



Northern Ireland Audit Office

Financial Auditing and Reporting: 2007-2008

General Report by the Comptroller and Auditor General for Northern Ireland



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REPORT BY THE COMPTROLLER AND AUDITOR GENERAL
NIA 115/08-09 20 May 2009



Northern Ireland Audit Office

Financial Auditing and Reporting: 2007-2008

General Report by the Comptroller and Auditor General for Northern Ireland

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

J M Dowdall CB
Comptroller and Auditor General

Northern Ireland Audit Office
20 May 2009

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

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Abbreviations

AADB	Accountancy and Actuarial Discipline Board
ALB	Arms Length Body
AO	Assessment Office
BAFO	Best and Final Offer
BELB	Belfast Education and Library Board
BHSCT	Belfast Health and Social Care Trust
BT	British Telecommunications
C&AG	Comptroller and Auditor General
CAMA	Computer Assisted Mass Appraisal
CCEA	Council for the Curriculum, Examinations and Assessment
CCMS	Council for Catholic Maintained Schools
CMEC	Child Maintenance and Enforcement Commission
CMED	Child Maintenance and Enforcement Division
CMT	Case Monitoring Team
CnaG	Comhairle na Gaelscolaíochta
CPD	Central Procurement Directorate
CR	Continuous Revision
CS2	Child Support 2 System
CSA	Child Support Agency
CSCS	Child Support Computer System
CV	Capital Value
DCAL	Department of Culture, Arts and Leisure
DCLG	Department for Communities and Local Government
DE	Department of Education
DES	Department of Education and Science
DETI	Department of Enterprise, Trade and Investment
DFP	Department of Finance and Personnel
DHSSPS	Department of Health, Social Services and Public Safety

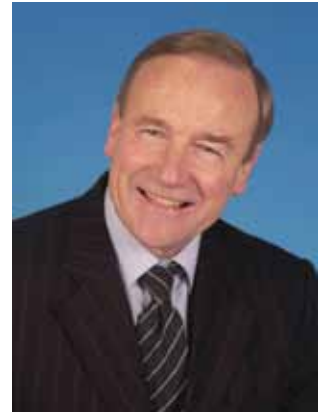
DIA	Disability Living Allowance
DRD	Department for Regional Development
DSD	Department for Social Development
DWP	Department of Work and Pensions
EBT	Emerging Business Trust
EC	European Community
ELB	Education and Library Board
ESA	Education and Skills Authority
EU	European Union
GAD	Government Actuaries Department
GANI	Government Accounting Northern Ireland
GPS	Global Positioning System
HSC	Health and Social Care
ICAI	Institute of Chartered Accountants
IFRS	International Financial Reporting Standards
IST	Integrated Supply Team
IT	Information Technology
ITN	Invitation to Negotiate
ITT	Invitation to Tender
LMS	Local Management of Schools
LPS	Land and Property Services
LRNI	Land Registers of Northern Ireland
MOD	Ministry of Defence
MPMNI	Managing Public Money Northern Ireland
NAV	Net Annual Value
NDVR	Non Domestic Vacant Rating
NEELB	North Eastern Education and Library Board
NHSCT	Northern Health and Social Care Trust

NIAO	Northern Ireland Audit Office
NICIE	Northern Ireland Council for Integrated Education
NICF	Northern Ireland Consolidated Fund
NICS	Northern Ireland Civil Service
NIFRS	Northern Ireland Fire and Rescue Service
NIHE	Northern Ireland Housing Executive
NIO	Northern Ireland Office
OFMDFM	Office of First Minister and Deputy First Minister
OIP	Operational Improvement Project
OJEC	Official Journal of the European Communities
OSNI	Ordnance Survey Northern Ireland
PAC	Public Accounts Committee
PMG	Paymaster General
QAIU	Quality Assurance and Improvement Unit
RCA	Rate Collection Agency
RTU	Regional Training Unit
SAB	Stop All Bills
SEELB	South Eastern Education and Library Board
SEHSCT	South Eastern Health and Social Care Trust
SELB	Southern Education and Library Board
SEUPB	Special European Union Programmes Body
SHSCT	Southern Health and Social Care Trust
UK GAAP	United Kingdom Generally Accepted Accounting Practice
URCDG	Urban Regeneration and Community Development Group
VCU	Voluntary and Community Unit
WAO	Wales Audit Office
WELB	Western Education and Library Board
WHSCT	Western Health and Social Care Trust

Foreword

This report to the Northern Ireland Assembly summarises the results of the financial audit work undertaken on my behalf by the Northern Ireland Audit Office, on the 2007-08 accounts. It does not include the results of my examination of the accounts of those bodies within the health and social care sector. A separate General Report on this sector will be published shortly.

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



Despite a challenging environment for all concerned, I consider the standards of financial accounting remains high, demonstrated by the quality and timeliness of financial reporting in 2007-08. The vast majority of accounts submitted received an unqualified audit opinion. Such attainments help to build public confidence in the process of accountability and governance. I have summarised the qualified opinions and reports issued on the resource accounts and other accounts for 2007-08 in Section 1 of the report.

Other sections of the report highlight some of the key outcomes from our financial audit work and demonstrate part of the ongoing work of the Office. In conducting my financial audit work I am always mindful of the need to provide 'added value' to the audited bodies. During 2007-08, audited bodies implemented a significant number of changes as a result of recommendations arising from our financial audit work.

In conclusion, I wish to take this opportunity to thank all the staff of the Northern Ireland Audit Office for their continued professionalism in delivery of the financial audits and for their immense support over the past 15 years, as I approach my retirement later this year. I am also very grateful to the staff in the Finance Divisions of the public bodies audited for their cooperation.

JM Dowdall CB

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20 May 2009

Section One:
Financial Audit



Section One: Financial Audit

1.1 Qualified Opinions and Reports on Accounts

Qualified Opinions – Departmental Resource Accounts

- 1.1.1 The quality of resource accounts submitted for audit has significantly improved over the accounting periods from 2001-02 to 2007-08. Ten out of seventeen sets of resource accounts were qualified in 2001-02 (59 per cent) compared with three out of nineteen in 2007-08 (16 per cent). The number of qualifications reached its lowest in 2005-06 when only one was issued, for the Department for Social Development (DSD). **Figure 1**

illustrates the number of qualifications on resource accounts and other accounts, year on year, for the accounting periods from 2001-02 to 2007-08.

- 1.1.2 The majority of departmental resource accounts receive an unqualified audit opinion each year. When qualifications arise, this is generally indicative of weaknesses in financial control that can compromise the ability of departments to provide sound accountability to the Northern Ireland Assembly. **Figure 2** contains brief details of the three resource accounts which received qualified audit opinions for the 2007-08 financial year.

Figure 1: Number of Qualifications for Accounting Periods 2001-02 to 2007-08



Figure 2

Department	Nature of the Qualification
Department of Culture, Arts and Leisure	<p>The 2007-08 accounts were qualified due to a disagreement over the accounting treatment for the Ordnance Survey of Northern Ireland's Topographic Database – Ordnance Survey's accounts are consolidated into the Department's resource accounts. We considered the data held in the database should be capitalised and recorded in the balance sheet, but Ordnance Survey does not agree that the data meets the conditions for capitalisation.</p>
Department for Social Development	<p>The 2007-08 accounts regularity opinion was qualified on two counts:</p> <ul style="list-style-type: none"> • estimated material levels of fraud and error in certain benefit expenditure administered by the Department through the Social Security Agency and Northern Ireland Child Support Agency; and • failure to obtain approval from the Department of Finance and Personnel (DFP) for expenditure on five projects.
Department of Health, Social Services and Public Safety	<p>The 2007-08 accounts were qualified on the basis of regularity in one material respect arising from expenditure incurred on specialist advisors for the Developing Better Services project. £2.4million was expended by the former Sperrin Lakeland Health and Social Services Trust on this project prior to seeking formal approval from DFP. DFP turned down the request for retrospective approval and expenditure is therefore irregular.</p>

Section One: Financial Audit

Qualified Opinions – Other Entities

- 1.1.3 We qualified four sets of accounts of other entities for 2007-08 (**Figure 3**), which is approximately five per cent of central government audits (excluding resource accounts).

- Department of Finance and Personnel (see Section 2);
- Land Registers of Northern Ireland (see Section 4); and
- Invest Northern Ireland (see Section 5).

Reports on Accounts by the C&AG

- 1.1.4 For 2007-08 we issued reports on accounts other than those associated with a qualification and the following are contained in this overall report:

Conclusion

- 1.1.5 The majority of departments and other public entities are producing good quality accounts for audit scrutiny which result in unqualified audit opinions. However, there are still a small number that contain

Figure 3

Name of Public Body	Nature of the Qualification
Child Support Agency – Client Funds	The 2007-08 accounts were qualified because the Agency was unable to provide evidence to verify the £82.6 million debt balance and because of errors found in the calculation of maintenance assessments made by the Agency.
Ordnance Survey of Northern Ireland	The qualified audit opinion on the 2007-08 accounts arose out of a disagreement over the accounting treatment for the Topographic Database.
Social Security Agency	The opinion on the 2007-08 accounts was qualified on regularity due to the estimated material losses in the level of fraud and error in certain non-contributory and contributory social security benefits and social fund benefits.
Northern Ireland Housing Executive	The opinion on the 2007-08 accounts was qualified on regularity due to the estimated fraud and error of £10.7million within Housing Benefit as identified by the Disability, Incapacity and Benefit Security Directorate Standards Assurance Unit of the Social Security Agency.

inadequate audit evidence which require us to qualify our audit opinion. There is no consistent pattern to the type of qualification arising, however, they are all indicative of weaknesses in internal control and compromise the entity's ability to provide sound accountability to the Northern Ireland Assembly.

1.2 Delay in certification of Department of Finance and Personnel (DFP) Assembly Contributory Pension Fund Accounts

1.2.1 DFP is required to prepare accounts of the Assembly Contributory Pension Fund for each year ended 31 March, pursuant to Schedule 1 of the Assembly Pensions (NI) Order 1976. Schedule 1 of the Order requires the C&AG to certify and report upon the accounts of the Fund which provides for payment of pensions to ex-members of the Assembly.¹

1.2.2 DFP is also required to prepare annual accounts of the Members' Contributory Pension Fund pursuant to Schedule 2 of the Ministerial Salaries and Members' Pensions Act (NI) 1965. Schedule 2 of the Act requires the C&AG to certify and report upon the accounts of the Fund which provides for payment of pensions to ex-members of the House of Commons.²

1.2.3 Accounts for both funds for the years 2002-03, 2003-04 and 2004-05 have been prepared by DFP and submitted for audit. However, these six accounts have not been finalised as DFP has not

obtained Reports of the Government Actuaries Department (GAD) for each account.

1.2.4 DFP has advised that the information required by GAD has been provided but it is waiting for GAD to provide the necessary reports to allow certification to proceed.

1.2.5 Continued delay in receipt of this information means that accounts for each fund in respect of the financial years 2005-06, 2006-07 and 2007-08 are now also overdue, resulting in a total of twelve accounts outstanding at this point in time. We are most concerned at the delay in the publication of these accounts and we have raised our concerns at the Departmental Risk and Audit Committee meetings. We have asked DFP to pursue the outstanding information as a matter of urgency to ensure that the remaining accounts are ready for audit as soon as possible.

1.3 Northern Ireland Fire and Rescue Service Pension Fund

1.3.1 Prior to April 2006 each Fire and Rescue Authority in England, Wales and Northern Ireland was responsible for paying the pensions of its former employees on a pay-as-you-go basis. Pension costs to Fire and Rescue Authorities were met as they occurred and not as the entitlement to pension occurred. This meant that the high proportion of expenditure by Fire and Rescue Authorities on pension

1 The Fund provides for payments to ex-members of the Assembly which was first established in 1973, was in suspension between 1975 and 1982 and dissolved on 23 June 1986.

2 The Fund provides for payments to ex-members of the Northern Ireland Parliament which was dissolved on 18 July 1973.

Section One: Financial Audit

payments obscured both the actual level of resources available for service delivery, and increasing pension costs.

1.3.2 From 1 April 2006 the Fire-fighters' Pension Scheme Order (Northern Ireland) 2007 introduced changes to the pensions of fire-fighters in the Northern Ireland Fire and Rescue Service (NIFRS). These included a requirement that the Board of NIFRS establish and maintain a fire-fighter's pension fund. From 2006-07 pension contributions from fire-fighters and NIFRS are to be paid into the pension fund. Consequently NIFRS bears the cost of pension entitlement as this occurs. Payments of pensions and other payments are paid out of the fund. Any annual surplus on the pension fund is to be surrendered to the Department of Health, Social Services and Public Safety (DHSSPS) and the Department was to "top-up" any deficit. Similar fire-fighters' pension fund requirements were established in England and Wales.

1.3.3 The Office of the Deputy Prime Minister, now the Department for Communities and Local Government (DCLG), outlined a lack of pension cost transparency in Fire and Rescue Authority accounts as a key reason for the change in England. To support the changes to fire-fighters' pensions DCLG issued "Guidance for Fire and Rescue Authorities on new financial arrangements for fire-fighter pensions with effect from April 2006". This required Fire and Rescue Authorities in England to prepare a separate pension fund statement in their accounts from 2006-07 onwards.

1.3.4 NIFRS have been recording fire-fighter pension fund information since April 2006. The Department explored the possibility of NIFRS preparing two accounts (a pension fund account and an account for NIFRS activities). The Fire and Rescue Service (Northern Ireland) Order 2006 however limits NIFRS to the preparation of one statement of accounts. Consequently the Department did not direct the NIFRS to prepare a pension fund statement as part of its 2006-07 and 2007-08 accounts and therefore fire fighter pension fund disclosures were not transparent within the NIFRS accounts. However most of the information which should have been disclosed in the NIFRS pension fund accounts for both years was included in the Departmental NIFRS Fire-fighter Pension Scheme Resource Accounts for the same periods, although the 2006-07 accounts were prepared a year late.

1.3.5 For 2008-09 the Department will require NIFRS to include a pension fund statement as part of its annual accounts.

Conclusion

1.3.6 In 2006-07 and 2007-08 the Department did not deliver its policy objective of ensuring fire-fighter pension fund disclosures were included transparently in the NIFRS accounts. In the Public Accounts Committee report "Good Governance – Effective Relationships between Departments and Arms Length Bodies" (28/07/08R) the Committee found that training should be provided to staff in sponsor departments which

have responsibility for managing the sponsor relationship. In this case the Departmental staff involved were unable to put in place the necessary guidance for NIFRS to disclose pension fund transactions until two years after intended, thereby frustrating its policy objective of transparency. We recommend that the Department reviews its sponsorship of NIFRS to ascertain if the staff involved have the appropriate skills. We further recommend that the Department reviews the sponsorship procedures of NIFRS to ensure delays in policy implementation are identified and addressed.

1.4 Losses and Special Payments reported by Departments

- 1.4.1 Transactions the Northern Ireland Assembly has not authorised, such as cash and store losses, fruitless payments, and abandoned claims, are subject to special control procedures and notation arrangements. The requirements for reporting these losses and special payments to the Northern Ireland Assembly are set out in 'Managing Public Money Northern Ireland' issued by DFP. Departments must specifically disclose when the total value of those losses exceeds £250,000. Departments are required to report separately those individual losses which on their own exceed the threshold. Typically this is achieved through a note to the Departmental Resource Account.
- 1.4.2 During the past year, accounts certified by the C&AG contained significant levels of losses and special payments, amounting to over £36 million in 2007-08 (£23 million in 2006-07) of reported losses and special payments. **Figure 4** summarises the value of losses and special payments by Department for 2006-07 and 2007-08.
- 1.4.3 The majority of losses and special payments occurred in three departments: DSD, DETI, and DHSSPS.
- 1.4.4 DSD reported losses of £17,000 (£1,024,000 in 2006-07), special payments of £3,457,000 (£2,549,000 in 2006-07), fruitless payments of £0 (£1,789,000 in 2006-07), and social security losses of £9,127,000 (£10,214,000 in 2006-07).
- 1.4.5 Losses and special payments reported by DETI included abandoned claims totaling £467,000 (£334,000 in 2006-07) and an investment write-off of £7 million in relation to the Crescent Venture Capital Fund, established in 1995. Full provision had already been made against this investment in prior years' accounts.
- 1.4.6 For DHSSPS there has been a significant upward trend in the total value of losses and special payments over the past two years. The Department's resource accounts noted large increases in the amount of waivers and remissions of National Insurance contributions written-off that were attributable to the health programme, and a significant increase in

Section One: Financial Audit

Figure 4

Name of Department	Losses and Special Payments 2006-07 £'000	Losses and Special Payments 2007-08 £'000
Office of First Minister and Deputy First Minister	2	42
Department of Agriculture and Rural Development	805	710
Department of Culture, Arts and Leisure	210	54
Department of Education	321	122
Department of Employment and Learning	265	112
Department of Enterprise, Trade and Investment	334	7,490
Department of Environment	183	1,213
Department of Finance and Personnel	9	723
Department of Health, Social Services and Public Safety	2,556	12,282
Department of Regional Development	2,863	739
Department for Social Development	15,576	12,600
TOTAL	23,124	36,087

the amount of special payments as a result of medical negligence cases in 2007-08.

that it would meet a later deadline when actuarial valuations were verified.

1.5 Faster Closure

1.5.1 In previous years' reports we have made reference to the Northern Ireland departments' progress in accelerating the production and audit process for departmental resource accounts. In 2005, DFP notified departments of its intention to meet faster closure deadlines, with the aim that all departmental resource accounts from 2007-08 onwards would be laid in the Northern Ireland Assembly by the summer recess (normally early July). This report provides an update on the production and audit of the 2007-08 resource accounts.

1.5.2 There were nineteen 2007-08 Northern Ireland departmental resource accounts and by the summer recess 2008 fourteen of these accounts were audited and laid before the Northern Ireland Assembly. Of the five accounts that did not achieve the deadline, two were delayed because of the implementation of a new central accounting system (AccountNI) within those departments during the year, which hindered the production of accounts by the deadline required to ensure summer recess was able to be achieved. The completion of the audit of two of the other accounts was delayed, awaiting the resolution of audit matters by the departments concerned. The final outstanding pension resource account was not signed by the summer recess deadline as it had been agreed with DFP

1.5.3 The attainment of the summer recess deadline for the first time was a significant achievement for the departments concerned and for the NIAO. It is our view that the success in 2008 was primarily due to both the high levels of communication between departmental staff and our auditors, and excellent project and resource management in departments. In addition, a key aspect in the achievement of the faster closure deadline has been the move by departments towards the production of high quality interim accounts.

1.5.4 The ongoing achievement of the timetable for the completion of the resource account audits by the summer recess will continue to present a challenge, particularly in view of the number of changes departments are facing such as the introduction of AccountNI which is being rolled out across departments and also the planned implementation of International Financial Reporting Standards (IFRS) for the 2009-10 accounts. NIAO continues to liaise closely with departments and DFP to facilitate the laying of audited departmental accounts by the summer recess deadline in future years.

Section Two:

Northern Ireland Consolidated Fund 2007-08

2.1 Northern Ireland Consolidated Fund 2007-08

Revenue Accounts

- 2.1.1 The total revenue paid into the Northern Ireland Consolidated Fund in 2007-08 amounted to £11,630 million, analysed at **Figure 1**.
- 2.1.2 In fulfilment of the C&AG's statutory duty we examined the departmental accounts of the receipts of revenue, and we checked that adequate regulations and procedures had been framed to ensure effective assessment, collection and proper allocation of revenue. We have also sample checked the correctness of the sums brought to account. We have noted a number of significant issues in relation to the Statement of Rate Levy and Collection, which have affected the C&AG's ability to fulfil his statutory duty. These are detailed later in section 2.2. We have also noted once again some

issues in relation to amounts held in the Paymaster General Account, detailed at paragraph 2.1.6.

Consolidated Fund Issues

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

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

Figure 1

	2007-08 £ million	2006-07 £ million
Receipts from the United Kingdom Government:		
Block Grant	10,334	9,518
Other revenues:		
Rates	883	833
Interest on loans and advances	117	127
Excess Accruing Resources	88	32
Other Receipts and Transfers	208	422
	11,630	10,932

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

Consolidated Fund Services

2.1.4 The Public Income and Expenditure Account has been published separately as a White Paper Account (NIA 7/08-09). The account broadly distinguishes:

- 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;
- issues for payments of a capital nature made out of borrowings which include public debt repayments, and advances to funds and bodies to meet capital expenditure; and
- investments of surplus monies in the short-term money market, and temporary advances for Civil Contingencies, to fund urgent services on which spending by departments cannot await approval in a Supply Estimate.

2.1.5 Total issues in 2007-08 amounted to £9,105 million compared with £9,926 million in 2006-07. The decrease

in issues of £821 million relates to decreases in amounts invested temporarily (£851 million) and interest (£1 million), offset by increases in the issues in respect of the redemption of public debt and borrowings (£19 million), and increases in amounts issued to district councils (£12 million).

Paymaster General Account

2.1.6 The Paymaster General (PMG) Account is used as a form of suspense account for receipts passing to the Northern Ireland Consolidated Fund and for payments made from the Fund. For a number of years we have recommended to DFP that the amounts held in the PMG Account (excluding temporary investments, which are accounted for in future years) should be minimised so that amounts held in the Public Income and Expenditure account or in Departmental Resource Accounts are not misstated. Despite previous assurances that balances would be minimised, the balance in the PMG Account continues to be high. The amount held in the PMG Account at 31 March 2008 was £89 million (£95 million in 2007). Most of the sums held in the PMG Account relate to European Union (EU) funds received. We strongly urge DFP to address the recommendations in respect of the PMG Account as soon as possible. The Department advised us that:

- efforts are being made to clear this balance and some £59 million of EU monies have been issued to departments between 1 April 2008 and the end of February

Section Two:

Northern Ireland Consolidated Fund 2007-08

2009. The remaining monies fall into two categories: advances made in respect of old EU programmes and advances held in relation to the new (2007-2013) programme;

- in relation to the old programmes, DFP policy is to hold the monies in the PMG Account until a claim has been received from a department and validated as eligible for funding. As part of the closure process DFP is working with departments and the Special EU Programmes Body (SEUPB) to ensure that the necessary information is available to validate claims and release the money as quickly as possible. DFP is also liaising with EU representatives to resolve outstanding disputes over EU claims. Resolution of these disputes should lead to a further £14 million being released from the PMG Account; and
- in relation to the new programmes, DFP has reviewed the existing policy of holding advances in the PMG account. It is expected that revised guidance will be issued early in the 2009-10 financial year and this should result in the immediate draw down of some £8 million currently held in the PMG Account.

2.2 Statement of Rates Levy and Collection 2007-08 including update on prior year concerns

Part 1: Introduction

- 2.2.1 Land and Property Services (LPS) is an Executive Agency of DFP. From 1 April 2007 the Statement of Rate Levy and Collection, which tracks ratepayer balances and accounts for all rate assessments levied and the means and extent to which these have been discharged during the financial year, has been produced by LPS. Previously the Statement was prepared by the Rate Collection Agency¹ (RCA).
- 2.2.2 The Exchequer and Audit Act (Northern Ireland) 1921 requires the C&AG to examine accounts of receipts of revenue and 'ascertain that adequate regulations and procedure have been framed to secure effective check on assessment, collection and proper allocation of revenue'. This includes an examination of the Statement of Rate Levy and Collection. There is no statutory requirement for LPS to lay an audited Statement before the Northern Ireland Assembly.
- 2.2.3 This report brings to the Northern Ireland Assembly's attention significant matters arising from the examination of the Statement of Rate Levy and Collection 2007-08, the period in which many aspects of the reforms arising from the Review of Rating Policy, including capital

¹ On 1 April 2007, the Rate Collection Agency and the Valuation and Lands Agency merged to form Land and Property Services. On 1 April 2008, Land Registers of Northern Ireland and Ordnance Survey of Northern Ireland also became part of Land and Property Services.

value based bills for domestic properties, were implemented.

Part 2: Examination of the Statement of Rate Levy and Collection 2007-08

2.2.4 In addition this report provides an update of those issues included in the 2006-07 Report² which would have led to a disclaimer of opinion.

