Northern Ireland Audit Office

Financial Auditing and Reporting

General Report by the Comptroller and Auditor General for Northern Ireland – 2012

REPORT BY THE COMPTROLLER AND AUDITOR GENERAL
6 November 2012

N I A O

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

K J Donnelly
Comptroller and Auditor General

Northern Ireland Audit Office
6 November 2012

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

ALB	Arm's Length Body
ALP	Advance Land Purchase
BELB	Belfast Education and Library Board
BMC	Belfast Metropolitan College
C&AG	Comptroller and Auditor General
CIP	College Improvement Plan
CMEC	Child Maintenance and Enforcement Commission
CMED	Child Maintenance and Enforcement Division
CMT	Case Monitoring Team
CPD	Central Procurement Directorate
CS2	Child Support 2 System
CSCS	Child Support Computer System
DARD	Department of Agriculture and Rural Development
DCAL	Department of Culture, Arts and Leisure
DE	Department of Education
DEL	Department for Employment and Learning
DETI	Department of Enterprise, Trade and Investment
DFP	Department of Finance and Personnel
DHSSPS	Department of Health, Social Services and Public Safety
DLA	Disability Living Allowance
DoE	Department of the Environment
DOJ	Department of Justice
DRD	Department for Regional Development
DSD	Department for Social Development
DWP	Department for Work and Pensions
ELB	Education and Library Board
ESA	Employment and Support Allowance
EU	European Union

GB	Great Britain
GMIS	Grant Maintained Integrated Schools
GoCo	Government-owned Company
HMRC	Her Majesty's Revenue and Customs
HSC	Health and Social Care
IAS	International Accounting Standard
IFRS	International Financial Reporting Standard
IT	Information Technology
IOD	Injury on Duty
LPS	Land and Property Services
NEELB	North Eastern Education and Library Board
NFI	National Fraud Initiative
NI	Northern Ireland
NIA	Northern Ireland Assembly
NIAO	Northern Ireland Audit Office
NIAS	Northern Ireland Ambulance Service
NICF	Northern Ireland Consolidated Fund
NICS	Northern Ireland Civil Service
NIHE	Northern Ireland Housing Executive
NILA	Northern Ireland Library Authority
NIPS	Northern Ireland Prison Service
NIRDP	Northern Ireland Rural Development Programme
NITHC	Northern Ireland Transport Holding Company
OFMDFM	Office of the First Minister and Deputy First Minister
OJEU	Official Journal of European Union
PAC	Public Accounts Committee
PACS	Programme Accounting Computer System
PAYE	Pay As You Earn

Abbreviations

PMG	Paymaster General Account
RRI	Reinvestment and Reform Initiative
SAU	Standards Assurance Unit
SEA	Strategic Environmental Assessment
SELB	Southern Education and Library Board
SEELB	South Eastern Education and Library Board
SFCS	Social Fund Computer System
SSA	Social Security Agency
UK	United Kingdom
UTA	Ulster Transport Authority
VGS	Voluntary Grammar Schools
WELB	Western Education and Library Board

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. It deals primarily with the 2011-12 accounts of central government bodies. It does not include the results of my examination of the accounts of those bodies within the health and social care sector as these will be published in a separate General Report.

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

This General Report provides a timely focus on the qualified opinions and reports issued on departmental resource accounts and other accounts for 2011-12. This will enable the lessons to be applied in time for the next financial year of accounts and therefore to make a difference. This is when the value of public audit is at its strongest.

The standards of financial accounting continue to remain high, demonstrated by the quality and timeliness of financial reporting. However, in the past two years I have seen an increasing failure to comply with instructions from governing authorities, including failure to obtain DFP expenditure approvals. In particular, a number of audited bodies have taken decisions to award salary increases without the appropriate approvals from DFP or their sponsoring department. These matters meant that my audit opinion for these bodies was qualified.

This year I have undertaken a review of how quickly public sector bodies are paying suppliers. Some bodies are falling far short of the benchmark which has been set by the best performing organisations and improvements are required across a number of sectors.

In conducting financial audit work I am always mindful of the need to provide "added value" to audited bodies. It is reassuring that audited bodies implemented a significant number of changes as a result of recommendations arising from our financial audit work.

Audit is a penetrating scrutiny of public bodies' activities. I thank my staff in the Northern Ireland Audit Office for their continued professionalism in this work. I am also very grateful to the staff in the Northern Ireland Civil Service and the other public bodies audited, for their continuing cooperation.

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Section One:
Financial Audit: Qualified Opinions and Reports on Accounts

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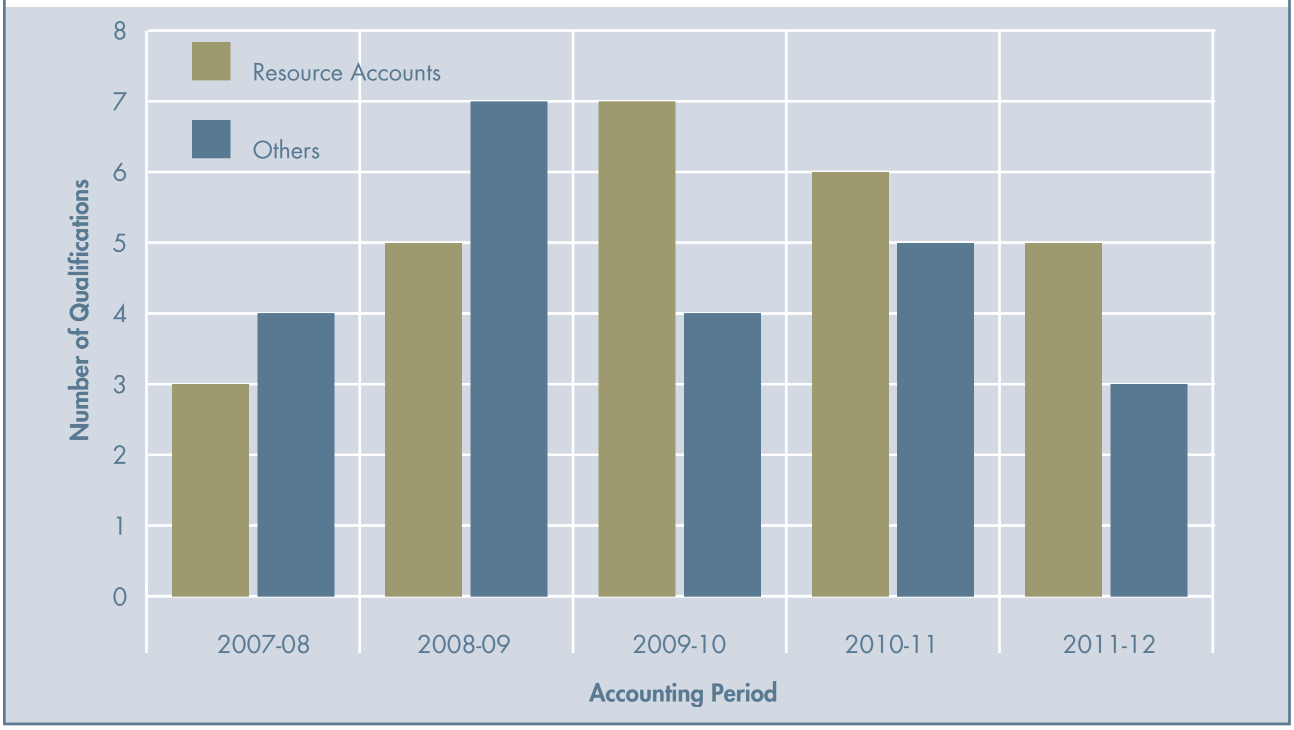
Financial Audit: Qualified Opinions and Reports on Accounts

1.1 Qualified Opinions – Departmental Resource Accounts

1.1.1 The quality of resource accounts submitted for audit has significantly improved since the introduction of accrual based accounting in central government from 2000-01, when ten out of seventeen accounts were qualified[1]. However, in the 2011-12 accounting period, five out of nineteen[2] resource accounts were qualified (26 per cent). In all five of the qualifications the regularity of expenditure was an issue. They included benefit fraud and error, the failure of departments to obtain the necessary DFP approvals, and EU fines incurred as a result of failure to comply with EU regulations. **Figure 1** illustrates the number of qualifications on resource accounts and other accounts for a five year period 2007-08 to 2011-12.

1.1.2 The majority of resource accounts have received an unqualified audit opinion. When qualifications arise, this is generally indicative of weaknesses in financial control that can compromise the ability of departments to provide sound accountability to the Northern Ireland Assembly. **Figure 2** contains brief details of the five resource accounts which received qualified audit opinions for the 2011-12 financial year.

Figure 1: Number of Qualifications for Accounting Periods 2007-08 to 2011-12



1 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)

2 Prior to 2010-11 there were 17 departmental resource accounts subject to certification each year. However, in 2010-11 this rose to 19 as a result of the devolution of justice to the NI Assembly (NIA). The two new resource accounts were the Department of Justice and the Public Prosecution Service for Northern Ireland.

Figure 2

Department	Nature of the Qualification
Department for Social Development 2011-12	The audit opinion has been qualified for a considerable number of years and is qualified again this year because of significant levels of fraud and error in benefit expenditure. Total benefit expenditure (excluding state pension) paid by the Department in 2011-12 was £3.3 billion and of this, the Department estimated losses due to fraud and error of £53.9 million in overpayments and of £14.2 million in underpayments due to official error. In addition I have reported on concerns in relation to the operation of Housing Associations.
Department of Education 2011-12	The audit opinion on the Department's Accounts was qualified on three issues: • Incremental pay awards amounting to £3.6 million, which did not have the required DFP approval were paid to non-teaching staff in Department ALBs. • Pay increments amounting to £7.2 million were paid to teaching staff without the required DFP approval. • Pay remits for non-teaching staff in Voluntary Grammar Schools and Grant Maintained Integrated Schools have not received the required DFP approvals for a number of years. In 2011-12 the amounts paid without the required approval amounted to £13.5 million.
Department of Culture, Arts and Leisure 2011-12	The Department's Accounts received a qualified audit opinion due to a failure by the Department to provide adequate evidence of legal ownership of certain non-current assets: • Land and buildings valued at £2,849,000; • Other land and buildings which may be owned by the Department but which are not included in the financial statements; • Sporting and fishing rights valued at £281,000; and • Other sporting and fishing rights which may be owned by the Department but which are not included in the financial statements.

Section One:
Financial Audit: Qualified Opinions and Reports on Accounts

Department	Nature of the Qualification
Department of Agriculture and Rural Development 2011-12	The audit opinion on the Department's Accounts was qualified on the grounds of regularity. During the 2011-12 financial year, the Department included in its accounts an amount of £12.1 million due to be paid to the EU in respect of financial corrections. This amount due has been included in the Department's Resource Accounts to make good the shortfall in EU Funding and, therefore, represents a loss to public funds which falls outside the Assembly's intentions in relation to the proper administration of EU funding. I have therefore concluded that the expenditure has not been applied for the purposes intended by the Assembly and is not in conformity with the authorities which govern it.
Office of the First Minister and Deputy First Minister 2011-12	The audit opinion on the Department's Accounts was qualified on two matters: • Expenditure of £1,566,090 was incurred on Phase II of the Maze Long Kesh Remediation Project for which approval was rescinded; and • Expenditure of £4,593,260 on the Ebrington Parade Ground project, where there was a change in the scope of the project which did not receive DFP approval. The qualification is as a result of matters arising in the previous financial year.

1.2 Qualified Opinions – Other Entities

1.2.1 Since the last General Report I qualified 21 sets of accounts of other entities. Details of 18 of these are outlined at **Figure 3** and the full content of the qualifications can be found in Sections 4 and 5. I also qualified my audit opinion on the Land and property Services (LPS) Trust Statement – Rate Levy Accruals Account 2010-11, the NI Legal Services Commission 2010-11 and the NI Housing Executive 2011-12. Details of these qualifications were contained in NIAO Press Releases which can be found on the NIAO website at www.niauditoffice.gov.uk

Figure 3

Name of Public Body	Nature of the Qualification
Northern Ireland Social Security Agency 2011-12	The audit opinion on the Social Security Agency's accounts has been qualified for a considerable number of years and is qualified again this year because of significant levels of fraud and error in benefit expenditure. Total benefit expenditure (excluding state pension) paid by the Agency in 2011-12 was £2.7 billion and of this, the Agency estimated losses due to fraud and error of £39.4 million in overpayments and £10.3 million in underpayments due to official error.
Northern Ireland Prison Service 2011-12	The audit opinion on these financial statements was qualified because the Prison Service did not include liabilities for future Injury on Duty (IOD) claims in accordance with International Accounting Standard (IAS) 19, which resulted in a material misstatement of provisions within the financial statements. The information available to me to quantify the possible misstatement within the financial statements was limited. However, given the impact of adjustments required for similar schemes in other Northern Ireland public bodies, I believe that liabilities within the financial statements at 31 March 2012 may have been understated by between £1.8 million and £2.3 million.
Child Maintenance and Enforcement Division Client Funds 2011-12	The audit opinion on this account was qualified in respect of two issues: • the extent of estimated levels of error in maintenance assessments which I considered to be material; and • a lack of evidence to substantiate £83 million of outstanding maintenance arrears.

Section One:
Financial Audit: Qualified Opinions and Reports on Accounts

Name of Public Body	Nature of the Qualification
NI Social Fund 2008-09, 2009-10 and 2010-11	The opinion on the account was qualified in each of the years in respect of the regularity of Social Fund payments (except for Winter Fuel payments and Cold Weather payments) because of the level of over and under payments attributable to error. The Social Security Agency has estimated that erroneous calculations in certain Social Fund benefit awards have resulted in overpayments in each of the three years ranging between £1.0 million and £2.4 million and underpayments of between £0.8 million and £1.3 million. In addition, in 2008-09 and 2009-10, I also qualified my audit opinion in respect of a lack of evidence to substantiate the levels of debt balances (£81.6 million in 2008-09 and £87.8 million in 2009-10) reported in the accounts.
Ilex 2010-11	During 2010-11, Ilex incurred expenditure of £404,687 on a number of projects where they did not obtain the necessary approvals from their sponsor departments and the Department of Finance and Personnel. Therefore I qualified my audit opinion on the regularity of this expenditure. I also reported on a number of other issues relating to project management and staffing matters.
Northern Ireland Library Authority 2010-11	The Northern Ireland Library Authority was not able to provide adequate evidence of the accuracy and completeness of the valuation of its valuable books collection. As a result I qualified my audit opinion as I was unable to obtain sufficient appropriate audit evidence to support Stock Assets valued at £12.9 million included in the financial statements.
Education and Library Boards 2009-10 and 2010-11	The audit opinion in both years was qualified for two reasons: • the payment of honoraria to teaching and non-teaching staff totalling £576,000 in 2009-10 and £514,000 in 2010-11 without proper approvals from the Department of Education or the Department of Finance and Personnel; and

Name of Public Body	Nature of the Qualification
	• a limitation of scope in relation to comparative figures included in the accounts for each of the Board's pension liabilities. This was due to a technical accounting issue following the transfer of staff to the NI Library Authority and does not suggest any irregularity or impropriety. My audit opinion on the 2010-11 accounts of the ELBs was also qualified because of the implementation of an incremental pay award, amounting to £2.8 million, to non-teaching staff without proper approvals from the Department or DFP.

1.3 Reports on Accounts by the C&AG

1.3.1 In the 2011-12 accounting period I also reported on issues in the Department for Regional Development 2011-12, Roads Service Agency 2011-12 and Belfast Metropolitan College 2010-11. These Reports can be found at Sections 3.2, 4.2 and 5.5 respectively.

1.4 Outstanding Accounts

1.4.1 In my last General Report, published in October 2011, I noted that there were a number of accounts which should have been covered by the scope of that Report but at that point in time they had not been certified due a number of technical and other practical issues. These were principally the 2009-10 and 2010-11 accounts of the five Education and Library Boards. These have now been certified and details of my findings can be found at section 5.7. I am pleased to report that the number of outstanding accounts at the date of this report has reduced significantly from 30 accounts with 10 accounts when compared with the same point in time last year. It is anticipated that the majority of the 10 accounts will be certified shortly.

1.5 Conclusion

1.5.1 The majority of departments and other public entities have continued to produce good quality accounts for audit scrutiny which result in unqualified audit opinions. However, there are a number that contain inadequate audit evidence to enable us to express an unqualified audit opinion or lead to a public interest report being attached to the accounts. All qualifications are indicative of weaknesses in internal control and compromise the entity's ability to provide sound accountability to the Northern Ireland Assembly. Generally there is no consistent pattern to the type of qualifications arising, however in this accounting period, several of the qualifications were as a result of irregular expenditure.

Section Two:
Northern Ireland Consolidated Fund 2011-12

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2.1 Northern Ireland Consolidated Fund 2011-12

2.1.1 The NI Consolidated Fund (NICF) is the NI Executive's current account (operating on a receipts and payments basis). All payments out of the NICF must have legislative authority and may either be charged on the Fund directly by statute (known as Standing Services), or voted by the Assembly each year in the Budget Bills (known as Supply Services). Government Accounts Branch within DFP controls the NICF, subject to authorisation of payments by the Comptroller and Auditor General (C&AG), and determines arrangements for payments into the Fund.

2.1.2 Payments into and out of the Fund are accounted for annually in the Public Income and Expenditure Account which DFP prepare and submit for audit in accordance with the Exchequer and Financial Provisions Act (NI) 1950.

2.1.3 Payments into the Consolidated Fund are categorised as follows:

- **Rate Revenue:** this is rates income (Regional and District) which is due in respect of each property in Northern Ireland and is billed and collected by Land and Property Services;
- **Consolidated Fund Extra Receipts and other sums due to the NICF:** these are receipts which are not the product of taxation e.g. monies received from the European Union (EU);
- **Block Grant:** this is paid by the Secretary of State for Northern Ireland out of money provided by the UK Parliament and is, subject to the limit set by HM Treasury, the balance required to bring the level of public income in NI up to the amount needed to cover public expenditure; and
- **Borrowing for capital purposes:** the Exchequer and Financial Provisions Act (NI) 1950 provides that all money raised by the creation of debt is payable into the NICF together with receipts representing repayment of loans made from the fund and interest on those loans.

2.1.4 A summary of the amounts paid into the Northern Ireland Consolidated Fund in 2011-12 (and the previous year) is shown in **Figure 4**.

Figure 4: Analysis of Payments into the Northern Ireland Consolidated Fund

	2011-12 £ million	2010-11 £ million
Public Income:		
Rate Revenue	1,065	1,017
Consolidated Fund Extra Receipts and other sums due to the NICF[3]	199	717
Block Grant	13,332	13,373
	14,596	**15,107**
Capital Receipts:		
Borrowing for capital purposes	401	72
Loan repayments received	98	104
Repayment of Advances from NICF	20	1
Amounts returned from Temporary Investment	1,516	1,652
Excess of Public Income over Public Expenditure	-	1
	2,035	**1,830**

Source: Public Income and Expenditure Account 2011-12

2.1.5 Payments out of the Consolidated Fund are categorised as follows:

- **Consolidated Fund Standing Services:** payments for services which the Assembly has decided by statute should be met directly from the Fund e.g. interest on loans from the National Loans Fund, judicial salaries and the salary and pension of the NI Ombudsman;

- **Supply Services:** payments required to meet other central government expenditure i.e. from departmental Supply Estimates. Money is voted by the Assembly for a particular financial year. Statutory authority for the necessary payments from the NICF is given by the Budget Act for the year in question, which also grants authority as to what the Assembly intends the money to be used for; and

- **Capital payments:** loans to district councils, other public bodies under statute and schools, and redemption of debt and other payments such as the investment of temporary cash surpluses on the short-term money market.

