defaulting ratepayers during 2006-07.

I asked the Department what steps are being taken to reduce the high level of arrears. The Department told me that the Agency is committed to tackling this increase in rate arrears and has worked closely with its IT supplier to ensure recovery functionality is now available. Those ratepayers who have defaulted will be pursued vigorously during the current financial year. A team dedicated to dealing with rate arrears has been established and will be strengthened during 2007-08. In addition steps will be taken to update and strengthen existing recovery policies and procedures.

Receipts

Problems with the new system at the Housing Executive means that the Housing Executive cannot produce remittance advices for ratepayers. As a result, RCA cannot easily allocate payment, with receipts held in suspense until RCA staff allocate them manually. This has resulted in high levels of cash receipts held in suspense accounts during the year leading to additional delays in processing and significant RCA staff resources consumed on this task. The Department told me that progress has been made towards resolving this problem and discussions are ongoing with the Northern Ireland Housing Executive (NIHE) to provide a full and workable solution.

Rebates

Rebates relating to those in receipt of Housing Benefit have increased to £23 million in the current year. Due to the nature of the qualification of the Social Security Agency Account (see Chapter 2.2 of this volume), there is an inherent risk that the rebates given by RCA may be at risk of fraud and error.

The Department told me that the nature of any inherent risk, where housing benefit is awarded as a result of the applicant receiving a 'passport' benefit, lies with the Social Security Agency. Not all Housing Benefit is awarded in this way therefore any risk of fraud or error must be considered in terms of fractions of £23 million within the context of rate revenue approaching £1 billion. Controls carried out on the award of Social Security Benefits include data matching with NIHE to check if claimants have applied to both NIHE and RCA. The Agency will review its checking and control processes and will liaise with the Social Security Agency and NIHE regarding this matter and will take appropriate action if any evidence of fraud or error is identified.

Internal Audit

In September 2006 internal audit reported limited assurance on the calculation of the penny product, which is the statistical analysis prepared in order to arrive at the District Rate.

Lack of management review of the penny product and errors in the actual calculation were amongst the findings of internal audit. The limited assurance rating of internal audit is defined as 'Weaknesses in the system of controls are such as to put the system objectives at risk'.

The Department told me that the recommendations in the Internal Audit report are in the process of being implemented. All recommendations are accepted and are at various stages of implementation; the significant strengthening of the Operational Finance team will assist in completing all recommendations.

Changes during 2006-07

Following a number of delays, a new IT system was implemented in October 2006. This system has had significant problems since its implementation which has required significant staff resource during the year. This has impacted on the resource available within the Agency to recover rates in arrears. The problems with the IT system also mean that basic financial controls such as bank reconciliations have not been carried out during the 2006-07 year. The Department told me that the Agency is taking steps to resolve outstanding issues in relation to bank reconciliations and will ensure these are brought up to date to support the 2006-07 Statement of Rate Levy and Collection and that procedures and processes are kept up to date going forward.

Consolidated Fund Issues

5. Issues from the Consolidated Fund fall into two categories:

- those to meet expenditure on services for which financial provision is voted annually by Parliament (Supply Services); and
- those to meet expenditure on services for which Parliament, 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 Expenditure Account which is certified by me under Section 2 of the Exchequer and Financial Provisions Act (Northern Ireland) 1950.

Consolidated Fund Services

6. The Public Income and Expenditure Account has been published separately as a White paper Account, (HC3). 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 dept 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.

7. Total issues in 2005-2006 amounted to £8,659 million compared with £8,715 million in 2004-2005. This decrease of £56 million relates to decreases in amounts invested temporarily (£109 million) and in the amount of interest repaid on borrowings (£1 million). These decreases are offset by increases in amounts issued to district councils (£38 million) and increases in amounts repaid in respect of public debt and borrowings (£15 million).

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