2.2.5 A summary of rate levy and collection in the year, as presented by LPS, is shown at **Figure 2** and a reconciliation of receipts disclosed in the Statement with the Northern Ireland Consolidated Fund is at **Figure 3**.

Figure 2: Statement of Rate Levy and Collection 2007-08

	2007-08 £ million	2006-07 £ million
Arrears at 1 April	88	48
Assessments during the year ³	1,044	962
Refunds	14	11
Credit carried forward to next period	16	10
	1,162	1,031
Discharged during the year by:		
Credits brought forward from last period	10	4
Receipts	894	847
Vacancies	32	22
Vacant Rating Relief	2	3
Vacant Rating Exemptions	17	6
Vacant Rating 50% Relief	15	16
Rebates	29	27
Allowances/Disabled Person's Allowance	11	7
Discounts	4	4
Written-off as irrecoverable	1	1
Residential Home Relief	6	6
Rate/Education Relief	2	-
Transitional/Capping Relief	15	-
Arrears at 31 March	124	88
	1,162	1,031

Source: Land and Property Services

2 Financial Auditing and Reporting: 2006-07, General Report by the Comptroller and Auditor General for Northern Ireland

3 Assessments of £1,044 million in 2007-08 are made up as follows:

	£ million
Gross Assessments	1,158
De-rating	(114)
Vacancies	(32)
Vacancies – adjustment	32
	<u>1,044</u>

Section Two:

Northern Ireland Consolidated Fund 2007-08

Figure 3: Reconciliation of Receipts in the Statement of Rate Levy and Collection to the Northern Ireland Consolidated Fund (NICF)

	2007-08 £ million	2006-07 £ million
Receipts (<i>Figure 2</i>)	894	847
Refunds	(14)	(11)
Movement in cash account balance	3	(3)
Amounts Transferred to NICF (<i>Figure 1</i>)	883	833

Source: NIAO analysis

Conclusion from the Examination of the 2007-08 Statement

an action plan to implement these recommendations⁵.

2.2.6 In the 2006-07 Report we advised that due to a lack of an audit trail and significant system control problems, we were unable to provide assurance that adequate regulations and procedures have been framed to secure effective checks on assessment, collection and proper allocation of revenue recorded in the 2006-07 Statement of Rate Levy and Collection.

2.2.7 The audit findings on the 2006-07 Statement were considered by the Northern Ireland Assembly's Public Accounts Committee (PAC) in September 2008 and in November 2008 PAC issued its Report⁴ on the reasons for the financial and operational difficulties at LPS. PAC made a number of important recommendations to ensure that what had gone wrong was fixed and that the resulting adverse consequences to ratepayers, councils and staff were addressed. DFP has since set out

2.2.8 It should be noted that our examination of the 2006-07 Statement was undertaken during the 2007-08 financial year and that the 2006-07 Report covered the position up to April 2008. Consequently many of the issues identified during our examination of the 2006-07 Statement and referred to in the PAC Report persisted during the 2007-08 year and therefore we comment again upon them in this report.

2.2.9 There is no requirement for an audited account of the Statement of Rate Levy and Collection to be laid before the Northern Ireland Assembly. However, in the 2006-07 Report we advised that if the C&AG was required to provide an audit opinion on the 2006-07 Statement, his opinion would have been qualified and a disclaimer would have been issued. The reasons for the disclaimer were:

⁴ Report on the Statement of Rate Levy and Collection 2006-07, Third Report Session 2008/2009.

⁵ Department of Finance and Personnel Memorandum on the Third and Fourth Reports from the Public Accounts Committee Session 2008-09.

- limitation of scope due to inadequate audit trail over receipts, vacancies and assessments; and
- significant system control problems.

2.2.10 In 2006-07 we were unable to undertake testing of receipts, as the Agency was unable to provide a complete listing of the transactions which made up the amount disclosed in the 2006-07 Statement. Similarly we were unable to fully test vacancies, as the lack of information recorded on the new IT system prevented us from identifying the property relating to a large number of the cases selected for examination. In addition, the Agency advised that receipts disclosed in the Statement had included a £4 million balancing figure.

2.2.11 We are pleased to note that as a result of additional work undertaken by the Agency in respect of the 2007-08 Statement, that apart from an unreconciled difference of £174,000, there was an adequate audit trail to enable us to undertake testing of receipts in 2007-08. Similarly there was an adequate audit trail to enable us to undertake testing of vacancies.

2.2.12 As a result of these improvements, unlike as in 2006-07, we would not disclaim our audit opinion on the 2007-08 Statement. However, despite these significant improvements, there are certain aspects of the Statement where we were unable to obtain sufficient assurance that adequate regulations and procedures have been framed to secure effective

check on assessment, collection and proper allocation of the rate revenue recorded in the 2007-08 Statement. If the C&AG was required to provide an audit opinion on the 2007-08 Statement of Rate Levy and Collection, his opinion would be qualified⁶ but only in respect of the following:

- a limitation of scope due to inadequate audit evidence in verifying vacancies of £32 million disclosed in the Statement (see paragraph 2.2.30 below);
- concerns over completeness of the property listing upon which rates assessments are raised (see paragraph 2.2.38 below); and
- significant system control problems (see paragraphs 2.2.39 to 2.2.52 below).

Issues arising

Receipts and Unallocated cash at 31 March 2008

2.2.13 During the audit of the 2006-07 Statement we had been unable to obtain a listing of transactions from the IT system which corresponded to the figure of £847 million for receipts presented in that year's Statement of Rate Levy and Collection. Management at the Agency advised us that this account area contained a balancing figure of £4 million and therefore a complete and accurate listing was not available. The absence of an

⁶ In accordance with professional auditing practices adopted by all UK national audit agencies, a qualified opinion is appropriate when 'the auditor concludes that an unqualified opinion cannot be expressed but that the effect of any disagreement with management, or limitation on scope is not so material and pervasive as to require an adverse opinion or a disclaimer of opinion.' (International Standards on Auditing (UK and Ireland) 700, paragraph 37)

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audit trail in respect of receipts meant that we were unable to undertake testing to verify the completeness, existence and accuracy of the amount disclosed in the 2006-07 Statement.

2.2.14 The 2007-08 Statement of Rate Levy and Collection presented by LPS includes receipts of £894 million. During the examination of the Statement we were advised that the figure presented in the Statement was a calculated balancing figure, as all other figures disclosed in the Statement were derived directly from the Agency's IT system.

2.2.15 However, in an attempt to prove the receipts figure disclosed in the Statement, LPS undertook the following work for the first time in 2007-08:

- The Agency obtained reports from the General Ledger by Receipt Voucher type. This showed that after deducting for Discounts and Allowances, receipts totalling £917 million had been posted to individual ratepayers' accounts during 2007/08. This differed from the receipts figure in the Statement of £894 million by £23 million.
- During 2007-08 LPS was able to allocate appropriately £3 million of receipts which had been collected in 2006-07 but had not been allocated to individual ratepayers accounts in that year, thus reducing the difference between receipts on the IT system and the 2007-08 Statement to £20 million.

- The Agency investigated this remaining difference and identified almost £20 million of adjustments to receipts which had been put through as an Adjustment Voucher type in the General Ledger rather than a Receipt Voucher type.

2.2.16 As a result of the above work the Agency was able to reconcile receipts disclosed in the 2007-08 Statement with receipts recorded in the IT system and provide audit evidence in support of the receipts disclosed in the Statement, apart from an unreconciled difference of £174,000. The Agency advised that this was due to a large number of transactions where there was a small difference between the amount recorded on the IT system and the actual receipt.

2.2.17 As a result of the additional work undertaken by LPS in support of the 2007-08 Statement, we were able to:

- undertake testing of a sample of Receipts Voucher types which made up the £917 million posted to the IT system during 2007-08, ensuring amounts had been allocated to individual ratepayers accounts; and
- undertake testing of a sample of adjustments making up the £20 million difference.

2.2.18 As a result of this work, we identified that:

- Almost £18 million of Adjustment Voucher types were described as Keying Errors by Agency staff.

This included an adjustment of £1 million in respect of a receipt from Belfast City Hospital which had been input as £1.121 million rather than £121,000. This error was not detected by any validation controls over input to the system.

- Approximately £16 million of adjustments were required to correct a system failing where Direct Credits received in October and November 2007 were incorrectly credited to ratepayers accounts three times.

2.2.19 In the 2006-07 Report we noted that £7.2 million of receipts had not been allocated to individual ratepayers' accounts at 31 March 2007. The Agency advised us that the amount of cash received in 2006-07 unallocated at 31 March 2008 had been reduced to £4.2 million and that the amount unallocated to individual ratepayer accounts at 16 February 2009 had been reduced further to £341,000.

2.2.20 Problems with the IT system also meant that basic financial controls such as bank reconciliations were not carried out on a timely basis during the 2006-07 or the 2007-08 year. The Agency has made concerted efforts to reduce this backlog and we are pleased to note that all bank reconciliations have been brought up to date.

2.2.21 As a result of the additional work undertaken by LPS staff, we were able to undertake testing of receipts in 2007-08. Consequently, apart from an

unreconciled difference of £174,000, we were able to verify the completeness, existence and accuracy of the £894 million balance disclosed in the 2007-08 Statement. Nevertheless as noted in paragraph 2.2.18 above, the additional work highlighted the impact of control weaknesses in relation to the new IT system in terms of its functionality and the validation of input data.

Vacancies

2.2.22 In 2006-07, we were unable to complete testing of the £22 million vacant properties deducted from gross assessments due to a large number of cases sampled where there was no property identification on the new IT system, which prevented us from tracing these cases further. Management informed us that this was due to problems in the migration of data from the old system to the new system which has resulted in incomplete details transferring onto the new IT system.

2.2.23 We are pleased to note that the Agency was able to provide a complete listing of vacant properties in support of the £32 million deducted from gross assessments in 2007-08 which enabled testing of individual cases.

2.2.24 Due to staff resource issues and competing priorities, LPS staff were unable to complete any inspections in-year to verify the vacant status of the properties for which a deduction was made. Recognising the need for action in this area, LPS therefore arranged to

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work in partnership with local councils as described in paragraph 2.2.26 below. Failure to perform inspections increases the risk that the level of vacancies recorded and reliefs awarded (which had increased from £22 million in 2006-07 to £32 million in 2007-08, an increase of 49 per cent) may be misstated in the 2007-08 year.

2.2.25 Indeed, our own inspection of a small sample of non domestic properties in and around Belfast City Centre identified several properties which, although currently recorded as vacant, are in fact occupied. We are concerned that in the current economic climate the delay in the issue of bills may increase the risk that amounts may not be collected.

2.2.26 We welcome the efforts made by the Agency, in partnership with the councils, to reduce the number of properties incorrectly recorded as vacant. Between January and March 2008 a pilot study was carried out in the council districts of Antrim, Ards, Belfast and North Down to validate the status of properties recorded on the rating database as vacant. Following discussions the exercise was rolled out to 25 council districts in the 2008-2009 (Magherafelt District Council chose not to participate in the exercise and LPS is currently making arrangements to complete vacancy inspections in this area).

2.2.27 The Department informed us that the work undertaken in the spring of 2008 allowed LPS to find ways through the use of various council records to improve

its performance in the difficult area of monitoring vacancies (given the constantly changing occupation status of many hereditaments). At 24 February 2009, 6,918 rate bills totalling £14 million had been issued in respect of properties which had previously been recorded as vacant. However, further bills will be issued as the Agency is still processing information provided by the councils. The Agency has indicated that the number of domestic properties incorrectly recorded as vacant could be as high as 23,000 and in February 2009 LPS provided councils with an estimate (for rate setting budgeting purposes) that an additional £16 million worth of income (from domestic and non-domestic properties) could be collected as a result of this exercise.

2.2.28 In addition, during 2007-08 LPS undertook a data matching exercise comparing its vacant property information with Northern Ireland Electricity data. The exercise identified 10,000 matches where a property classified as vacant had current keypad activity, that is, electricity was being consumed. As the latter may be taken as an indication of occupancy, we queried the results of the exercise with the Agency. LPS advised that

- it had carried out an exercise on a sample of the data provided to verify its accuracy and found this to be poor; and
- the transient nature of tenants using keypads means that this is not a viable source of data.

2.2.29 The Agency also advised that guidance received through the Information Commissioner stated that LPS should be contacting ratepayers identified through the data matching exercise to verify details prior to issuing a bill. This is currently being considered by LPS.

2.2.30 Audit testing of vacancies recorded by LPS provided us with sufficient assurance over the figure recorded on the system. However, no vacancy inspections were undertaken in 2006-07 and inspections were only carried out in four councils for three months of the 2007-08 year. Thus there was insufficient audit evidence to confirm entitlement to this relief of £32 million. In addition, there was evidence of occupancy in some properties treated by the Agency as vacant. Consequently, we are unable to confirm completeness, existence and accuracy of vacancies.

Assessments

2.2.31 The Ministry of Defence (MOD) and BT were recently successful in their appeals regarding the valuation of a number of their properties and assets. The Department advised that these appeals were part of UK wide challenges by both organisations against the application of specialised valuation methodologies. The total BT refund was £5.3 million and the estimated total MOD refund is £9.9 million, both backdated for several years.

2.2.32 There are a number of types of non-domestic hereditaments which may qualify for exemption status, for example, if a property is used for charitable purposes.

Previously, there was a rolling programme to inspect these properties to ensure that they continued to fulfil the criteria for exemption. However, no such inspections were carried out in the 2007-08 year.

2.2.33 In light of the above issues, we asked the Department what steps it takes to ensure the accuracy and completeness of the valuation lists on which assessments are based, given the continuous changes occurring in the property environment. The Department advised us that the Commissioner of Valuation and District Valuers have a statutory responsibility to ensure the accuracy of the list, and told us that the LPS Valuation Directorate uses a number of sources of information from local authorities and wider LPS activities and supervisory checks as well as information from ratepayers about changes to a property to maintain the accuracy of the valuation list to ensure that the list is maintained in a cost-effective manner.

2.2.34 The Agency advised us that it is prevented by statute⁷ from backdating rates bills for domestic properties beyond the date of the last domestic revaluation. Thus if a property was not included on the Net Annual Value (NAV) list prior to the introduction of the new Capital Value list which came into effect on 1st April 2007, the Agency is unable to collect any rates due for the period prior to 1st April 2007.

2.2.35 The Department advised that LPS staff had completed the valuation of 18,500 new houses in 2006-07 and that this figure was well above the average number

⁷ Article 13 of the Rates Order (Northern Ireland) 1977

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of annual completions. LPS advised that the outcome was a more up to date Valuation List and a reduced level of unvalued properties at 31st March 2007. Notwithstanding this additional work, we noted during the 2007-08 examination that there was a backlog of new properties and property alterations of around 38,000 that had still to be valued/revalued before the NAV list for domestic properties was due to close on 31st March 2007.

- 2.2.36 We are concerned that, for any properties which were not on the NAV list at 31st March 2007, the Agency would be unable to back date rate assessments. The Agency advised us that under rating law any domestic personal applications and appeals (based on NAV) which were outstanding at 31st March 2007 could be taken forward after this date. However, the Agency was unable to advise how many such cases were included in the 5,853 new house listings and 31,860 altered houses on their books to be valued at 31st March 2007. The Agency advised us that at least 5,000 of the altered houses were subsequently found not to require a change to their capital value and therefore resulted in no loss of revenue in relation to these properties. The Agency was unable to confirm that there has been no major loss of revenue in respect of the new house listings (5,853) and the remaining altered houses (approximately 26,000) which had not been assessed prior to 1st April 2007.

- 2.2.37 We noted that the Guidance on Rating Reform issued to Agency staff in March 2007 advises that any alteration to the capital value of a property shall have effect on or after the date of the commencement of the year immediately following the year in which the alteration to the capital value is made by the LPS District Valuer. We are concerned that, as a result of the delay in valuing altered properties, amounts due in respect of 2007-08 cannot be recovered. The Agency advised that its guidance is in line with the statutory provisions contained in the Rates Order (Northern Ireland) 1977 as amended, and reflects the balance of limited amounts of rate income to be gained by earlier billing, with the costs of the supplementary in-year billing and collection process.

- 2.2.38 Testing of gross assessments provided us with sufficient audit assurance over the gross assessments figures on the system. However, due to our concerns over the completeness of the property listing upon which rates assessments are raised, we are unable to confirm completeness, existence and accuracy of assessments.

Significant System Control Problems

Problems with the IT system

- 2.2.39 The new IT system, Abbacus, was introduced by RCA to replace an obsolescent IT system, improve services in rate collection and Housing Benefit and to meet the new requirements in rating reform. Implementation of the system was

phased, with full implementation planned for February 2007.

2.2.40 Phase 1 (Core Rate Collection) became operational in October 2006. However, delivery of Phase 2 (Management Information) did not take place until April 2007, while Phase 3 (Housing Benefit) did not take place until July 2008.

2.2.41 During 2007-08 and 2008-09 the Agency continued to make progress in delivering those aspects of Phase 4 (Rating Reform) functionality which were not yet completed when the reforms became effective in April 2007 and April 2008. All elements of Phase 4 have now been implemented, apart from the operational functionality detailed at **Figure 4**.

2.2.42 In the 2006-07 Report we noted some of the system control problems experienced as a result of changes introduced by the Review of Rating Policy, running concurrently with the introduction of the new IT system. These included:

- inadequate system functionality and specification; and

- lack of validation checks.

In the paragraphs below we have provided an update on these issues.

System functionality and specification

2.2.43 In 2006-07 we reported that the original specification of the system and functionality requirements proposed by the Agency were not adequate to meet its needs and as a result additional amounts were paid to the IT contractor to make amendments to the system. During our 2007-08 examination we identified that the system is unable to provide the high level financial information required to be disclosed in the Statement. Although the Statement shows separate amounts for and different criteria apply to Discounts and Allowances, the Agency advised us that the need to distinguish between the two had not been identified in the IT specification. As a result manual

Figure 4: Aspects of functionality not yet implemented at February 2009

Functionality	Position at February 2009
Education, Training and Leaving Care	The full system went live for new cases in February 2009; existing cases will be migrated early in 2009-10.
Local Enterprise Agencies	Outstanding. Work on the system specification has started but this cannot be finalised until the outcome of an internal review of the non domestic vacant rating requirements is completed.

Source: LPS

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adjustments of £1.6 million had to be made to 2007-08 Statement balances based on information which needed to be extracted by the IT supplier.

- 2.2.44 The Agency is currently in the process of finalising a revised financial specification. This will address PAC's concern that there was an increased risk of fraud as a result of the major weakness in cash procedures which allowed cashiers to remove a receipt from the system without this being picked up in any reconciliation.

Validation checks

- 2.2.45 A validation check on input information is a basic element of most IT systems. However, there are currently no prompts or controls built into the system surrounding the input of values into key data fields. Consequently, ratepayer numbers have been incorrectly input into the value fields.
- 2.2.46 Although there is evidence that errors were identified as part of a manual supervisory check and bills adjusted accordingly, others may not have been detected. We are aware that a bill for over £1 million had been issued to a ratepayer.
- 2.2.47 The Agency has advised that it is in the process of reviewing all of its system input screens, data input parameters and access permissions to identify controls to mitigate keying in errors.
- 2.2.48 In 2007-08, Internal Audit concluded that overall a limited level of assurance

could be placed on LPS internal control systems for the period 1st April 2007 to 31st March 2008. In accordance with the HM Treasury Government Internal Audit Standards, the limited rating of internal audit is defined as 'There is considerable risk that the system will fail to meet its objectives. Prompt action is required to improve the adequacy and effectiveness of risk management, control and governance.'

- 2.2.49 In their review of IT systems Internal Audit concluded that an unacceptable level of assurance was appropriate. The unacceptable rating of Internal Audit is defined as 'The system has failed or there is a real and substantial risk that the system will fail to meet its objectives. Urgent action is required to improve the adequacy and effectiveness of risk management, control and governance'. A number of concerns were identified in this review which concentrated on the Assessment Office (AO) system in relation to valuations and the Abbacus system in relation to rating:
- The creation of a user group on the AO system allows a member of this group complete access to all elements of the valuation process. This circumvents the basic system design to create segregation of duties. Also a number of live user accounts were found which belonged to staff no longer working in the Agency.
 - Internal Audit was concerned about the ability of those members of staff who hold system administration rights

to create, amend, enhance and suspend user accounts, without any element of supervision. There was also the potential for those with such rights to deliberately manipulate data on any of the LPS systems to gain pecuniary advantage for themselves or family/friends.

- Internal Audit also noted that properties valued following inspection were not subject to on-site spot checks by line management to verify the accuracy of the valuation.
- Due to a backlog in the Continuous Revision (CR) Process⁸, management effectively put recovery action on hold for 19,000 cases by deliberately stopping all notifications being issued to the ratepayers. In May 2008, Internal Audit reported that no action was being taken to reduce this backlog.

2.2.50 We are concerned that although Internal Audit issued their draft report on LPS ICT Systems in April 2008, a response was not received until December 2008, almost nine months later. We asked the Agency why there was such a delay and what action had been taken during that period to address the concerns raised by Internal Audit. The Agency advised us that a number of actions had been taken, with three of the eight agreed recommendations from the audit having been completed before the report was finalised, and two others having been substantially addressed. The formal response was delayed due to a number

of issues requiring discussion with Internal Audit before a response could be finalised, and calls on relevant staff's time for line of business work.

2.2.51 Internal Audit also undertook follow-ups of their report on the Collection and Recovery system issued in September 2006 which had resulted in limited assurance. In their most recent report issued in September 2008, Internal Audit found that the majority of their recommendations have not been implemented due to the introduction of the Abbacus system. A number of the recommendations relate to the reporting system within Collection and Recovery and the evidencing of management checks. These checks were to test the accuracy of amendments to rate accounts, refunds and arrangements for delayed payments. The Agency was therefore relying on the integrity and competence of administrative staff when operational pressures were significantly high. Whilst recognising the concerns of management over the capabilities of the IT system at that time, Internal Audit noted that, regardless of the cause, necessary checks, inspections and reminder action were not being completed.

2.2.52 Internal Audit also noted that LPS has encountered a number of difficulties in extracting management reports using the new reporting tool, DI Diver. The contracted supplier is working to ensure that all management reports are available and full functionality of the system is operational.

8 Certificates of CR are issued by Valuation Services as a means of updating the Valuation List by taking account of changes occurring in the period between General Valuations. Changes include new property being added to the list, property renovated or altered or property demolished.

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Other significant concerns arising from our audit work

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

Ratepayer Arrears at 31 March 2008

2.2.54 Arrears carried forward at 31st March 2008 were £124 million, compared with £88 million at 31 March 2007 and £48 million at 31 March 2006. The Agency informed us that the significant increase in the arrears figure during 2007-08 reflects the lack of system functionality for the full recovery process in the early part of 2007-08, meaning that the full court and enforcement process could not be completed within the financial year. The Agency advised that this is reflected in the fact that it issued 101,647 final demands in the year and 29,114 court processes, but no Notices of Intention to Enforce Debt.

2.2.55 As the IT system did not have the necessary functionality to issue final notices or process debt proceedings, no computer generated recovery action took place during the period June 2006 until September 2007. This resulted in rate collection performance of 89.1 per cent in 2007-08 and 91.7 per cent in 2006-07 (compared with a Key Ministerial Target of 98 per cent each year⁹).

2.2.56 We are concerned that while systems based recovery action was available for six months of the year, the level of arrears rose by £36 million and the level

of collection decreased by 2.6 per cent during 2007-08.

2.2.57 We continue to be concerned that the lack of timely resolution of this significant problem by the Department and the Agency will place an increased financial burden on ratepayers to repay multiple years' rates bills at one time and the impact that this will have on recoverability. We note, however, the work undertaken to date by the Agency in taking recovery action.

2.2.58 The Agency has completed a significant restructuring exercise to reallocate 80 staff towards dealing with rate accounts that are in arrears. The Agency also advised that the successful implementation of a revised arrears strategy has reduced the level of debt to £67 million at 31 December 2008 and that work continues to further reduce this debt.