3 Decrease due mainly to a large one off receipt in respect of pensions from DHSSPS in 2010-11

Section Two:
Northern Ireland Consolidated Fund 2011-12

2.1.6 A summary of the amounts paid out of the Northern Ireland Consolidated Fund in 2011-12 (and the previous year) is shown in **Figure 5**.

2.1.7 Supply Services expenditure is accounted for in the Departmental Resource Accounts which are prepared and audited under the Government Resource and Accounts Act (NI) 2001. The results of my audit of the Resource Accounts are included at Section 3 of this Report.

2.1.8 Rates Income (Regional and District) which is billed and collected by Land and Property Services is accounted for in the Land and Property Services (LPS) Trust Statement – Rate Levy Accruals Account and is subject to separate audit.

Figure 5: Analysis of Payments out of the Northern Ireland Consolidated Fund

	2011-12 £million	2010-11 £million
Public Expenditure:		
Supply Services	14,359	14,518
Consolidated Fund Standing Services	8	9
Transfer of District Rates to Local Councils	493	488
Interest paid on Public Debt	86	91
	14,946	**15,106**
Capital Issues:		
Public Debt – Sums Repaid (e.g. repayments to the National Loans Fund)	134	147
Issue of Government Loans	35	30
Amounts placed on Temporary Investment	1,516	1,652
Advances from NICF	-	1
Excess of Public Expenditure over Public Income	350	-
	2,035	**1,830**

Source: Public Income and Expenditure Account 2011-12

Section Three:
Resource Accounts

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Resource Accounts

3.1 Department for Social Development 2011-12

Introduction

3.1.1 The Department for Social Development (the Department) has responsibility for a number of important areas. In 2011-12 this included the payment of £5.1 billion in benefits, of which £4,435 million was paid by the Social Security Agency (SSA), £558 million was paid by the Northern Ireland Housing Executive (NIHE) and £40 million was paid by Land and Property Services (L&PS).

3.1.2 This report reviews the results of my audit of the Department's 2011-12 financial statements and sets out why I have decided to qualify my audit opinion on the regularity of benefit expenditure, other than State Pension, which has a low incidence of error and no reported customer fraud. I have also provided an update on the issues I reported on last year.

3.1.3 It is important to note that my audit opinions on the Departmental Resource Account, SSA financial statements and NIHE financial statements have been qualified for a considerable number of years because of significant levels of fraud and error in benefit expenditure, other than State Pension.

3.1.4 My audits of the 2011-12 SSA and NIHE financial statements have now been completed and in each of these I considered the estimated levels of fraud and error in benefit expenditure to be material. Consequently, I qualified my audit opinion of:

- the SSA financial statements on the regularity of benefit expenditure (other than in relation to State Pension benefits); and
- the NIHE financial statements on the regularity of housing benefit expenditure.

3.1.5 Further details of these qualifications are included in my reports attached to the 2011-12 financial statements for SSA and NIHE. Each report details:

- responses to the levels of benefit fraud and error and to the increasing levels of debt due to benefit overpayments; and
- the ongoing steps that are being taken to counteract the levels of benefit fraud and error.

3.1.6 In addition, my audit opinion of the 2011-12 NIHE financial statements was also qualified in relation to the regularity of planned maintenance and response maintenance expenditure because of control weaknesses. I also reported on significant concerns over contract management and land and property management.

Qualified opinion due to fraud and error in benefit payments

3.1.7 The Department's Standards Assurance Unit (SAU) regularly monitors and provides estimates of levels of fraud and error within the benefit system. In order to do this, statisticians from the Department's Analytical Services Unit randomly select samples of ongoing benefit claims and SAU subject them to detailed examination for evidence of official error, customer error or customer fraud. The results of this testing are then used to produce a range of likely fraud and error in all of the main benefits (within a 95 per cent certainty) and the midpoint of this range is presented in Note 37 (entitled 'Payment Accuracy') as an estimate of the monetary value of the fraud and error in the year.

3.1.8 Note 37 explains that the estimates of fraud and error are by their nature subject to uncertainty because they are based on sample testing. These estimates do, however, represent the best measure of fraud and error available. In order to facilitate the timetable for the production of the financial statements, the Department's testing on payment accuracy is reported on a calendar year basis, not on a financial year basis. I am satisfied that this is reasonable.

3.1.9 I examined the work undertaken by the Department to assess the levels of fraud and error within the benefit system. My staff examined and re-performed a sample of the Department's case work during the year and also reviewed the methodologies applied by the Department in carrying out these exercises. I am content that results produced by the SAU are a reliable estimate of the total fraud and error in the benefit system.

3.1.10 The Government Resources and Accounts Act (Northern Ireland) 2001 requires me to report my opinion as to whether the financial statements give a true and fair view and also on the regularity of expenditure and income, that is, whether in all material respects they have been applied to the purposes intended by the Northern Ireland Assembly and the financial transactions conform to the authorities which govern them.

3.1.11 The entitlement criteria and the method to be used for payment of each benefit are set out in legislation. Where fraud and error has resulted in an over or underpayment of benefit to an individual who is either not entitled to that benefit, or is paid at a rate which differs from that specified in the legislation, the payments made are not in conformity with the governing legislation and are therefore irregular.

3.1.12 My regularity opinion is not qualified in respect of State Pension payments because the testing carried out by SAU found no fraud within State Pension payments and the estimated level of error (as shown in Figure 6) within State Pension is not significant.

Section Three:
Resource Accounts

3.1.13 **Figure 6** shows the total benefit payments made during the calendar year of 2011 and the estimated extent of fraud and error in relation to these benefits, based on the work completed by SAU. The table shows that total benefits (other than state pension) amounted to £3.3 billion with estimated incorrect benefit payments of £68.1 million (on which I have qualified my audit opinion) comprising:

- overpayments of £53.9 million (1.6 per cent of total benefits excluding state pension); and
- underpayments due to official error of £14.2 million (0.4 per cent of total benefits excluding state pension).

All overpayments are irregular, whereas only underpayments made as a result of official error are deemed irregular. Underpayments due to customer error are not deemed irregular.

3.1.14 I consider the estimated levels of fraud and error in benefit expenditure to be material and I have therefore qualified my audit opinion on the regularity of benefit expenditure (other than in relation to State Pension).

Estimated levels of fraud and error

3.1.15 Fraud in benefit awards arise when customers deliberately seek to mislead the Department. Error in benefit awards can arise because of customer error or

Figure 6: Estimated Overpayments and Underpayments due to fraud and error in benefit expenditure (2011)[4] (Note 37 to the financial statements)

	Benefits (other than State Pension)	State Pension	Total
	£ million	**£ million**	**£ million**
Expenditure	**3,305.8**	**1,749.1**	**5,054.9**
Overpayments due to:			
Customer fraud	22.7	-	22.7
Customer error	14.8	-	14.8
Official error	16.4	0.5	16.9
	53.9	**0.5**	**54.4**
Underpayments due to:			
Official error	**14.2**	**3.7**	**17.9**

Source: DSD Resource Account, Note 37

4 Estimates in Figures 6 and 7 are quoted to the nearest £0.1million and presented with 95 per cent confidence intervals, which include adjustments to incorporate some non-sampling sources of uncertainty.

official error. Customer error occurs when customers make inadvertent mistakes with no fraudulent intent. Official error arises when a benefit is paid incorrectly due to inaction, delay or a mistaken assessment by the Department.

3.1.16 **Figure 7** shows the trends since 2007 in estimated levels of fraud and error. In looking at the trends I was also pleased to note that the overall level of overpayments due to fraud and error in 2011 are estimated to be 1.1 per cent of total benefits which is considerably lower than that achieved by the Department of Work and Pensions (DWP) in Great Britain which was two per cent in the same period.

Customer fraud

3.1.17 Means tested benefits such as State Pension Credit, Income Support, Jobseeker's Allowance, Housing Benefit and Employment and Support Allowance tend to have the highest rates of fraud as they require the customer to provide complete and accurate information in order to establish entitlement to benefit. Most commonly, fraudulent customer statements relate to:

Figure 7: Trends in total estimated fraud and error in benefit expenditure

	2011 £ million	2010 £ million	2009 £ million	2008 £ million	2007 £ million
Total benefit expenditure	**5,054.9**	**4,959.0**	**4,714.9**	**4,256.7**	**4,071.8**
(1) Overpayments					
Customer fraud	22.7	22.1	22.2	15.7	15.2
Customer error	14.8	12.4	15.2	21.7	19.1
Official error	16.9	32.4	21.1	19.8	25.4
TOTAL	**54.4**	**66.9**	**58.5**	**57.2**	**59.7**
% of benefit expenditure	**1.1%**	**1.3%**	**1.2%**	**1.3%**	**1.5%**
(2) Underpayments*					
Official error	**17.9**	**17.7**	**19.8**	**17.6**	**23.9**
% of benefit expenditure	**0.3%**	**0.4%**	**0.4%**	**0.4%**	**0.6%**

*Underpayments exclude those due to customer error which do not form part of the audit qualification. In 2011 these underpayments were estimated to be £6.9 million.

Source: Department for Social Development financial statements 2007-08 to 2011-12

Section Three:
Resource Accounts

- customer's living arrangements where the customer has a partner but is claiming and receiving benefit as a single person;
- undeclared and under declared occupational pensions;
- falsely stating the level of their own or partner's earnings;
- customers working but claiming unemployment benefits; and
- under declaration of assets.

3.1.18 I am disappointed with the increase in customer fraud in 2011 and note it is now £7 million (45 per cent) higher than the 2008 level. I am particularly concerned at the high levels of estimated customer fraud for both Income Support (£4.6 million in 2011) and Incapacity Benefit (£6.1 million in 2011) and the increase in the estimates of Housing Benefit fraud from £0.9 million in 2010 to £2.8 million in 2011. I asked the Department to comment on this and they told me that in relation to the level of customer fraud within Social Security Agency benefits this has reduced for 2011, from 0.5 per cent of Agency benefit expenditure to 0.4 per cent. The 2011 customer fraud level for Income Support has reduced significantly, from 2.4 per cent of expenditure in 2005 down to 1.2 per cent in 2011, reflecting the Agency's continued focus in identifying customer fraud in this benefit caseload. The Agency highlighted that the Incapacity Benefit caseload is diminishing as the benefit entitlement migrates to Employment Support Allowance and the associated customer re-assessment process is, in effect, a full case cleansing exercise that has a by-product of successfully identifying customer fraud. Although the increase in the monetary amount of customer fraud from 2008 is 45 per cent, the overall level of customer fraud as a percentage of total benefit expenditure has increased by approximately 0.1 per cent over the same period - based on the figures in **Figure 7**. The Agency confirmed that the fight against benefit fraud remains one of its' key priorities and it will continue to develop its counter fraud activity over the forthcoming year.

3.1.19 In relation to Housing Benefit, the Housing Executive accepted that customer fraud at 0.5 per cent of Housing Benefit expenditure for the year was higher than in 2010, however, it pointed out that the percentage was actually lower than in the five years prior to 2010. The Housing Executive will continue its efforts to prevent and detect Housing Benefit fraud and will review the content of its counter-fraud Strategy to ensure that effective measures are in place to address this issue.

Customer error

3.1.20 Those benefits with the highest customer error rates are means tested benefits such as State Pension Credit, Housing Benefit and Income Support, which have entitlement conditions that relate to the level of income and/or savings of customers. The main reasons for customer error are:

- the benefits system is complex for customers to navigate;
- customers are generally unaware of rules on capital, investments or redundancy payments and do not easily understand deductions for non-dependants;
- customers do not readily understand that they have to report any changes in their circumstances; and
- many customers incorrectly believe that reporting changes once to a public body will lead to all government bodies updating their records for that individual.

3.1.21 I am disappointed with the increase in overpayments due to customer error in 2011 and asked the Department for their comments. The Department told me the overall level of Agency customer error as a percentage of benefit expenditure has remained at the low level of 0.2 per cent. In addition, although there is an increase in the monetary amount of customer error for 2011, the overall level of customer error as a percentage of total benefit expenditure has remained approximately the same at 0.3 per cent - based on the figures in **Figure 7**. The Agency also advised that it continues to be pro-active in this area to both prevent and detect customer error, for example:

- increased use of data matching;
- enhanced intervention interviews;
- continued development of Customer Compliance work;
- through NI Direct, increased customer awareness of changes which need to be reported; and
- as part of their day to day business, Agency staff remind customers of the importance of providing updates of any changes in their circumstances.

3.1.22 The Department has also told me in relation to Housing Benefit under its Housing Benefit Overpayments Strategy, the Housing Executive issues regular reminders to customers of the requirement on them to notify changes of circumstances and has increased the means through which they can do so. The full implementation of the Atlas system from February 2012, which delivers electronic notification of changes to benefit and tax credit awards, is also aimed at reducing the level of customer error.

Official error

3.1.23 Official errors are those that are attributed as being the fault of the Department and can cause hardship to customers when underpayments occur. They can take time to identify and correct and as a result their cumulative impact on resource and efficiency can be considerable. As such, these errors are in my view the ones that the Department is best placed to reduce.

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3.1.24 The main reasons for Social Security official errors are:

- incorrectly recording a customer's income;
- incorrectly applying complex benefit rates; and
- making errors in establishing the customer's status (such as their fitness for work, single status etc).

These factors may also be subject to frequent change over the course of a claim, which can increase the propensity for overpayments. The majority of official errors resulting in overpayments arise when adjustments are made to existing claims, rather than when processing a new claim.

3.1.25 I note the significant reduction in overpayments due to official error from £32.4 million in 2010 to £16.9 million in 2011. A detailed breakdown of official error split by individual benefits is included at Note 37 to the financial statements. A large proportion of the reduction this year has been due to a fall in official error in Housing Benefit from £9.8 million in 2010 to £2.6 million in 2011. This is partly due to NIHE providing more timely information to the SAU in 2011 on all cases selected for testing, whereas in 2010 there had been delays in providing information which had led to some cases being 'deemed' to be errors.

3.1.26 Other areas where reductions have been achieved include in Incapacity Benefit (reduced by £3.2 million from 2010), Income Support (reduced by £1.9 million from 2010) and State Pension Credit (reduced by £1.8 million from 2010). I asked the Department to comment on this and they told me that the reductions in official error overpayments for these benefits is indicative of the overall decrease in the level of Agency official error overpayments; this has decreased from 0.5 per cent of Agency expenditure for 2010 to 0.3 per cent for 2011. The Agency indicated that this improvement has been achieved through its continued targeting of high risk areas, ongoing development and refinement of High Risk Scans as well as dedicated teams of case accuracy checkers. In addition enhancements to the Error Recording and Reporting System now capture all checking data on one system which aids analysis and better targeting of resources. Again there is a positive decrease in the Department's overall level of official error overpayments from 0.7 per cent in 2010 to 0.3 per cent in 2011, based on the figures in **Figure 7**.

Other Matters

Housing Associations

3.1.27 The Department provides funding via the Northern Ireland Housing Executive (NIHE) to the Housing Association sector each year and this amounted to £139 million during 2011-12. In order to satisfy itself that this money is being properly spent, the Department's

Governance and Inspection Team (the Team) conducts regular reviews of all housing associations in Northern Ireland examining governance, finance, property management and property development.

3.1.28 In recent years I have raised a number of issues in relation to housing associations and I have reported extensively in this area and made a number of recommendations. In 2010-11, I qualified my audit opinions on both the Department's and NIHE's financial statements because of concerns as to the regularity of grant expenditure in Helm Housing Association (Helm) as a result of serious issues which were being identified by the Department's inspection team.

3.1.29 I still have significant concerns in relation to the governance arrangements of the Housing Association sector as a whole. However I have not qualified my opinion on expenditure in this area in 2011-12 because many of the issues giving rise to my concerns in the Housing Association sector relate to expenditure incurred in previous years and also because the work of the Department in its inspection regime across all Housing Associations, detailed below, has provided some assurance in relation to grants paid to the sector in the current year.

3.1.30 The Team has now finalised its inspection report on Helm and this was published in January 2012. The report gave an overall "No assurance" rating and highlighted a number of significant failures across all areas, indicating substantial failings by the Senior Management Team of Helm and a failure by the Board to offer an adequate challenge function to the decision-making process within the Association.

3.1.31 As well as making 49 high priority recommendations across a range of issues the report identified three schemes in which Helm were unable to provide appropriate evidence to support the grants claimed for those schemes. As a result the Department has sought to recover £669,000 of housing association grant from the Association.

3.1.32 The report also highlighted eight schemes that were part financed by Housing Association Grant which had involved a payment to a "middleman" or "site finder" for the purchase of land. The Team found that it was not clear why third parties were involved in the deals and why Helm did not deal directly with the site owners. There was no explanation on any of the files held by Helm, nor was there any acknowledgement of the financial impact of such involvement, or evidence that the relevant sub-committee in Helm was made aware of these situations.

3.1.33 I was particularly concerned by the case noted in the report of the purchase by Helm of a site at Great George's Street, Belfast. The Department gave Helm £8.1 million in Housing Association Grant under its advance land purchase arrangements to allow Helm to purchase the site in 2007. On the day the site

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was to be purchased by Helm, a third party purchased the site from the Owner for £6.5 million and then immediately sold it to the Association for £9.75 million. Despite investigations by the Department and forensic accountants, it has not been possible to identify any explanation for these transactions. I have asked the Department to update me if there are any developments in relation to these transactions and I may report further if appropriate.

3.1.34 Since acquisition of the site in 2007, Helm has been unable to gain planning permission for the proposed development as the site may be required for a major roads development. The Department is entitled to seek recovery of the £8.1million paid under the advance land purchase scheme as the scheme has not progressed within three years of the receipt of the grant. However it has not yet done so and the Department have told me it is still possible that the site will receive planning permission and the proposed development will be proceeded with.

3.1.35 Since the report, the Department has told me that 6 of the existing Board Members have stepped down and been replaced with a number of appointments drawing skills from the Development Industry, Finance and Property including housing and urban renewal experience. The remaining Board Members, with the exception of the tenant representative member, will step down in August 2012. Training of these Board Members has commenced with training sessions on governance and a review of the Association's governance arrangements has also been conducted, this includes the development of a new style of Board papers. The Chief Executive and all of the Senior Management Team have also been replaced with interim Officers until a number of recruitment exercises are completed by September 2012. These interim Officers are progressing a comprehensive action plan that will implement all the recommendations made by the Team.

3.1.36 I am concerned over the extent and significance of the serious issues identified by the Department in Helm and I asked the Department for the latest update. The Department told me they are confident that the serious issues identified within Helm Housing Association have been addressed with the Board's appointment of the interim Chief Executive, who has a proven track record of assisting poor performing Housing Associations across Great Britain. The Board has worked closely with the new Chief Executive to implement a number of significant changes to Board, the Senior Management Team and their organisational structure. The Board has also liaised closely with the Department to develop a recovery plan that will help the Association work towards becoming a Fit for Purpose organisation in advance of the follow up inspection later this year.