2.2.59 During the 2007-08 audit we identified that it is possible to assign a 'Stop all Bills' (SAB) status on individual ratepayers' accounts and in several instances such a status had been in place for a considerable period of time with no evidence of any activity on the part of LPS to remove the 'stop'. Consequently we queried what action is taken by LPS to ensure that such stops are removed from a ratepayers' account on a timely basis. LPS advised the following:

- The first SAB report was produced at the end of June 2008 and an exercise then took place over the

9 Target is to collect 98 per cent of the rates forecast as collectable for the year

months of July and August to remove any non-valid SABs.

- The SAB report contained in excess of 22,000 entries and the combined financial value was in excess of £75 million. The SAB exercise was completed at the end of August 2008 and at that time the number of SABs was reduced to 7,163 cases with a combined financial value was £15.3 million. The SABs which remained all existed for valid reasons, such as: accounts with payment arrangements, NIHE direct credit payments, NI Social Security Agency direct deduction cases and complicated Continuous Revision cases.
- Now that this large-scale review of SABs has been completed, regional office managers review and take any remedial action on a monthly basis using the Abbacus generated report, which includes SAB cases.

2.2.60 We are concerned at the length of time which had lapsed before the Agency undertook its review of SABs and that, prior to this exercise, there were almost 15,000 cases totalling £59.7 million where bills were not being issued without just cause. This delayed the issue of bills to the ratepayers and increased the level of arrears, leading to increased risk that amounts may not be recovered.

2.2.61 There is a significant amount, £6 million, of rate arrears which dates back to 2004-05 or earlier years. These arrears

pre-date the problems encountered in the implementation of the new IT system, but the continued delay in their recovery increases the risk of a significant loss of public funds. Whilst write-offs have historically been low, delayed recovery may lead to higher write-offs, as amounts in arrears approach the Statute of Limitations deadline for recovery.

2.2.62 The Department advised us that delays in receipt and, ultimately, any failure to collect amounts billed in-year do not affect revenues paid to councils with the Regional Rate initially bearing the cost of arrears brought forward. Arrears subsequently collected in a future year go towards offsetting Regional Rate debt. In situations where arrears carried forward are subsequently written off the loss is distributed according to the District and Regional elements.

Allowances for Landlords and Agents

2.2.63 In the 2006-07 Report we advised that Allowances totalling £5 million had been awarded to landlords and agents during the 2006-07 year. However, we reported that the Agency was unable to provide evidence that every private landlord and agent who received the allowance was actually entitled to it.

2.2.64 Since publication of the 2006-07 Report LPS has undertaken an exercise to ensure that the correct date of receipt was recorded on the IT system and thus establish that there was entitlement to the allowances received. The Agency advised

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that the exercise had been completed and that it had provided assurance that allowances for landlords and agents were awarded in line with legislation and current policy.

Non Domestic Vacant Rating

2.2.65 Non Domestic Vacant Rating (NDVR) was introduced on 1st April 2004 as a charge payable on non domestic properties which are vacant. Since its introduction, RCA and then LPS have been unable to establish full ownership details of the NDVR properties. At 31st March 2008, ownership details relating to some 595 properties were not confirmed, resulting in unbilled rates of approximately £2.8 million, compared with 1,122 properties and an estimate of £5.4 million unbilled at 31st March 2007¹⁰. The Agency has informed us that at 24th February 2009, the number of NDVR properties where ownership remains unknown has reduced further to 78 properties with an annual rating liability (assuming that they are all unoccupied and that none of the properties attract exclusions from vacant rating) of £195,000.

2.2.66 We acknowledge the efforts made by the Agency to ascertain ownership details for properties. We note that only 78 properties remained in this category in February 2009 and that LPS continues to pursue ownership information for these properties, using a variety of sources including valuation data, the Land Register and Register of Deeds, estate agents and physical inspection.

Fraud Risk

2.2.67 In 2006-07 we reported our concerns about the adequacy of management procedures to identify and manage fraud risk within the Agency. The findings of Internal Audit in respect of system failings (noted at paragraphs 2.2.48 to 2.2.52 above) further increases the risk of fraud arising.

2.2.68 During the audit of the 2007-08 Statement we identified instances where the same officer created and authorised manual adjustments to ratepayers' accounts. In addition, there are no limits restricting the amount that each grade of staff may authorise. As a result there is increased risk that staff may amend data to gain financial advantage for themselves or others.

2.2.69 Although a fraud policy has been in place at the Agency for a number of years, a whistleblowing policy was only issued in January 2009, even though guidance on whistleblowing in the public sector was issued in 2003.

2.2.70 Rebates relating to those in receipt of Housing Benefit have increased to £29 million in the 2007-08 year. Rebates are due to those in receipt of social security benefits or who have a low income. As the Social Security Agency Account has been qualified as a result of fraud and error, there is, in our view, an inherent risk that the rebates given by LPS may be at risk of fraud and error.

¹⁰ In view of the 2007-08 estimate of 595 unbilled NDVR properties, the Agency carried out an investigation into the robustness of the previous estimate of £2.6 million on 1,122 properties, which was included in the 2006-07 Report, and has advised us that a more realistic estimate would have been £5.4 million.

Accountability Concerns

- 2.2.71 As noted at paragraph 2.2.9 that there is currently no statutory requirement for a published, audited account of the Statement of Rate Levy and Collection to be laid before the Northern Ireland Assembly. In order to improve accountability and corporate governance of the significant amount of public funds recorded in this account, we recommended that the Department pursues with urgency the preparation of a full set of audited financial Statements for Rate Levy and Collection.
- 2.2.72 The Department advised that a project has commenced that will enhance the accountability in due course. The Department noted that the restatement of the Statement of Rate Levy and Collection from a cash to a resource basis will be a complex and challenging process. In order to ensure a clear focus on this task, the Agency has appointed a professionally qualified accountant to lead a project team to manage and oversee the transition to the new arrangements. This team will work to the delivery of a fully auditable resource based collection account by 2010-11.

Part 3: Update of Rating Reforms concurrent with the introduction of a new IT system

Capital values

- 2.2.73 As noted at paragraph 2.2.39, implementation of the IT replacement project has been phased. The Agency advised that this work was prioritised to accommodate further changes to the domestic rating system introduced by the Government after the go live date and to ensure that domestic rate bills based on capital values were issued during April 2007.
- 2.2.74 Domestic ratepayers were first advised of the capital value of their property from July 2006. The capital value reflected the market value at 1st January 2005 as defined by statute, established using Computer Assisted Mass Appraisal (CAMA), which the Agency advised is the world recognised standard approach to mass revaluation exercises.
- 2.2.75 The Agency advised us that by 31st March 2007, 28,133 ratepayers (approximately 4 per cent of domestic ratepayers) had queried the capital value assessed by the Agency. The Agency advised us that these figures are very much at the low end of international comparators, and the Northern Ireland domestic revaluation has received international awards.
- 2.2.76 We asked the Agency what was the outcome of these challenges in terms of the original capital value (CV) advised. The Agency provided us with the analysis at **Figure 5**.
- 2.2.77 In addition, the Agency provided us with an analysis of the 16,843 cases reviewed where there had been a change in the CV (**Figure 6**).

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Figure 5: Outcome of review of CV requested by Domestic Ratepayer

	Number of properties	Percentage
Decrease in CV	12,021	43
No Change	11,290	40
Increase in CV	4,822	17
Total	28,133	100

Source: LPS

2.2.78 We asked the Agency what impact these changes had on the assumptions used in the CAMA model and resulting CVs for similar properties. The Agency advised us there were 25 CAMA models for Northern Ireland used in the revaluation process. The outcome of subsequent challenges has no retrospective impact on the revaluation models; these models surpassed international standards of acceptable accuracy. However, the normal reductions or increases in CV arising from an application/appeal decisions post revaluation are applied to houses considered to be in “similar state and circumstances”. In many cases, the houses whose CV were challenged were

“stand alone” with no similar properties nearby requiring adjustment or were for a variety of reasons that had no effect on similar properties.

Increased costs

2.2.79 Total expenditure for the IT Replacement Project for the period 2004-05 to 2011-2012 was estimated at £10.5 million. However, the estimated total cost of the project at the time of its closure in June 2008 was £13 million. As Phase 3 of the project had yet to be implemented when the closure report was prepared and the system did not then have the capacity to process a number of reliefs, we asked

Figure 6: Analysis of those properties where there was a change in CV following review

	Number of properties	Percentage
Less than 5 per cent	7,057	42
Between 5 and 10 per cent	3,492	21
Greater than 10 per cent	6,294	37
Total	16,843	100

Source: LPS

the Agency whether it considered that £13 million was still a realistic estimate of the total cost of the project. The Agency advised us that although Phase 3 was not complete at the time of the closure report, the costs as known at that time for Phase 3 (which went live one month later) were taken into account. The £13 million also includes estimates of further expenditure required to the end of the contract.

have noted improvements on the issues recorded in the 2006-07 report, the Department and Agency have not yet been able to address all of them, with much work still in progress. As part of our examination of the 2008-09 Statement we will report upon the further progress made by the Agency and Department to address the weaknesses identified.

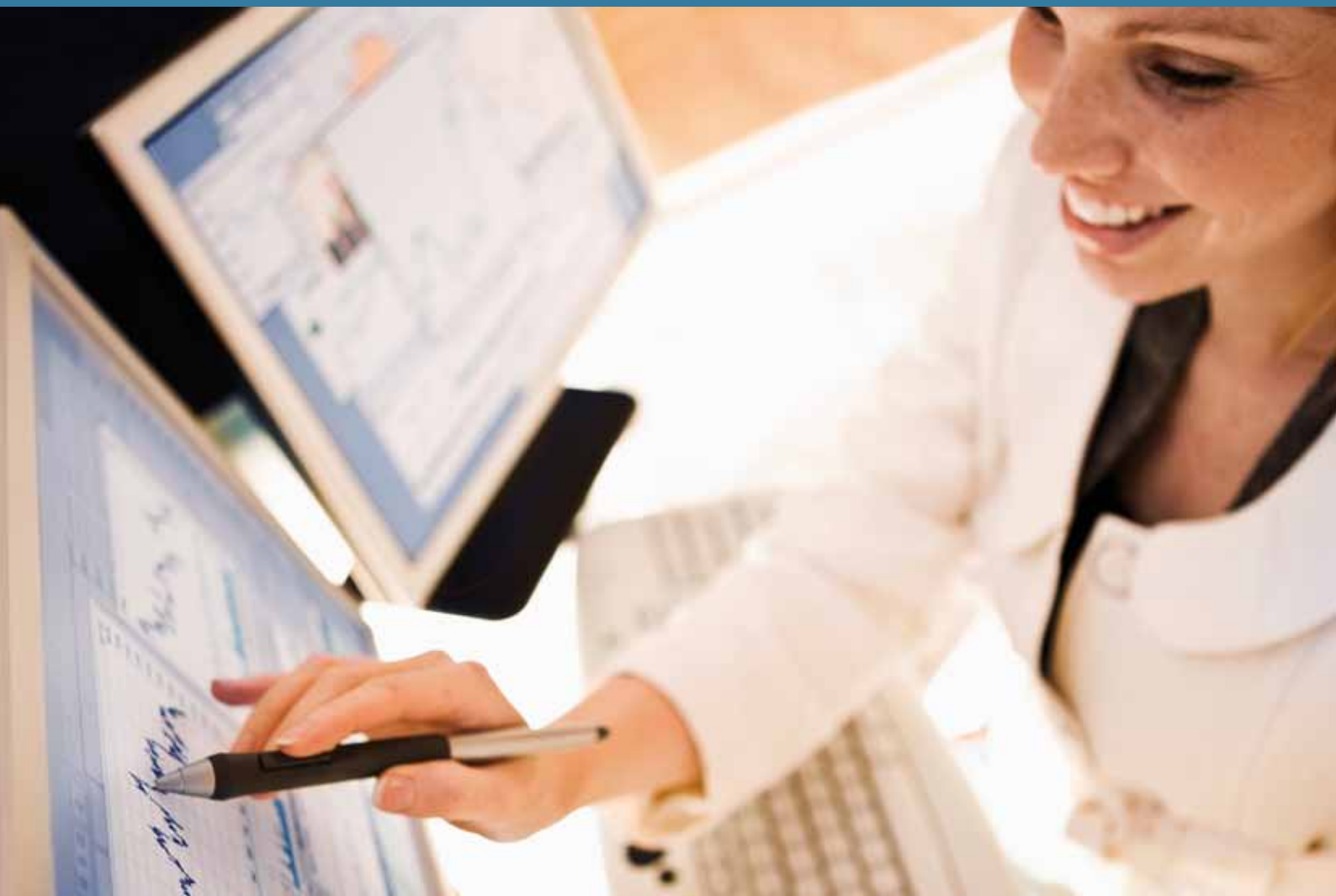
2.2.80 Although an Abbacus Business Change Group and a Change Advisory Board were set up in November 2008 following closure of the IT Replacement Project in June 2008, the IT Replacement Project Highlight Report which detailed all costs, including change requests, incurred on the Project is no longer produced. In light of this we asked the Agency how costs have been monitored and controlled. The Agency advised us that the Change Advisory Board, which reports to the Abbacus Service Management Board, is developing cost reports to ensure that a clear focus on costs remains within the Abbacus system.

Part 4: Conclusion

2.2.81 PAC considered the findings on the 2006-07 Statement in November 2008 and made 28 recommendations for improvement. The Department's response to these recommendations in January 2009¹¹ was positive and various actions are on-going to resolve financial and operating system problems. Our opinion on the 2007-08 Statement reflects the actions taken to date. Although we

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

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Department for Social Development

Part 1: Introduction and Executive Summary

Introduction

3.1.1 The Department for Social Development (DSD) is responsible for administering a wide range of expenditure aimed at helping those in need, promoting measurable improvements to housing in Northern Ireland and tackling disadvantage amongst individuals and communities. Through the Social Security Agency and the Northern Ireland Child Support Agency (now merged into the Department), 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 Rent and Rates for tenants and the Rates Collection Agency are responsible for administering Housing Benefit Rates for owner occupiers. 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 2007-08, the Department accounted for expenditure of £5.0 billion on these areas, including associated administration costs, in its consolidated Resource Account.

3.1.2 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 (Part 2); and
- reviews the results of my audit of urban regeneration and community development grants including the reasons for removal of a previous qualification of expenditure in this area, and also the basis of a qualification on the regularity of expenditure where DFP approval has not been granted. (Part 3).

Executive Summary

The reasons for my qualified audit opinion

Fraud and Error in Social Security Benefits

3.1.3 I have qualified my regularity audit opinion on the Department's Annual Resource Accounts on the basis of material levels of estimated fraud and error in benefit expenditure, other than State Pension which accounts for a high level of the total benefit expenditure and has a low level of error. The estimated level of losses due to overpayments of benefits, other than State Pension, to customers as a result of fraud and error in 2007 is £57.8 million (2.1 per cent of total benefit expenditure). A further estimated amount of £21.1 million (0.8 per cent of total benefit expenditure) was underpaid to customers.

Urban Regeneration and Community Development Grants - Qualified Audit Opinion arising from the failure to obtain DFP approval of expenditure

- 3.1.4 The Department's accounts include expenditure of £1,045,766 on urban regeneration and community grants that has been incurred without proper DFP approval. I consider this to be irregular as the expenditure does not conform to the authorities which governs it and I have therefore qualified my regularity opinion in respect of this matter.

Urban Regeneration and Community Development Grants - removal of previous qualification

- 3.1.5 On the basis of my audit findings I have concluded that the Department's financial controls and monitoring of grants to urban regeneration and community development grants is satisfactory. Therefore I have decided not to qualify my audit opinion on this area of expenditure.
- 3.1.6 I am encouraged by the efforts that the Department has made in this area and that the Department has been proactive in ensuring previous audit recommendations and good practice are being promoted. However, it is important that the Department makes every effort to ensure that standards are maintained. Consequently, I will continue to monitor this area of expenditure.

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

Introduction

- 3.1.7 The Departmental Resource Account (Request for Resources A) provides for expenditure by DSD on "a fair system of financial help to those in need and to ensure that parents who live apart maintain their children; encouraging personal responsibility and improving incentives to work and save."
- 3.1.8 During 2007-08, DSD accounted for expenditure of £1.83 billion on non-contributory Social Security benefits, £1.75 billion on contributory Social Security benefits, and £72 million on Social Fund expenditure, administered by the Social Security Agency. Additionally, DSD accounted for expenditure of £445 million on Housing Benefit, comprising £364 million for Housing Benefit Rent and £52 million for Housing Benefit Rates (tenants) which are both administered by the Northern Ireland Housing Executive (NIHE) and £29 million for Housing Benefit Rates (owner occupiers) which is administered by the Land and Property Services (LPS).

Background and the accounting arrangements for this expenditure

- 3.1.9 The Social Security Agency (the Agency) is an Executive Agency within DSD. As the Agency is part of DSD, benefit expenditure accounted for within the Agency Account is also included within

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2007-08 DSD Resource Account programme expenditure.

3.1.10 My audit of the 2007-08 Agency Account has now been completed. It was qualified on regularity because of material levels of estimated fraud and error in benefit expenditure, other than State Pension which accounts for a high level of the total benefit expenditure and has a low level of error (see paragraph 3.1.13 below). The qualification of the Agency Account also impacts upon DSD's Resource Account.

3.1.11 As well as the Agency's benefit expenditure, DSD's Resource Account also includes Housing Benefit expenditure of which there are three categories- Housing Benefit Rent and Housing Benefit Rates (tenants) that are both administered by NIHE and Housing Benefit Rates (owner occupiers) that is administered by LPS. All of these are accounted for by DSD.

3.1.12 I reported the results of my audit of the 2007-08 NIHE Accounts on 27th June 2008. The NIHE Accounts were qualified on regularity because of significant levels of estimated losses due to fraud and error in Housing Benefit administered by it. This qualification also impacts upon DSD's Resource Account.

Fraud and Error in Social Security Benefits

3.1.13 DSD has disclosed estimated levels of fraud and error in benefit expenditure in a note to the accounts, Note 41 entitled Payment Accuracy. As shown in Note

41 to the accounts, some £1.38 billion (34 per cent) of total benefit expenditure relates to State Pension payments made in 2007. The Department has estimated that in 2007 fraud and error within State Pension amounted to £1.6 million (0.1 per cent of related expenditure) in overpayments and £4.9 million (0.4 per cent of related expenditure) in underpayments. The Department also estimates that for other benefits fraud and error resulted in overpayments of £57.8 million (2.1 per cent of relevant expenditure) and underpayments of £21.1 million (0.8 per cent of relevant expenditure). As a result of the consistently low levels of fraud and error detected in State Pension and the high levels of expenditure incurred, I have decided to exclude this benefit from my qualification.

3.1.14 Within the Payment Accuracy Note section, Note 41(D) highlights a specific category of Disability Living Allowance (DLA) cases. These are cases where as a result of a review of entitlement, the benefit allowance is changed due to a gradual deterioration or improvement in the customer's condition. These cases are categorised as 'benefit correct, change in circumstances'. In these circumstances the legislation governing the administration of DLA determines there are no overpayments or underpayments, and the benefit is adjusted from the date of the review. For 2007 DSD estimates that 'overpayments' for this specific category of 'benefit correct, change in customer's circumstances' cases totalled £21.2 million and 'underpayments' totalled £45.5 million.

3.1.15 **Figures 1 and 2** summarise and compare the estimated levels of fraud and error over the last four years. The total estimated overpayments indicate a significant downward trend both in the value of estimated error reported and also in the percentage of total benefit expenditure that the value of error represents. The decrease is mostly attributable to a continual reduction each year in the level of customer fraud. The level of estimated

overpayments due to official error has also reduced considerably over the four year period. In contrast to this the estimated level of underpayments due to official error has increased over the same period and this is a concern. In paragraphs 3.1.21 to 3.1.27 of this report I examine official error in more detail and highlight individual benefits for which financial accuracy performance targets have not been met.

Figure 1: Estimated Overpayments due to fraud and error in benefit expenditure

	2007 * £million	2006 £million	2005 £million	2004-05 £million
Overpayments				
Official error	24.7	29.2	25.2	34.7
Customer error	19.2	18.8	21.0	17.8
Customer fraud	15.5	21.4	32.6	31.1
TOTAL	59.4	69.7	78.7	83.7
% of benefit expenditure	1.5%	1.8%	2.1%	2.3%

Figure 2: Estimated Underpayments due to error

	2007 * £million	2006 £million	2005 £million	2004-05 £million
Underpayments				
Official error	23.0	19.6	19.6	8.6
Customer error	3.0	2.9	4.2	3.9
TOTAL	26.0	22.5	23.8	12.5
% of benefit expenditure	0.6%	0.6%	0.6%	0.3%

Footnote: As indicated in Note 41 to the accounts the estimates are quoted to the nearest £0.1m and certain statistical uncertainties may exist where differing sampling techniques are used with a range of statistical tolerance levels.

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

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3.1.16 I have been concerned about the levels of benefit fraud and error for some years now and have recently completed a study in which I examined this area in more detail. My report¹ on Social Security Benefit Fraud and Error was published on the 23rd January 2008. I acknowledge the considerable effort and resources that DSD has put into reducing the incidence of fraud and error but nevertheless the overall levels of irregular payments have still not been reduced to a satisfactory level. The Northern Ireland Assembly's Public Accounts Committee (the Committee) published a report² on social security benefit fraud and error where it acknowledged that while the vast majority of benefits are correctly paid to customers, the levels of inaccuracy remain disappointingly high, despite the improvements made by DSD in tackling fraud and error. The Committee was particularly concerned about the incorrectness arising from errors by staff (official error) although its members recognised that the complexity of the benefit system and the limitations of the IT system contribute to the high levels of official error. I acknowledge that the complexity of a number of the benefits continues to be an issue for the staff.

3.1.17 DSD has told me that tackling fraud and error in the benefit system continues to be a key priority for the Department. In the following paragraphs DSD has highlighted the major programmes it has in place, through the Agency, with the aim of counteracting the levels of benefit fraud and error.

Tackling Benefit Fraud

3.1.18 DSD's aim is to prevent and deter benefit fraud and to take appropriate action where criminal conduct has been detected. DSD has told me that through the Agency it has in place a comprehensive and robust benefit security strategy. The Agency pointed out that data matching and collaborative working is an important element of the counter fraud strategy and that it works very closely with its counterparts in the GB Department of Work and Pensions (DWP) and the Department of Social and Family Affairs in the Republic of Ireland, to make full use of opportunities to share information and best practice. In addition, the Agency told me it has put in place action plans to implement the recent NIAO and Committee report recommendations. The Agency has also indicated its willingness to participate in the work being taken forward by the NIAO under the National Fraud Initiative. The Agency concluded that as a result of its counter fraud efforts it has seen a significant reduction in levels of fraud in Agency benefits, from £34.5 million (1 per cent of expenditure) in 2002-03 to £12.7 million (0.35 per cent) in 2007.

Customer Error

3.1.19 DSD told me that it has dedicated resources across the Agency to detect and correct customer error through the targeting and review of cases with a high risk of a change in circumstances. The Agency believes that targeting cases with the greatest probability of change is

1 NIA 73/07-08 Social Security Benefit Fraud and Error
2 26/07/08R Public Accounts Committee

crucial in maximising the outcomes from the Agency's counter error activity and similar to its counter fraud approach, a risk model has been developed to help target the highest risk cases. The Agency noted that in 2007-08, Programme Protection activity led to the adjustment of over 6,700 cases, to the value of £18.5 million. The Agency told me it recognises that complexity is a problem not just for staff but also for customers, and in helping to prevent error, customers need to understand what to report and when. The Agency confirmed that during 2007-08, leaflets were distributed province-wide reminding customers of the need to report changes, and the types of changes likely to lead to a benefit adjustment. The Agency added that in line with the position within DWP, it can try to influence the level of customer error through systems, process design and application, but these actions are unlikely to eliminate it entirely and it is therefore likely that customer error will always remain a challenge.

Underpayments

- 3.1.20 DSD told me it is committed to tackling all aspects of error, particularly where the impact of error, whether customer or official error, results in the underpayment of benefit. DSD advised that its complete range of counter error activities, operated by the Agency, is therefore designed to target all aspects of incorrectness, and cases are assessed on the basis of the risk of **both** underpayment and overpayment. To illustrate this the Agency noted that during 2007-08, checking and case

reviews through Programme Protection activity resulted in the total adjustment to benefits across the Agency of almost £36 million, of which over £12.5 million represented increases to benefit entitlement and the correction of the claimant's underpayment.

Official Error - Agency benefits

- 3.1.21 Official Error arises when Agency staff incorrectly process a new claim to benefit or take incorrect action when processing a change of circumstance notified by a customer. I have highlighted this category of error as it is my view that this is the area where the Agency has the most control. **Figure 3** summarises the results from the Agency's review of both estimated overpayments and underpayments in benefits arising from Official Error.

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Figure 3: Official Error- Agency benefits

Benefit	2007 Monetary Value of Error £million	2007 Financial Accuracy correctness as a % of expenditure	2007 Target	2007 Target achieved/ not achieved	2006 Monetary Value of Error £million	2006 Target achieved/ not achieved
Income Support	6.5	98.6	99% (+/- 0.6%)	Achieved within tolerance	3.9	Achieved
Jobseeker's Allowance	0.7	99.1	99% (+/- 0.5%)	Achieved	0.7	Achieved
Disability Living Allowance	7.8	98.8	98% (+/- 0.5%)	Achieved	12.0	Achieved
Attendance Allowance	2.2	98.8	Not available*		0.9	Not available*
Carer's Allowance	1.0	98.9	Not available*		0.9	Not available*
Pension Credit	17.5	94.3	98% (+/- 1.0%)	Not achieved	14.2	Not achieved
State Retirement Pension (and Bereavement Benefits)	5.0	99.6	99% (+/- 0.2%)	Achieved	5.1	Achieved
Incapacity Benefits	3.7	98.9	99% (+/- 0.8%)	Achieved within tolerance	7.6	Not achieved
Social Fund Payments, grants and loans	1.3	98.3	Not available*		1.6	Not available*
Total	45.7	98.7			46.9 (98.7%)	

* Not available as targets not set for these benefits
(For 2007 and 2006 the Official Error figures above are taken from the Financial Accuracy exercises).

3.1.22 The total estimated level of internal Agency error in 2007 reported by the Agency's financial accuracy exercise is £45.7 million. This represents an average accuracy rate of 98.7 per cent with no change from last year in terms of percentage of benefit spend. The Agency set financial accuracy targets for the six major benefits and targets were achieved for three, with a further two achieving the target within the statistical levels of tolerance set. The following paragraph is the Agency's response when I asked it what steps are being taken to tackle official error.

3.1.23 The Agency pointed out that overpayments through official error have reduced from £64 million (1.9 per cent of expenditure) in 2002-03 to £23 million (0.6 per cent) in 2007, a reduction of almost 65 per cent. Nonetheless the Agency told me it remains committed to doing all it can to ensure accuracy, for example, all benefit branches are subjected to a rigorous system of governance with mandatory performance checks integrated into normal business processes. The Agency also indicated that specific actions to manage complexity and counter official error include enhancements to staff training, the introduction of benchmark standards and feedback from checking staff to the frontline. The Agency did, however, point out that the administration and delivery of social security benefits does remain an extremely complicated process and this is exacerbated by an outmoded IT system. The Agency commented that both these issues have been recognised

by NIAO and the Committee. The Agency also highlighted that the benefits system is targeted at those most in need of assistance, many of whom may not find it easy to supply the personal data required because of lifestyle, personal circumstances etc, and staff often have to make complex judgements based on information provided by the claimant and frequently within tight timescales. The Agency considers that all these factors contribute to the likelihood of fraud and error in the benefit system. The Agency concluded that although it is dedicated to making the utmost effort to reduce Official Error, it is unclear how much further significant improvement can effectively be made until the necessary benefit simplification is introduced and enhancements are made to the existing IT systems.

3.1.24 I note that official error rates for specific benefits indicate a marked improvement, and I particularly welcome the significant reduction in the monetary value of official error for DLA which is a complex benefit to administer. However these improvements have been offset by a drop in performance for other benefits. I am concerned that there has been a further decline in the results reported for State Pension Credit. Incorrect payments of State Pension Credit make up a significant proportion of the overall monetary value of official error reported. Accuracy results for State Pension Credit have been consistently below target since the benefit was introduced and I continue to be disappointed at the lack of improvement.

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- 3.1.25 I asked the Agency about the official error results and in particular the decrease in accuracy performance in respect of State Pension Credit. The Agency has told me that State Pension Credit is in itself a difficult and complex benefit to process and maintain and this does result in a high level of Official Error. The Agency noted that it has consistently focused effort and resources in trying to improve its accuracy within this benefit. The Agency advised that this work has included the prevention of error (checking regimes) the correction of error (targeted case cleansing to remove 'embedded error') and compliance (the utilisation of benchmarking standards, learning support and skill development). The Agency added that it has developed a specific State Pension Credit Accuracy Improvement Plan for 2008-09 to co-ordinate activities that will impact directly on accuracy levels for this benefit.
- 3.1.26 I intend to review the performance levels for the benefit next year and hope to see significant improvement.
- 3.1.27 There is no financial accuracy target set or no measurement of financial accuracy for Housing Benefit. However, DSD has told me that the NIHE currently includes a Processing Accuracy Target which is set at 96 per cent of claims. DSD 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. DSD told me that the outturn for 2007-08 was 97 per cent.

Conclusion

- 3.1.28 I acknowledge that the total levels of fraud and error have decreased from previous years due in part to the various initiatives undertaken by DSD. The estimated levels of fraud and error represent amounts not spent in accordance with Northern Ireland Assembly intentions and not in conformity with the authorities that govern them. I consider that the estimated levels of fraud and error reported are still material enough to warrant a qualification of the accounts. Due to the low levels of fraud and error consistently estimated for State Pension, which has a high level of expenditure, I have excluded it from my qualification this year.
- 3.1.29 I continue to support the various initiatives that aim to lower the levels of fraud and error in benefit expenditure and recognise the difficulties faced by DSD regarding the complexity of many of the benefits and the limitations of the IT systems. The levels of fraud and error have been significantly reduced over the last four years and I encourage DSD to continue with the positive action.

Part 3: Financial Control and Monitoring of Expenditure in Relation to the Urban Development and Community Development Grants to Voluntary and Community Bodies

Request for Resources C: Urban Regeneration and Community Development

Introduction

- 3.1.30 In 2007-08 the Department paid out £108 million (£92 million in 2006-07), in respect of expenditure on Urban Regeneration and Community Development grants. Much of this expenditure is administered through third parties such as Intermediary Funding Bodies, community groups, voluntary organisations and statutory bodies.
- 3.1.31 I have qualified my regularity audit opinion on the expenditure in this area for the past eight years on the basis of weaknesses in DSD's financial controls and monitoring of this expenditure. Issues which led to qualification included concerns over the non-adherence by DSD to its own procedures. My examination of the 2007-08 expenditure in this area has revealed that DSD has continued to build on the significant progress made in 2006-07, to the extent that DSD's control and monitoring of grants made to voluntary and community bodies is now at a satisfactory level and therefore I have decided not to qualify my audit opinion on this issue. The basis for this conclusion is detailed in paragraphs 3.1.33 to 3.1.42 of this report.

- 3.1.32 However I have identified expenditure incurred in this area where the appropriate DFP approval has not been granted. I consider this to be irregular, as the expenditure does not conform to the authorities which governs it and I have therefore qualified my regularity opinion in respect of this matter. I explain the basis of my opinion in paragraphs 3.1.43 and 3.1.44 below.

Financial Control and Monitoring of Expenditure in relation to Urban Regeneration and Community Development Grants – removal of previous qualification.

Improvements in control and audit findings

Quality Assurance and Improvement Unit

- 3.1.33 DSD has made significant progress in recent years in improving its control and monitoring systems over expenditure on urban regeneration and community development grants and I am encouraged by the commitment of senior management within DSD in focussing attention in this area. Improvement has been gradual and has been realised through the introduction and development of various initiatives by DSD over the last number of years.
- 3.1.34 The establishment and development of the Quality Assurance and Improvement Unit (QAIU) has undoubtedly contributed to the improvements in departmental control. QAIU provides management with independent assurance on the quality and

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adequacy of evidence held on project files to support funding decisions and claims for payment. It also assists in the monitoring and evaluation of projects and funding programmes and makes recommendations for improving quality where significant concerns are identified. QAIU also updates procedural guidance used to administer expenditure on urban regeneration and community development grants and provides training where necessary.

3.1.35 I acknowledge the considerable effort made by DSD over the last number of years in this area. It is important however that DSD ensures that these efforts are sustained and indeed improved upon and that control and monitoring of this area of expenditure does not slip back to an unsatisfactory level. I understand that DSD is proposing changes to the structure and terms of reference for QAIU and I am concerned that these changes may result in a weakening of control and monitoring of this area. In response to my concerns DSD has told me that it is committed to the highest standards of performance in accuracy and quality of work and that it will continue to ensure that further improvement is made where weaknesses remain. In addition DSD advised me that:

- the QAIU will be retained with the appropriate resources to:
 - provide targeted training for the Voluntary and Community Unit (VCU) and development staff;
 - maintain and update the common procedures guidance;
 - provide advice to directorates on the interpretation of procedures;
 - maintain a particular focus on supporting further improvement in the quality of grant administration in the VCU; and
 - carry out test sampling of compliance with procedures in other directorates as directed by senior management;
- the following management controls will also remain in place:
 - the system of uniform management checks over key areas of grant administration to detect and resolve non-compliance issues at an early stage (see paragraph 3.1.36 and 3.1.37 below);
 - senior level decision-making panels within directorates to consider and approve applications for funding;
 - cross-directorate forums to share best practice, ensure a uniform decision-making approach, consider procedural issues and manage the risks associated with grant funding; and
 - the discussion of quality issues as a regular agenda item at Directorate and Grade 7 level management

meetings and implementation of additional controls where appropriate.

Management checking

- 3.1.36 A further Departmental initiative that has also contributed to the improvements in control that have contributed to the removal of the long standing audit qualification is the introduction of decision-making and payment processing line management checks within the Urban Regeneration and Community Development Group (the URCDG). Local management in each office are now responsible for checking, compiling and reporting the results of their testing to senior management on a monthly basis. The process also involves monitoring of trends and taking suitable remedial action to address unfavourable results. I have previously reported that I consider these checks to be a good control regime.
- 3.1.37 My staff reviewed the management checks reported during the 2007-08 audit and found the results to be largely favourable. While there continue to be fluctuations in performance across offices, I am pleased to note the continued increase in the levels of accuracy reported during the year. I note that both QAIU and Internal Audit raised some concerns on the quality of the management checks in the VCU. I consider that these management checks continue to be a valuable control within this area and therefore DSD must continue to satisfy itself that the process is robust and that the results reported to management can be relied upon.

Internal Audit and NIAO testing

- 3.1.38 In arriving at my audit conclusion I have continued to draw on the work of the Department's Internal Audit Unit and also on the results of the detailed project testing carried out by my staff.
- 3.1.39 This year Internal Audit has reported a rating of "satisfactory assurance" for programme expenditure³ in the URCDG. Internal Audit acknowledged the positive progress that has been made to improve the quality of the work undertaken within the URCDG. I note that the only element of negative performance reported by Internal Audit was in relation to the quality of the VCU management checking process that I highlighted in paragraph 3.1.36 above. However, Internal Audit was subsequently satisfied that improvements have been made within VCU, based on the favourable results from its subsequent consultancy work in validating additional testing carried out by QAIU. Accordingly Internal Audit concluded that the issues were not of such significance to impact adversely on the URCDG as a whole.
- 3.1.40 In 2007-08 my staff tested a sample of fourteen urban regeneration and community development projects funded by DSD. I am pleased to report that, with the exception of some minor points, no significant issues were noted.

Ongoing initiatives

- 3.1.41 In previous reports I have strongly encouraged and supported the use of risk

3 Non-administration costs including payments of grants in this case to the voluntary and community sector

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assessment by DSD in its consideration of the required levels of monitoring and verification to ease the burden of grant administration on the voluntary and community sector. I am pleased that the risk-based approach to monitoring and verification has continued to be embraced across URCDG and there is clear evidence that it is bedding in. It is reassuring that a high proportion of the groups assessed have been classified as low risk, which means that a less stringent regime of checking is required than was previously the case. Advice continues to be provided to groups in the medium and high risk categories on how to improve their corporate governance and financial controls, in order to change their risk assessment. DSD informed me it intends to carry out an evaluation of the effectiveness of the overall risk assessment process in late 2008.

- 3.1.42 Alongside developments in risk assessment, DSD has also revised the grant administration procedures in response to recommendations arising from a review commissioned by DSD. As a consequence both the procedures, whilst remaining prescriptive, are more streamlined and have reduced the need for 100 per cent checking of claims for all projects. This in turn should reduce delays in the time taken to consider projects for approval and for the processing of claims, both of which can cause hardship on the projects funded.

Qualification arising where DFP approval was refused for expenditure incurred

- 3.1.43 During the year DSD sought retrospective approval from DFP on expenditure incurred on a number of projects. I have been advised by DFP that, after consideration of the relevant guidance, approval of expenditure has been withheld on five projects, totalling £1,045,766 in relation to the 2007-08 financial year. All of this expenditure relates to urban regeneration and community development grants.
- 3.1.44 I consider this expenditure to be irregular as it does not conform to the authorities that govern them and I have qualified my regularity opinion in respect of this matter. I welcome the disclosure of this matter in the Statement on Internal Control and also in Note 43 of DSD's accounts. I asked DSD to comment on the failure to obtain appropriate DFP approval for this expenditure. DSD told me that largely the issue had arisen from a genuine misunderstanding within DSD of how the term "retrospection" is applied by DFP. DSD appraised the projects but the appraisals were not completed until after the date from which funding was awarded. DFP officials have confirmed that, in their view, this falls into the category of retrospection under Government Accounting NI in 2007-08 (and under Managing Public Money as it currently applies). As a result, DSD has taken the following action to ensure

that any future need to seek retrospective approval within the DFP interpretation is minimised:

- detailed economic appraisal guidance was issued to all Grades 5,6 and 7 within the Urban Regeneration and Housing commands on 2 June 2008;
- staff in the Urban Regeneration and Community Development Group were advised to stop the process of backdating payments in the manner highlighted by these cases;
- an on-line economic appraisal database and control system is being developed and piloted by the Regional Development Office (once the work on this system is complete it will be assessed to see if it is appropriate to roll out to other relevant areas of DSD);
- as an interim measure a simple database of current and future economic appraisals above DSD's delegated limits is being maintained by DSD's central finance team, updated on a monthly basis and shared with DFP; and
- arrangements are being made to provide economic appraisal update training to all URCDG business areas over the next few months.

Mainstreaming of funding to a number of organisations which have been funded by DSD for a number of years is also being considered. I will keep developments

under review and may report further on this issue in the future.

Conclusion

3.1.45 During the 2007-08 year, DSD continued to make significant improvement in the accuracy of its grant award decision-making and payment processing. The various actions taken by DSD to address weaknesses in the administration of grants to the voluntary and community sector have now largely had time to bed in and DSD has assured me that it will continue to ensure that further improvement is made where weaknesses remain. Audit testing by my own staff, together with the work of the Department's Internal Audit and QAIUs, have supported the conclusions reached. It is essential, however, that DSD makes every effort to maintain the momentum and continues to ensure that the risk to public funding is kept to a minimum in the future.

3.1.46 On the basis of my audit findings in paragraphs 3.1.33 to 3.1.42, I have concluded that DSD's financial controls and monitoring of urban regeneration and community development grants have now reached an acceptable level. Consequently I have removed the previous audit qualification in respect of this issue.

3.1.47 However on the basis of the findings reported at paragraphs 3.1.43 and 3.1.44 above, I identified expenditure that DSD had not received DFP approval for. In my view this expenditure was not applied to the purposes intended by the Northern Ireland Assembly and did not

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conform to the authorities which govern them. I have therefore qualified my regularity opinion in respect of this matter.

an element of the data is collected and maintained in the national interest. To date no value has been placed on this element of Ordnance Survey's work.

Department of Culture, Arts and Leisure

Accounting for Ordnance Survey of Northern Ireland's Topographic Database

3.2.1 Ordnance Survey of Northern Ireland (Ordnance Survey) was an Agency within the Department of Culture, Arts and Leisure (DCAL). It was responsible for the official surveying and topographical mapping of Northern Ireland and it aimed to maintain a topographic database to standards of currency, completeness and accuracy that met the needs of its customers. On 1 April 2008 Ordnance Survey, together with the Valuation and Lands Agency, the Rate Collection Agency and Land Registers of Northern Ireland merged to form Land and Property Services (LPS), an Agency within DFP.

3.2.2 Ordnance Survey came within the Departmental boundary of DCAL and its accounts are consolidated into the resource accounts of the Department.

3.2.3 The topographic database is a definitive computerised map of Northern Ireland and consists of geodetic networks and topographic information from large scale surveys accumulated over many years. Ordnance Survey's income arises mainly from sales and licensing of maps, data, copyright and other repayment tasks arising from the database. Apart from the commercial application of the database,

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

3.2.5 However, as disclosed by DCAL in note 1.6 to its accounts and in accordance with FRS 10 Goodwill and Intangible Assets, the database has been treated as an intangible fixed asset with no value attached to the database. On-going costs, as incurred, of maintaining the database have been charged to Ordnance Survey's income and expenditure account and DCAL's operating cost statement. Both the Agency and the Department have accounted for the database as an intangible fixed asset at nil value, on the grounds that it is internally developed and has no readily ascertainable value.

- 3.2.6 In my reports on the 2000-01 Ordnance Survey Accounts and each subsequent account since then I have carefully considered the accounting treatment of the database and disagreed with the Agency's accounting treatment. I regard the database as a tangible fixed asset which should be capitalised in accordance with FRS 15.
- 3.2.7 In note 1.6 of its accounts DCAL has stated that "having carefully reviewed the matter, and considered relevant comparator organisations, OSNI considers that the electronic mapping data is virtual rather than physical in nature and being akin to intellectual property is an intangible asset". The note goes on to state that the data is unique and has never been actively traded and since FRS 10 states that internally developed intangible assets are only capitalised where there is a readily ascertainable market value evidenced by an active market in similar assets, no value should be attached to this asset in the financial statements.
- 3.2.8 Having considered the representations made by DCAL and Ordnance Survey it remains my opinion that the database has physical substance and is held for use in the production of goods and services on a continuing basis. In my reports on Ordnance Survey's accounts for the financial years 2000-01 to 2005-06, I noted that historically the database had cost more to maintain each year than it generated in income and that as noted in paragraph 3.2.3 of this report, no value has been placed on that element of the Agency's work which is undertaken in the national interest. My conclusion was that although I disagreed with the Agency's chosen accounting treatment of the database, it was unlikely during these periods that any material misstatements had arisen in the accounts as a result of not capitalising the database. Consequently, although I disagreed with the Agency's chosen accounting treatment of the database, my opinion on the Agency's accounts was unqualified.
- 3.2.9 In the financial year 2006-07 the Agency recorded a surplus of income over expenditure of £1.8 million and the Agency told me that it expected to record a surplus of income over expenditure in 2007-08. I considered that as the database was generating more in income than it cost to maintain it was now likely that the database had a material value. I therefore qualified my opinion on the Agency's 2006-07 accounts because of my continuing disagreement with Ordnance Survey's decision not to capitalise the database and the evidence of the material value of the database due to the surplus of income over expenditure. I also qualified my opinion on DCAL's accounts for 2006-07.
- 3.2.10 In the financial year under review the Agency recorded a surplus of income over expenditure of £1.9 million. LPS has told me that because of the reorganisation which took place on 1 April 2008, referred to in paragraph 3.2.1 of this report, it is currently not possible to estimate the financial results of that section of the Agency's business which relates to the topographical database for 2008-09.

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- 3.2.11 DCAL discloses in its accounts (note 1.6) that “since 2006-07 Ordnance Survey has made numerous attempts to seek a resolution to the disagreement in conjunction with the Department of Culture Arts and Leisure, the Department of Finance and Personnel, Her Majesty’s Treasury and the Northern Ireland Audit Office”. I would note that this disagreement is the same as that experienced over a number of years by the Agency’s sister organisation in Great Britain, Ordnance Survey (Great Britain) and its auditors, the National Audit Office. Ordnance Survey Great Britain’s accounts have been qualified on this matter every year since 1999-2000.
- 3.2.12 By not recognising the value of the database in DCAL’s accounts, the underlying value of the Department and its operating costs are materially understated.
- 3.2.13 The 2008 Budget announced that, from 2009-10, the accounts of government departments and bodies in the wider public sector will be produced in accordance with international financial reporting standards (IFRS) as interpreted by an IFRS-based Financial Reporting Manual (iFReM). DCAL has stated in note 1.6 of the financial statements that Ordnance Survey has reviewed the implication of the international accounting standards based Financial Reporting Manual (iFReM) which the Agency believes will provide a basis for resolution of the issue.
- 3.2.14 I welcome the significant early consideration given to this matter by the Agency, however, the qualification issue will continue to apply until the introduction of IFRS.
- 3.2.15 I have therefore qualified my opinion on the Agency’s 2007-08 accounts because of my continuing disagreement with Ordnance Survey’s decision not to capitalise the database this year and the continuing evidence in 2007-08 of the material value of the database due to the surplus of income over expenditure earned.
- 3.2.16 As noted in paragraph 3.2.2 of this report the accounts of Ordnance Survey form part of the resource accounts of DCAL. In my view, the database is a material tangible fixed asset, the value of which should be included in the Department’s balance sheet in order that the accounts show a true and fair view. I have therefore also qualified my opinion on DCAL’s accounts, as I did when reporting on those of Ordnance Survey.

Department of Health, Social Services and Public Safety

Regularity of expenditure relating to costs incurred in the employment of specialist advisors for the Developing Better Services project.

- 3.3.1 In my report on the financial statements of the Western Health and Social Care Trust⁴ for 2007-08 I identified that, in two respects, expenditure was not applied for the purposes intended by the Northern

4 The Western Health & Social Care Trust was formed on the 1 April 2007 following the merger of Altnagelvin Hospitals HSS Trust, Foyle HSS Trust and Sperrin Lakeland HSS Trust.

Ireland Assembly and that the transactions did not conform to the authorities which governed it.

3.3.2 As the Department of Health, Social Services and Public Safety (DHSSPS) is the sponsoring department of this Trust I also considered the impact of these issues on my opinion for the Department's Resource Account.

3.3.3 I am content that the first matter, arising in respect of the engagement of management consultants, is a Trust issue and this has not impacted on my opinion on these Accounts.

Qualified opinion on regularity of financial transactions

3.3.4 The second matter concerning regularity of expenditure partly dates back to the former Sperrin Lakeland Health and Social Services Trust and relates to costs incurred in the employment of specialist advisors for the Developing Better Services project and concerns the absence of business case approvals for the incurring of expenditure. There were protracted discussions between the Sperrin Lakeland Trust (and the Western Health and Social Care Trust, after it was established in April 2007) and DHSSPS on the detail of the submission, following the Trust's request to DHSSPS in October 2006 for approval for further expenditure. The Department advised that over a series of meetings and exchanges it sought to verify the robustness of estimates for advisor costs presented that had risen

very sharply from previous estimates and had to resolve a number of key issues in relation to the business case, leading to several resubmissions by the Trust. The Department did not seek formal approval for this expenditure from the Department of Finance and Personnel (DFP) until December 2007. During this 14-month period, £2.4 million was expended on specialist advisors. DFP turned down the request for retrospective approval for this expenditure, and it is therefore irregular.

3.3.5 DFP's reasons for not giving retrospective approval to the Department on this project are:

- DFP had previously given retrospective approval on costs for this project in August 2005;
- DHSSPS was aware of the situation in October 2006 and did not inform DFP until fourteen months later; and
- The Assembly's Public Accounts Committee had reported in February 2008, on the use of consultants and this had strengthened the financial management agenda.

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

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- 3.3.7 I welcome the open and full disclosure of this matter in the DHSSPS Accounting Officer's Statement on Internal Control and the proactive action taken by the Department to tighten up controls in this area since this matter arose.
- 3.3.8 In all other material respects, income and expenditure was applied for the purposes intended by the Assembly and the financial transactions conformed to the authorities which governed them.