Targeted Inspections

3.1.37 In response to the significant concerns raised in the Helm report, the Team has carried out targeted inspections of the seven main housing associations involved in building new houses (namely Apex, Clanmil, Fold, Trinity, Connswater, Oaklee and Ulidia) to provide assurance that the issues identified in the Helm report are not also prevalent in these Associations and that they are "fit for purpose". During 2011-12, these seven housing associations built 1,235 new units out of a total of 1,410 units built by all Housing Associations and received housing association grant of £103 million out of a total of £139 million paid to all housing associations to build the new units.

3.1.38 Targeted inspections in five of the seven housing associations focused on two distinct areas, property development and organisational structure, while the remaining two housing associations (Oaklee and Ulidia) were subject to a full inspection in accordance with Round 2 of the Department's planned inspection programme.

3.1.39 Results from the targeted inspections to date show that one housing association received substantial assurance (Clanmil), five housing associations received satisfactory assurance (Apex, Fold, Trinity, Oaklee and Ulidia) while Connswater received limited assurance.

3.1.40 Connswater received housing association grant of £4.5 million to build 68 new units in 2011-12. The Team found significant delays in progressing scheme proposals mainly due to planning and financial viability issues resulting from inadequate feasibility studies and also had concerns around community consultation and over reliance on advice from particular consultants. Connswater have actively engaged with the Department to address the issues and the Department told me that the Association is currently implementing a comprehensive recovery plan to address the shortcomings identified at the last inspection. Progress against this plan will be checked by way of a Follow-up Inspection programmed to be carried out within the next six months.

Second Round of Inspections

3.1.41 The Team has continued with its second round of inspections during 2011-12 and in addition to the seven targeted inspections, a further eight inspections were completed. I note that only two housing associations (St. Matthews and Habinteg) received satisfactory assurance and I am concerned that four housing associations (Newington, Rural, Grove and Open Door) received limited assurance and two housing associations (Helm and Filor) received no assurance.

3.1.42 The continuing poor results being achieved by many housing associations is disappointing given the work the Team has done over several years in seeking to promote best practice and corporate governance arrangements, driving forward improvements and efficiencies, monitoring performance and acting as a deterrent to unacceptable practices. The Department told me that whilst the four Housing Associations

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referred to received Limited Assurance in their follow-up inspections, these ratings should be regarded as encouraging and reflect positive progress made by the Associations to address all the recommendations made in their last inspection report.

3.1.43 At the time of the follow-up inspections there was evidence that progress had been made but at that stage the associations had not had sufficient time to fully implement all of the recommendations. These Associations will be subject to a further follow-up Inspection within the next six months. One Association, Open Door has recently been re-inspected and has attained an overall Satisfactory Assurance rating. The two Associations who received No Assurance are currently suspended by the Department from accessing Housing Association Grant and are currently being monitored closely by the Department. They will also be subjected to a follow-up Inspection later in the year.

3.1.44 The associations which obtained limited or no assurance in the second round of inspections are included within the nine associations currently suspended from carrying out development work. I was concerned to find that these suspended housing associations still received housing association grant of £25.6 million during 2011-12 of which Helm received £21.5 million. The Department has explained this by saying that these grants relate to schemes that had been approved prior to the Associations being suspended and which the Department were content to allow to be progressed as the schemes were already sufficiently advanced.

3.1.45 The Department has also told me that these figures reflect the amounts in the NIHE's accounts and not the amount of cash actually paid to these associations. Helm received approximately £11 million from the Housing Executive, largely in relation to schemes which had started on site prior to their suspension and the remainder for schemes which DSD agreed had progressed to an extent that they could not be transferred to another association. The remaining £10.5 million relates to accruals for both the progression of these schemes and also an accrual for Advanced Land Purchases (ALP) which the Housing Executive has approved subject to a positive follow up inspection.

3.1.46 Given the serious breakdown in controls at Helm in particular, I am surprised that such a large amount of housing association grant was awarded to it during 2011-12 and I asked the Department what controls it has in place to ensure this grant is spent correctly. The Department told me that grant was paid to Helm and other suspended Housing Associations for those schemes where the Association was legally/contractually committed to the development and failure to comply with these contracts would be viewed as breaches and cause serious financial implications and reputational damage for individual Associations as well as creating a lack of confidence in the housing movement in general.

3.1.47 The Department has liaised with the Housing Executive, who is responsible for paying the Housing Association Grant, to develop additional assurance arrangements for Associations currently suspended from the Social Housing Development Programme. These additional checks were carried out on all the schemes of suspended Housing Associations prior to payment of grant.

Land Purchases by Housing Associations

3.1.48 The Department can award an advance land purchase grant (ALP) to housing associations to allow them to purchase a site in an area which has a social housing need but which may not yet have planning permission. This ALP grant is given on the understanding that if planning permission is not granted or no progress has been made in building houses on the land for more than three years since the ALP was awarded, the Department can seek to recover the full ALP grant. During 2011-12, the Department approved 18 ALP grants for 500 units, totalling £16 million, with these schemes due to commence during 2012-13. While I have no particular concerns in relation to the ALP grants made during 2011-12 I am concerned by some issues relating to land purchases made by Associations in recent years.

3.1.49 I note at present there are four ALP grants made a number of years ago where no development has occurred in the past three years. In three of these cases (one of which is the Helm Great Georges Street scheme discussed above) the Department have assured me that there is still the potential for the scheme to go ahead and they are therefore not seeking recovery of the grant at this stage. In one scheme, planned by Trinity Housing Association, NIHE are currently seeking to recover £835,000 as the scheme (for a development in Crossgar) changed from a 12 unit scheme to a 3 unit scheme.

3.1.50 Housing Associations can also purchase sites using their own resources, without informing the Department. I noted that the Department's report on Helm identified five sites purchased by the Association totalling £9.1 million where it is unlikely that they will be able to proceed with their original development plans and on which a substantial loss is likely to be incurred. In one scheme at Bellevue Park, Helm paid £2.8 million in 2007 for a planned development of 34 units, however, planning permission was not granted and the value of the land is now much less than Helm paid for it. It is possible that other Associations could be in similar positions having purchased land with their own resources during the property boom.

3.1.51 While I recognise that the Department has not provided funds to support the purchase of land by Housing Associations using their own resources, I am nevertheless concerned that when these Associations incur significant losses on property it will impact on their ability to provide new housing schemes and potentially also on their capacity to properly deliver routine maintenance and improvements to existing housing. It is therefore vital that Housing Associations have proper governance procedures in place to ensure that all proposed land purchases are properly assessed and approved.

3.1.52 I asked the Department to comment on how they are ensuring that these governance procedures are in place and they told me that the decision making role of the Board, particularly around the areas of land purchases and scheme development is closely scrutinised as part of the Departments on-going inspection of the governance arrangements within Associations. There is also on-going monitoring of Board minutes by the Department's Governance Unit to ensure that decisions, particularly around expenditure are being discussed, challenged and ratified by the Board.

3.1.53 Housing Division finance staff also monitor quarterly financial returns from the developing associations and review all associations' audited financial statements to identify potential financial difficulties. Any concerns identified are discussed with the senior management and Boards to ensure the necessary corrective action is taken.

Conclusion

3.1.54 I consider that the estimated levels of fraud and error reported are material and I have therefore qualified my opinion on the 2011-12 Department's Resource Accounts on the regularity of benefit expenditure (other than state pension benefits).

3.1.55 I also have significant concerns relating to governance arrangements within the Housing Association sector as a whole and I will continue to monitor this area and may report further in due course.

3.2 Department for Regional Development 2011-12

Introduction

3.2.1 This report provides an update on my previous reports on the irregular expenditure incurred by NI Water.

Background

3.2.2 NI Water was established on 1 April 2007 as a Government-owned Company ("GoCo") with the Department for Regional Development (DRD) as the sole shareholder. The DRD Accounting Officer holds ultimate responsibility for DRD's shareholding in NI Water. Funding from DRD to NI Water is in the form of revenue subsidy (NI Water's main source of income); capital grant support and the issue of capital loan notes.

3.2.3 In 2009-10, the DRD resource accounts were qualified as a result of a total of £21 million of irregular expenditure incurred by NI Water in 2009-10, 2008-09 and 2007-08. Multiple instances were identified of:

- Single Tender Actions greater than £250,000 where DRD shareholder approval was not obtained contrary to NI Water's delegation limits; and
- Potential Official Journal of the European Union (OJEU) Utilities Contract Regulation technical breaches.

3.2.4 In 2010-11, the opinion on regularity provided by NI Water's external auditors in respect of the statutory accounts was qualified due to irregular expenditure of £4.7 million and the DRD Resource Account was also qualified.

Irregular expenditure in the current year

3.2.5 Irregular expenditure of £2.2 million was incurred, arising from extensions of an existing irregular contract with a single supplier, which was a breach of NI Water's delegated financial limits. NI Water confirmed that this contract has ended and that there will be no further expenditure incurred in relation to this contract, or any extensions associated with it, from 1 April 2012. DRD has informed me that contracts for all expenditure included within NI Water's regularisation project will have been put in place by 31 December 2012.

3.2.6 NI Water's external auditors issued an unqualified opinion on regularity on 2 July 2012.

Conclusion

3.2.7 £2.2 million of irregular expenditure was incurred by NI Water in 2011-12, a decrease from £4.7 million in 2010-11.

3.2.8 I have not qualified my opinion on the 2011-12 Financial Statements on the basis that the level of irregular expenditure has decreased to £2.2 million.

3.3 Department of Education 2011-12

Introduction

3.3.1 The Department for Education (the Department) is responsible for promotion of education and implementation of education policy in Northern Ireland as well as being the sponsoring department for 13 arm's length bodies (ALBs). In 2011-12 the Department spent approximately £2 billion.

3.3.2 Under the Government Resources and Accounts Act (Northern Ireland) 2001, I am required to examine and certify the Department's financial statements. I am also required to satisfy myself that in all material respects the expenditure and income have been applied to the purposes intended by the Northern Ireland Assembly and the financial transactions conform to the authorities which govern them.

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3.3.3 Last year I qualified my regularity audit opinion on the Department's accounts because its ALBs and a number of schools had paid honoraria of £662,000 to both teaching and non-teaching staff which did not have the necessary approvals and were therefore irregular. I also qualified my regularity opinion in a number of the Department's ALBs because I found that incremental pay awards had been paid to non-teaching staff but had not been approved by the Department of Finance and Personnel.

3.3.4 Similar issues relating to pay increments have led me to qualify my regularity opinion on the Department's accounts for 2011-12; namely that:

- approval for incremental pay awards to non-teaching staff in Department ALBs was not received until part way through the 2011-12 financial year and was not given retrospectively. Those increments paid to non-teaching staff from the 1 April 2011 to the date of approval are therefore irregular;
- increments were also paid to teachers from September 2011 but were not approved by DFP until March 2012; and
- pay remits for non-teaching staff in Voluntary Grammar Schools (VGS) and Grant-Maintained Integrated Schools (GMIS) have not been submitted to DFP for approval since 2006-07. The expenditure relating to 2011-12 is considered irregular.

3.3.5 More detail is provided on these issues below. I am content that the first two specific issues giving rise to this qualified opinion will not impact on future years. However, I will have to consider further the impact of the third issue on my opinion next year. I also comment on a number of areas where expenditure approval processes were not fully complied with, that the Department has identified in its statement of internal control, but on which I have not qualified my audit opinion because I do not consider the amounts involved to be material to my opinion.

Regularity qualification arising from the implementation of an incremental pay award to non-teaching staff in the Department's ALBs

3.3.6 During my audit of the Department of Education's 2011-12 resource accounts, I found that from 1 April 2011 to the date of approval, a total of £3.6 million had been paid to non-teaching staff in the Department's ALBs for the 2010-11 and 2011-12 incremental pay awards.

3.3.7 While approvals for the 2010-11 and 2011-12 pay remits were received from DFP from November 2011 to February 2012 inclusive, these were not retrospective. Therefore increments paid before these dates are considered to be irregular. The irregular expenditure arising from the 2010-11 and 2011-12 pay awards was £3.6 million.

3.3.8 As the Department funds these ALBs by way of grant-in-aid, this expenditure is deemed to be irregular within the Department's resource accounts.

Regularity qualification arising from the implementation of an incremental pay award to teaching staff

3.3.9 The Department is responsible for processing the payment of salaries to all teachers, except those in voluntary grammar schools. The actual expenditure is recorded in the accounts of the Education and Library Boards, grant-maintained integrated and voluntary grammar schools. In September 2011 teachers were due to be paid their annual increment. The Department told me that the team responsible for the Teachers' Pay Remit incorrectly assumed that incremental progression was a contractual obligation which did not require DFP approval in advance of being paid. As a result, the increments were paid in September 2011 although DFP approval was not received until March 2012 and was not given retrospectively. The payments made during this period, amounting to £7.2 million, are irregular.

Regularity qualification arising from unapproved pay remits for non-teaching staff in VGS and GMIS

3.3.10 With effect from 2006-07, VGS and GMIS have been re-classified as public sector bodies and are required to follow the DFP public sector pay remit approval process. The Department has now identified that pay remits for non-teaching staff have not in fact been prepared or submitted to DFP for approval since this re-classification in 2006-07. The Department estimates that the total irregular spend from 2006-07 to 2011-12 inclusive is likely to be in the region of £62 million and the amount relating to 2011-12 is £13.5 million.

3.3.11 The payments made during 2011-12, do not have the required approval from the Department or DFP, and therefore the amount of £13.5 million is irregular.

Other areas of irregular spend

3.3.12 I note a number of areas of irregular spend have been disclosed by the Department in its Statement on Internal Control. I have not qualified my audit opinion on these issues as I do not consider the amounts involved to be material to my audit opinion. The issues included:

(i) Pay remits for seconded teachers of £158,000 which were not included in the appropriate pay remit;

(ii) Honoraria payments of £44,700 which were processed in error before the new policy, approved by DFP, was implemented;

(iii) Legal costs associated with the appeal on the Schools' Modernisation Framework where £11,259 was incurred in year without the necessary approval; and

(iv) Commercial insurance costs of £20,000 incurred by eight of the

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Departments' ALBs which should have been approved by DFP in advance.

Conclusion

3.3.13 It is disappointing that issues are still arising in relation to pay remits and approvals from DFP as these have been occurring for a number of years now. I note that the Accounting Officer has commissioned the Department's Internal Audit to undertake a number of investigations in this area to establish how this happened and to carry out a review of the completeness of pay remits in place within the Education Sector. To date Internal Audit has made a number of recommendations to address the underlying control issues. I will examine the implementation of the recommendations made by Internal Audit during my 2012-13 audit.

3.3.14 I have qualified my opinion on regularity due to irregular expenditure of £24.3 million on increments paid to teaching and non-teaching staff without appropriate approvals and payments to non-teaching staff in VGS and GMIS which had not had appropriate approvals for a number of years. While there is no suggestion that the payments of increments to both teaching and non-teaching staff were inappropriate it is important in the future to ensure that those responsible for the operation of pay policy do not enter into pay commitments or implement pay awards without the required approvals. In relation to the pay situation within VGS and GMIS it is essential that the Department takes the necessary steps to regularise the position as soon as possible and I will review progress next year in my 2012-13 audit. I welcome the disclosure of these matters in the Accounting Officer's Statement on Internal Control and the action ongoing to ensure that robust and effective arrangements are put in place so that such situations do not recur.

3.4 Department of Culture, Arts and Leisure Accounts 2011-12

3.4.1 I have qualified my audit opinion on the Department of Culture, Arts and Leisure (the Department) accounts for 2011-12 in respect of the legal ownership of assets.

3.4.2 Since 2008-09 I reported that, on its formation on 1 December 1999, the Department took various assets onto its non-current asset register which had previously been held in the registers of other departments. Given the nature of some of these assets, legal ownership had not been formally established in all cases. The Department has advised me it is also possible that it may have taken on ownership of assets following the transfer, details of which are not recorded in its register. This situation continues to exist in 2011-12.

3.4.3 The Department has advised me it has sought to quantify the deficit in legal ownership and resolve this as appropriate. The Department considers this may be an extended process but that it is being addressed expeditiously with priority given to establishing legal ownership to land on which the Department has buildings or other structures.

3.4.4 In 2008-09, the Department had received a report from consultants who were engaged to establish rights to claim legal ownership to all property assets under the responsibility of Inland Waterways and Inland Fisheries. This work noted that the Department was unable to provide evidence of legal ownership for certain land and buildings currently included in its financial statements. The report also identified other assets including land, locks, bridges, and weirs which the Department may own, but which are not included within property, plant and equipment. I note:

- the financial statements include non-current assets with a net book value of £31,218,000 at 31 March 2012. Included in this amount are land and buildings with a net book value of £29,874,000 of which the Department cannot prove legal ownership for £2,849,000 (£2,945,000 at 31 March 2011); and

- approximately 50 assets have been identified at 31 March 2012 which may belong to the Department, but which are not included in property, plant and equipment (unchanged from the position at 31 March 2011). The value of these assets is not known.

3.4.5 I asked the Department what progress it has made since my last report in resolving this matter. The Department advised me that the categories of asset for which it was unable to provide evidence of legal title were in respect of fish farms and waterways. It has advised me that for fish farms, good progress is being made towards resolving ownership issues. It is pursuing registration or leasing agreements and work has now reached the stage of legal process. It has advised me that progress on waterways has been slower because of the physical extent of the assets and the need to complete detailed mapping exercises before registration work can begin.

3.4.6 Since my 2009-10 audit I have noted that the Department cannot provide evidence of ownership for certain sporting and fishing rights (valued at £456,000 at 31 March 2011). The Department has advised me that its investigation into the status of sporting and fishing rights has allowed it to confirm ownership for a number of these assets. The assets for which ownership remains to be established have a value of £281,000 at 31 March 2012. The Department's investigation has also identified a further nine sporting and fishing rights which may belong to it but which are not currently included in intangible assets. The value of these assets is not known. I acknowledge the progress that the Department is making towards establishing ownership of sporting and fishing rights.

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3.4.7 There were no other procedures I could have undertaken as part of my audit to satisfy myself regarding verification of ownership for these assets.

Conclusion

3.4.8 As I have been unable to obtain sufficient audit evidence concerning the legal ownership of these assets, I have qualified my audit opinion on the truth and fairness of the financial statements due to this limitation on the scope of my audit. I will continue to keep the Department's actions and progress in resolving this matter under review.

3.5 Department of Agriculture and Rural Development Resource Accounts 2011-12

Introduction

3.5.1 This report explains:

- the background to the financial corrections on European Union (EU) Funding imposed on the Department;
- the basis of my qualified audit opinion on the 2011-12 Resource Accounts for the Department of Agriculture and Rural Development (the Department); and
- the actions the Department is taking to reduce the financial corrections determined by the EU Commission (the Commission).

3.5.2 As part of my audit of the Department's Resource Accounts, I am required to satisfy myself that, in all material respects, the expenditure and income shown in the Resource Accounts have been applied to the purposes intended by the Assembly and conform to the authorities which govern them; that is, they are 'regular'.

3.5.3 My opinion is qualified as the amounts due to be paid to the Commission in respect of financial corrections represent a loss of public funds falling outside the Northern Ireland Assembly's (the Assembly) intentions in relation to the proper administration of European funding. My opinion has been qualified on a similar basis for the last two years.

Background to the financial corrections imposed on the Department

3.5.4 Northern Ireland continues to benefit from support through the European Agricultural Funds. The Northern Ireland farming community benefited from Common Agricultural Policy subsidies by the EU to the value of £315 million in 2011-12 (£305 million 2010-11). As part of the control over the administration of funding the European Commission (the Commission) and the European Court of Auditors conduct periodic audits to ascertain whether the Paying Agency (in this case the Department) is complying with the European Commission regulations.

3.5.5 In previous years I reported that when applying the financial corrections the

Commission advised the Department of the results of its audits and that it had found weaknesses in:

(i) the Mapping Systems used to record and determine the area of land eligible for payment of grant aid;

(ii) the procedures used by Department inspectors to carry out spot checks which did not ensure ineligible land was excluded from claims for payment of grant aid; and

(iii) the processes for implementing recovery of overpayments of grant aid.

3.5.6 The financial corrections the Commission proposed as a consequence of these audits by the EU Commission and the EU Court of Auditors covered the 2004 to 2008 scheme years and gave rise to a liability of approximately €72 million (£64[5] million) due to be paid to the Commission. The amounts due for the first three years 2004 to 2006 of £33 million were paid over during 2011-12. The timing of these payments is determined by the EU Commission.

3.5.7 In 2011, the Department agreed with the Commission that it would carry out a risk assessment to calculate the potential financial corrections for 2009 scheme year. The Department submitted its calculations of the risk to the fund which it estimated to be within the range of £11.75 million to £18.4 million. The Department included £18.4 million as the potential amount due to the Commission in the 2010-11 resource accounts and I qualified my opinion on this amount.

3.5.8 In February 2012 the Commission agreed the Departments risk assessment and estimate of the potential financial corrections for the 2009 scheme year as £15 million. The Department has agreed with the Commission that it will undertake a similar risk assessment for the 2010 and 2011 scheme years. A summary of this information, other financial corrections, and an explanation for the £7.4 million cost in the resource account is included in **Figure 8**.

Basis of my qualified audit opinion for the current year 2011-12

3.5.9 My audit opinion for 2011-12 is qualified in respect of two potential financial corrections:

(i) Single Farm Payment £11.1 million; and

(ii) Rural Development Administration Costs of £1.0 million; totalling £12.1 million.

The Department has included these amounts due to be paid to the EU Commission within the 2011-12 Departmental Resource Accounts.

Single Farm Payment Financial Corrections

3.5.10 The Commission has introduced a different method throughout the EU for

5 Translated at 31 March 2010 currency rates

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the calculation of financial corrections from 2010 onwards. The Department has applied this methodology and has determined that a financial correction for the 2010 scheme year is likely to be in the region of 3 per cent or £8.7 million. In addition the Department has been advised of a further amount of £2.4 million following EU Commission audits for 2008 and 2009 on entitlements.

3.5.11 For Scheme Year 2011 the impact of the Departments actions to reduce financial corrections has yet to be fully assessed by the EU Commission. Therefore it would be premature to include any amounts due in the Resource Accounts. However the Department has disclosed a contingent liability and a range of possible financial corrections at Note 26 to the accounts. If there is a material amount due to be paid to the Commission in future years this may lead to further qualifications of those years accounts.

Rural Development Administration Costs financial corrections

3.5.12 The Department has included an amount due to the Commission of £1.1 million in respect of EU financial corrections as a liability in these accounts. This is in relation to the Administration Costs associated with the delivery of the Northern Ireland Rural Development Programme (NIRDP).

Departments Action to reduce financial corrections

3.5.13 I asked the Department to explain the steps it is taking to minimise the possibility of future financial corrections. The Department told me it has pursued a broad range of measures to address the issues raised by the Commission. These include:

- working with industry to improve farmer compliance with scheme conditions. In advance of the 2011 Single Application period, the Department issued aerial photographs to farm businesses along with detailed guidance to help distinguish eligible from ineligible land. The release of this information was supported by a series of workshops attended by 3,000 farmers.

- continuing to improve inspection controls. In line with the Commission's standards, E-inspections were carried out for the 2011 claim year. The Department provided training for the inspectors prior to the commencement of the inspection campaign. This enhanced training focused on land eligibility issues and included information sessions, field work and locally-based mentoring which ensured a consistent approach across the region.

- fulfilling the Department's legal obligation to complete an annual quality assurance assessment of its mapping system and to submit a report of findings to the European Commission within the legislative timeframe.

- working in partnership with Land and Property Services (LPS), an Agency of DFP, to revise all farm maps. This involves the systematic review and, where necessary, the correction of 742,000 fields currently used to claim Single Farm Payment and other area aids schemes.

- procuring a digital camera of sufficient technical standard to ensure that the quality of the ortho-photography used to produce DARD maps meets current mapping standards and requirements.

- assessing the robustness of controls throughout the claim process by agreeing to voluntarily comply with the Commission's new guidance on Legality and Regularity audits. NIAO is carrying out a Legality and Regularity audit of the 2011 Single Farm Payment Scheme examining the entire claim process, including the application, on-farm inspection, and payment processes.

- continuing to develop more productive relationships with the Commission to ensure as far as possible that the Commission is content with the way in which the Department is addressing their concerns.

- an EU Audit Compliance Programme (EUACP) was established during the summer of 2011. It addresses a wider range of audit recommendations. The priority of this Programme will be to firstly tackle those systemic weaknesses that cause the highest level of disallowance.

Summary and Conclusions

3.5.14 I have qualified my audit opinion on the Department's 2011-12 Resource Accounts on the grounds of regularity. During the 2011-12 financial year, the Department included a further £12.1 million as amounts due to be paid to the EU in respect of financial corrections. This amount due has been included in the Department's Resource Accounts to make good the shortfall in EU Funding and, therefore, represents a loss to public funds which falls outside the Assembly's intentions in relation to the proper administration of EU funding. I have therefore concluded that expenditure has not been applied for the purposes intended by the Assembly and is not in conformity with the authorities which govern it.

3.5.15 The Department disagrees with this opinion and its views are outlined within the Directors' Report in the Annual Report. However, my view remains that the losses are irregular as funds have not been applied for the purposes intended.

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Figure 8 - Summary of EU Financial Corrections

	£ million		£ million	
Single Farm Payment financial corrections				
Scheme Years 2004-2007	33.0			
Scheme Years 2007-2008	30.8			
Scheme Year 2009	18.4			
Scheme Year 2010	11.1	**(3)**	93.3	**(1)**
Ovine/Bovine premia scheme 2003/2004			1.0	
Rural Development Programme			1.0	**(3)**
Financial corrections Accrued			95.3	
Estimate adjustments			(7.0)	**(2) & (3)**
Revised financial correction accrual			**88.3**	
Payments made			(33.0)	
Financial corrections amounts outstanding for payment at 31March 2012			**55.3**	

(1) The largest part of the financial corrections above relate to the Single Farm Payment scheme and to the scheme years indicated in **Figure 8**. However due to the timing of notifications from the EU Commission each of the amounts above includes a smaller part from other scheme years and from other EU funding schemes.

(2) The amounts due to the EU Commission for each scheme year are often updated. This is due to changes in the exchange rates and updated notifications from the EU Commission based on the progress of its reviews on each scheme year. This includes £4.6 million in respect of adjustments notified during the 2011-12 year.

(3) The cost included by the Department in its accounts is £11.1million plus £1.0 million less the £4.6 million adjustments notified by the EU therefore totalling £7.4 million

3.6 Office of the First Minister and Deputy First Minister 2011-12

Introduction

3.6.1 Under the Government Resources and Accounts Act (NI) 2001 I am required to audit the Office of the First Minister and deputy First Minister's resource accounts. I conduct my audit in accordance with International Standards in Auditing (UK and Ireland) to give reasonable assurance that the accounts are free from material misstatement, whether caused by fraud or error. I am also required to satisfy myself that in all material respects the expenditure and income have been applied to purposes intended by the NI Assembly and that the financial transactions conform to the authorities which govern them, this is, 'regularity'.

3.6.2 My audit of the Office of the First Minister and deputy First Minister's (OFMDFM, the Department) accounts in 2010-11 identified a series of issues on which I qualified my audit opinion on regularity:

- Weaknesses in sponsor control arrangements for directly funded bodies;
- Consultancy expenditure in 2010-11 not approved by the Department of Finance and Personnel (DFP); and
- Breach of approval granted by DFP for spending on the Maze Long Kesh Remediation Phase II project.

3.6.3 I am satisfied that in relation to the weaknesses in sponsor control arrangements to directly funded bodies, significant progress has been made during 2011-12. I note that during the year the Department introduced an Arms Length Body (ALB) Sponsorship Manual with the aim of improving scrutiny and consistency by sponsor teams. Implementation has been ongoing during the latter half of 2011-12 and I would expect it to be fully implemented for all ALBs in 2012-13. The Department has also introduced a Grants Manual and Grants Scheme Approval Process to enhance and streamline the administration and verification of grants to third parties.

3.6.4 My audit testing indicated broad compliance with the manuals and we did not identify any significant audit issues. Accordingly, I am content to remove the qualification.

3.6.5 I welcome the measures taken by the Department. However, I view this area as work-in-progress and I intend to keep developments under review.

3.6.6 I am also content that there have been no significant instances of consultancy expenditure incurred in 2011-12 without appropriate DFP approval. I have therefore removed my qualification in this regard.

Breach of approval granted by DFP for spending on the Maze Long Kesh Remediation Phase II project

3.6.7 My report on the 2010-11 OFMDFM accounts records in detail the circumstances surrounding this qualification. In summary the Department was not granted retrospective approval for an increase in project costs in relation to the Maze Long Kesh Remediation Phase II project. Because the amount of the contract entered into by the Department was significantly different from the original amount approved by DFP (contract was awarded for £4.9m), the original approval for £3.5 million was rescinded and all expenditure up to £4.9m has been deemed to be irregular. In 2011-12 the irregular expenditure amounts to £1,566,090 (2010-11 £3,000,027) and I have qualified my audit opinion on regularity in this respect.

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Ilex Urban Regeneration Company Ltd (Ilex) – withdrawal of DFP approval on Ebrington Barracks expenditure

3.6.8 As outlined in my report to accompany the 2010-11 Ilex accounts, the audit of Ilex identified a number of concerns regarding the procurement, management and approval of projects. One specific project, the Ebrington Barracks Parade Ground project is managed by Ilex on behalf of the Department, with all expenditure committed and approved by Ilex before being paid by the Department and accounted for in its resource accounts.

3.6.9 Ilex did not request the required approval from the Department or DFP for changes to the parade ground component of the project and as a result DFP approval for this part of the project was withdrawn. Consequently all expenditure on the Parade Ground component of the project has been deemed to be irregular. Expenditure of £4,593,260 has been incurred by the Department in 2011-12 compared to £3,427,583 in 2010-11. I have therefore qualified my audit opinion on the regularity of this expenditure.

3.6.10 I understand that progress has been made by Ilex in terms of reviewing and strengthening governance and other structures. In relation to the sponsorship of Ilex both OFMDFM and the Department of Social Development(DSD), joint sponsors of Ilex, have prepared an action plan to address control weaknesses – the progress on which is being monitored on a monthly basis. The Department has also reduced Ilex's delegations for expenditure at the Ebrington site.

3.6.11 OFMDFM and DSD Accounting Officers have already appeared before the Public Accounts Committee on 25 April 2012 in relation to these issues and a PAC report is due to be published shortly with recommendations which DFP, on behalf of the Departments, will respond to accordingly.

3.6.12 I welcome the full disclosure of these regularity issues in the Accounting Officer Statement on Internal Control.

Conclusion

3.6.13 I am unable to certify that:

- Expenditure of £1,566,090 on the Maze Long Kesh Remediation Phase II project for which DFP approval was rescinded; and
- expenditure of £4,593,260 on the Ebrington Barracks Parade Ground project, managed by Ilex on behalf of the Department but paid for by OFMDFM for which DFP approval was withdrawn

has been applied for the purposes intended by the NI Assembly or that the financial transactions conformed to the authorities which govern them. I have therefore qualified my audit opinion on the regularity of this expenditure in 2011-12.

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4.1 Northern Ireland Social Security Agency 2011-12

Introduction

4.1.1 The Social Security Agency (the Agency) is an Executive Agency within the Department for Social Development (DSD), which in 2011-12 was responsible for the payment of £4.4 billion in benefits.

4.1.2 This report reviews the results of my audit of the Agency's 2011-12 financial statements and sets out why I have decided to qualify my audit opinion on the regularity of benefit expenditure, other than State Pension which has a low incidence of error and no reported customer fraud. It is important to note that my audit opinion has been qualified for a considerable number of years because of this issue.

4.1.3 I have also provided an update on the issues I reported on last year.

Agency arrangements for monitoring and reporting fraud and error

4.1.4 The Agency's Standards Assurance Unit (SAU) regularly monitors and provides estimates of levels of fraud and error within the benefit system. In order to do this, statisticians from the DSD Analytical Services Unit randomly select samples of ongoing benefit claims and SAU subject them to detailed examination for evidence of official error, customer error or customer fraud. The results of this testing are then used to estimate the total level of fraud and error in all of the main benefits, which is presented in Note 26 (entitled 'Payment Accuracy') to the financial statements. This note explains that the estimates of fraud and error are by their nature subject to uncertainty because they are based on sample testing. These estimates do, however, represent the best measure of fraud and error available. In order to facilitate the timetable for the production of the financial statements, the Agency's testing on payment accuracy is reported on a calendar year basis, not on a financial year basis. I am satisfied that this approach is reasonable.

4.1.5 I examined the work undertaken by the Agency to assess the levels of fraud and error within the benefit system. My staff examined and re-performed a sample of the Agency's case work during the year and also reviewed the methodologies applied by the Agency in carrying out these exercises. I am content that results produced by the SAU are a reliable estimate of the total fraud and error in the benefit system.

Qualified opinion due to fraud and error in benefit payments

4.1.6 I am required under the Government Resources & Accounts Act (Northern Ireland), 2001, to report my opinion as to whether the financial statements give a true and fair view. I am also required to report my opinion on regularity, that is, whether in all material respects the expenditure and income have been applied to the purposes intended by the Northern Ireland Assembly and the financial transactions conform to the authorities which govern them.

4.1.7 The entitlement criteria and the method to be used for payment of each benefit are set out in legislation. Where fraud and error has resulted in an over or underpayment of benefit to an individual who is either not entitled to that benefit, or is paid at a rate which differs from that specified in the legislation, the payments made are not in conformity with the governing legislation and are therefore irregular.

4.1.8 My regularity opinion is not qualified in respect of State Pension payments because the testing carried out by SAU found no fraud within State Pension payments and the estimated level of error (as shown in **Figure 9**) within State Pension is not significant.

4.1.9 **Figure 9** shows the total benefit payments made during the calendar year of 2011 and the estimated extent of fraud and error in relation to these benefits, based on the work completed by SAU. The table shows that total benefits (other than state pension) amounted to £2.7 billion with estimated incorrect benefit payments of £49.7 million (on which I have qualified my audit opinion) comprising:

- overpayments of £39.4 million (1.46 per cent of total benefits excluding state pension); and

Figure 9: Estimated Overpayments and Underpayments due to fraud and error in benefit expenditure (2011)[6] (Note 26 to the financial statements)

	Benefits (other than State Pension) £ million	State Pension £ million	Total £ million
Expenditure	2,707.3	1,749.1	4,456.4
Overpayments due to:			
Customer fraud	19.4	0	19.4
Customer error	7.3	0	7.3
Official error	12.7	0.5	13.2
Sub-total	**39.4**	**0.5**	**39.9**
Underpayments* due to:			
Official error	10.3	3.7	14.0

*Underpayments exclude those due to customer error which do not form part of the audit qualification. In 2011 these underpayments are estimated to be £5.9 million.

6 Estimates in Figures 9 and 10 are quoted to the nearest £0.1million and presented with 95 per cent confidence intervals, which include adjustments to incorporate some non-sampling sources of uncertainty.

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- underpayments due to official error of £10.3 million (0.38 per cent of total benefits excluding state pension).

All overpayments are irregular, whereas only underpayments made as a result of official error are deemed irregular. Underpayments due to customer error are not deemed irregular.

4.1.10 I consider the estimated levels of fraud and error in benefit expenditure to be material and I have therefore qualified my audit opinion on the regularity of benefit expenditure (other than in relation to State Pension).

Estimated levels of fraud and error

4.1.11 Fraud in benefit awards arise when customers deliberately seek to mislead the Agency. Error in benefit awards can arise because of customer error or official error. Customer error occurs when customers make inadvertent mistakes with no fraudulent intent. Official error arises when a benefit is paid incorrectly due to inaction, delay or a mistaken assessment by the Agency.

Figure 10 shows the trends since 2007 in estimated levels of fraud and error due to each of these. I am also pleased to note that overpayments due to fraud and error are estimated to be 0.9 per cent of total benefits in 2011 which

Figure 10: Trends in total estimated fraud and error in benefit expenditure

	2011 £ million	2010 £ million	2009 £ million	2008 £ million	2007 £ million
Total benefit expenditure	**4,456.4**	**4,352.1**	**4,176.4**	**3,788.8**	**3,630.0**
(1) Overpayments					
Customer fraud	19.4	20.5	17.2	12.6	12.3
Customer error	7.3	6.5	12.9	13.4	11.3
Official error	13.2	21.2	16.7	18.4	23.9
TOTAL	**39.9**	**48.2**	**46.8**	**44.4**	**47.5**
% of benefit expenditure	**0.9%**	**1.1%**	**1.1%**	**1.2%**	**1.3%**
(2) Underpayments*					
Official error	14.0	15.1	16.1	17.2	23.6
% of benefit expenditure	**0.3%**	**0.3%**	**0.4%**	**0.4%**	**0.6%**

*Underpayments exclude those due to customer error which do not form part of the audit qualification. In 2011 these underpayments were estimated to be £5.9 million

Source: Social Security Agency financial statements 2007-08 to 2011-12 is below one per cent for the first time and compares favourably with the same figure in the Department of Work and Pensions (DWP)[7] which was two per cent in the same period.

Customer Fraud

4.1.12 Means tested benefits such as State Pension Credit, Income Support, Jobseeker's Allowance and Employment and Support Allowance tend to have the highest rates of fraud as they require the customer to provide complete and accurate information in order to establish entitlement to benefit. Most commonly, fraudulent customer statements relate to:

- customer's living arrangements where the customer has a partner but is claiming and receiving benefit as a single person;
- undeclared and under declared occupational pensions;
- falsely stating the level of their own or partner's earnings;
- customers working but claiming unemployment benefits; and
- under declaration of assets.

4.1.13 While the level of customer fraud has reduced slightly in the last year, it is still at a historically high level. I am particularly concerned at the high levels of customer fraud for both Income Support (£4.6 million in 2011) and Incapacity Benefit (£6.1 million in 2011) and I asked the Agency to comment on this. The Agency told me that the 2011 customer fraud level of £19.4 million represents 0.4 per cent of total benefit expenditure, 0.1 per cent lower than the 2010 reported levels. The 2011 customer fraud level for Income Support has reduced significantly, from 2.4 per cent of expenditure in 2005 down to 1.2 per cent in 2011, reflecting the Agency's continued focus in identifying customer fraud in this benefit caseload. The Agency highlighted that the Incapacity Benefit caseload is diminishing as the benefit entitlement migrates to Employment Support Allowance and the associated customer re-assessment process is, in effect, a full case cleansing exercise that has a by-product of successfully identifying customer fraud.