Conclusion

- 3.3.9 On the basis of the findings reported at paragraphs 3.3.4 to 3.3.6 above, in one material respect I identified that expenditure was not applied for the purposes intended by the Assembly and that the transactions did not conform to the authorities which governed it. Further details of this issue can be found in the General Report on the Health and Social Care Sector 2008 due to be published shortly.
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Child Support Agency – Client Funds Accounts

Introduction

- 4.1.1 The Child Support Agency (CSA) is an executive agency of DSD. It was established in 1993 and its main purpose is to ensure that parents no longer living with their children (non-resident parents) meet their financial responsibilities towards their children.
- 4.1.2 The CSA is required under direction from DFP to prepare a Client Funds account, which reports the receipts of child maintenance from non-resident parents and the level of outstanding debt in respect of these maintenance assessments, and payments to parents with care. I am required, under the Government Resources and Accounts Act (Northern Ireland) to examine and certify the Child Support Agency Client Funds Account and report the results to the Northern Ireland Assembly. The administrative costs of the CSA are reported within a separate account, of which I am also the auditor.
- 4.1.3 This report provides a summary of the significant matters arising from my audit of the 2007-08 Client Funds Account and the basis for the qualification of my opinion. I also provide an update on the progress made by the CSA in addressing the long-standing issues that have led me to qualify my opinion on these accounts since the CSA's inception in 1993.

Qualified Audit Opinion

- 4.1.4 I am required, under International Auditing Standards, to obtain sufficient evidence to satisfy myself that the financial statements properly present the receipts and payments of client funds, in accordance with DFP directions. In addition, in respect of Note 6 to the accounts, I am required to satisfy myself that this is a true and fair view of the debt in respect of unpaid maintenance. Finally, I am required to form an opinion on whether in all material respects the financial transactions conform to the authorities that govern them, the "regularity" opinion.
- 4.1.5 In respect of my view on the debt balances, I am unable to form an opinion as the scope of my audit was limited because of insufficient evidence to support the accuracy and completeness of the debt balances totalling £82.6 million (paragraphs 4.1.7 to 4.1.9). The legacy of material error in the underlying maintenance assessments, resulting from material levels of error identified by my staff and by the CSA's own quality assurance team in previous years, continues to impact on the accuracy of debt. I have also qualified my regularity opinion as I do not consider the financial transactions conform to the authorities which govern them where the maintenance assessments have been calculated incorrectly.

Basis of Qualified Audit Opinion

- 4.1.6 In 2007-08 the CSA received £13.7 million from non-resident parents (£13.3

million in 2006-07) and made payments of £10.5 million (£10.0 million in 2006-07) to parents with care. In addition, £3.1 million (£2.8 million in 2006-07) was transferred to DSD where persons with care were in receipt of benefit.

4.1.7 My opinion on the Child Support Agency's Client Funds Account 2007-08 has been qualified for the following reasons:

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

I will explain these issues further in the following paragraphs.

Absence of adequate support documentation

4.1.8 The CSA maintains accounting records on the Child Support Computer system (CSCS) and on the Child Support 2 (CS2) system. The maintenance outstanding at 31 March 2008, disclosed in Note 6.1 to the Client Funds Account, is derived from the balances from these two systems, in conjunction with a series of complex manual workarounds. The CSA is unable to produce a list of total debt on a case-by-case basis from the underlying computer systems. Furthermore, the workarounds result

in adjustments being made to the outstanding debt balances in total rather than by individual debt amounts. In the absence of a satisfactory audit trail, my examination of debt balances was severely limited therefore I conclude that there is significant uncertainty over the accuracy and completeness of the debt balances reported in the accounts. Consequently I have qualified my audit opinion on the basis that the scope of my audit was limited in this regard. It is my understanding that the Great Britain Child Support Agency (GB CSA) is developing a debt book for the CSA. The CSA has indicated to me that a major IT system enhancement is scheduled which will allow the Agency to identify debt and debtors more efficiently. The CSA will continue to engage with the GB CSA on this system enhancement and the further development of existing debt books.

Accuracy of maintenance assessments

4.1.9 The accuracy of the calculation of a maintenance assessment for child support is a key element in the process as the assessment forms the basis of the payments made by non-resident parents to persons with care and also the calculation of the amount due where a debt builds up. For the previous fourteen years I have qualified the Child Support Agency Client Funds Account as a result of the extent of the errors my staff found when they sampled a number of cases assessed by the CSA. The errors found in my testing in previous years and the fact that the CSA is unable to prove to me that the assessments made in previous

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years and recorded as a balance due, have been reviewed and corrected, have led me to conclude that the level of error within the system is still material. However my staff did test a small sample of debt balances this year simply as a means of assessing the percentage rate of error per case without estimating the value of error. My staff examined thirty cases and found eleven errors indicating an overall case error rate of 37 per cent (37 per cent in 2006-07). Testing carried out by the CSA's own Case Monitoring Team (CMT) also indicated that there was material error in the maintenance assessments. CMT have reported Cash Value accuracy of 92 per cent for 2007-08, a significant downturn in the 98 per cent level of accuracy that was reported for 2006-07. It is therefore my opinion that the level of error within assessments continues to be unacceptable. I asked the CSA to comment on these levels of error. The Agency told me that it fully accepts that there is a need to improve accuracy levels. It indicated that 2007-08 was a period of major organisational and structural change for the CSA which involved an extensive reorganisation with the large scale movement of staff across business areas requiring retraining in many aspects of the business. The CSA explained that one consequence of this was that accuracy levels dipped in the first two months of 2007-08 but remedial action taken in the remaining ten months of the year resulted in an upward improvement. However the results from the first two months did impact on the overall result for the year. Furthermore the Agency noted that accuracy is one of its five key

targets for 2008-09 and a programme of work is in place to ensure that there remains a strong focus on this key area with managers committed to continuous improvement.

Debt levels

- 4.1.10 The CSA is not permitted to write off debt under the provisions of current legislation. Consequently the gross debt outstanding has continued to accumulate since the CSA's inception in 1993. In Note 6, the CSA reports gross debt outstanding, as at 31 March 2008, of £82.6 million before taking account of the provision for bad and doubtful debt which the CSA has estimated to be £46.9 million. This leaves a balance of £35.7 million (£29.9 million in 2006-07) as collectable debt.
- 4.1.11 These balances comprise almost 30,045 individual cases of debt, some of which date back to the inception of the CSA. I continue to be concerned at the rising levels of debt in the CSA. Indeed this view is shared by the Northern Ireland Assembly's Public Accounts Committee (the Committee). In the recently published report¹ on the Child Support Agency Client Funds, the Committee expressed the view that the level of debt is unacceptable, the growth in the level of debt is worrying and the Agency needed to be faster and better at collecting the money owed. The level of gross debt in the CSA has risen to £82.6 million at 31st March 2008 (£71 million at 31st March 2007) and represents almost six years receipts. The Agency has estimated that £46.9 million (£41.1 million in

2006-07) of this gross debt is deemed probably and possibly uncollectable (£41.1 million at 31st March 2007). The Committee was alarmed that the CSA considered such a large proportion of the debt to be uncollectable. I also note that in response to a previous recommendation arising from my audit, the CSA's Annual Report now includes a debt collection target of £1.5 million for 2007-08 (£2.5 million for 2008-09). However, I am disappointed that the target is set below a level which I consider to be challenging and is much lower than the amount by which debt is increasing year on year.

4.1.12 I acknowledge that the CSA's three-year Operational Improvement Project (OIP) which is due to be fully implemented by March 2009 includes many new initiatives aimed at improving debt enforcement and reducing the level of debt. However, despite the changes that have taken place already in the first two years of the project, controlling debt evidently continues to be a problem for the CSA with ever increasing debt levels. In its report that I refer to in paragraph 4.1.11, the Committee recommended that the Agency re-examines its processes for collecting debt and pursues all avenues to reduce the level of arrears to acceptable amounts. In addition the Committee also recommended the Agency makes more extensive use of its enforcement powers and seeks to pursue any additional powers which may help it reduce the escalating levels of debt. The CSA told me that the increased debt level is in part the result of the Agency progressing more cases and that the first

stage of recovering debt is the calculation and tabling of that debt. In response to the Committee's recommendations the CSA has indicated that it has introduced a number of operational improvements including the introduction of credit/debit cards and the use of Debt Collection Agencies. The CSA also told me that moving forward, the Child Support Redesign legislation, expected to be introduced by the Northern Ireland Assembly in 2008, will propose new powers to tackle old debt more effectively by making changes to the way in which maintenance is collected through the use of deduction from earnings orders, current account deduction orders and lump sum deduction orders. In addition the CSA explained that further measures will be available to encourage compliance from those who will not pay child maintenance and it is envisaged that proposals to extend the range of sanctions available will further assist the collection of child maintenance.

4.1.13 With effect from 1 April 2008 there have been structural changes for the CSA which is now operating as the new Child Maintenance & Enforcement Division (CMED) within DSD. I comment in more detail on this in paragraph 4.1.16. I will continue to monitor debt levels and will report again next year on the progress made in reducing the level of debt.

Costs of Collection

4.1.14 I have previously expressed my concern about the high costs of collection within the CSA, particularly in comparison

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to those of the GB CSA. The CSA's cost of collection for 2007-08 has been calculated at a cost of 84 pence (88 pence in 2006-07) for every £1 collected. This not only takes account of amounts received by the CSA from non-resident parents but also amounts arranged but paid directly to the parents with care. The Committee shared my concern on this low return and recommended in its report that the Agency analyses the full costs of collection ratio with a view to benchmarking as effectively as possible against GB CSA and identifying the scope for improvement. The CSA has told me that it intends to address this by comparing the costs of collection ratio with a view to identifying potential areas for improvement. The CSA added that thereafter it will benchmark as effectively as possible against GB CSA whilst taking into account that from July 2008, this body will be established as a Non Departmental Public Body. I note that the CSA has set a target to achieve a cost of collection of 82 pence for every £1 collected in 2009 and I will monitor the position again next year.

Performance of the CSA

4.1.15 In its Annual Report and Accounts the CSA reports performance against the targets set. At its recent hearing on the Agency's Client Funds accounts, the Committee took a keen interest in the targets that had been set and the achievement by the CSA of those targets. In its report the Committee recommended that, in order to ensure a better focus on the levels of accuracy, customer satisfaction

and debt recovery, DSD and the CSA should set more challenging targets. The CSA accepted this recommendation, recognising the importance of continued focus on accuracy, customer satisfaction and debt recovery and the need for challenging targets for these aspects of its business. I note that in its Annual report and Accounts the CSA has set targets for each of these areas and I will continue to monitor its performance against these targets.

The Way forward

4.1.16 In my previous report I indicated that following on from Sir David Henshaw's report on the redesign of the child support system, Government in GB had signalled that a new organisation, the Child Maintenance and Enforcement Commission (CMEC), would replace the GB CSA to deliver a new system of child support. The CSA considered these developments and in January 2008 the Minister for the Department consulted the Northern Ireland Assembly on the options for the CSA. The Minister considered that it was important to maintain parity in child support policy with GB but that with value for money considerations and a desire to have strong ministerial direction, the decision was taken to disband the CSA and transfer the activities to a separate new division (the Child Maintenance and Enforcement Division) within DSD from 1 April 2008.

4.1.17 In line with GB, the CSA (and the new division from 1 April 2008) has continued with the implementation of the Operational

Improvement changes. I recognise however that the CSA is dependent upon GB for any improvements in the information technology services and it is my understanding that a major upgrade to the new computer system is planned to take place soon as part of the operational improvement changes. I will continue to monitor developments in this area.

Conclusion

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

4.1.19 The OIP aims to address some of the problems that still beset the child support system. Key to the success of the OIP are the planned IT system upgrades and implementation of these has not yet taken place although this is the final year of the project. It is therefore too early to assess whether the long-standing problems will be resolved. I will continue to monitor with interest what the future holds for Child Support and will continue to review the issues outlined within this report.

Land Registers of Northern Ireland – Surplus Income

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

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

4.2.3 Full details of the fee income and the cost of services for the three separate registers within LRNI (the Land Registry, the Registry of Deeds and the Statutory Charges Registry) are shown at Note 2 to the Annual Accounts.

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

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- 4.2.5 The Land Registry (Fees) Order (Northern Ireland) 2007 and The Registration of Deeds (Fees) Order (Northern Ireland) 2007, both of which came into operation on 1 April 2007, substantially reduced fees paid for many transactions. However, despite this, LRNI generated further surplus income of £9.37 million in 2007-08. LRNI has advised me that:

"this surplus was principally generated through the over-heating in the Northern Ireland property market in Spring / Summer 2007 which saw many more properties being pushed into the higher fee band than had been anticipated."

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

- 4.2.7 I asked the LRNI Accounting Officer what action she had taken in response to DFP's request to take appropriate steps to ensure more effective financial management of fee income, including more frequent and regular reviews of fees. In addition, I asked DFP and LRNI whether they had

acted upon my recommendation to take into account past surpluses earned when setting revised fees. I was advised that:

"LRNI has accepted my recommendations and has put in place procedures to review fees on an annual basis and that past surpluses are considered as part of the process. LRNI also continues to benchmark its fees against the other Home Countries Registration Authorities. A new Fees Order has been prepared which will bring about further reductions in fees but its implementation has been deferred due to the current downturn in the property market. The situation will be revisited when the housing market stabilises."

- 4.2.8 It is important that LRNI continues to make efforts to reduce surplus income through regular review and revision of fees, in light of changes in the property market, and I will keep progress under review.

Ordnance Survey of Northern Ireland

Report on Procurement

Introduction

- 4.3.1 During the course of our audit of Ordnance Survey of Northern Ireland (OSNI) 2007-08 financial statements we noted a report by Internal Audit (May 2008) which attracted an 'unacceptable'² assurance rating. The report covered a review and evaluation of the operation of the systems of risk management,

2 'unacceptable' – the system has failed, or there is a real and substantial risk that the system will fail, to meet its objectives. Urgent action is required to improve the adequacy and effectiveness of risk management, control and governance.

control and governance, to ensure that all procurement activities deliver value for money and are in line with best practice and the regulatory framework. We highlighted the matter in our report included with the Annual Report and Accounts of OSNI for the year ended 31 March 2008³ and stated our intention to consider the matter further and report later as appropriate. Until 31 March 2008, OSNI was an agency of DCAL. On 1 April 2008 it became part of Land and Property Services – an agency of DFP.

Failures in procedures and controls - Global Positioning System

- 4.3.2 The specific procurement that led to the unacceptable Internal Audit rating concerned the purchase of Global Positioning System (GPS) equipment. The Operational Requirement for this procurement was for four instruments initially, at a cost of £51,000. However, on five separate occasions, OSNI placed orders and purchased additional GPS equipment, spending £177,000 in addition to the original purchase. The total expenditure amounted to approximately £228,000.

Mosaic Project

- 4.3.3 A previous Internal Audit report (June 2007) highlighted a similar procurement practice by OSNI. The report, on Budgetary Control, Financial Reporting and Payments Processing for the Mosaic Project⁴, attracted a 'limited'⁵ assurance rating, drew attention to procurement

weaknesses in OSNI and recommended a number of improvements. Internal Audit highlighted expenditure amounting to £295,000 against a contract for the preparation of a business case and project initiation document for the Mosaic Project. The contract had been awarded for £38,000.

- 4.3.4 The invitation to tender document contained a reference to 'additional technical assistance' which might be required. DFP has stated that the expenditure was largely on project technical support and not on the preparation of a business case and project initiation document. The additional expenditure was approved and incurred by OSNI without consulting the Central Procurement Directorate (CPD)⁶ of DFP. Internal Audit considered that a clause of this nature should only have been used to procure a small amount of additional work and should not have been used to cover additional expenditure of £257,000. The Internal Audit report stated that there was no evidence that value for money was considered on each occasion when expenditure was approved and that OSNI could not therefore demonstrate that the additional expenditure was the true cost of the service provided.

- 4.3.5 A further concern, highlighted by Internal Audit, was that the Project Manager, who recommended additional spend in respect of software development, had initially commenced management of the project as a consultant of a firm, the same firm that was awarded the contract. In our

3 Laid before the NI Assembly on 3 July 2008 (NIA 135/07-08).

4 Mosaic was then the brand name for the implementation of the Geographic Information (GI) Strategy for Northern Ireland.

5 'limited' – there is considerable risk that the system will fail to meet its objectives. Prompt action is required to improve the adequacy and effectiveness of risk management, control and governance.

6 Central Procurement Directorate provides a procurement service to Northern Ireland Departments and other public sector bodies in respect of a wide range of supplies and service types ensuring best value for money, legal compliance and competitiveness.

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opinion this represents a real or perceived conflict of interest. We concur with Internal Audit's recommendation that 'potential conflicts of interest should be identified, dealt with appropriately by management or avoided. Documentary evidence of managing conflicts, as well as liaison with CPD, should be retained'.

Revised Procurement Procedures

4.3.6 In June 2007, following the Internal Audit report on the Mosaic Project, OSNI implemented revised procurement procedures aimed at achieving compliance with best practice and value for money. These included the requirement to:

- consult with and follow the advice of CPD for any new procurement exercises;
- clear post-contract variations with CPD;
- ensure that suppliers are on a CPD-approved 'call-off contract' prior to authorising invoices; and
- retain evidence of any meetings, e-mails, memos or telephone calls involving CPD in a local registered file.

Procurement of GPS Equipment

Tendering Process and Award of Contract

4.3.7 The Chief Executive of OSNI had advised us that CPD was consulted by telephone at the start of the tendering process for the

GPS equipment (around February 2006) and that CPD advised that it did not need to be involved. There is no written record of this. The tendering process was therefore administered by OSNI staff.

4.3.8 Although the original tender was for the purchase of four GPS receivers, the Operational Requirement states that OSNI 'aspires to have twenty GPS receivers deployed in the field survey section before April 2008'. Procurement for such a number at a cost in excess of £200,000 would have exceeded the European Union (EU) procurement threshold⁷ and should therefore have been subject to the requirements of the United Kingdom Procurement regulations, which would have required advertisement in the European Journal. Instead, an invitation to tender was issued to five suppliers via e-mail, inviting them to submit a 'quotation' for the supply of the equipment. OSNI records show that only three suppliers responded.

4.3.9 The contract awarded for the procurement of GPS equipment in March 2006 could not be produced for our examination. The Chief Executive acknowledged that 'this is a shortcoming in record keeping'.

Purchases

4.3.10 On five subsequent occasions, OSNI used the following clause in the Operational Requirement to place orders and purchase additional GPS equipment amounting in total to £177,000 from the original contractor:

⁷ European Procurement limit varies but was approx £140,000 for Executive Agencies.

'Additional instruments may be required in 2006-07, and 2007-08. Responses to this Invitation to Tender may be used to determine the manufacturer and supplier of all further GPS instruments purchased before April 2008. The successful tenderer must be prepared to maintain their offer for this period, within reasonable market trends'.

- 4.3.11 In total, OSNI purchased nineteen GPS receivers from the one contractor – the initial purchase in March 2006 for £51,000 followed by five purchases between January 2007 and January 2008. We note that the initial purchase and four of the subsequent purchases pre-date the implementation of revised procurement procedures as referred to in paragraph 4.3.6 of this report. The total expenditure amounted to £228,000. It is our opinion that the clause used to support the additional purchases did not constitute a 'call-off' contract and procurement should not have taken place in this way (see paragraph 4.3.13). DFP has referred to advice received from CPD in June 2008 which stated that it could be inferred from the Operational Requirement that it was OSNI's intention to establish a standing order/call-off arrangement for a period of time for future purchases but that OSNI may wish to take legal advice in regard to this. We have been advised by CPD that legal advice was not sought. Also, as noted at paragraph 4.3.6, the revised procedures included the requirement to ensure suppliers are on a CPD approved 'call-off contract' prior to authorising invoices.

Other Weaknesses in Procurement

- 4.3.12 The following issues were noted in relation to these purchases:

- *January 2007 - procurement of one GPS receiver for £12,000.* The OSNI Chief Executive advised that OSNI could not provide a business case or single tender recommendation for this procurement in line with procedures.
- *February 2007 - procurement of one GPS receiver for £11,000.* A business case is not available, however an appraisal for the purchase of the replacement GPS receiver was prepared – an authorised version of the appraisal has not been provided.
- *June 2007 – procurement of two GPS receivers for £22,000, and three replacement GPS receivers for £22,000 (£33,000 less credit of £11,000 for old units).* Two separate business cases recommended that receivers were purchased from the 'two-year tender accepted in March 2006' with an additional replacement receiver being purchased later in the year. A Proposal for Single Tender Action, covering both these purchases and approved by the Chief Executive, stated that 'individually both appraisals fall within the Central Procurement Directorate procurement control limit of £30,000, allowing purchase based on four selected tenders. Considered together they breach the aggregation rules set out in UK Procurement Regulations,

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and require purchase through public advertisement. If the additional purchases proposed for 2008-09 are also aggregated this may exceed the EU threshold'. There is no evidence that CPD was consulted prior to these purchases or in relation to the breach of regulations.

- *January 2008 - procurement of eight GPS receivers for £110,000* (following implementation of revised procurement procedures referred to in paragraph 4.3.6 of this report). A business case was approved by the Chief Executive in July 2007 recommending the purchase of up to fifteen GPS receivers from the 'two-year tender accepted in March 2006', however the procurement did not proceed at the time as sufficient budget was not available. In January 2008 a budget of £130,000 was identified and a Proposal for Single Tender Action for the procurement of up to thirteen additional GPS receivers was approved by the Chief Executive, however only eight were purchased.

The Proposal stated that 'the purchase will exceed Central Procurement Directorate procurement control limit of £30,000, normally requiring full tender action. This individual purchase may also exceed EU threshold, but when considered in conjunction with previous GPS purchases within the 2007-08 financial year it will breach the aggregation rules set out in UK Procurement Regulations, and would require purchase through QJEC'.

The Proposal also stated that 'an additional purchase of GPS field survey units was undertaken in 2007, supported by approval for single tender action' and that 'the approach was examined and approved by audit' (we understand this is a reference to Internal Audit). No evidence has been provided to support this assertion.

In addition the Proposal noted that 'purchase through CPD usually requires a minimum period of six weeks, and will require completion of a full tender process. Current CPD workload means that it is unlikely that the required process can be completed by end of 2007-08 financial year.'

In line with the revised procurement procedures, OSNI contacted CPD via email for advice on purchasing the additional receivers from the preferred supplier through a Single Tender Action. The information provided to CPD stated that 'purchase of additional GPS field survey units undertaken in 2007 using a single tender action was examined and approved by audit' (we understand this is a reference to Internal Audit). There is no evidence to support this assertion.

CPD was also advised in the email correspondence that the tender included a 'call-off option available to April 2008', although a copy of the original contract was not forwarded

for review. A copy of the Single Tender Action proposal was however requested by CPD and forwarded with the email.

CPD advised that OSNI should proceed with the procurement if there was a contract in place for the supply of GPS receivers and there was provision to call off more units from this contract. CPD did not comment on the potential breach of aggregation rules.

4.3.13 Throughout these purchases there appears to be confusion in relation to the use of a call-off contract and the requirement for a Single Tender Action. If there is a call-off contract then a Single Tender Action would not be required for each call-off. The business cases outlined above make reference to purchasing the receivers from the 'two-year tender accepted in March 2006' yet proposals for Single Tender Action have also been prepared.

4.3.14 The Chief Executive had stated that the 'breach of OJEC spending thresholds was not acceptable'.

4.3.15 Government Accounting Northern Ireland (GANI), which was applicable until 30 June 2008 before it was replaced by Managing Public Money Northern Ireland (MPMNI), stated that 'Departments and other public bodies are responsible for ensuring that they comply appropriately with their legal obligations' including EU and other international obligations. Records of discussions recommending Single Tender Action highlight that

OSNI was aware that such procurement should go through CPD and also that EU requirements were not being complied with. There is no evidence of legal advice having been obtained prior to proceeding with these purchases.

4.3.16 We have been advised by CPD that where GANI made reference to approval by an Accounting Officer for Single Tender Action, this should be interpreted as the Accounting Officer of the relevant Department – in this case, DCAL. As this process was not followed, going forward there needs to be clarity on the interpretation of MPMNI and its application in procurement scenarios such as described in this report. DFP has advised that GANI also stated that Accounting Officers or their designates are responsible for determining the circumstances in which contracts may be awarded without competition. In our view, this further emphasises the need for clarity in the roles of principal Accounting Officers and their designates in situations concerning procurement by Single Tender Action.

Additional Procurement Matters

4.3.17 We noted other expenditure totalling approximately £92,000 for purchases of GPS receiver upgrades, antennae and software licences over the same period. These were procured from the same supplier of the GPS equipment.

4.3.18 We were advised by Land and Property Services (LPS) that receiver upgrades and antennae costing approximately £35,000

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relate to the GPS computer programme and changes to the equipment purchased through the original GPS tender, and they were not competitively tendered as they are specific to the equipment and manufacturer.

4.3.19 Expenditure of £46,000 was incurred in relation to software licences for the control system that manages the active GPS network. We were advised that this is independent of the receiver purchases and was not publicly advertised.

4.3.20 We have also been advised that a business case for the purchase of 'in-house scientific GPS processing software' identified three potential software solutions, however the purchase proceeded at a cost of £11,000 without being tendered or contracted. This purchase was not related to the original tender or to subsequent purchases of GPS equipment, referred to earlier in this report.

4.3.21 LPS has stated that CPD was not contacted in respect of any of these purchases.

Procurement Practice in the Public Sector

4.3.22 The basic principle of public procurement policy is that a competitive process should be used unless there are justifiably exceptional circumstances. Procurement must be discharged honestly, fairly and in a manner that secures best value for money.

4.3.23 The Public Accounts Committee has been interested in procurement and its reports have been critical of large increases in contract costs e.g. Report on Use of Consultants (ref 16/07/08r). The Committee's observations included the following:

- 'Frequent and large-scale increases in contract costs raise doubts about the standard of project appraisal, management and control; are often non-competitive in nature; and can hinder the achievement of value for money';
- 'By extending contracts in this manner, it is difficult to see how departments have been effective in protecting the public purse'; and
- 'Non-competitive tendering should be very much the exception but where it is considered, it should be authorised only by the Accounting Officers who will be aware that they may be required to explain such decisions to this Committee'.

Conclusion and Recommendation

4.3.24 It is clear that OSNI was aware it was breaching the aggregation rules set out in UK Purchasing Regulations and also exceeding the EU threshold which would have required the Operational Requirement for the purchase of this equipment to be published in the European Journal. We note that

this practice continued after OSNI introduced revised procedures, following recommendations in an Internal Audit report on similar practice for a purchasing contract.

- 4.3.25 In our opinion, procurement of a manufacturer's specific equipment, such as antennae and software, should have been included in the original tender and contract.
- 4.3.26 OSNI's inability to provide a copy of the original contract and various business cases leads us to conclude that the audit trail in support of the procurements was weak or inadequate.
- 4.3.27 To ensure best value for money GANI, and subsequently MPMNI, states that public organisations should normally acquire goods and services through fair and open competition, having regard to the twelve guiding principles governing the administration of public procurement. As a result of the above failures and non-compliance with its legal obligations under UK and European Union procurement regulations, OSNI is unable to demonstrate that it achieved value for money or that procurements were fair and impartial. DFP has stated that a competitive procurement exercise, conducted through CPD in 2008, resulted in the same supplier as in 2006 being successful at a comparable price. DFP has inferred this is a retrospective indicator of value for money.
- 4.3.28 In the current economic climate it is more important than ever to ensure that taxpayers get best value for money.
- 4.3.29 We recommend that LPS ensures that existing policies and procedures are in line with best practice.

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Northern Ireland Housing Executive

5.1.1 In accordance with Article 21(3) and (4) of the Housing (Northern Ireland) Order 1981, as amended by the Audit and Accountability (Northern Ireland) Order 2003, I have audited the accounts of the Northern Ireland Housing Executive (NIHE) for the year ended 31 March 2008 and I now report thereon.

Housing Benefit

5.1.2 Levels of fraud and error for Housing Benefit are reported on a calendar year by the Disability, Incapacity & Benefit Security Directorate Standards Assurance Unit of the Social Security Agency. My report for the year ended 31 March 2007 highlighted the fact that the figures for the year 1 January 2006 to 31 December 2006 were not available. These figures, subsequently issued in July 2007 highlighted estimated levels of fraud and error of £7.9 million overpayments (customer fraud £3.3 million, customer error £4.1 million and official error £0.5 million) and £0.7 million underpayments (customer error £0.2 million and official error £0.5 million), some 2.1 per cent of housing benefit expenditure.

5.1.3 The levels of fraud and error for Housing Benefit for the year 1 January 2007 to 31 December 2007, issued in May 2008 highlighted estimated levels of fraud and error of £10.7 million overpayments (customer fraud £2.8 million, customer

error £6.7 million and official error £1.2 million) and £1 million underpayments (customer error £0.7 million and official error £0.3 million), some 2.8 per cent of housing benefit expenditure.

5.1.4 While noting the increase in estimated levels of losses, I recognise the considerable efforts and resources committed by the NIHE to address fraud and error. The NIHE has in place a strategy aimed at reducing the level of fraud and error and the implementation of this strategy is monitored by the Audit Committee and the Board. The NIHE informs me that its performance in this area compares favourably with the reported performance of Local Authorities in Great Britain which also administer Housing Benefit. I would encourage the NIHE to continue to employ strategies to reduce the levels of loss.

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

Invest Northern Ireland

Emerging Business Trust and other Investigations

5.2.1 In February 2006, the Committee of Public Accounts (PAC) considered significant conflict of interest issues relating to the establishment and management of Emerging Business Trust (EBT); the standards of corporate governance in the

Local Enterprise and Development Unit, and the Department of Enterprise, Trade and Investment's (DETI) stewardship of its Non-Departmental Public Bodies (NDPBs).

5.2.2 In April 2007, DETI's Insolvency Service completed its investigation into the conduct of the directors of Emerging Business Trust Ltd and Emerging Business Trust Venture Fund Ltd. It was decided not to commence disqualification proceedings against any of the company directors.

5.2.3 DETI agreed, in the Memorandum of Reply¹ to PAC published in July 2006, that it would provide an update to the committee and provided a progress report in November 2006 and would report further, later in the year, to the local PAC. DETI issued further progress reports in March and November 2008.

Recent Events

5.2.4 In its report, PAC noted that it was worrying that the blatant conflicts of interest and other major control weaknesses in this case were not detected by the auditors. One of the PAC recommendations was that these matters were brought to the attention of the relevant professional body. A copy of the PAC report was sent to the Institute of Chartered Accountants in Ireland (ICAI) for consideration. In June 2006, ICAI referred the matter to the Accountancy and Actuarial Discipline Board² (AADB).

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

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

Prompt Payment Practice and Performance in the Education Sector

Background

5.3.1 Managing Public Money Northern Ireland³ stipulates that 'public sector organisations should use good commercial practice in managing the flows of expenditure and commitments they deal with.' Therefore, as part of the process of authorising and controlling commitments and expenditure of public

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

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

3 Managing Public Money Northern Ireland issued under cover of DAO(DFP) 7/08.

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funds, public sector organisations should time expenditure and payments to meet good commercial practice whilst providing value for money.

5.3.2 Public sector bodies have agreed to observe the Better Payment Practice Code⁴ which advocates:

- explaining payment procedures to suppliers;
- agreeing payment terms at the outset of a deal and sticking to them;
- paying bills in accordance with any contract agreed with the supplier or as required by law; and
- telling suppliers without delay when an invoice is contested and settling quickly when a contested invoice gets a satisfactory response.

5.3.3 Public sector organisations are bound by The Late Payment of Commercial Debts (Interest) Act 1998 which provides a statutory right for suppliers to claim interest on late payments of commercial debt. The introduction of this legislation by the UK government was a means of promoting further a culture of prompt payment.

5.3.4 Under revised legislation⁵ which came into effect on 7 August 2002, all businesses and public bodies involved in a contract can claim statutory interest or claim compensation arising from the late payment of commercial contracts. A payment is regarded as being late if

made outside the agreed terms, or thirty days after receipt of a valid invoice where no terms are agreed.

5.3.5 In 1998⁶, DFP introduced the requirement for central government bodies to disclose details of their payment practice policy and annual payment performance including, the value of interest paid on late payments.

Prompt payment performance is calculated as follows: $(a / b) \times 100$

where a = Number of undistributed invoices for commercial goods and services paid within 30 days of receipt, or within the agreed payment terms; and

b = Total number of invoices received.

A target of 95 per cent is considered best practice.

Comparison of Prompt Payment Performance of Departments during 2007-08

5.3.6 Using the Education Sector as our focal point we carried out an analysis of performance. We compared the Department of Education's (DE's) prompt payment performance during 2007-08 to that of other Central Government Departments, and to the best practice target of 95 per cent (see **Figure 1**).

4 Better Payment Practice Code was established in 1998 by business and government with the aim of improving payment culture amongst organisations trading in the UK.

5 The Late Payment of Commercial Debts Regulations 2002

6 DAO(DFP) 4/98 Disclosure of Information in Accounts

Figure 1: Prompt Payment Performance of Departments, by volume, during 2007-08

5.3.7 DE achieved a prompt payment performance of 96.5 per cent for 2007-08 which exceeds the best practice target of 95 per cent and compares favourably with other departments. DFP, Office of First Minister and Deputy First Minister (OFMDFM), Northern Ireland Office (NIO) and Department of Health, Social Services and Public Safety (DHSSPS), did not achieve the target. DFP and OFMDFM both fell considerably short of the mark with a performance percentage of 77 per cent and 83 per cent respectively. DFP told us that this was mainly due to the number of stabilising issues arising from the transfer of payment processing from DFP's accounting system to the new Account NI Shared Service Centre during 2007-08.

5.3.8 DE is due to transfer to Account NI from April 2009, so it is important that the impact of the transfer on payment processing is minimised. DE, and any other department scheduled to move to Account NI, can best achieve this by monitoring, on a monthly basis, the timeliness of payments made by the new system to ensure that any deterioration in performance is detected early to allow appropriate corrective action to be taken.

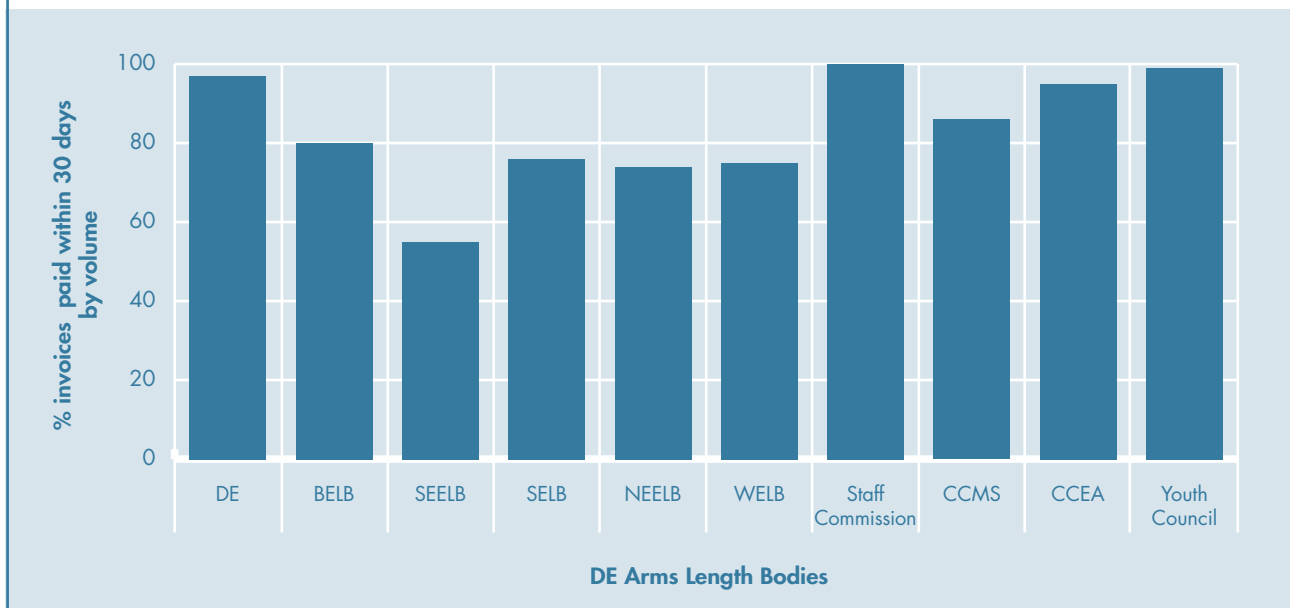
Performance of Arms Length Bodies of the Department of Education

5.3.9 DE has responsibility for a number of Arms Length Bodies (ALBs). These vary considerably in size and diversity of functions. The Department has advised

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Figure 2 : Prompt Payment Performance, by volume, of DE compared to its Arms Length Bodies during 2007-08



that in the case of the Education and Library Boards (ELBs), expenditure encompasses over 1,000 individual schools which are geographically dispersed and, in many cases, have limited administrative support structures.

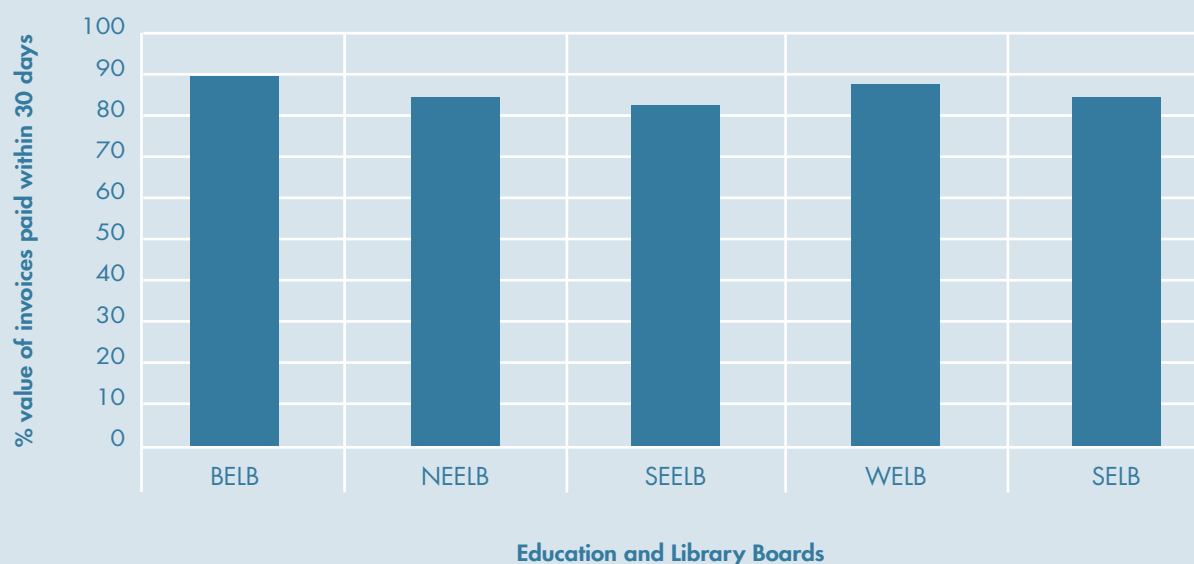
Figure 2 provides a comparison of DE prompt payment performance with these bodies. This shows that only three of the Department's ALBs met the best practice performance target of 95 per cent in 2007-08. These ALBs are, however, relatively small in terms of the financing they receive from DE.

Performance of Education and Library Boards

5.3.10 We are concerned at the overall poor performance by the five Education and Library Boards (ELBs). None of the ELBs

achieved the best practice performance target of 95 per cent. The Belfast Board (BELB) recorded the highest performance of 80 per cent. The South Eastern Board (SEELB) recorded the lowest performance of 55 per cent, however, this is a marked improvement from 2006-07 when a prompt payment performance of 32 per cent was recorded. In the case of the other three Boards, Western (WELB), Southern (SELB) and North Eastern (NEELB), the performance level is broadly similar, averaging 75 per cent, and is well short of the 95 per cent target.

5.3.11 Details of the value of bills paid within agreed terms, or thirty days after receipt of a valid invoice, were also available for comparison purposes across the ELBs. This measure shows a significant improvement in the overall performance but again

Figure 3 : Prompt Payment Performance of ELBs, by value, of invoices paid during 2007-08

none of the ELBs achieved 95 per cent compliance with the prompt payment policy. This is illustrated by **Figure 3**.

agreed terms in 2007-08 amounted to approximately £14 million.

5.3.12 The most significant improvement, when we compare volume with value of payments made, is at SEELB (55 per cent by volume compared to 83 per cent by value). However, across the ELBs the value of invoices not paid on time is considered to be significant. For example, at SEELB, the value of invoices paid outside the

5.3.13 All five ELBs are exposed to claims for statutory interest and compensation arising from the late payment of commercial transactions. Although such payments in recent years have been insignificant (in the region of a few hundred pounds), they could potentially increase given the current economic climate, and result in a greater loss to the public purse.

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Figure 4 : Departmental performance target by volume compared with actual performance for 2007-08

Education and Library Board	Departmental prompt payment Target range	Actual prompt payment performance achieved
BELB	60% to 75%	80%
SEELB	30% to 65%	55%
NEELB	52% to 60%	74%
SELB	79% to 83%	76%
WELB	78% to 80%	75%

ELB Performance Targets set by DE

5.3.14 For 2007-08, as well as the best practice target of 95 per cent, DE set a lower prompt payment target range for each of the ELBs based on their history of performance. **Figure 4** shows the target range set for each ELB and the actual performance achieved for 2007-08.

5.3.15 Three of the five ELBs achieved their prompt payment departmental target but two narrowly failed to do so.

5.3.16 We recognise that, given the performance history of the ELBs, DE has been proactive in setting incremental targets for each ELB with a view to gradual achievement of the 95 per cent best practice target but ultimately to achieve 100 per cent. In four out of the five ELBs the target range for 2007-08 was reasonable but in the case of SEELB we take the view that a 30-65 percent range was not sufficiently challenging. DE has acknowledged that the prompt payment performance

target for the SEELB may not have been as challenging as it should have been and this has been addressed in 2008-09. However, DE must continue to set challenging yet achievable targets that are increased year on year until performance is acceptable. Improvement is essential before the ELBs merge into the new Education and Skills Authority (ESA) on 1 January 2010.

Rationale for Poor Prompt Payment Performance by the ELBs

5.3.17 The introduction of Local Management of Schools (LMS) arrangements in 1991 allowed for the delegation of financial and managerial responsibilities to schools, giving them the opportunity to purchase goods and services directly from suppliers. Invoices are sent by suppliers to schools where they are validated and authorised for payment. Payments are then processed by the ELBs on behalf of the schools. Any delay by schools in processing invoices for payment will adversely affect the

prompt payment performance of the ELBs. This is also true of youth organisations. DE has advised us that the timing between receipt, authorisation and forwarding of invoices for payment from schools and youth organisations to the ELBs is a major contributory factor to the prompt payment performance. DE stated this is evidenced by the significantly higher levels of prompt payment performance when measured against the time taken to process payments from when invoices are received by the ELBs.

- 5.3.18 We understand that the ELBs have analysed prompt payment management information with a view to identifying which schools, out-centres and suppliers are persistently slow at forwarding invoices for payment. This information should be used to improve prompt payment performance. We advocate the continuation of such analysis by all ELBs. Follow-up action in problematic cases should be formally documented and performance monitored for signs of improvement.
- 5.3.19 In July 2007, we wrote to the DE Accounting Officer expressing concern about the approach adopted by the ELBs to the measurement of prompt payment performance and also the poor performance exhibited, particularly by SEELB. We recommended that DE should ensure that Boards focus on improving both performance and the procedures for recording performance data.
- 5.3.20 In response, the Accounting Officer issued a letter in December 2007 to the Chief

Executives of the ELBs stressing the need to strive for improvement, as prompt payment was a key performance indicator for public sector organisations. Attached to the letter was revised guidance to help improve future prompt payment performance and a summary of issues and actions identified from a review of prompt payment performance by DE's Internal Audit branch.

- 5.3.21 Given the timing of the additional guidance it is not yet possible to comment on how effective it has been in improving performance, however we would hope to see an improvement in 2008-09 as the guidance will have been in place for a full financial year. DE is currently considering whether ELBs have been proactive in their approach to improving performance, and whether sufficient improvement has been made towards achieving departmental targets for prompt payment.

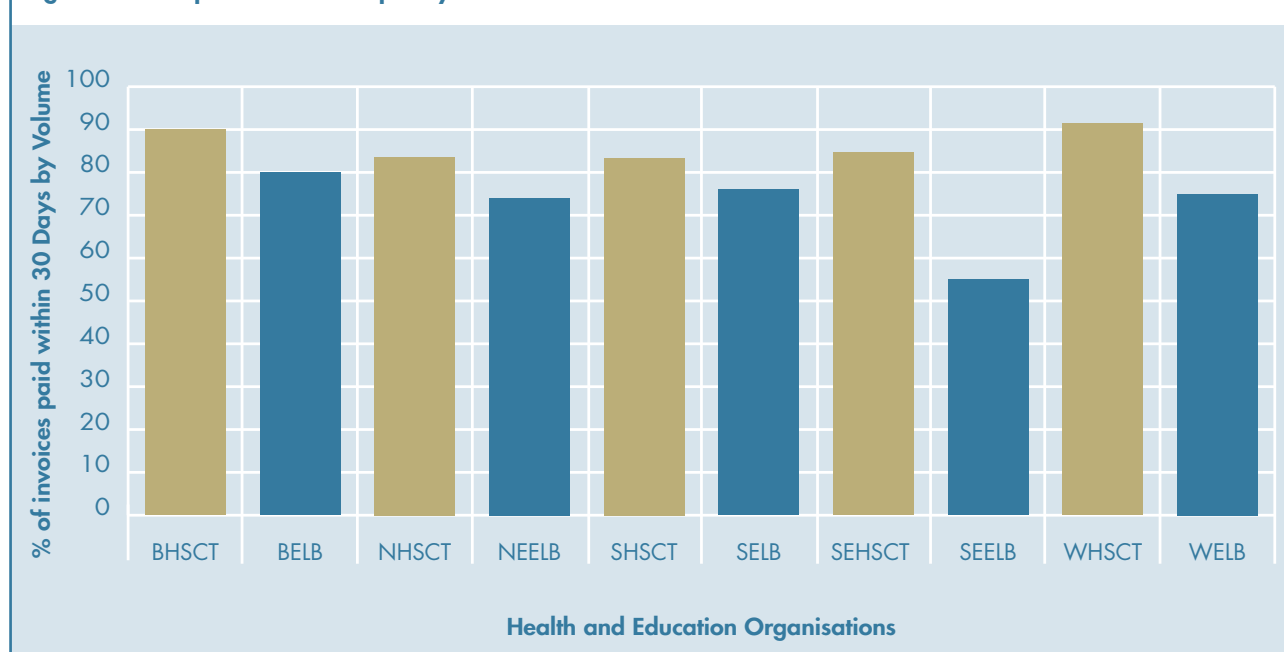
Comparison with the Health Sector

- 5.3.22 With the rationalisation of health provision into five Health and Social Care Trusts, which service similar geographical areas to the five ELBs, and the possible similarity when it comes to potential delays in receiving invoices for payment, (hospitals as opposed to schools), we compared prompt payment performance for 2007-08. This is illustrated in **Figure 5**.
- 5.3.23 This indicates that performance in both sectors is below the best practice level of 95 per cent, with the largest variance in performance in the South Eastern region where the difference is 29.6 per cent.

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Figure 5 : Comparison of Prompt Payment Statistics between the Health and Social Care Trusts and ELBs



The Health Trusts outperformed the ELBs in each geographical area, despite having much larger expenditure in terms of value and volume. It is possible that lessons could be learnt from the health sector when it comes to managing prompt payment, and closer liaison between the two sectors could provide some understanding as to how higher performance in similar circumstances is achievable. DE acknowledges that whilst there may be an opportunity to share lessons between the two sectors, this is heavily influenced by the limited administrative support that currently exists within schools and youth organisations. However, in developing the arrangements for the establishment of ESA, this is an area that DE intends to continue to focus to ensure the prompt payment

performance targets continually improve and will draw on best practice from across the public sector.