4.1.14 The Agency confirmed that the fight against benefit fraud remains one of its' key priorities and it is deploying a range of tools and techniques that are delivering the successful results reported in this Report, including:

- a comprehensive data matching regime that checks and compares information across various IT systems and identifies inconsistencies in information that customers have supplied to the Agency/other government bodies;
- a free hotline number and internet site for members of the public to report allegations of potential benefit fraud;

7 DWP figures include errors relating to some other benefits such as Housing Benefit which are not administered by the Social Security Agency.

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- where appropriate, criminal prosecution is pursued through the courts;
- as a deterrent, details of convictions are notified to the local press with a view to publication; and
- for the more serious benefit fraud cases, the Department aims to deprive the benefit fraudster of their criminal benefit by seeking a confiscation order using Proceeds of Crime legislation. During 2011-12 the Agency secured 22 such orders.

Customer error

4.1.15 Those benefits with the highest customer error rates are means tested benefits such as State Pension Credit and Income Support, which have entitlement conditions that relate to the level of income and/or savings of customers. The Agency has told me the main reasons for customer error are:

- the benefits system is complex for customers to navigate;
- customers are generally unaware of rules on capital, investments or redundancy payments and do not easily understand deductions for non-dependants;
- customers do not readily understand that they have to report any changes in their circumstances; and
- many customers incorrectly believe that reporting changes once to a public body will lead to all government bodies updating their records for that individual.

4.1.16 I am disappointed about the increase in overpayments due to customer error this year and asked the Agency for their comments. The Agency told me that while customer error has increased in monetary terms from £6.5 million in 2010 to £7.3 million in 2011, the overall level of customer error as a percentage of total benefit expenditure has remained at the low level of 0.2 per cent. The Agency also advised that it continues to be pro-active in this area to both prevent and detect customer error, for example:

- Increased use of data matching;
- enhanced intervention interviews;
- continued development of Customer Compliance work;
- through NI Direct, increased customer awareness of changes which need to be reported; and
- as part of their day to day business, Agency staff remind customers of the importance of providing updates of any changes in their circumstances.

Official error

4.1.17 Official errors are those that are attributed as being the fault of the

Agency and can cause hardship to customers when underpayments occur. They can take time to identify and correct and as a result their cumulative impact on resource and efficiency can be considerable. As such, these errors are in my view the ones that the Agency is best placed to reduce.

4.1.18 The main reasons for Social Security official errors are:

- incorrectly recording a customer's income;
- incorrectly applying complex benefit rates; and
- making errors in establishing the customer's status (such as their fitness for work, single status etc).

These factors can also be subject to frequent change over the course of a claim, which can increase the propensity for overpayments and underpayments due to official error. The majority of official errors resulting in overpayments and underpayments arise when adjustments are made to existing claims, rather than when processing a new claim.

4.1.19 I welcome the reduction in overpayments due to official error from £21.2 million in 2010 to £13.2 million in 2011 and the reduction in underpayments due to official error from £15.1 million in 2010 to £14.0 million in 2011. A detailed breakdown of these errors split by individual benefits is included at Note 26 to the financial statements and the main reductions in overpayments due to official error have been achieved in Incapacity Benefit (reduced by £3.2 million from 2010), Income Support (reduced by £1.9 million from 2010) and State Pension Credit (reduced by £1.8 million from 2010). The Agency has told me that the reported reduction in overpayments due to official error represents a positive decrease from 0.5 per cent of total expenditure for 2010 to 0.3 per cent for 2011. The level of official error underpayments remained at 0.3 per cent of total expenditure. The Agency indicated that this improvement has been achieved through its continued targeting of high risk areas, ongoing development and refinement of High Risk Scans as well as dedicated teams of case accuracy checkers. In addition enhancements to the Error Recording and Reporting System now capture all checking data on one system which aids analysis and better targeting of resources.

4.1.20 The Agency also prepares a separate Social Fund White Paper Account and on 12 March 2012 I qualified my audit opinion for 2010-11 due to significant levels of official error in social fund payments (except for winter fuel payments and cold weather payments).

Other matters

Disability Living Allowance - Changes in Circumstances

4.1.21 Note 26 of the Agency's financial statements identifies cases where a

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gradual change in customers' needs has occurred so that entitlement to Disability Living Allowance (DLA) may have changed. When an individual's DLA entitlement is periodically reviewed, and it is found that their condition has gradually improved or deteriorated to an extent that it now impacts on their care and/or mobility needs, there may be a change in the benefit allowance paid to the individual. 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.

4.1.22 The Agency last carried out a benefit review of DLA in 2008 and at that time it estimated that around 18.2 per cent of DLA cases contained a change in customer circumstances that had not been reflected in the DLA benefit being paid. Using these figures, the Agency estimates that in 2011, some customers received £44.6 million more than they would have been potentially entitled to if their customer circumstances were reassessed, and other customers are estimated to have received £22.8 million less than they would have been potentially entitled to.

4.1.23 I acknowledge that these DLA cases are legally and procedurally correct. However I am concerned by the amounts that could be involved in potential adjustments to DLA benefit as a result of changes in circumstances. I note that the Agency excludes these potential adjustments from the fraud and error over and underpayment figures reported by the Agency. Identifying when customer circumstances change at the earliest opportunity is important for both the Agency and the customer. I asked the Agency what is currently being done to reduce the incidence of these specific DLA cases. The Agency told me that it is continuing with its' Periodic Enquiry process for Disability Living Allowance which identifies cases where a change of circumstances is more likely. For 2011-12 the Agency examined 2,223 cases which resulted in a monetary value adjustment of £2.755 million. The Agency's Fraud and Error Reduction Board also ring-fences specific funding year on year to target and correct these specific DLA claims.

Benefit overpayments to be recovered

4.1.24 Benefit overpayments arise whenever benefits are paid in error or as a result of fraud by customers. At 31 March 2012, the Agency was owed a gross debt amount of £104 million from customers and **Figure 11** shows the total value of benefit overpayments to be recovered by the Agency as at 31 March for each of the last five financial years.

4.1.25 The Agency has examined this gross debt figure and assessed how much of this debt may not be recovered from the customer (i.e. is impaired) based on a number of factors including: whether the debt has been overdue for a long period of time, whether contact with the customer has been lost, and whether the customer may not be able to afford to

Figure 11: Trends in benefit debt to be recovered

	March 2012 £million	March 2011 £million	March 2010 £million	March 2009 £million	March 2008 £million
Total gross benefit debt	104.2	95.2	90.7	81.8	75.7
Impairment/Discounting adjustment	(59.6)	(56.3)	(51.8)	(51.3)	(47.5)
Total net benefit debt	44.6	38.9	38.9	30.5	28.2

Source: Social Security Agency financial statements 2007-08 to 2011-12

repay. This gross figure has also been discounted to reflect the time value of money (based on the appropriate HM Treasury interest rate) and the fact that it may not be recovered for some time. Based on this impairment and discounting, the gross debt figure has been reduced by almost £60 million.

4.1.26 I am concerned that both the gross and net levels of benefit overpayments have increased considerably over the past five years and I asked the Agency to comment on this increase. The Agency told me that it has become more effective in detecting benefit overpayments arising from fraud and error and referring them to its Debt Centre for appropriate recovery action. Since 2007, the volume of new benefit overpayment debts referred to the Debt Centre has steadily increased: in 2011-12 79k new debts were registered on the Debt Manager System for appropriate recovery action compared with 42k in 2007-08.

4.1.27 The Agency stated that it is important to note that there are statutory and other limitations in place regarding the amount of benefit overpayment debt that can be recovered which means that the Agency is not able to recover debt at the same rate at which it is identified. However, it remains committed to ensuring that debt recovery levels are maximised within the confines of existing legislative limitations and continues to review and refine its debt recovery processes and procedures. This approach has secured increasing benefit overpayment debt recovery levels over recent years: 2011-12 total recoveries were £12.5 million compared with £7.9 million for 2007-08.

4.1.28 The Agency highlighted that its debt recovery policy is to recover in full the total gross benefit overpayment from customers and that the total net benefit debt reflected in its financial statements is calculated in accordance with accounting guidance and presented for financial regulatory purposes.

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Figure 12: Trends in benefit debt written off

	March 2012	March 2011	March 2010	March 2009	March 2008
Value of cases written off	£17.5m	£15.0m	£17.1m	£12.2m	£6.8m
Number of cases written off	45,583	53,296	54,343	54,000	21,000
Average case value written off	£384	£282	£315	£226	£323

Source: Social Security Agency statements 2007-08 to 2011-12

4.1.29 The recovery of benefit debt is complicated by the significant restrictions that are placed by legislation on the amounts that can be recovered, particularly in the case of those customers who are still on benefits who are often only able to repay very small amounts each week and therefore will take many years to fully repay the debt. Nevertheless it is important that the Agency is doing all it can to manage this debt and this is an area which I will continue to examine closely in future years.

4.1.30 I have also noted that in February 2012, the Cabinet Office published a report, 'Tackling Debt Owed to Central Government – An Interim Report of the Fraud, Error, Debt Taskforce'. This report highlighted that social security benefit debt was significant and suggested a number of actions necessary to improve collection levels, one of which is the appointment of a 'Debt Controller' to develop strategic direction and increase recovery. In response to this report, the Agency told me that it has considered the Cabinet Office report and has committed to producing a Debt Strategy during 2012-13. The Agency is currently establishing a number of modernisation projects to develop and enhance debt recovery procedures and processes alongside the DWP and Her Majesty's Revenue and Customs (HMRC). In addition, the Agency is reviewing its debt management organisation with a view to establishing a Debt Controller function.

Benefit debt written off

4.1.31 **Figure 12** shows the number and value of benefit cases written off over the last five years and I am concerned at the high value of write offs. These amounts are only written off in cases where the Agency considers there is no possibility of any recovery and I asked the Agency why the value of cases written off has increased so much in recent years. The Agency told me that the reasons for fluctuations in the volume, value and write-offs categories relating to benefit overpayment debt can differ each year. The step increase in write-off levels between March 2008 and March 2009 reflects the debt recovery policy decision not to pursue benefit overpayments arising from official error. The upward trend in the benefit overpayment write-off levels since March 2009 reflects the significant increase in the volume of new debts registered on the Debt Manager System for appropriate recovery action as outlined in paragraph 4.1.26: in 2011-12 88 per cent more new debts were registered on the Debt Manager System for appropriate recovery action than in 2007-08. The 2011-12 write-off levels reflect the results of a special recovery plan exercise undertaken within State Pension Credit to target a backlog of change of circumstances processing work and the targeting of resources within Employment Support Allowance to improve efficiency in the referral of benefit overpayment debt to the Agency's Debt Centre for appropriate recovery action.

4.1.32 I also noted that in 2011-12, £10 million (2010-11 - £7 million) of the benefit debt written off related to overpayments made as a result of official error by the Agency. In such cases the Agency has no statutory right of recovery. I will continue to monitor the value of cases written off.

Employment and Support Allowance (ESA)

4.1.33 ESA replaced Incapacity Benefit and Income Support on the grounds of incapacity, for new claims following its introduction in October 2008 and the Agency first introduced a formal financial accuracy target of 95 per cent in 2010. The Agency's SAU completed its financial accuracy review of ESA for the calendar year 2011 recording a financial accuracy rate of 95.5 per cent (94.6 per cent in 2010), just above the target of 95 per cent. This target is lower than the financial accuracy targets for other benefits, which, as outlined in the Annual Report, are either 98 per cent or 99 per cent. I asked the Agency why in the third year of this benefit a financial accuracy target for ESA of only 95 per cent was set. The Agency told me that the delivery of high accuracy levels within new benefits is a significant challenge. However, although ESA is a new and complex benefit, the Agency is continuing to strive to achieve the levels of accuracy within this benefit that mirror those within other well established benefits. The financial accuracy target for this benefit has been increased from 95 per cent in 2011 to 96 per cent in 2012. In addition, the Agency has an Accuracy Improvement Plan in place for this benefit, aimed at reducing error and improving financial accuracy.

Counteracting customer fraud and error

4.1.34 In general, I acknowledge the considerable effort and resources that the Agency has put into reducing the estimated levels of customer fraud and error, including the establishment of a fraud hotline and online reporting of

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suspected benefit fraud. In my Report, 'Social Security Benefit Fraud and Error' (2008), I recommended that the Agency's work to reduce fraud and error be driven by an improved risk assessment process. I welcome that such a process is now embedded and the Agency's Error Reduction Division uses a risk based process to identify cases with a high risk of customer error requiring investigation. I am encouraged by the fact that the Agency is now extending its data matching reviews beyond the National Fraud Initiative to better direct the Agency's resources to detect fraud and error. I will monitor future progress in this important area.

4.1.35 The Customer Compliance Unit became fully operational in 2011-12 and examines case referrals that are at risk of mainly customer error and where there is insufficient evidence to prove fraud. This team made £3.7 million of additional benefit adjustments, saving around £17 for every £1 spent. The Agency has told me they believe this initiative is having a strong deterrent effect on other customers not yet reviewed and encourages them to report changes in their circumstances in a more timely manner. In the longer term, this should have a positive effect by further reducing the levels of customer fraud and error. For this reason, the Agency is committed to continuing this initiative and monitoring the outcomes over the coming year.

4.1.36 A key part of deterring fraud is ensuring that an effective deterrent to fraud is available in the form of appropriate penalties. I am encouraged by the work undertaken in the year by the Agency's Fraud Unit and the Agency has told me that during 2011-12 it imposed 1,025 sanctions on customers (2010-11 – 1,128) who had made fraudulent claims for benefit. These included:

- 519 people convicted in the courts for fraud totalling £4.5 million, with offenders receiving jail sentences, suspended jail sentences, community service orders, conditional discharges and fines; and
- 506 administrative penalties imposed by the Agency. These occur when a customer is offered the chance to pay a penalty of 30 per cent of the outstanding debt as an alternative to prosecution.

4.1.37 The Agency has also told me that its Financial Investigation Unit has brought about the recovery of £610,286 of criminally obtained assets (2010-11 - £506,131) by way of confiscation orders obtained through the courts and additional voluntary payments.

4.1.38 In relation to cross border benefit fraud, the Agency continues to work closely with the DWP and the Department of Social Protection in the Republic of Ireland through the cross border forum. The Agency has told me that at 31 March 2012 a total of 30 suspected cross border benefit fraud cases were being investigated and that in 2011-12, overpayments valued at

£106,206 were raised on 11 cases finalised during this year.

National Fraud Initiative

4.1.39 The National Fraud Initiative (NFI) is an exercise to conduct data matching reviews to assist in the prevention and detection of fraud and I welcome that the Agency has fully engaged with this process. The outcomes to date of this exercise in Northern Ireland have demonstrated the value of NFI in identifying and countering benefit fraud and error.

4.1.40 The Agency has taken part in two NFI exercises which have involved matching data from a number of databases such as payroll and occupational pension details and Northern Ireland Housing Executive data. By investigating the data matches, the first matching exercise identified 6,000 cases to be investigated by the Agency and resulted in 1,238 fraud investigations. To date, overpayments of £2.3 million have been identified in 1,034 cases and 52 cases resulted in Court convictions.

4.1.41 The second NFI data matching exercise produced 9,100 cases to be investigated by the Agency. To date, the Agency has examined 5,444 of these cases resulting in errors being identified in 127 cases with overpayments of £240,000 and underpayments of £6,000. A further 382 are currently waiting to be sent for investigation for potential fraud.

Welfare Reform

4.1.42 The changes to the welfare system arising from the Welfare Reform Bill will begin to be implemented in Great Britain on a phased basis from April 2012, with 'Universal Credit' starting from October 2013. This process will also begin at that time in Northern Ireland subject to approval by the Assembly. Universal Credit will replace a range of existing means-tested benefits and tax credits for people of working age. A limit on the total amount of benefit a household can receive in state support will also be implemented as part of the Welfare Reform legislation. The primary aim of Universal Credit is to create a single streamlined working age benefit, which will be withdrawn gradually as earnings increase, thus creating the incentive to encourage customers to return to work. It is also intended that this streamlining of benefits will reduce or remove some of the current complexities around benefit entitlement, verification of customer circumstances and the administrative burden that can increase the opportunities for fraud and error. It is essential that this process of change is effectively managed by the Agency and I will closely monitor this process and its outcomes in coming years.

Conclusion

4.1.43 I consider that the estimated levels of fraud and error reported are material and I have therefore qualified my opinion on the 2011-12 Social Security Agency financial statements on the

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regularity of benefit expenditure (other than state pension benefits).

4.1.44 The Agency has continued to address the matters which give rise to the longstanding qualification of the opinion and I acknowledge the efforts being made to further improve the accuracy of benefit payments. I welcome that the Agency's anti fraud initiatives, including the work of the customer compliance unit and its work associated with the NFI are continuing to identify fraud. The Agency has had to overcome continued challenges this year including efficiencies required as a result of the Spending Review 2010 settlement, the ongoing preparation and implementation activities for welfare reform, the ongoing delivery of its modernisation programme and the impact of the economic downturn.

4.1.45 I recognise the difficulties faced by the Agency with regard to the complexity of many of the benefits at a time of significant demand and resourcing pressures. I welcome that the Accounting Officer's Statement on Internal Control highlights the significant ongoing problems relating to benefit fraud and error and summarises the evolving error reduction steps the Agency has in place. I continue to support the various initiatives that aim to reduce the levels of fraud and error in benefit expenditure and I will continue to monitor the impact on performance.

4.2 Roads Service 2011-12

In 2010-11, I reported on two separate land sales, made in previous years, which had given rise to a compensation payment of £170,000 in 2010-11 in one case, and a significant legal claim in the other. The legal claim was settled on 26 April 2012 and, as a result, the Agency is required to pay £75,000 in compensation and 50 per cent of legal costs to the plaintiff. The amount of these legal costs has yet to be agreed.

4.3 Northern Ireland Prison Service 2011-12

Introduction

4.3.1 The Northern Ireland Prison Service (NIPS) was established as an Executive Agency of the Northern Ireland Office in April 1995 under the Government's Next Steps Initiative and following devolution of policing and justice functions on 12 April 2010 became an Executive Agency of the Department of Justice.

Purpose of the Report

4.3.2 Following the devolution of policing and justice functions, I was appointed as auditor of the NIPS under the Government Resources and Accounts Act (Northern Ireland) 2001.

4.3.3 The purpose of this report is to explain the background to my qualification of the NIPS financial statements for the year ended 31 March 2012. I have qualified my opinion on these financial statements because the Statement of Financial Position does not include liabilities for future Injury on Duty (IOD) claims in accordance with International Accounting Standard (IAS) 19, which results in a material misstatement of provisions within the financial statements.

Background

4.3.4 IAS 19 requires future costs on long term disability benefits to be recognised when service is rendered by employees if the amount of benefit varies due to length of service. IOD payments for NIPS former employees are made under the Civil Service Injury Benefits scheme and depend on length of service.

Qualification

4.3.5 NIPS was unable to obtain trend data for incidents which might lead to IOD claims at the time of my audit and therefore the information available to me to estimate the resulting misstatement within the accounts was limited. However, given the experience of other public bodies in Northern Ireland when making adjustments to their accounts for similar schemes, I believe that NIPS' liabilities may have been understated by £1.8 million to £2.3 million. Liabilities at 31 March 2011 may be understated by a similar amount, and associated adjustments to the net operating cost in 2011-12 and 2010-11 have not been reflected in the financial statements.

4.3.6 I have therefore qualified my audit opinion on the NIPS financial statements due to the adjustments which may have been necessary had I been able to obtain sufficient and appropriate audit evidence concerning provisions required for future IOD claims for which an entitlement already exists at the year end, due to service already rendered.

4.3.7 This issue was identified some months ago by another Department of Justice body which had obtained an actuarial valuation of its IOD provision which included liabilities for future claims, for which service had already been rendered. NIPS was not however aware of this issue until I drew it to its attention in late May 2012. It sought to obtain the information required but has been unable to do so within the limited timeframe which would facilitate certification and laying of its Annual Report and Accounts before the Assembly's summer recess, in accordance with normal accountability timescales. In order to meet reporting timescales NIPS has decided to finalise its accounts without making adjustments for additional liabilities for future IOD claims.

4.3.8 I asked the Agency what actions it plans to take to address this issue in future years. NIPS told me that it will seek detailed forecast liabilities to be calculated from the Government Actuaries Department and/or Civil Service Pensions based on accepting the proposed accounting treatment. NIPS proposes to engage with the Department of Finance and Personnel's Treasury Officer of Accounts to hear the technical arguments on IAS19 compliance to inform its future accounting treatment of these provisions for 2012-13 Accounts, and will engage with NIAO to reflect on the NIAO estimate of the liability of £1.8m to £2.3m and the resulting qualification so that lessons can be learnt for next year and beyond.

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5.1 Child Maintenance and Enforcement Division Client Funds 2011-12

Introduction

5.1.1 The Child Maintenance and Enforcement Division (CMED) is a Division within the Department for Social Development (the Department). The Division was established on 1st April 2008 to replace the former Child Support Agency and its main purpose is to:

- promote and secure effective child maintenance arrangements for children who live apart from one or both parents;
- promote the financial responsibility parents have for their children;
- provide information and support about the different child maintenance options available to parents; and
- provide an efficient statutory maintenance service with effective enforcement powers.

5.1.2 The Department is required under an accounts direction from the Department of Finance and Personnel (DFP) to prepare a client funds account. This is a receipts and payments account showing mainly child maintenance received from non-resident parents and payments made to persons with care together with a statement of cash balances held at the year end. The Direction also requires the Department to provide a summary of the amounts due in respect of unpaid maintenance assessments together with its assessment of the extent to which any outstanding maintenance arrears are likely to be collected at the year end. The administration costs of running CMED are not included within this account but instead are paid for through the Department's Resource Account.

5.1.3 I am required to examine and certify the CMED Client Funds Account and report the results to the Northern Ireland Assembly. In every year since the inception of child support in April 1993, my audit opinion has been qualified. My work this year has again concluded that a qualified audit opinion is still required and this report provides a summary of the issues giving rise to the qualification. I also provide an update on the issues I reported on last year.

Qualified Audit Opinions

5.1.4 I have qualified my audit opinion on the following areas:

- on regularity of maintenance assessments because I consider the estimated levels of error in maintenance assessments to be material (see paragraphs 5.1.6 to 5.1.11); and
- on the accuracy of the outstanding maintenance arrears at 31 March 2012 as shown in note 6.1. As a result of an inadequate audit trail, my examination of the arrears balance was severely limited and therefore I was unable to obtain enough

evidence to satisfy myself as to the accuracy and completeness of the outstanding maintenance arrears of £83 million (see paragraphs 5.1.12 to 5.1.14).

5.1.5 Further details of the basis for my opinions are provided below.

Regularity of maintenance assessments

5.1.6 In each of my audits since 1993, I have identified a significant level of error in maintenance assessments. The level of error was particularly high in the early years of child support and there has been considerable improvement more recently. Since maintenance assessments, once calculated, can stay in place for a number of years the level of error in past years is likely to continue to impact on the amounts collected in the current year. In addition while the level of error in maintenance assessments made in the current year has fallen again this year (as set out in **Figure 13** and based on estimates by CMED's Case Monitoring Team (CMT)) it is still significant at around 3.6 per cent of assessments made in the current year.

5.1.7 I therefore decided to qualify my audit opinion on the regularity of maintenance assessments because of the levels of error identified in those assessments made in both the current year and in previous years.

5.1.8 In assessing the level of error in maintenance assessments in the current year I have placed reliance on the error estimates produced by the CMT. CMT carried out their work on random samples of maintenance assessments made during the year by re-performing the calculations in the assessments to ensure accuracy. The results of this testing are then used by CMED to estimate the overall accuracy of all maintenance assessments made in the current year.

5.1.9 I examined the work undertaken by CMT and re-performed a sample of its case work during the year. I also reviewed the methodologies applied by CMT in carrying out these exercises. While it is important to note that the estimates are based on sample testing and are therefore by their very nature subject to uncertainty, I am content that they do represent the best available measure of cash value accuracy and are a reasonable estimate of the rate of errors in maintenance assessments made in the current year.

5.1.10 It is my opinion that the level of error within maintenance assessments continues to be significant and as discussed above, I have qualified my regularity opinion in this regard. I asked the Department to comment on the levels of error in maintenance assessments and the Department told me that there continues to be a strong focus on the most recent case decision accuracy and this remains an important aspect of the improvement process, providing management with independent feedback on the current accuracy position. The Department also told me that errors identified as a result of the CMT checking process are used

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Figure 13: Cash Value Accuracy[8] of Maintenance Assessments

	2011-12 %	2010-11 %	2009-10 %	2008-09 %	2007-08 %
Cash Value Accuracy	96.4	96.0	96.8	95.4	92
Cash Value Accuracy Target	97	97	97	97	97
Level of error	3.6	4.0	3.2	4.6	8

Source: Results from CMT

to inform and develop training and coaching plans at team and individual user level. This investment and continued development of training and coaching techniques has contributed greatly to improving accuracy in recent years and assisted the Department to ensure that assessments are right first time.

5.1.11 **Figure 13** shows the cash value accuracy of maintenance assessments in each of the last five years and the cash value accuracy targets set by the Department. I am concerned that CMED has continually failed to meet this target and I asked the Department to comment on why this target has not been met. The Department told me that during 2011-12 staff resources were significantly under complement and this impacted on the Department's ability to fully meet this target. The Department also commented that whilst it has just fallen short of achieving this target in 2011-12 there has been significant improvement since 2007-08 with accuracy levels improving from 92 per cent to 96.4 percent. The Department also told me that it will build on this improvement by continuing to invest in coaching and mentoring staff to ensure that staff are fully equipped to get assessments right first time, improving efficiency and eliminating unnecessary rework to ensure that the accuracy target for 2012-13 will be achieved. In addition the Department has been working with the Great Britain Child Maintenance and Enforcement Commission on the design and development of the new child maintenance IT system to support the move to the new statutory child maintenance scheme which is expected to be implemented for new clients in 2012. The simplification of rules supported by a more robust IT system which is easier to understand and administer is likely to improve the accuracy of maintenance assessments.

Accuracy and completeness of outstanding maintenance arrears

5.1.12 The Department maintains the accounting records for CMED Client Funds on two systems - the Child Support Computer System (CSCS) and the Child Support 2 (CS2) system. Both of these systems

8 Cash Value Accuracy is a measure of the number of correct assessments against the number of incorrect assessments.

have a long history of problems and are unable to directly generate the information needed to prepare the Account. The outstanding maintenance arrears at 31 March 2012, disclosed in Note 6.1 of the Account, is derived from the total outstanding maintenance arrears balances recorded on these two systems, in conjunction with a series of complex manual workarounds.

5.1.13 These problems mean that the Department is unable to break down the outstanding maintenance arrears balance on an individual case by case basis. In the absence of this information my examination of the outstanding maintenance arrears balances was severely limited and there continues to be significant uncertainty over the accuracy and completeness of the outstanding maintenance arrears balance of £83 million reported in the Account. Consequently I have qualified my audit opinion on the basis that the scope of my audit is limited in this regard.

5.1.14 A key recommendation made by the Public Accounts Committee (PAC) when it reported on this area in March 2008 was for the Department to pursue the delivery of a debt register so that debts and debtors can be correctly identified and appropriate action taken. I asked the Department to comment on the progress made in supporting the closing maintenance arrears balance on a case by case basis and the Department told me that significant attempts were made during 2011-12 to generate case by case arrears listings but due to the limitations of the Child Support Computer Systems (CSCS and CS2), it has not been possible to generate accurate case listings which fully reconcile to the Client Funds Account. Operationally the Department is able to generate case listings which assist in the management of arrears and allow the Department to focus recovery action on non compliant cases. With the introduction of a new statutory child maintenance scheme in 2012 (Statutory Scheme 2012) supported by a new computer system, the Department expects to be in a position to provide case by case arrears listings for Statutory Scheme 2012 cases.

Other issues

Statement of Balances

5.1.15 The Statement of Balances shows the balance in CMED's bank account and represents mainly amounts that have been received from non-resident parents and are awaiting clearance or distribution. In my report last year, I expressed concern that the Department was unable to provide a breakdown of an amount of £333,000 included within this Statement. This amount related to receipts and payments over a number of years, which, because of inherent system weaknesses, the Department was unable to determine who this money was received from or was due to be paid to.

5.1.16 During 2011-12, the Department undertook an exercise to resolve this issue. As a result of this exercise it was able to identify a transfer of £65,000 to

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the Child Maintenance and Enforcement Commission (CMEC) in Great Britain. However out of the remaining £268,000, even after detailed investigations it was unable to identify who £203,000 had been received from and this was paid over to the Northern Ireland Consolidated Fund. In addition an amount of £65,000 remains within the Statement of Balances which is still under investigation and for which the Department cannot currently provide a breakdown.

5.1.17 It is therefore possible that non-resident parents may have made payments of up to £268,000 which because of problems within the Department's IT systems were not paid over to the person with care. I am disappointed that the Department was unable to determine who this money was received from or who it was due to be paid to and the fact that there still remains an unexplained amount of £65,000 included within the Statement of Balances. I asked the Department for an explanation and what procedures are in place to resolve this issue in order that it does not occur again.

5.1.18 The Department told me that as a result of the programme of work undertaken during 2011-12 to address outstanding bank reconciliation items that had built up over the years; this undistributed balance has reduced significantly. This programme of work also allowed the Department to confirm that there was limited evidence available to suggest that payments had been made by non resident parents that had not been paid over to persons with care. Where the Department was able to identify payments that had not been made, these predominantly related to payments that were due to the Child Maintenance and Enforcement Commission for payments that had been made by CMEC on the Department's behalf. The Department has embedded the lessons learned from this process and introduced a range of controls to minimise the risk of this issue occurring in the future and will continue to monitor the Statement of Balances, taking appropriate action to ensure that the undistributed balance is kept to a minimum.

The level of maintenance arrears and its collectability

5.1.19 Where a non-resident parent does not make child maintenance payments in accordance with the maintenance assessment and the Department is responsible for collecting those payments, any missed, or shortfall in, payments will be recorded as maintenance arrears. As is the case in Great Britain, legislation prevents the Department writing off outstanding maintenance arrears.

5.1.20 The Department is required to disclose the extent to which any outstanding maintenance arrears are likely to be collected and **Figure 14** shows the increase in the level of gross and net outstanding maintenance arrears over the last five years. The outstanding maintenance arrears balance comprises

Figure 14: Levels of outstanding maintenance arrears

	2011-12 £ million	2010-11 £ million	2009-10 £ million	2008-09 £ million	2007-08 £ million
Gross Outstanding maintenance arrears	83.0	81.7	80.7	80.9	77.2
Amounts probably and possibly uncollectable[9]	46.6	45.8	45.7	47.6	42.3
Net Outstanding maintenance arrears likely to be collectable	36.4	35.9	35.0	33.3	34.9

Source: CMED Accounts 2007-08 to 2011-12

30,900 individual cases, some dating back to 1993. I am concerned that both the gross and net outstanding maintenance arrears continue to increase and I asked the Department to comment on whether it has a strategy in place to address the escalating level of maintenance arrears.

5.1.21 The Department told me that while it continues to attempt to secure all maintenance arrears due, there are a significant number of cases where the Non Resident Parent's financial situation severely limits the Department's ability to collect arrears. In addition the Department told me that there are a significant number of open and assessed cases where the Parent with Care has no interest in pursuing the collection of ongoing maintenance or arrears. In these cases arrears will continue to accrue increasing the overall arrears balance. These limitations have a direct impact on the overall level and collectability of maintenance arrears and contribute greatly to the continued increase in the gross and net outstanding level of arrears.

5.1.22 The Department also told me that in order to address this situation, it is currently in the process of finalising a Northern Ireland Child Maintenance Debt Strategy to reduce the levels of child maintenance arrears. The strategy will set short, medium and long term actions to improve compliance and manage arrears downwards utilising all the legislative powers available to the Department.

5.1.23 Another key recommendation made by the PAC in its 2008 report was that the Department needed to target non-resident parents who are deliberately and fraudulently trying to evade their responsibilities to pay child maintenance by making more extensive use of the enforcement powers it holds to reduce the levels of outstanding maintenance arrears. **Figure 15** provides details on the number of cases where enforcement powers are being used to recover outstanding maintenance arrears.

5.1.24 Because of problems with IT systems, the Department is unable to accurately profile the outstanding maintenance

9 Amounts probably and possibly uncollectable are estimated by the Department based on an "Outstanding Maintenance Arrears Analysis Exercise" and this is explained in more detail in Note 5.2 to the Accounts.

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Figure 15: Number of cases where enforcement powers have been used by CMED

Enforcement Powers	2011-12 Number	2010-11 Number
Deductions from earnings orders[10]	4,124	4,270
Liability orders[11]	157	123
Lump Sum Deduction orders[12]	62	57
Regular Deduction orders[13]	10	4
Application to courts to force property/land to be sold	1	2
Total	**4,354**	**4,456**
Number of cases in arrears	**30,900**	**30,700**
Percentage of cases where enforcement powers are in place	**14.1%**	**14.5%**

Source: CMED

arrears and thus determine who are in arrears for a considerable length of time, so that enforcement powers can be used to recover payments from non-resident parents. Whilst I acknowledge these IT problems, I am still disappointed that the Department has used enforcement powers in only 14 per cent of its cases in arrears and that the number of cases where enforcement powers have been used has decreased in 2011-12. I asked the Department to comment on this and the Department told me that as a result of the continuing downturn in the economic climate there are fewer employers and fewer non resident parents in employment. This has restricted the Department's opportunity to enforce collections through employers and has resulted in a slight decrease in the number of enforcement actions during the year. The Department actively utilises all enforcement powers available to it when it is appropriate to do so.

5.1.25 The Department also told me that the collection of arrears is not restricted to new non compliant cases. Older historic arrears cases are systematically targeted using up to date management information. This in turn allows the Department to concentrate its enforcement activity to ensure that it is focused on securing positive outcomes as a result of its enforcement activity. The Department also told me that in delivering the full extent of its child maintenance remit, it is working to change mindsets and influence societal attitudes towards child maintenance so that there is more support and incentives to help parents make collaborative, family-based arrangements.

10 Deductions from earnings orders allow maintenance and arrears totalling up to 40 per cent of the non-resident parent's net income to be deducted by employers.
11 Liability orders are the first step to other civil enforcement measures using the Court system.
12 Lump sum deduction orders can be attached to savings accounts to recover child maintenance arrears
13 Regular deduction orders are used to collect arrears at regular intervals

5.1.26 The PAC were also critical of the Department's target in 2007-08 to collect only £1.5 million arrears with £71 million owed and recommended that the Department set more challenging targets to ensure a better focus on debt recovery. The target was subsequently increased to £2.8 million and has been at this level for a number of years. This collection target was achieved in 2011-12, but I am concerned that the target may not be sufficiently challenging as even if it continues to be achieved and no further arrears occur in the future it would still take the Department around 13 years to recover the current level of outstanding net maintenance arrears. I asked the Department why a more challenging target has not been set and also what action is being taken to improve the level of maintenance arrears collected. The Department told me that the arrears target for 2011-12 was both challenging and realistic. In setting the target the Department gave careful consideration to a range of key statistical variables and analysis including reality of the current economic situation, part-time working, job losses and lower than average salaries.

5.1.27 The Department also told me that it continues to make wider use of enforcement powers in particular, Deduction Orders to recover arrears from Non Resident Parents bank accounts. The Department also told me that the economic downturn, in particular, the decline in the housing and property market has restricted options for wider use of its enforcement powers specifically recovery through Forced Sale of land and property. The Department also highlighted the fact that the outstanding maintenance arrears balance represents payments that non resident parents have failed to make for the children and stressed the importance of getting the message across that non payment of child maintenance is not acceptable.

Cost of Collection

5.1.28 In 2008, every £1 collected in child maintenance cost the Department 88 pence, compared to 57 pence in Great Britain. The PAC were concerned that this level was too high and I have therefore continued to monitor the cost of collection for every £1 collected for Northern Ireland Client Funds. The Department has told me that although the cost of collection has decreased from 65 pence in 2010-11 to 59 pence in 2011-12, it was still within its target of 70 pence for 2011-12. I asked the Department why a target of 70 pence remained unchanged from the previous year and why the cost of collection in Northern Ireland is a lot higher than that in Great Britain which shows a cost of collection figure of 35 pence for 2011-12.

5.1.29 The Department told me that in setting the cost of collection target for 2011-12 it had taken into account the impact of the economic downturn, the increase in the number of non resident parents in receipt of benefits and increased salary costs across the Northern Ireland Civil Service. The Department was therefore pleased that in spite of these conditions a cost

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of collection of 59 pence had been achieved. The Department also stressed that value for money and efficiency continues to be a key consideration and has set a target of 55 pence for 2012-13 which it believes will be extremely challenging in the year ahead. The Department has completed a detailed analysis to understand the difference in the cost of collection between Northern Ireland and Great Britain. This difference is primarily explained by much lower average earnings in Northern Ireland which results in proportionately lower collections.

5.1.30 I also asked the Department what steps were being taken to benchmark cost of collection performance against other similar organisations and the Department told me that during 2011-12 significant work was undertaken to benchmark cost of collection with Great Britain to understand the differences and establish appropriate actions to improve value for money. As a result of this work the Department is taking the opportunity to explore a range of other value for money measures and benchmarking opportunities with other public sector bodies, therefore hoping to improve value for money and the quality of the service it provides to its stakeholders.

IT Systems

5.1.31 I acknowledge that many of the Department's problems are due to inadequate and poorly performing IT systems which are part of a larger IT system used by the Great Britain child maintenance body. In my opinion, these systems are not fit for the purpose for which they were intended. I asked the Department how it proposed to address the problems in the IT systems and the Department told me that while there have been significant improvements in performance and control in recent years, the underlying problems with the systems used to administer child support remain. Given the limited shelf life of both systems, the underlying problems would be too costly to put right and at this stage would represent poor value for money. In recognising that the current system is not fit for purpose the Department has committed to launching a new statutory maintenance scheme in 2012-13. The new scheme will be underpinned by a new computer system and procedures which should overcome many of the problems associated with the Department's legacy systems.

5.1.32 Looking ahead, the Child Maintenance Act (Northern Ireland) 2008 provides for the introduction of simplified rules for the calculation of maintenance and these new rules will require the development of a new IT system to support them. I note that the Department is currently working with its GB counterparts in developing the new IT system to support this "Statutory Scheme 2012" which is expected to be brought into use during 2012-13. I would encourage the Department to continue to work closely with its GB counterparts to resolve any IT problems so that it can deliver its business properly and efficiently.