Recent Developments

- 5.3.24 In response to the current economic position, the Department for Business Enterprise and Regulatory Reform announced on 21 October 2008 that *“Central Government has committed to paying businesses within ten days - and we’re urgently speaking to the wider public sector to extend this commitment.”*
- 5.3.25 Northern Ireland Finance Minister, Nigel Dodds, announced on 28 November 2008, that *“Northern Ireland Departments have set a target of ensuring that invoices are paid within ten days, in order to help*

local businesses through these difficult economic times". The Minister urged other public sector organisations to do the same. The Minister stated that "by ensuring bills are paid more quickly, the public service can move to support local businesses in a practical way and help them survive the economic downturn."

- 5.3.26 DFP supported this commitment⁷ and asked Accounting Officers to *"ensure that all appropriate steps are taken within their Department and Agencies to support it"*. It is difficult to envisage how ELBs will be able to effectively deliver against a ten day commitment.

Conclusion

- 5.3.27 Improvements to the management of prompt payment can be made. These improvements depend on the ELBs understanding what issues currently impact upon the achievement of prompt payment and more importantly what factors could potentially influence performance in the future.

Recommendations

- 5.3.28 We recommend that DE and other Central Government Departments scheduled to transfer to the new Account NI system should monitor, on a monthly basis, the timeliness of payments made by Account NI to ensure that performance does not deteriorate. If performance should decline, early detection may facilitate prompt corrective action.

- 5.3.29 Ongoing monitoring of ELB performance by DE against departmental prompt payment targets should continue. Targets need to be more challenging to ensure that the best practice target of 95 per cent is achieved before the merger of ELBs with ESA on 1 January 2010.

- 5.3.30 ELBs should continue to analyse prompt payment information in order to identify schools, out-centres and suppliers that are persistently slow at forwarding invoices for payment, and follow-up action should be taken in problematic cases. This action should be documented, and performance monitored for signs of improvement.

- 5.3.31 The revised guidance on prompt payment calculation and performance issued by DE to the ELBs should be embedded in practice by the end of the 2008-09 financial year. DE has advised that it is currently considering whether ELBs have been proactive in their approach to improving performance, and whether sufficient improvement has been made towards achieving departmental targets for prompt payment.

- 5.3.32 Prompt payment performance by Health Trusts in Northern Ireland is better than by ELBs even though they face the similar problem of physical separation of approvals and payments processes. This is often cited by ELBs as the key contributory factor to their poor prompt payment performance. Given the obvious variation in performance between the two sectors we recommend that DE, in conjunction with the Boards, should liaise with DHSSPS and the Health Trusts

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with a view to understanding how better performance might be achievable. DE acknowledges that there is an opportunity to share lessons but this is heavily influenced by the limited administrative support that currently exists within schools and youth organisations. Nonetheless DE has advised that in developing arrangements for the establishment for ESA, this is an area that DE will continue to focus to ensure the prompt payment performance targets continuingly improve and will draw on best practice from across the public sector.

- 5.3.33 All central government bodies should commit to paying suppliers as promptly as possible, and we recommend that in line with DAO(DFP) 12/08, all bodies should seek to support the commitment to prompt payment within ten days.

Section Six: General Matters



Section Six:

General Matters

NIAO Review of Allegations by Complainants into the Procurement of the Rathlin Ferry Service

Introduction

- 6.1.1 Until 1996, access to Rathlin Island was provided by islanders using converted fishing boats. In 1996-97 the responsible Department at the time (Department of the Environment (NI)) awarded a contract for a ferry service to Caledonian MacBrayne (CalMac). CalMac was successful in a further tender competition in 2003 and continued to operate the ferry until 30 June 2008 when a new contract commenced. The contract was awarded by the Department for Regional Development (DRD) to a new operator, Rathlin Island Ferry Ltd.
- 6.1.2 Following the award of the contract, a number of allegations and complaints were made to DRD and NIAO about the propriety of the procurement process and whether it complied with the public sector procurement regulations.
- 6.1.3 In light of these allegations DRD, in consultation with NIAO, concluded that an independent investigation into the allegations should be carried out by individuals with the relevant expertise and experience. DRD appointed an independent procurement consultant to investigate the procurement process and a retired senior civil servant to investigate complaints against DRD staff involved in letting the contract. These strands of the investigation were to run in parallel with

previously commissioned work being undertaken by Internal Audit.

- 6.1.4 The investigators quickly concluded that while aspects of the review could be pursued separately, it was not practical to carry out the three strands of the investigation in isolation, given the number of inter-related issues and a need to see the issues in context. It was agreed that a joint approach would lead to a thorough investigation. The investigators submitted their final report to DRD in December 2008.

Allegations

- 6.1.5 The complainants made a number of allegations which questioned the legitimacy of the tendering process, the management of the new contract, and personnel issues involving DRD officials. These were summarised into 26 key allegations by the investigators.

Investigators' Conclusions

- 6.1.6 The investigators stated that, overall complaints about the procurement process appeared to be based around sensing that Rathlin Island Ferry Ltd was favoured from the outset and that anything would be done to ensure that it won. The investigators found no evidence of this, although they considered that whilst the overall procurement procedures were appropriate, a number of mistakes arose in relation to process and administration.

- 6.1.7 One allegation was upheld in relation to the tendering process although the investigators stated that these problems (process and administration) in DRD and CPD did not materially disadvantage the non-successful bidders nor fundamentally undermine the competition. The investigators considered that the tender assessment fairly reflected the considerable difference between the level of improvements in service offered in the two bids, and that the procurement process identified the most economically advantageous proposal.
- 6.1.8 The investigators were also concerned with the conduct and management of the process, which damaged the effectiveness and transparency of the procurement and fuelled perceptions of bias or wrongdoing. One allegation, that a performance bond was not in place, was upheld. However, DRD stated that the operator's subsidy claim is being reduced to take this into account.
- 6.1.9 There were seven allegations in the investigators' report dealing with management and personnel issues and for two, the investigators found elements of the allegations to have been partially supported. The investigators found no evidence of impropriety in either DRD or CPD, nor that officials had any improper contact with any party with any interest in the outcome of the procurement.

Recommendations

- 6.1.10 In the course of their investigation the investigators identified "a number of

deficiencies which in the main relate to a dislocation in the apportionment of responsibilities between CPD and DRD" and submitted a number of recommendations for improvement.

- Service Level Agreements between CPD and Departments should be reviewed to ensure that there is absolute clarity regarding the roles and responsibilities and accountability of the respective parties. CPD told NIAO that its Service Level Agreements are currently being reviewed.
- Notwithstanding its existing procedures, and that a Tender Initiation Document was used in this case, CPD should review current procedures to ensure that schedules for key stages of the process detail all documentation requirements and ensure that the process is operating effectively. The schedules should be signed and dated at each of the key stages and be subject to supervisory review to confirm that the process is carried out in accordance with procedures and is complete, accurate and reliable. CPD told NIAO that its quality assurance process is currently being reviewed.
- Given that there have been a number of recent legal cases where judgements have established case law relating to the use of sub-criteria, sub-weightings and scoring methodologies, CPD should consult with the Departmental Solicitor's

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Office to ensure that procedures are appropriate. CPD told NIAO that it and the Departmental Solicitor's Office are engaged with the Office of Government Commerce in reviewing the impact of recent legal judgements.

- The different categories of service which may be offered under a contract are covered by the Public Contracts Regulations 2006. There must be absolute clarity, at tendering stage, on which category of service is being offered in a contract and the impact this has on the process. Failure to do so may lead to confusion among bidders. CPD told NIAO that it agrees with this recommendation but pointed out that there is no requirement under the Public Contracts Regulations 2006 to state the relevant Regulations within the tender documentation.
- CPD should ensure, perhaps through the Tender Initiation Document, that for all meetings, such as tender evaluation meetings, clarification meetings, debriefs, etc, an adequate note of the meeting is formally recorded and retained on file.
- Given the recent transition to non paper based scoring and electronic record storage within CPD, the investigators recommended that the system is formally reviewed to ensure that it is operating effectively and provides a complete and transparent means of supporting public procurement decisions. CPD told

NIAO that it is currently developing a new web-based e-Sourcing tool which will provide a high level of transparency and audit ability throughout the procurement life cycle. CPD considers that this will address most of the procurement weaknesses identified within this review.

- Notwithstanding that CPD has an established complaints procedure, the investigators recommended that CPD should develop a formal process to govern situations where a material error arises in the management of the procurement. Formal documentation in relation to decision-making must be retained for management/audit trail purposes.
- CPD and departments should ensure that all Evaluation Panel Members, both internal and external to the department, are aware of the roles and responsibilities of an Evaluation Panel Member and have received appropriate training.
- Conflict of interest declarations should be completed for every procurement competition. In this case, conflict of interest declarations were completed by Panel Members in the first procurement competition but they were not reviewed in the second.
- DRD should reiterate established procedures to staff, to ensure that significant e-mail communications are saved to the electronic filing system on a timely basis and that a complete

management/audit trail is maintained to support key decisions taken. Such failures in this procurement were potentially serious and problems experienced in DRD may hold lessons for other Northern Ireland departments.

- DRD should ensure that, prior to the commencement of service contracts, necessary checks are completed to confirm that the new operator/contractor has met all prerequisite conditions of contract.
- DRD should review the performance bond requirement in this contract, to ensure that it is necessary and cost effective.
- DRD should ensure that all staff are aware of the requirements in relation to the handling of personal or sensitive internet and e-mail data and, in particular, ensure that these guidelines adequately cover the passing on of personal data.

6.1.11 DRD has indicated that it will work with CPD to ensure that lessons are learnt and similar issues do not occur again.

6.1.12 NIAO endorses these recommendations and offers comment specifically on two of them. Our first comment relates to the recommendation concerning the formal recording and retention on file of all meetings. NIAO notes that there were a number of instances identified in this case where there were no paper records of meetings or discussions involving officials.

It considers that this is unacceptably poor practice.

6.1.13 Our second comment relates to the recommendation concerning the formal review of the non paper based scoring and electronic record storage within CPD, to ensure that it is operating effectively and provides a complete and transparent means of supporting public procurement decisions. NIAO considers that any weaknesses in this area within CPD have the potential to undermine confidence in public sector tendering, and the Office will pay particular attention to testing this system in future audits.

6.1.14 NIAO noted other recommendations made by the investigators that had not been identified in the formal list of recommendations but which are nonetheless noteworthy.

- DRD made a submission to the Minister recommending a second procurement exercise prior to the formal evaluation of the tenders within the first procurement exercise. NIAO agrees with the investigators that this sequence of events did not follow best practice and it would have been preferable for the Evaluation Panel to have completed its consideration before reverting to the Minister.
- The wording of the tender document allowed for the possibility of expenditure by DRD to improve the current berths at Rathlin harbour. This became a source of complaints. NIAO agrees with the investigators

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that the position on possible improvement works and available funding should have been made clearer in the tender documentation.

- DRD visited its counterpart in the Republic of Ireland to discuss procurement procedures and consider potential suppliers in the ferry services market. NIAO agrees with the investigators that it would have been desirable to require bidders to provide the names of other clients so that appropriate checks could have been made if necessary during the evaluation process, but without discriminating against other tenderers who did not operate similar services in Northern Ireland or the Republic of Ireland.
- The contract made provision for a contract sharing system in the event that revenue exceeded the amount set out in the base case. NIAO agrees with the investigators that DRD and CPD should have considered the potential opportunity for both tender bids to achieve profit sharing savings to DRD. NIAO also agrees that the harbour works expenditure should have been formally weighted in a more transparent way in the tender evaluations.
- During the tender period, the bidder who was ultimately successful enquired whether he could submit the tender in his personal capacity rather than in the name of one of his two companies involved in offshore

ferry services. NIAO agrees with the investigators that the position as regards the programme for the establishment of the bidder's new company, Rathlin Island Ferry Ltd, should have been clarified at contract award stage.

- The assessment criteria and weightings had been set out in the tender documentation but more detailed scoring guidance used by the Evaluation Panel for markings tenders was not agreed until after the tenders were received. The bids remained unopened until the more detailed scoring guidance had been agreed. The investigators considered that DRD and CPD should have ensured that the scoring matrix was established before the tenders were submitted. NIAO agrees that this is a fundamental aspect of good tendering procedures.

NIAO's View

- 6.1.15 The Department's investigation has identified a range of detailed lessons for DRD, CPD and the wider Civil Service. However, the most obvious point is that it would always be better to ensure that sensitive tendering exercises are properly resourced and quality controlled in the first place, rather than to have to investigate and deal with the consequences arising from an inept process.
- 6.1.16 It is of particular concern that so many of the issues that were identified in the investigation arose primarily as a result of poor implementation by officials of

what should have been well established procedures. These lapses in basic good practice fuelled a perception of favouritism to one particular bidder and the notion of bias and wrong-doing. This was potentially very damaging for the Department's reputation. It has also proved expensive to address and has inevitably involved a significant diversion of senior management time and an estimated cost of £55,000 to carry out the work. Nevertheless, NIAO commends the Department for its handling of the investigation once the complainants and the elected representatives had raised their concerns about the tender process. The Department set up an enquiry using independent investigators with appropriate expertise which resulted in a thorough scrutiny of all the issues. The report on the investigation has been made publicly available. In NIAO's view this should serve as a model for future enquiries on issues of this nature.

- 6.1.17 CPD told NIAO that it has made huge strides over recent years in procurement processes and as part of its continuous improvement programme has already made substantial progress on the recommendations relevant to procurement. It also told us that it accepts a mistake was made in the tendering process. However, this could not be considered as a manifest error and had no material impact on the competition result. It added that this was a relatively low level procurement exercise which has delivered a much better service and value for money.

Middletown Centre for Autism

Introduction

- 6.2.1 Middletown Centre for Autism (the Centre) was officially launched in September 2004 following the purchase of the site by Middletown Centre for Autism (Holdings) Ltd in June 2004 and the signing of a Memorandum of Understanding between the Department of Education (DE) and the Department of Education and Science, Ireland (DES) in May 2004, to fund the Centre on a 50:50 basis.
- 6.2.2 The intention of the two Departments to create the Centre at Middletown, Co. Armagh was originally announced at the North/South Ministerial Council meeting in April 2002.
- 6.2.3 A new operating company, the Middletown Centre for Autism Ltd, was incorporated as a company limited by guarantee on 16 March 2007. This company is the management body running the Centre. The Centre's Chief Executive was appointed by the operating company in April 2007 and was formally designated as Accounting Officer by DE.
- 6.2.4 The Middletown Centre for Autism (Holdings) Ltd, the holding company, presently owns and holds the property on behalf of the two Departments. The property was procured in June 2004 at a capital cost of £3 million, funded equally by the two Departments. Since 1 April 2007, the responsibility for maintaining

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the property rests with the new operating company.

6.2.5 At the outset the benefits expected from the Centre were set out in an economic appraisal. This envisaged a centre of excellence providing services for children and young people with autistic spectrum disorders. The benefits can be summarised as:

- provision of a diagnostic facility to allow for early diagnosis and assessment of children, where all relevant education and health professionals would work with children and their families to achieve effective management of autism spectrum disorders;
- provision of a residential individual support centre where pupils, between the ages of eleven and nineteen, would receive appropriate educational interventions for finite time periods; and
- provision of a training and advisory service providing conference facilities for the various professionals concerned with the management of autism spectrum disorders. The training facility would provide in-service training and an outreach service to support teachers in their schools.

6.2.6 DE has advised us that the benefits as outlined in paragraph 6.2.5 were those detailed in the original economic appraisal of 2001. Following consultation with other statutory providers in health

and education, it was agreed that the diagnostic facility would not be taken forward. The services that are now to be provided by the Centre were agreed in a revised economic appraisal in 2006 and are: a training, advice and guidance service; an autism research and information service; an educational assessment service; and a learning support service.

6.2.7 DE has further advised us that the Centre, as a second level specialist service provider, is working in partnership with existing statutory and voluntary organisations to deliver the following four services:

Training, Advice and Guidance

- This service will provide training, advice and guidance on autism to families and carers of children and young people referred to the Centre and to the professionals who work with them.

Research and Information

- This service will conduct and commission research to further develop an understanding of autism. It is creating an information resource for parents and professionals who work with children with autism.

Educational Assessment

- This service will provide specialist Centre-based two-day multi-disciplinary educational assessment

each year for a planned one hundred and eighty children and young people with autism who are experiencing difficulties within their educational setting.

Learning Support

- This service will devise individualised learning support programmes to meet the identified needs for a planned one hundred and forty children and young people referred to the Centre each year. These programmes will be delivered on a five day basis over a five week period for each child or young person.

Funding

- 6.2.8 DE has advised us that the Centre has been providing training services since 2007 and a research service since 2008. Following completion of the building and refurbishment programme, the Centre plans to deliver the full range of services in 2010-11, when it anticipates its revenue expenditure will be in the region of £3.5 million per annum. Funding in the period 1 April 2007 to 31 March 2008 amounted to approximately £0.41 million in total. In the period 1 April 2008 to 31 March 2009 funding amounted to approximately £0.83 million in total.
- 6.2.9 When fully operational, the Centre plans to have a staffing complement of seventy four posts to include professional and support staff, and to adopt a multi-disciplinary approach to support the

promotion of excellence throughout Ireland in the education of children and young people with autistic spectrum disorders. We understand the Centre has begun to work in collaboration with local services.

- 6.2.10 We are aware that concerns have been raised about the Centre, in the press and by politicians. These are questioning matters such as the location of the Centre, the extent of public consultation, the level of funding to date and in the future and also the residential model of planned autism assessment provision.
- 6.2.11 The resourcing of any major health and education provision such as autism will always be a matter of significant public interest. The establishment of the Centre clearly represents a significant increase in the resources available and this reflects the expectation that the project will deliver significant benefits.
- 6.2.12 We recognise that it is too early for NIAO to undertake a value for money assessment of this project but we would urge DE to ensure clear criteria and benchmarks are in place so that the value for money achieved will be transparent as the project progresses.

Company Limited by Guarantee

- 6.2.13 The 13th Report from the Public Accounts Committee (PAC) Session 2007-2008 on "Good-Governance – Effective Relationships between Departments and their Arm's Length Bodies", stated that, where a department has established

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an arm's length body under a limited company arrangement, it is inherently higher risk in nature, particularly where it is given an entrepreneurial remit. PAC recommended that the inherent risk should be taken account of in departmental risk registers.

6.2.14 In its response to the recommendation, DFP noted that the structure of an organisation does not necessarily mean that there is greater risk; any risk will relate to the activity of the organisation and its governance. DFP also noted that Companies' legislation places onerous obligations on the directors of a company, requiring robust oversight arrangements. Nevertheless, we understand that DE has included the Centre in its risk register. Also, DE has stated the Centre does not have an entrepreneurial remit.

6.2.15 DE has advised us that it is planned that the Middletown Centre for Autism Ltd will be integrated into the new Education and Skills Authority (ESA) after its establishment and subject to suitable arrangements being agreed with DES. The ESA is scheduled to commence on 1 January 2010. Integration of the Centre is expected to take place during 2011-12, subject to legislative timetabling.

6.2.16 DE has also told us that the Middletown Centre for Autism (Holdings) Ltd will be wound up as a company. DE and DES are currently considering all the options in this regard, including any tax liabilities that might be incurred. Subject to a satisfactory resolution of these issues, it

is anticipated that the company will be wound up during 2009-10.

Governance Arrangements

6.2.17 The NIAO, in conjunction with the Comptroller and Auditor General's office in Dublin, visited the Centre in September 2008. We undertook a preliminary review of the corporate governance arrangements and we gained an understanding of the Centre's purpose. It appeared that the basic components of good governance were in place or under consideration.

Departmental Oversight

6.2.18 Representatives from both DE and DES attend (by invitation) each Board meeting of the Middletown Centre for Autism Ltd. In addition, an Executive Group, made up of representatives of staff from both DE and DES meets regularly and is attended by the Centre's Chief Executive Officer.

6.2.19 DE and DES representatives also form an Oversight Committee which meets twice a year. The Committee monitors the operation of the Memorandum of Understanding between the two Departments and both companies.

6.2.20 A Management Statement and Financial Memorandum, agreed between the two Departments, the Centre and approved by DFP Supply is in place. It sets out the broad framework in which the Centre will operate and certain aspects of the financial provisions which the Centre will observe.

6.2.21 DE also has a member of its staff working on site at Middletown. This is a temporary arrangement where the main focus currently is on facilitating oversight of the building and refurbishment programme and matters in relation to the holding company.

Building and Refurbishment Programme

6.2.22 The Building and Refurbishment programme is managed by DE and DES, who have appointed a building project manager, integrated design team and cost consultants.

6.2.23 We understand that overall responsibility for the building programme rests with DE and DES and that both departments are committed to funding on a 50:50 basis. DE is the lead Department and acts as the Senior Responsible Officer for the project. The building programme is expected to complete in 2010.

6.2.24 A revised economic appraisal is currently with DFP for approval.

Conclusion

6.2.25 There are many risks around arms length bodies that are operating under a limited company arrangement. DE must ensure that robust scrutiny and oversight arrangements are in place to safeguard its interests in the Middletown Centre for Autism.

6.2.26 Our research on the governance arrangements at the Centre has

provided a degree of assurance that the organisation is aware of good governance requirements. We intend to keep under review the development and progress of this Centre, and the C&AG may report further at a later date.

Legal Challenges by Unsuccessful bidders

Introduction

6.3.1 This report deals with three legal challenges made by unsuccessful bidders over procurement procedure. As part of the audit of DFP 2007-08 Resource Account, the C&AG reported on an ex-gratia payment made to Partenaire in connection with the Workplace 2010 programme. In this report the C&AG advised that another legal challenge over procurement procedure had been made by McLaughlin and Harvey and that he intended to report on the case in due course. A third legal challenge, by another unsuccessful bidder, Henry Brothers, has since issued in respect of a contract awarded by DE.

Partenaire challenge against the Department of Finance and Personnel

6.3.2 In November 2005 DFP placed a notice in the Official Journal of the European Union seeking expressions of interest for Workplace 2010, a Private Finance Initiative programme with an estimated value of £1.5 billion, to provide office accommodation to the Northern Ireland Civil Service (NICS).

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- 6.3.3 Six consortia declared an interest by submitting Pre-Qualification Questionnaires and in June 2006 four were invited to submit proposals on the Invitation to Negotiate (ITN). In April 2007, following consideration of the proposals, two bidders, Land Securities Trillium and Telereal, were invited to submit Best and Final Offers (BAFOs).
- 6.3.4 One of the unsuccessful bidders, Partenaire, challenged the decision and in July 2007 submitted a formal claim for judicial review. A request was also submitted that the procedure should be stopped until the judicial review was completed. The court issued injunctions preventing finalisation of the BAFO stage pending the outcome of a full hearing, which was scheduled for January 2008.
- 6.3.5 In broad terms Partenaire raised concerns about the conduct of the quality and the financial evaluations and they considered that there were shortcomings in the debriefing process. They also made an allegation of bias, on the basis that the senior engagement partner at Deloitte, DFP's advisors for the programme, was the founder and former Chief Executive of one of the four consortia invited to submit an ITN. DFP told us that this allegation was unfounded as they referred the role of the Deloitte senior engagement partner to the Programme's Independent Compliance Committee who were fully satisfied as to his integrity. Additionally, in advance of the ITN evaluation, DFP met with Partenaire and explained the role that would be played by the Deloitte senior engagement partner in the evaluation process. At that time Partenaire explicitly affirmed their contentment with the role the Deloitte partner was assigned in the ITN evaluation.
- 6.3.6 In December 2007, Partenaire approached DFP with a view to settling the claim. Although DFP was convinced that it could win the case, DFP concluded, on legal advice, that the balance of advantage for the Workplace 2010 Programme and the best value for money for the taxpayer would be achieved by seeking to agree a settlement. We note that in reaching this decision DFP took into account the costs which it had already incurred and the potential costs had the case gone to trial, together with legal advice that the proposed settlement was a reasonable course of action and a sensible manner in which to dispose of the litigation. DFP told us that the cost of defending Partenaire's challenge including the Programme's legal advisors, the Departmental Solicitors' Office, and Counsel's costs amounted to £1.018 million.
- 6.3.7 As part of the settlement, DFP agreed that there had been shortcomings in the ITN evaluation process and in the feedback to Partenaire following that process. In return, Partenaire accepted that, in light of further information released during the discovery process, these shortcomings did not alter the outcome of the ITN evaluation.
- 6.3.8 In January 2008, DFP was given approval to make an ex-gratia payment of £225,000 which represented

approximately 30 per cent of the costs incurred by Partenaire in pursuing their complaint. The payment was justified on the grounds that it minimised the potential cost to DFP. The approval was given using paragraph 18.6.5 of Government Accounting Northern Ireland (GANI) which includes “special payments to avoid legal proceedings against the executive on grounds of official inadequacy”.

6.3.9 We asked DFP what particular lessons had been learned from the shortcomings in the ITN evaluation and debriefing process in this case referred to at paragraph 6.3.7 above. DFP advised us that a lessons learned paper had been prepared and the recommendations incorporated into the preparation for the BAFO stage of the procurement.

6.3.10 We noted that, following the issue of invitations to the two successful firms at ITN stage to submit BAFOs, there had been media reporting that one of the successful firms had submitted a bid to purchase the other successful firm. We asked DFP what it considered to be the implications of this merger, should it proceed, and how it would ensure that the BAFO obtained from the firm maintained a competitive edge. At the time DFP told us that no decision had been taken by the vendor as to whether its business would be sold to a third party, to the other Workplace 2010 bidder, floated on the stock market or whether prevailing market conditions would mean that the sale process would be deferred for an indeterminate time. DFP confirmed

that implications from any merger between bidders would be carefully considered before any recommendation was made to appoint a preferred bidder.

6.3.11 In October 2008, DFP announced a suspension of the Workplace 2010 programme until early 2009. DFP explained that this decision had been taken because of continuing speculation that both bidders could come under common ownership, which had potential to affect the Workplace 2010 programme. The suspension would also give DFP time to assess the impact of recent changes in the financial and property markets. We note that since the suspension was announced, the two successful bidders have merged.

McLaughlin and Harvey challenge against the Department of Finance and Personnel

6.3.12 In March 2007 DFP commenced a procurement competition to establish a framework agreement for Integrated Supply Teams (ISTs) to design and build a range of projects across the wider public sector. The aggregate value of projects to be delivered was estimated at £500 million to £800 million over a four year period. Following completion of the evaluation process, ‘Notification of Intent to Award’ letters were issued to the five successful and the six unsuccessful tenderers on 17 December 2007.

6.3.13 Following debriefing, one of the unsuccessful firms, McLaughlin and Harvey, told DFP that they considered

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the assessment of quality criteria to be in breach of the Public Contract Regulations 2006 and applied to the High Court for an interlocutory injunction to prevent the legal formation of the framework agreement.

6.3.14 In February 2008, the Judge refused this application and DFP was able to proceed with awarding the agreement. However, the Judge concluded that there was a serious question to be tried as to whether the procedure adopted by DFP complied with relevant domestic and European law and that a full court hearing would be required to permit consideration of these issues.

6.3.15 In September 2008, the hearing found that under Regulation 47.1 of the Public Contracts Regulations 2006, DFP was in breach of its duty to the firms tendering for the framework agreement because it had not disclosed in advance to bidders, the thirty nine elements, or sub-criteria, which its selection panel had subsequently taken into account in the assessment of tenders. In the judges' view, this was contrary to the EU law general principles of equal treatment and transparency. The judge also noted that DFP had not disclosed the weightings which the selection panel attached to the sub-criteria.

6.3.16 As DFP and McLaughlin and Harvey were unable to agree on a remedy on foot of the above decision, a further court hearing took place in October 2008. At the hearing, it was DFP's view that the court only had jurisdiction to award

damages and that it was not in the interest of the firm or the general public for the framework agreement to be set aside. However, the judge ruled that:

- the framework could not be used by DFP to procure projects but DFP was free to progress projects on a one-by-one basis or to establish a fresh framework agreement;
- damages were not to be paid to McLaughlin and Harvey; and
- DFP was to pay all its own legal costs and McLaughlin and Harvey's costs for the full hearing.

6.3.17 In December 2008, DFP lodged an appeal against the decision and remedies of the Court. DFP's legal advisors consider that the appeals hearing may not occur until summer 2009.

6.3.18 We asked DFP what impact these legal proceedings are having on procurement of major capital projects at a time when the Northern Ireland economy would greatly benefit from them. DFP advised us that in order to minimise project delay, it is working with departments to move projects forward as quickly as possible on a project-by-project basis. These individual procurements will be designed to attain maximum benefit from modern construction procurement methods and at the same time take cognisance of the emerging case law.

Henry Brothers challenge against the Department of Education

6.3.19 In March 2007 CPD within DFP, acting as an agent of DE, published a Contract Notice in the Official Journal of the European Communities inviting contractor-led teams to apply for appointment to a framework agreement for the design and construction, or construction only, of schools or other educational projects in Northern Ireland. The framework agreement was part of the Northern Ireland Schools Modernisation Programme aimed at reversing the historical under-investment in the schools infrastructure in Northern Ireland and was to deliver projects worth up to £650 million over a four year period.

6.3.20 All twelve firms who submitted completed Pre-Qualification Questionnaires met the criteria and Invitation to Tender (ITT) documents were issued for return to CPD by August 2007. During this period CPD issued eleven Clarification Notes to the firms. Of particular note was Clarification Note 4 which indicated that tenders would be evaluated in accordance with weightings of 80 per cent qualitative and 20 per cent commercial. The commercial weighting would be based on submissions of direct fee percentages. Following the assessment process the eight highest ranking firms were appointed to the framework in October 2007.

6.3.21 Following debriefing, one of the unsuccessful firms, Henry Brothers¹, wrote to CPD in November 2007 requesting that the framework agreement should not

be concluded until they were provided with information on non-price criteria and an assurance that the assessment of the price criteria had been carried out on a "rational and lawful basis" with any "additional criteria" being excluded from consideration.

6.3.22 Henry Brothers subsequently issued a legal challenge questioning the decision to award contracts on the basis of the estimated fee percentage rather than on the estimated costs of the work to be undertaken. The firm considered that by using fee percentages, CPD was assuming that all firms would source their material and labour force from the same market. Henry Brothers disagreed with this premise and claimed it was incorrect to use this percentage as the determining commercial criteria.

6.3.23 In December 2007 the court decided that it was not in the public interest to grant an injunction preventing the building of new schools but concluded that there was a serious question to answer as to whether the procedure adopted by DE complied with the relevant domestic and EC law. The full hearing took place in May and June 2008 and in October 2008 the judge ruled in favour of Henry Brothers. He concluded that the decision to rely upon the percentage fees was based upon an incorrect factual assumption which was sufficient to amount to a manifest error, namely, that costs would always be the same in the construction industry. Following a remedies hearing, in December 2008 the judge ruled that:

1 Part of a consortium comprising Henry Bros (Magherafelt) Ltd, FB McKee and Co. Ltd and Desmond Scott and Philip Ewing.

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- the framework agreement should be set aside;
- damages were to be pursued by the firm; and
- the firm was entitled to the costs of the main hearing and the remedies hearing.

DE has appealed this judgement.

6.3.24 We note that following the court rulings, five of the schools projects which had been contractually agreed under the DE framework agreement are going ahead. Another three, which had been in competition within the framework, but not agreed, will not be awarded but instead will go ahead as single procurements. We asked DE what impact the legal proceedings have had on the Schools Modernisation Programme. DE advised us that:

- The December 2008 High Court ruling on remedies set aside the major works framework. No further works can be progressed through that framework. The five projects already in contract using that framework shall continue within the framework. Three projects in competition within the framework were stopped.
- In order to minimise the impact on these and other projects which had been planned to be taken forward through the framework, DE has worked up an alternative procurement method to progress projects to the market as quickly as possible.
- The standard documents for this purpose are now complete and project managers have been instructed to prepare for competitions. The first number of competitions using this single procurement approach have already progressed to market.
- The anticipated benefits of the Frameworks approach may not be realised through the single procurement approach which will generally take longer to complete between advertising the project and awarding the contract. In particular, through the use of frameworks the expectation was that there would be benefits to the public sector from the following:-
 - reduced bid costs at secondary competition stage;
 - continuous improvement by transferring the learning from one project to another;
 - improved working relationships;
 - continuous workflow via more streamlined processes; and
 - reduced timescales for project procurement.
- It was also expected that the framework would be able to make a greater contribution to delivering equality and sustainable development

objectives than a series of one-off procurement exercises.

Summary

- 6.3.25 Government, by its nature, is likely to be involved in a wide range of potential litigation. The outcome of any individual proceedings in Northern Ireland contributes to a perception on the part of the legal profession and potential litigants of the ease or difficulty of using the threat of litigation to secure payments from the public purse.
- 6.3.26 We note that in the Partenaire case the arguments for and against a settlement including a payment to Partenaire focussed, as might be expected, on the specific circumstances of the tendering process. However, we asked whether DFP had also taken into account the wider implications for the public purse if, through settlements of this nature, government is seen to be a “soft touch” for litigation by disappointed tenderers and others. DFP’s response was that it had been mindful of precedent and had robustly defended the Partenaire challenge. However, in order to minimise potential future costs, it had made an ex-gratia payment that amounted to approximately 30 per cent of Partenaire’s costs in pursuing their complaint. This decision had been made on foot of legal advice and on the specific facts and circumstances of this case.
- 6.3.27 We note that the Departments have appealed the court rulings in respect of the McLaughlin and Harvey and Henry

Brothers challenges and we will report again when the legal proceedings have concluded to establish what action, if any, the Departments and CPD have had to take to ensure compliance with the final rulings.

Review of DSD Housing Regulatory and Inspection Unit

Introduction

- 6.4.1 The DSD Resource Account provides for grant expenditure to registered Housing Associations. DSD has a responsibility to ensure that Registered Housing Associations in Northern Ireland are accountable to the taxpayer and are providing high quality housing and services to their tenants.
- 6.4.2 For a number of years (from 2001-02 to 2003-04) the regularity audit opinion on the DSD’s Resource Account was qualified because of inadequate financial control and monitoring of the grants paid to Housing Associations. In November 2004 DSD launched a Regulatory Framework for Housing Associations within Northern Ireland. As a consequence DSD’s control and monitoring of Housing Associations was significantly improved and the audit qualification did not arise in the 2004-05 financial year.
- 6.4.3 As part of the Framework the Department established a Regulation and Inspection Unit (the Unit) within its Housing Division. The Unit is responsible for planning and

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carrying out a programme of regular inspection of Housing Associations and in doing so checking compliance with the Housing Association Guide. Its work is therefore a key element in providing assurance on the overall corporate governance, financial control, property development and property management within Housing Associations. The Unit works independently of the arrangements for approval and payment of grant to Housing Associations.

6.4.4 Similar arrangements exist in other areas of the United Kingdom. This report draws, at a point in time, a comparison between the Unit and the Welsh model and aims only to identify areas where the process in Northern Ireland could be further enhanced.

6.4.5 In Wales, the Welsh Assembly is responsible for ensuring that Housing Associations operate appropriately. The Welsh Assembly takes direct responsibility for assessing compliance with expectations about governance, financial management and development within Housing Associations but has out-sourced the Housing Association inspections to the Wales Audit Office (WAO). The arrangement has been recently reviewed and Wales is now in the very early stages of developing a more holistic approach to the inspection of landlord services.

6.4.6 Welsh Housing Associations are governed by a Regulatory Code and the remit of the WAO is to examine and ensure that Housing Associations'

landlord services meet expectations of the Code. To facilitate the process the WAO has developed a manual, "Housing Associations Inspections: What we look for Inspection Guide".

Staffing structure

6.4.7 There are currently thirty four registered NI Housing Associations and all are subject to inspection. In Wales there are many Housing Associations, thirty nine of which are subject to inspection, given the size of their housing stock. Presently the Unit and the WAO inspection teams are similar in terms of staff numbers and team structure, with each being led by a manager who is responsible for the overall management of the inspection programme, with the support of a team of staff with a range of experience and skills.

6.4.8 Up until 2007-08 NIAO had noted concerns regarding the Unit's ability to satisfactorily deliver the programme of inspections, but we acknowledge that at that time the Unit was still in the early stages of its development. We are pleased that these problems now appear to have been addressed and that the knowledge and skills base within the Unit continues to grow, further enhancing the efficiency and effectiveness of the Unit.

Planning the inspection programme and follow-up visits

6.4.9 The Unit has had difficulty in the past completing inspections on a timely basis, resulting in slippage in the planned

programme of work. The Unit now appears to be addressing the problems and is currently working on the basis of a three year inspection cycle to cover all Housing Associations.

6.4.10 The Unit takes a risk-based approach when planning its programme of work. Each Housing Association is scored in terms of its risk by considering a series of factors which determine when the body will be subject to inspection. All Associations are expected to comply fully with the regulations. At present the risk assessment process does not determine the level of inspection that the body will be subject to but DSD has advised us that it plans to review the risk assessment process in advance of the next round of inspections. DSD intends to introduce the results of previous inspections as a factor in the revised risk assessment process. The extent of inspections will depend upon the risk rating awarded and it is anticipated that this will result in a reduced burden of inspection for some Associations. We endorse the risk-based approach and would emphasise the importance of regularly reviewing and updating the process.

6.4.11 DSD has advised us that to date the Unit has reported on nineteen Housing Associations. In addition there are ten inspections completed but reports are not yet finalised. Five Associations have yet to be inspected but we have been advised these will be completed by June 2009. It has been recognised

by DSD that the inspection programme has slipped. The Department's Internal Audit Unit also recognised that the initial inspection programme was too ambitious and unrealistic and it has since been revised. We consider it essential that the Unit completes the entire programme of inspections as a priority.

Scope, method and outcome of inspection

6.4.12 The inspection process currently being operated by the Unit measures compliance against DSD's Regulatory Framework and the Housing Association Guide. We note that the current Framework document is dated 2006 but acknowledge that DSD has initiated a review to update the Framework. We recommend that this review be finalised as soon as possible and subsequently updated on annual basis.

6.4.13 The Unit has also developed its own guidance, procedures, working papers and checklists to standardise the conduct of all inspections and is currently compiling these into a Unit Inspection Manual. We recommend that this work is progressed and completed at the earliest possible opportunity.

6.4.14 The Unit's inspection process focuses on four main areas: Financial Management; Corporate Governance and Management; Property Management; and Property Development. Each individual area is assessed and scored using a four tier grading system. An overall score is

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then awarded using the same grading system.

6.4.15 The process in Wales is similar but the scope and method of inspection used by the WAO is based on the Regulatory Code. The inspections are also influenced by the manual "Housing Associations Inspections: What we look for Inspection Guide" which was evolved from the Audit Commission's Key Lines of Enquiry. As the Welsh Assembly has retained direct responsibility for assessing compliance with expectations about governance, financial management and development within Housing Associations, the WAO inspections are more focussed on the delivery of services and aim to answer the following two questions:

- does an Association deliver good quality services; and
- does an Association secure continuous improvement in services?

6.4.16 The scope and method of inspection by the WAO is based on the Regulatory Code. In answering the questions, the WAO separately examines and scores a variety of separate service areas. The NI Unit is currently considering expanding the property management and property development areas of its inspections into smaller defined areas, similar to those examined by WAO.

6.4.17 Scoring mechanisms are similar in both regions but we noted that the current markings used by the Unit appear to be

prescriptive and do not allow for much categorisation other than 'succeeding' and 'failing'. In comparison, for example, the WAO has two categories for unacceptable, defined as 'scope for considerable improvement' and 'failure to comply with Housing Association Code' and in our view this provides better definition. DSD has told us that a review of the current gradings used by the Unit is underway. We recommend that DSD considers aligning its inspection gradings with those of WAO, in particular for the unacceptable grade, with the aim of providing a better definition so that the ultimate reader of the report has a clearer understanding of the Housing Association performance.

6.4.18 We also noted that the inspection reports produced by WAO explicitly identify areas of good practice within Housing Associations. This provides the reader of the report with valuable additional information and can also act as a mechanism for sharing good practice across Housing Associations and providing potential tenants with useful information on Housing Associations. Under DSD's Regulatory Framework the inspection process is expected to collect examples of good practice but the individual reports that we reviewed did not appear to separately highlight good practice. It is our view that it is beneficial to highlight good practice and make it available to all interested parties. The composite "Summary Report" produced by the Unit in January 2008 included a section on best practices identified but nevertheless we encourage the Unit to

give more prominence to areas of good practice in individual inspection reports.

Inspection Reports

6.4.19 At the end of the inspection process the Unit produces a draft report which is then issued to the relevant Housing Association for management comments. Where relevant, the Housing Association must provide an action plan for implementation of any recommendations. Once agreed, a final report is issued to the Housing Association involved and to NIAO. The output from WAO inspections are similar to those produced by the Unit but a key difference is that WAO publishes reports on its website and they are therefore available to the public. WAO also produces a separate Summary Report of the detailed report, and Housing Associations are required to send these to all of their tenants. It is our view that these additional measures would enhance accountability. We therefore encourage DSD to make all of the Unit's reports readily available on its website and produce a separate summary report that Housing Associations could make available to tenants and other interested parties. DSD has advised us that the Unit is currently considering publishing its reports on the departmental website.

6.4.20 The results of all inspections are discussed at Housing Division's monthly management meetings. Depending on the outcome of the inspection and the impact any sanctions may have on the ability to deliver the Social Housing Development Programme, Housing

Division decides whether or not to inform the Board and the Minister. The Unit has recently produced a composite report that summarises the issues arising from all of the inspections to date. This is a useful document but has only been shared internally. We recommend that the Unit should continue to produce a composite report on an annual basis but also make it available to all interested parties by publishing on its website.

6.4.21 In addition we also recommend that the composite report and any individual reports with 'unacceptable' marks are presented and considered by the Departmental Audit Committee and the Departmental Management Board.

Report timetable

6.4.22 The Regulatory Framework document sets out the expected delivery and turnaround times for finalising the Unit's inspection reports as follows:

- draft report to be produced within twenty eight days of completion of all fieldwork on site;
- Housing Association to respond within four weeks, including providing a response plan; and
- if no dispute, the final report to issue within ten days.

6.4.23 This is a total of sixty six days. The average time taken to complete reports in 2007-08 was eight months (approximately 225 days). The Unit is

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therefore failing to meet the targets that have been set. We understand that DSD has held a number of workshops to review the inspection process and analyse the reasons for delay. DSD has informed us that a new process has been developed and is currently being delivered by the Inspection Team. We recommend that the Unit continues to monitor performance in relation to the delivery of reports and it should also consider looking to the Welsh experience for any lessons that could be learned to further improve performance in this area.

Following up on poor performance

6.4.24 DSD takes the following action if a Housing Association inspection results in an 'unacceptable' marking:

- the Association is asked to provide a comprehensive action plan to address the shortcomings;
- the Association is given six months to a year to address shortcomings;
- progress reports against the action plan are received on a quarterly basis;
- within a year of issue of the final report, a follow-up inspection will be conducted to check compliance against the action plan;
- if good progress has been made against the action plan, no sanction will be imposed;

- if little progress has been made against the action plan, DSD will consider imposing sanctions which may include suspending payment of Housing Association Grant; and
- in more serious situations, DSD can launch a public enquiry to move to de-register an Association.

6.4.25 There have been twelve Housing Associations whose inspection has resulted in an 'unacceptable' mark. There has been a follow-up visit completed for one of these 'unacceptable' Associations, one is currently underway and ten are programmed for the next year. To date, no sanctions have been imposed but the Unit is closely monitoring eleven Associations which have received an overall "unacceptable" marking. The Unit is considering moving to public enquiry on two of these.

Public Enquiry

6.4.26 A public enquiry into the conduct and possible de-registering of a Housing Association must be carried out by an independent examiner. The role of the examiner is to conduct an enquiry into the affairs of the registered Housing Association.

6.4.27 DSD has not yet had cause to initiate proceedings for de-registration through a public enquiry. There are no procedures in place to do so, but DSD has told us that it is considering appointing an independent examiner and the specific requirements needed for the role.

6.4.28 As there have been some 'unacceptable' inspections and follow-ups, it is vital that DSD develops procedures for the public enquiry process and recruits an independent examiner as a matter of urgency. DSD has already identified this as an issue and has advised us that it is currently developing procedures for the public enquiry post.

Conclusion and Summary of Recommendations

6.4.29 The Northern Ireland Regulation and Inspection Unit has come a long way since its inception in 2004. There were early difficulties due to under-resourcing and this led to delays in the issue of inspection reports. The Unit is now well established and the number of inspection reports completed in the past year has risen considerably.

6.4.30 Our review has focussed on the Unit's practices and compared them with the inspection process for Housing Associations in Wales. We have identified existing good practice within the Unit and we have highlighted some areas where, in our opinion, the process in Northern Ireland could be further enhanced. In summary, we recommend that:

- DSD completes the entire programme of inspections as a priority, so that every Housing Association has been subject to at least one inspection;

- DSD's review of the Regulatory Framework document should be finalised as soon as possible and subsequently updated on an annual basis;
- DSD should progress the development of a Unit Inspection Manual;
- DSD should consider aligning its inspection gradings with those of WAO inspection reports, with the aim of providing better definitions so that the ultimate reader has a clearer understanding of the Housing Association performance;
- DSD should give more prominence to areas of good practice within individual inspection reports;
- DSD should produce a separate summary report of each inspection that Housing Associations could make available to tenants and other interested parties;
- all of the Unit's reports should be published on the Department's website;
- DSD should continue to produce an annual composite report that summarises the results of all inspections completed in the year. This report should also be available from the Department's website;

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- the composite report and any individual reports with an 'unacceptable' mark should be presented and considered by both the Departmental Audit Committee and the Departmental Management Board; and
- DSD should continue to monitor the length of time taken to produce and deliver inspection reports and should also consider looking to the Welsh experience for any lessons that could be learned to further improve performance in this area.

6.4.31 We acknowledge that the Unit has already identified many of the issues highlighted in our review and has taken initial steps to address some of the recommendations made. It is important however that DSD ensures all recommendations are fully considered and implemented on a timely basis.

NIAO Reports 2007 - 2009

Title	HC/NIA No.	Date Published
2007		
Internal Fraud in Ordnance Survey of Northern Ireland	HC 187	15 March 2007
The Upgrade of the Belfast to Bangor Railway Line	HC 343	22 March 2007
Absenteeism in Northern Ireland Councils 2005-06	-	30 March 2007
Outpatients: Missed Appointments and Cancelled Clinics	HC 404	19 April 2007
Good Governance – Effective Relationships between Departments and their Arms Length Bodies	HC 469	4 May 2007
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The Exercise by Local Government Auditors of their Functions	-	29 June 2007
Financial Auditing and Reporting: 2003-04 and 2004-05	NIA 66	6 July 2007
Financial Auditing and Reporting: 2005-06	NIA 65	6 July 2007
Northern Ireland's Road Safety Strategy	NIA 1/07-08	4 September 2007
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Older People and Domiciliary Care	NIA 45/07-08	31 October 2007
2008		
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Hospitality Association of Northern Ireland: A Case Study in Financial Management and the Public Appointment Process	NIA 117/07-08	15 April 2008
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Management of Sickness Absence in the Northern Ireland Civil Service	NIA 132/07-08	22 May 2008
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General Report by the Comptroller and Auditor General		

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Shared Services for Efficiency – A Progress Report	NIA 206/07-08	24 July 2008
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2009		
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Review of Assistance to Valence Technology: A Case Study on Inward Investment	NIA 86/08-09	25 February 2009
The Control of Bovine Tuberculosis in Northern Ireland	NIA 92/08-09	18 March 2009
Review of Financial Management in the Further Education Sector in Northern Ireland from 1998 to 2007/ Governance Examination of Fermanagh College of Further and Higher Education	NIA 98/08-09	25 March 2009
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