Conclusion

5.1.33 I have qualified my opinion on the regularity of receipts and payments because I consider the estimated levels of error in maintenance assessments to be material and therefore do not conform to the authorities which govern them. I have also qualified my audit opinion in respect of my work relating to the outstanding maintenance arrears balance of £83 million. I was unable to obtain sufficient evidence to satisfy myself as to the accuracy and completeness of this figure because of an inadequate audit trail.

5.1.34 In conclusion it is clear that fundamental challenges remain both in terms of:

- The level of accuracy in the maintenance assessment calculations where errors have been noted for many years; and
- The level of error within outstanding maintenance arrears balances.

5.1.35 I am concerned at the continuing high levels of outstanding maintenance arrears and the extent of IT problems which are making it much more difficult for the Department to be proactive in taking action to recover these arrears. In the coming year I would expect the Department to have a sharper focus on debt recovery and I will review this matter again in future audits.

5.2 Northern Ireland Social Fund Accounts 2008-09 and 2009-10

Introduction

5.2.1 The Social Security Agency is required under an Accounts Direction from DFP to prepare the Social Fund Account, which reports Social Fund receipts and payments, a statement of balances, and Social Fund loans outstanding at year end.

5.2.2 Payments by the Social Security Agency (the Agency) from the Social Fund are split into two broad categories, discretionary and regulated. Discretionary payments comprise budgeting loans, crisis loans and community care grants and are demand-led but cash limited. Regulated payments are maternity expenses, funeral expenses, cold weather payments and winter fuel payments and are demand-led. All payments are made subject to relevant qualifying conditions being met.

5.2.3 In 2008-09 the Agency made Social Fund benefit payments totaling £147.3 million comprising £69.9 million in discretionary payments and £77.4 million in regulated payments. In 2009-10 the Agency made Social Fund benefit payments totaling £166.4 million comprising £73.5 million in discretionary payments and £92.9 million in regulated payments. **Figure 16** sets out the level of payments by type for each year.

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Figure 16: Social Fund payments by type 2009-10 and 2008-09

Payment Type	2009-10 £000	2008-09 £000
Discretionary Payments		
Budgeting Loans	45,653	43,996
Crisis Loans	14,202	12,202
Community care grants	13,686	13,670
Regulated Payments		
Maternity Expenses	5,119	5,238
Funeral Expenses	2,403	2,552
Cold Weather Payments	16,825	1,837
Winter Fuel Payments	68,528	67,826
Total	**166,416**	**147,321**

Source: Social Fund Accounts 2009-10 and 2008-09

5.2.4 Section 146(4) of the Social Security Administration (Northern Ireland) Act 1992 requires me to examine and certify the accounts of the Social Fund and to lay copies of that account before the Assembly.

Audit Opinion

5.2.5 In 2008-09 and 2009-10 I have found it necessary to qualify my opinion on the regularity of Social Fund payments (except for Winter Fuel Payments and Cold Weather Payments as the estimated level of error is not significant):

- because of the level of overpayments attributable to error which have not been applied to the purposes intended by the Northern Ireland Assembly; and
- because of the level of under and overpayments in such payments, which are not in conformity with the relevant authorities (**Qualified opinion due to irregular benefit payments**).

5.2.6 In addition, I have concerns around the adequacy of the evidence to support the debt balance disclosed within notes 2 to 4 to the 2008-09 and 2009-10 accounts. Due to these problems, I have found it necessary to limit the scope of my opinion on the debt notes within the 2008-09 and 2009-10 accounts (**Qualified opinion due to limitation in audit scope**).

Qualified opinion due to irregular benefit payments

5.2.7 For each financial year, I am required to report my opinion as to whether the account properly presents the receipts and payments of the Social Fund. I am also required to report my opinion on regularity, that is, whether in all material respects the receipts and payments have been applied to the purposes intended by the Northern Ireland Assembly and conform to the authorities which govern them.

5.2.8 Social Fund overpayments made by the Agency, due to error, cannot be deemed regular as the payments have not been applied in accordance with the purposes intended by the Northern Ireland Assembly. In addition the Agency is required to calculate Social Fund payments in accordance with primary legislation which specifies the entitlement criteria and the method to be used to calculate the amount to be paid. Therefore where the Agency makes Social Fund payments at rates either more or less than those specified in legislation then such transactions do not conform to the authorities which govern them. It is my view therefore that underpayments due to official error are irregular.

5.2.9 The principle applied in forming my audit opinions on these accounts is in line with the approach adopted for the Agency's Annual Accounts in 2008-09 and 2009-10.

5.2.10 I have qualified my opinion on the regularity of Social Fund payments in 2008-09 and 2009-10 (except for Winter Fuel Payments and Cold Weather Payments):

- because of the level of overpayments attributable to error which have not been applied to the purposes intended by the Northern Ireland Assembly; and
- because of the level of under and overpayments in such benefit payments which are not in conformity with the relevant authorities.

Estimated levels of irregular Social Fund payments due to error

5.2.11 The Agency, through its Standards Assurance Unit (SAU), regularly measures and reports, on a calendar year basis, on the estimated level of official error, that is, error arising from internal agency error, for Social Fund payments. The exercise covers all types of Social Fund payments apart from Winter Fuel and Cold Weather Payments that are considered to be of low risk to error. The Agency presents the results of this exercise in a Note to the Agency Annual Accounts along with those for other benefits and also explains the extent of statistical uncertainty inherent within the estimates. The estimates, nevertheless, are the best measure available. For each year of my audit, my staff have tested and reviewed the work of the Agency in carrying out this exercise. I can report that I am content that results produced by the SAU are a reliable estimate of the total fraud and error in the benefit system.

5.2.12 The Agency has estimated that in 2008 losses of £1.2 million arose through overpayments of Social Fund payments to claimants, representing 1.6 per cent of the total payment for categories that were subject to SAU testing (relevant payments). In 2009 overpayments were estimated to be £2.4 million (3.0 per cent of relevant payments).

5.2.13 The estimates of error are based on analysis of samples of award payments and are subject to a degree of statistical uncertainty. This is quantified in the form

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of confidence intervals and expressed as a percentage expectation that the true value of the estimated most likely error lies within a particular range. Whilst the best estimate of overpayments is £1.2 million in 2008 and £2.4 million in 2009, the true levels of overpayments could lie in a range from £0.6 million to £2.0 million for 2008; and from £1.7 million to £3.3 million in 2009.

5.2.14 In addition the Agency has estimated that underpayments of Social Fund payments amount to £1.3 million (1.6 per cent of relevant payments) in 2008 and £1.1 million (1.4 per cent of relevant payments) in 2009. These are also subject to the statistical uncertainty referred to above, the range of error in underpayments being from £0.5 million to £2.1 million in 2008 and from £0.3 million to £2.0 million in 2009.

5.2.15 The figures quoted in this report do not include estimates for any amounts of customer fraud or customer error that there may be within Social Fund payments. The Agency told me that it does not measure customer error or customer fraud for Social Fund payments, partly because of the difference in the way Social Fund expenditure is administered and paid in comparison with other social security benefits. For example Social Fund is not a weekly or fortnightly paid benefit and the majority of the administrative process is primarily focused in the delivery of budgeting and crisis loans which, by their nature, are normally paid back to the Agency. In addition some Social Fund benefits are paid primarily because the recipient receives other social security benefits which are subject to regular review. The majority of Winter Fuel Payments are paid automatically to those customers already in receipt of State Pension and the associated level of official error and customer error within State Pension is not significant and there is no customer fraud. There is little administration or decision making input required for Winter Fuel payments meaning exposure to official error and customer fraud and error is also very low. The remainder of Social Fund payments comprises discretionary payments for community care grants, together with other payments for maternity grant and funeral payments. The Agency's opinion is that the nature of these payments means they are less vulnerable to customer fraud and error. In addition the policy adopted by the Agency to not measure Customer Fraud and Error for Social Fund expenditure is consistent with the policy applied by the Department for Work and Pension (DWP) in GB.

The Agency would highlight that the measurement of benefit fraud and error is complex and expensive and it is therefore important to assess and decide which benefits should be given priority for review and that account is taken of the relative value/risk profile of each benefit. The Agency therefore needs to prioritise those benefits which are deemed to be "high risk" i.e. those which are of a high value and which have a higher propensity for the occurrence of incorrect or fraudulent payments.

5.2.16 In general, I note the considerable effort and resources that the Agency has put into tackling the estimated levels of over and underpayments due to error. **Figure 17** shows the estimated value and relevant percentage of over and underpayment errors due to official error for 2009 and 2008, and earlier years and I note that overpayments due to official error have doubled from £1.2 million in 2008 to £2.4 million in 2009. I am disappointed in this increase as it is my view that this is the area where the Agency continues to have most control. I asked the Agency to comment on this increase and the Agency told me that action has been undertaken to strengthen the decision making and accuracy of Social Fund Crisis Loans, an area in which the Agency experienced a substantial rise in claims and volume of error. The Agency will continue to closely monitor progress of these activities with the expectation that the 2010 official error position on Social Fund payments will reflect significant improvement.

Figure 17: Estimated levels of official error in Social Fund payments

	2009	2008	2007[14]	2006
Overpayments	**£2.4m**	**£1.2m**	**£1.5m**	**£0.9m**
% of relevant payments	3.0%	1.6%	2.0%	1.1%
% of total payments	1.4%	0.8%	1.2%	0.7%
Underpayments	**£1.1m**	**£1.3m**	**£0.4m**	**£0.7m**
% of relevant payments	1.4%	1.6%	0.5%	0.8%
% of total payments	0.7%	0.9%	0.3%	0.5%
Total payments	**£166.4m**	**£147.3m**	**£126.1m**	**£131.7m**
Total relevant payments	**£81.1m**	**£77.7m**	**£74.1m**	**£81.3m**

Footnotes:
1. As indicated in the Agency Annual Accounts, the estimates are quoted to the nearest £0.1 million and presented with 95 per cent confidence intervals, which include adjustments to incorporate some non-sampling sources of uncertainty.
2. From 2005 onwards estimates have been reported on the calendar year basis rather than the financial year.
3. Figures contain individual parts that have been rounded to the nearest £0.1 million for presentational purposes only.
4. Total payments represent all Regulated Payments and Discretionary payments as outlined in **Figure 16**.
5. Total relevant payments represent total payments less winter fuel payments and cold weather payments.

Source: Social Fund Accounts 2006-07 to 2009-10

14 The Agency has introduced a number of improvements to its measurement processes over these years. New methodologies have most recently been introduced in 2008. The figures for 2007 have been re-calculated using the new methodologies to enable a consistent comparison to be made. Figures prior to 2007 have not been re-calculated as it was not practical or cost-effective to do so and are therefore not directly comparable to 2007. However the Agency is of the opinion, based on the recalculation of the 2007 total estimated fraud and error figures, that changes arising from the new methodology in relation to previous years' figures would be minimal.

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Qualified Opinion arising from limitation in audit scope

5.2.17 The Agency is required to prepare a Statement of Social Fund Loans (the debt balance), including an Age Analysis of loans outstanding in the notes to the Account.

5.2.18 The debt balance reported in the NI Social Fund Accounts for 2008-09 was £81.6 million and for 2009-10 was £87.8 million and is calculated using the debt balance per the prior year accounts and the net payments and receipts of Social Fund loans during the respective financial year. As part of my audit, I have confirmed that the total receipts and payments of Social Fund loans reported in the financial statements is complete. However the reported debt balance does not agree to the total outstanding debt figure as per the debtors listing generated by the Social Fund Computer System. The Social Fund Computer System debt balance for 2008-09 was £84.20 million and for 2009-10 was £91.49 million. The total cumulative difference between the debt balance the Agency was able to substantiate and the debt balance reported in the accounts (referred to as the 'accounting gap' by the Agency) is material (2008-09 £2,638,372; 2009-10 £3,678,741). The Agency is unable to provide a breakdown of individual transactions making up the accounting gap. As such, the Agency is unable to substantiate the reported total outstanding debt balance per the accounts with a complete list of individual transactions.

5.2.19 I have therefore been unable to obtain sufficient audit evidence over the breakdown of this figure to complete my audit on the notes 2 to 4 of the accounts. In the absence of a complete list of individual transactions making up the customer debt balance, I am unable to determine whether any adjustments to these amounts were necessary and I have concerns over the existence and valuation of the debt balances. Therefore I have qualified my opinion in this respect.

5.2.20 In my opinion, except for notes 2 to 4, the accounts properly present, in accordance with the Social Security Administration (Northern Ireland) Act 1992, the receipts and payments for the years ended 31 March 2009 and 31 March 2010 and the statement of balances as both dates.

5.2.21 The Agency acknowledges the concerns I have raised and in particular the increase in the accounting gap to £3.7 million in 2009-10 and has told me that it is investigating the reasons for the differences between the Social Fund loan amounts and is liaising with the Department for Work and Pensions (DWP) in GB who has similar accounting issues with Social Fund expenditure. The Agency is exploring different options for the production of the Social Fund White Paper accounts to be able to provide the necessary evidence to substantiate the loan balances. The Agency will continue to update me as it progresses this matter.

Conclusion

5.2.22 Whilst the level of estimated official error has fluctuated over the four year period to 2009, I am concerned that there has been a substantial increase in estimated errors due to overpayments in 2009. In my opinion the error rates are too high and can be reduced, especially as official error is within the control of the Agency. I note that the Agency had not set a target for Financial Accuracy in Social Fund payments in 2008-09 and 2009-10. The Agency would highlight that it does regularly monitor the financial accuracy performance of Social Fund but there is no formal target set for this expenditure. In response to my concerns over the level of estimated error, the Agency has told me it has taken a number of steps to address issues pertaining to Social Fund accuracy, including working with the Office of the Social Fund Commissioner to deliver additional training to Social Fund staff, particularly in relation to evidence gathering when determining Community Care Grants and Crisis Loan applications. Work is also underway to refocus the checking regime to target those areas that that have been identified as high risk and most susceptible to error.

5.2.23 I consider that the reported levels of estimated errors in Social Fund payments for 2008 and 2009 are material and consequently I have qualified my regularity opinion on the Social Fund accounts for 2008-09 and 2009-10.

5.2.24 I have also qualified my opinion arising from a limitation in audit scope on my audit of the debt balances disclosed within notes 2 to 4 to the 2008-09 and 2009-10 accounts. I would encourage the Agency to seek the appropriate resolution of these issues and I will continue to monitor progress made in this area.

5.3 Northern Ireland Social Fund 2010-11

Introduction

5.3.1 The Social Security Agency (the Agency) is required under an Accounts Direction from the Department of Finance and Personnel (DFP) to prepare the Social Fund Account, which reports Social Fund receipts and payments, a statement of balances, and Social Fund loans outstanding at the year end.

5.3.2 In 2010-11 the Agency made Social Fund benefit payments totalling £173.2 million comprising £79.1 million in discretionary payments and £94.1 million in regulated payments, as outlined in **Figure 18**. All payments are made subject to the relevant qualifying conditions being met.

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Figure 18: Social Fund payments by type

Payment Type	2010-11 £000	2009-10 £000 Restated
Discretionary Payments:		
Budgeting Loans	49,145	45,626
Crisis Loans	16,120	14,149
Community care grants	13,819	13,646
Sub total	**79,084**	**73,421**
Regulated Payments:		
Maternity Expenses	5,357	5,005
Funeral Expenses	2,625	2,549
Cold Weather Payments	16,819	16,880
Winter Fuel Payments	69,282	68,853
Sub total	**94,083**	**93,287**
Total	**173,167**	**166,708**

Source: Social Fund Accounts 2010-11

5.3.3 Section 146(4) of the Social Security Administration (Northern Ireland) Act 1992 requires me to examine and certify the accounts of the Social Fund and to lay copies of that account before the Assembly.

5.3.4 This report reviews the results of my audit of the Social Fund and sets out why I have decided to qualify my audit opinion. It is important to note that since 2006-07, my audit opinion has been qualified because of significant levels of error in benefit expenditure (except for Winter Fuel payments and Cold Weather payments) and because of concerns I had over the accuracy of the debt notes reported in the accounts.

Audit Opinion

5.3.5 In 2010-11 I have found it necessary to qualify my opinion on the regularity of Social Fund payments (except for Winter Fuel Payments and Cold Weather Payments as the estimated level of error is not significant):

- because of the level of overpayments attributable to error which have not been applied to the purposes intended by the Northern Ireland Assembly; and

- because of the level of under and overpayments in such payments, which are not in conformity with the relevant authorities (Qualified opinion due to irregular benefit payments – see paragraphs 5.3.6 to 5.3.15).

Qualified opinion due to irregular benefit payments

5.3.6 For each financial year, I am required to report my opinion as to whether the account properly presents the receipts and payments of the Social Fund. I am also required to report my opinion on regularity, that is, whether in all material respects the receipts and payments have been applied to the purposes intended by the Northern Ireland Assembly and conform to the authorities which govern them.

5.3.7 Social Fund overpayments made by the Agency, due to error, are irregular as the payments have not been applied in accordance with the purposes intended by the Northern Ireland Assembly. I am also of the opinion that where the Agency is responsible for errors that result in underpayments of Social Fund benefits then this is also irregular. This is because the Agency is required by the legislation that specifies the entitlement criteria to make Social Fund payments in line with the rates specified in legislation. Where it fails to make the correct payment because of error then this is irregular as the transactions do not conform to the authorities governing them.

5.3.8 The principle applied in forming my audit opinion on these accounts is in line with the approach adopted for the Agency's Annual Accounts in 2010-11.

Estimated levels of irregular Social Fund payments due to error

5.3.9 The Agency, through its Standards Assurance Unit (SAU), regularly measures and reports, on a calendar year basis, on the estimated level of official error, that is, error arising from internal Agency error, for Social Fund payments. The exercise covers all types of Social Fund payments apart from Winter Fuel payments and Cold Weather payments that are considered to be less susceptible to error. The Agency presents the results of this exercise in a note to the Agency Annual Report and Accounts which also explains that the estimates are by their nature subject to uncertainty because they are based on sample testing. The estimates do, however, represent the best measure of error available. I examined the work undertaken by the Agency and am content that the results produced by the SAU are a reliable estimate of the total error in the benefit system.

5.3.10 The Agency has estimated that in 2010 losses of £1.0 million arose through overpayments of Social Fund payments to claimants, representing 1.1 per cent of the total payment for categories that were subject to SAU testing (relevant payments). This represents a decrease from 2009 when overpayments were estimated at £2.4 million (3.0 per cent of relevant payments).

5.3.11 In addition the Agency has estimated that underpayments of Social Fund payments in 2010 amount to £0.8 million (0.9 per cent of relevant payments). Again this is a decrease from 2009 when underpayments were estimated at £1.1 million (1.4 per cent of relevant payments).

5.3.12 I recognise the considerable effort and resources the Agency has put into reducing the estimated levels of over and underpayments due to error. The results of this work are set out in **Figure 19** which shows the estimated value and relevant percentage of over and underpayment errors due to official error over a number of years. I welcome the fact that estimated overpayments due to official error have decreased significantly from £2.4 million in 2009 to £1.0 million in 2010. I asked the Agency

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Figure 19: Estimated levels of official error in Social Fund payments

	2010	2009	2008	2007
Overpayments	**£1.0m**	**£2.4m**	**£1.2m**	**£1.5m**
% of relevant payments	1.1%	3.0%	1.6%	2.0%
% of total payments	0.6%	1.4%	0.8%	1.2%
Underpayments	**£0.8m**	**£1.1m**	**£1.3m**	**£0.4m**
% of relevant payments	0.9%	1.4%	1.6%	0.5%
% of total payments	0.4%	0.7%	0.9%	0.3%
Total payments	£173.2m	£166.7m	£147.3 m	£126.1m
Total relevant payments	**£87.1m**	**£80.9m**	**£77.7m**	**£74.1m**

Footnotes:
1. As indicated in the Agency Annual Accounts, the estimates are quoted to the nearest £0.1 million and presented with 95 per cent confidence intervals, which include adjustments to incorporate some non-sampling sources of uncertainty.
2. From 2005 onwards estimates have been reported on the calendar year basis rather than the financial year.
3. Total payments represent all Regulated Payments and Discretionary payments as outlined in **Figure 18**.
4. Total relevant payments represent total payments less winter fuel payments and cold weather payments.

Source: Social Fund Accounts 2007-08 to 2010-11

to comment on this decrease and it told me the Agency has continued to address issues pertaining to Social Fund accuracy, including the development and implementation of an Accuracy Improvement Plan which contains various measures aimed at reducing error and identifying individual training needs. The checking regime has also been strengthened to identify and eliminate error at the earliest opportunity. Work also continues with the Office of the Social Fund Commissioner to deliver additional training, advice and expertise to staff.

5.3.13 The Agency did not set a financial accuracy target for Social Fund payments in 2010-11 as it does for some other benefit payments but instead highlights that it regularly monitors the financial accuracy performance of the Social Fund. The Agency also does not calculate estimates for any amounts of customer fraud or customer error that there may be within Social Fund payments. I asked the Agency to explain the reasons why it does not set a financial accuracy target or estimate customer fraud or customer error and it told me the overriding factor is that, unlike other social security benefits, Social Fund is not a weekly or fortnightly paid benefit but generally consists of one-time payments and an error would not generate an ongoing loss. Almost 75 per cent of Social Fund expenditure is made up of budgeting and crisis loans which, by their nature, are paid back to the Agency. Any error arising is, therefore, automatically recovered when the loan is repaid. Furthermore, certain Social Fund benefits are paid primarily because the recipient receives other social security benefits which are subject to regular reviews for official error, customer error and customer fraud. For example, the majority of Winter Fuel Payments are paid automatically to those customers already in receipt of State Pension and the associated level of official error and customer error within State Pension benefit is not significant and there is no customer fraud. There is little administration or decision making input required for Winter Fuel Payments or Cold Weather Payments, meaning exposure to official error and customer fraud and error is low. The remainder of Social Fund payments comprise discretionary grant payments (e.g. Community Care Grants, Maternity Grants and Funeral Payments). The Agency's opinion is that the nature of these payments means they are less vulnerable to customer fraud and error.

5.3.14 The Agency highlighted that the measurement of benefit fraud and error is complex and expensive and it is therefore important to assess and decide which benefits should be given priority for review and that account is taken of the relative value/risk profile of each benefit. Social Fund is considered to represent a much lower risk of loss than other benefits.

5.3.15 In addition, the Agency confirmed that its' policy of not measuring customer fraud and error for Social Fund expenditure is consistent with the policy employed by the Department for Work and Pensions(DWP) in GB.

Other matters – Outstanding debt balance

5.3.16 Since 2006-07, the Agency has been unable to substantiate the reported total outstanding debt balance per the accounts with a complete list of individual transactions. In the absence of a complete list of individual transactions making up the debt balance I had concerns over the existence and valuation of the debt balances and my audit opinion was qualified in this respect.

5.3.17 For the preparation of the 2010-11 Social Fund accounts the Agency have adopted the same methodology to prepare the accounts as that used to prepare the GB Social Fund account. This approach now utilises information from the Agency's primary benefit accounting system, the Programme Accounting Computer System (PACS) and has resulted in the value of outstanding debt at the start of 2010-11 being restated upwards by £3.5 million. The Agency has informed me that the restatement, which cannot be

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substantiated by individual transactions, has arisen over a number of years because the new approach to the production of accounts this year required an adjustment for the cumulative amount of the inconsistencies between the Social Fund Computer System (SFCS) and the PACS. The Social Fund is administered using the SFCS, which is a 'real time' system that captures information at individual customer level. This system shows, at any point in time, total social fund expenditure less any loan monies repaid for each individual customer. Loan repayments may be via benefit deductions or customer repayment agreements, paid either via standing order or cash/cheque. In contrast, the Agency's Social Fund accounting records, held on PACS, are updated via a number of system interfaces and journals which are at summary, rather than individual customer, level. Due to timing differences associated with data capture in both SFCS and PACS, at any point in time the debt position reported by each individual system will not align.

5.3.18 The PACS system is not able to provide a complete breakdown of the debt balances and instead this has to be obtained from the SFCS, which provides customer information by National Insurance number. However, there is an in-year difference of £0.5 million (£0.4 million 2009-10) between the debt balances calculated by PACS and those obtained from the SFCS detailed debtor listing. The Agency has processed an 'alignment journal' to decrease the PACS debt balance by this amount so that it now agrees with the SFCS detailed debtors listing.

5.3.19 While the Agency have been unable to provide supporting documentation to substantiate the alignment journal by individual transactions, my audit opinion has not been qualified in this regard as the debt balance of £100.5 million at 31 March 2011 is now in line with the detailed debtor listing and I have obtained sufficient evidence to support the balances in this listing. I asked the Agency if it is able to substantiate the alignment journal and if it could explain why this alignment journal continues to occur. The Agency told me the reasons for the alignment journal are due to data capture timing differences between the SFCS and PACS, as outlined in paragraph 5.3.17. These differences and, hence, the continued need for an alignment journal in PACS, will continue to occur while the existing Social Fund operational and financial systems and processes are still in place.

5.3.20 The Agency confirmed that its' DWP colleagues use the same systems and has the same requirement for an alignment journal. The DWP has completed an analysis of the exact cause of the inconsistencies and are currently identifying possible resolution options. The Agency is continuing to liaise with DWP colleagues in order to determine if the options being considered can be applied to address the Agency's accounting gap.

5.3.21 I will continue to keep the debt balance under review and consider the implications for my audit opinion should the alignment journal increase significantly.

Conclusion

5.3.22 I consider that the reported levels of estimated errors in Social Fund payments for 2010 are material and consequently I have qualified my regularity opinion on the Social Fund accounts for 2010-11. I have also reported on the alignment journal required to reconcile the debt balances from both computer systems. I would encourage the Agency to seek the appropriate resolution of these issues and I will continue to monitor progress made in this area.

5.4 Ilex 2010-11

Introduction

5.4.1 Ilex Urban Regeneration Company Ltd (Ilex) is a company limited by guarantee which was established in July 2003 to promote the regeneration of Derry~Londonderry. Ilex is sponsored by both the Office of the First Minister and Deputy First Minister (OFMDFM) and the Department for Social Development (DSD) who fund and are accountable for the Company.

Summary

5.4.2 As part of my audit, I am required to satisfy myself that, in all material respects, the expenditure and income shown in the financial statements have been applied to the purposes intended by the NI Assembly and the financial transactions conform to the authorities which govern them, that is, they are 'regular'.

5.4.3 My audit in 2009-10 identified a number of concerns regarding the procurement, management and approval of projects and following this Ilex undertook a detailed review of the approvals that it had in place for all of its projects. As a result it has identified six consultancy projects with a total contract value of £3.0 million which did not have the necessary approvals from sponsor Departments and from the Department of Finance and Personnel (DFP). This has resulted in irregular expenditure of £404,687 being incurred during 2010-11 and this is discussed further below (see paragraphs noted 5.4.6 to 5.4.13). There were a further two projects (paragraph 5.4.24) which also did not receive the required approvals but did not incur any expenditure during 2010-11.

5.4.4 In addition, during 2010-11 Ilex had responsibility for managing project expenditure of £3.4 million in relation to the Ebrington Barracks parade ground, which was paid for by OFMDFM and included in its accounts. The project will significantly exceed the approval given by DFP and as a result all expenditure on the project is irregular. I have not, however, qualified my opinion on Ilex in this respect because although Ilex had responsibility for project management

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the expenditure is not included within its account. This matter is further discussed in paragraphs 5.4.18 to 5.4.23.

5.4.5 This report also comments on a number of other matters arising from my audit of Ilex.

Qualified Regularity opinion

Project expenditure without proper approvals

5.4.6 The projects which did not receive the necessary approvals are set out in **Figure 20** and included:

- one project in which approvals were initially put in place but the actual cost agreed by the bidder was less than had been anticipated. Consequently the approved amount was reduced to the lower amount agreed in the tender. Ilex subsequently made adjustments to the project based on the original approved amount which increased the cost in excess of the revised amount and this has not been approved (see paragraph 5.4.7);

- two projects where Ilex incurred expenditure without any approvals in place (see paragraph 5.4.10);

Figure 20: Projects where required approvals were not obtained on expenditure incurred during the year by Ilex

	Contract	Para	Original Business Case value £	Revised Business Case value £	Contract value £	Spend prior to 2010-11 £	2010-11 irregular spend £
1	Ebrington Site – Design fees	5.4.7	1,680,250	1,179,886	1,711,102	872,016	25,674
2	City of Culture	5.4.10(i)	0*	0*	254,595	0	254,595
3	Local Development System	5.4.10(ii)	22,092	22,092	22,092	0	22,092
4	Peace Bridge - Consultancy	5.4.11(i)	75,000	63,784	479,000	380,255	39,828
5	Economic Modelling	5.4.11(ii)	230,000	230,000	286,453	230,000	15,275
6	Regeneration Plan Mark II	5.4.13	275,000	275,000	254,737	207,514	47,223
	TOTAL		**2,282,342**	**1,770,762**	**3,007,979**	**1,689,785**	**404,687**

*no business case was submitted in advance of spend on the City of Culture bid

Source: Ilex

- two projects where expenditure was incurred in excess of the approved amount and Ilex did not obtain approval for the excess (see paragraph 5.4.11);
- one project which did initially receive approval, but which then breached the conditions of that approval (see paragraph 5.4.13).

Changes to approved amount following lower than expected tender costs

5.4.7 Ebrington design fees

Three business cases totalling £1,680,250 for the design fees of the Ebrington site were approved by OFMDFM in September 2008. When the work was tendered for the three projects, the successful consultant agreed a fee of £1,179,886. In accordance with DFP rules, the approved spending limit was automatically reduced to the tender figure. However Ilex did not communicate this to OFMDFM or DFP.

5.4.8 Following the award of the contract, Ilex identified a number of major alterations which increased the estimated cost to complete this design project to £1,711,102 which will be £531,000 in excess of the amount approved by OFMDFM. Ilex did not request approval from OFMDFM or DFP for these changes and as a result approval for all of the expenditure on the project has been withdrawn. Expenditure prior to 2010-11 totalled £872,016 and a further £25,674 has been incurred in 2010-11 which is the amount on which I have qualified my opinion on this year's accounts.

5.4.9 I asked Ilex why approval from DFP or OFMDFM was not requested when there was a change in the project and they told me they had managed and reported these contracts against the original business case approved values, as opposed to the lower tender values received. The changes to the design fees were due to additional work required by the consultants in the oversight of construction projects on the Ebrington site. Ilex has accepted that the approving authority should have been notified when the tender price was agreed at more than 10 per cent lower than the business case value and these procedures should have been communicated to the relevant staff. Ilex also told me that in more recent cases when tenders have come in 10 per cent lower than the business case, they have notified the approving authority accordingly.

Expenditure incurred without any approvals in place

5.4.10 (i) City of Culture

In 2009 Ilex and two other partner organisations submitted a bid for Derry~Londonderry to become the first UK City of Culture in 2013 and on 15 July 2010 it was announced that this bid was successful. From the announcement date through to 31 March 2011, Ilex incurred expenditure of £254,595 on

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activities relating to the designation as City of Culture without having the necessary approvals in place. In April 2011 Ilex formally requested retrospective approval from OFMDFM and DSD for this expenditure, however this retrospective approval was not granted, resulting in spend of £254,595 in 2010-11 being irregular. I asked Ilex why approval was not requested. Ilex told me they deemed it necessary to immediately incur expenditure to secure engagement, maintain momentum and progress to secure the opportunity afforded by the designation. Ilex highlighted that securing the inaugural UK City of Culture 2013 designation was a one-off and unique opportunity that will not recur. Ilex accepts that the City of Culture spend was incurred without approval.

(ii) Consultancy Contract – Local Development System

A business case for the provision of consultants to direct and guide a plan to regenerate Derry~Londonderry was approved by the Board of Ilex in December 2010 at a cost of €25,000 and subsequently awarded by way of a single tender action. Departmental approval should have been obtained but was not sought, resulting in irregular spend of £22,092 (€25,000) being incurred in 2010-11. Ilex told me they originally believed this was grant funding and approved the project internally as such. However, subsequent guidance received after the event indicated that it should have been approved as a single tender consultancy and indeed in a subsequent assignment this definition has been applied and the necessary approval sought.

Expenditure incurred in excess of approved amount

5.4.11 (i) Peace Bridge – Project Management Services Consultancy

The business case for consultancy services to assist with the delivery of the Peace Bridge was approved by Ilex in February 2008 for £75,000 and awarded to the successful bidder at a cost of £63,784. The contract was subsequently extended so that the revised estimated costs were £479,000. DSD was not informed about this extension to the contract until November 2011. As Departmental approval has not been granted for the increased costs, this has resulted in irregular expenditure of £39,828 being incurred in 2010-11. Further costs of approximately £59,000 are anticipated on this project and I shall consider these as part of my 2011-12 audit.

(ii) Economic modelling

The business case to maintain an economic model for the regeneration plan was approved by OFMDFM on 5 January 2009 for £230,000 and agreed with the successful bidder. Total expenditure on this project to date is £245,275 and OFMDFM were not informed about this increase until May 2011. As Departmental approval was not granted for the increase, this has resulted in irregular expenditure of £15,275 being incurred in 2010-11. Further costs of approximately £41,000 are anticipated on this project and I shall consider these as part of my 2011-12 audit.

5.4.12 I asked Ilex why they did not inform the Department immediately about the increased costs in these two projects. Ilex accepted they did not inform the Department on a timely basis about increased costs, but that once the items came to the attention of the Chief Executive following an internal compliance review, they notified the Departments at the earliest opportunity. Ilex has since notified the Departments when recent project cases have changed and sought their approval in advance.

Breach of conditions of approval

5.4.13 A business case to hire consultants to develop an overall plan to regenerate the City was approved by DSD on 5 March 2009 for £275,000. The business case identified a specific grade of staff to be used in the project, however, the successful bidder provided staff at a higher grade than that outlined in the business case, but remained within the business case agreed amount. This resulted in a breach of conditions of the original approval and DSD were not prepared to approve this breach, resulting in irregular expenditure of £47,223 being incurred in 2010-11.

Summary

5.4.14 I am disappointed at the extent of failures to obtain proper approvals for significant amounts of project expenditure. This is particularly concerning in an organisation whose key function is to deliver projects and it is important that these issues are addressed immediately. I am aware that Ilex has an action plan that it considers will address all of the issues I have identified and I will closely monitor the achievement of this action plan and may report further if appropriate.

5.4.15 I asked Ilex what actions they have taken to ensure that proper procedures are followed in relation to procurement and they told me that the Chief Executive and the Board Members take these issues extremely seriously and within Ilex the Chief Executive has reinforced strongly the principle of Managing Public Money (NI) i.e. that under no circumstances should resources be committed without having in place the necessary approvals. An action plan has been developed to apply the lessons learnt and robust procedures are being put in place to adhere to the guidance. This action plan is reviewed monthly by a Governance Review Group made up of non-Executive Director's from the Audit Committee and they report progress to the Audit Committee and the Ilex Board.

5.4.16 Ilex told me that it aims to have an action plan fully implemented by 31 March 2012 to ensure there are no further breaches of spending controls.

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5.4.17 I discussed with sponsor Departments the steps that they had undertaken to ensure that Ilex was aware of the requirements of the spending control process. DSD provided evidence to show that it had provided guidance to Ilex on these requirements prior to 2010-11 and I noted that following the identification of the issues raised in this report both Departments have now further increased their degree of monitoring of Ilex.

Other matters

Withdrawal of approval on Ebrington Barracks following lower than expected tender costs

5.4.18 As set out in Note 3 to the accounts, certain contracts have been managed by Ilex on behalf of the sponsoring Departments including the Ebrington Barracks parade ground project. Under this arrangement all of the expenditure associated with the project is managed and approved by Ilex before being paid by OFMDFM who account for the expenditure in its resource account. The Accounting Officer of OFMDFM wrote to the Chief Executive of Ilex in January 2011 stating that because the parade ground project is one that Ilex was set up to deliver and because it certifies the work done before payment is made by the Department, he intended to hold the Chief Executive accountable for the delivery of the Ebrington contract.

5.4.19 The background to this project is that the business case for a parade ground, underground car park and associated works at Ebrington Barracks was initially approved in November 2009 by OFMDFM and DFP for a total cost of £20.7 million.

5.4.20 The parade ground component of this project was approved by DFP at a cost of £7.2 million but the successful bidder for the parade ground agreed a fee of £5.4 million and therefore, in accordance with DFP rules the approval limit was automatically reduced to £5.4 million. Subsequent to this Ilex identified a number of significant changes to the project which brought the total estimated cost to £7.8 million.

5.4.21 Ilex did not request approval from OFMDFM or DFP for these changes and as a result DFP approval for this part of the project has been withdrawn. Consequently all expenditure on the parade ground component of the project is deemed to be irregular including £3,427,583 approved by Ilex for payment during 2010-11.

5.4.22 I have not qualified my audit opinion on Ilex in respect of this irregularity because, although OFMDFM hold Ilex accountable for the delivery of the Ebrington project, the irregular expenditure is not recorded in Ilex's accounts. All of the irregular expenditure in 2010-11 was paid for and accounted for by OFMDFM. I understand that a further substantial amount has been paid in 2011-12 and I will consider the impact of this expenditure on OFMDFM's accounts during my 2011-12 audit.

5.4.23 I asked OFMDFM and Ilex to explain why this funding arrangement had been established and they told me that the Reinvestment and Reform Initiative (RRI) was launched in May 2002 and aimed to improve Northern Ireland's public infrastructure and address a backlog of investment. As part of the initiative the UK Government agreed to transfer a number of military bases and security sites to the Executive, which included the transfer of Ebrington to OFMDFM. As ownership of Ebrington rests with OFMDFM, it was considered appropriate that Ilex should take responsibility of developing the Parade Ground but that the assets should remain with OFMDFM. Ilex was created to plan and co-ordinate the regeneration of the site within the overall context of the development of the City. It was not necessary for Ilex to own the site itself, given this orchestration role. Ilex is satisfied that it complied with the requirements put in place by OFMDFM to allow the capitalisation of assets onto the accounts of OFMDFM as OFMDFM owned the site.

Expenditure incurred prior to 2010-11 without any approvals in place

5.4.24 There are two projects where expenditure was identified that did not have proper approval but which were not included within my qualified audit opinion as none of the expenditure was incurred during 2010-11:

(i) Strategic Environmental Assessment

In early 2009 Ilex identified that a separate Strategic Environmental Assessment (SEA) would be required as part of the Riverside Master plan for the River Foyle. As this was in addition to the existing scheme, Departmental approval was required. The organisation that completed the Riverside Master plan submitted a quote for £58,750 to complete this SEA and was awarded the contract without a business case being prepared by Ilex and without Departmental approval. This resulted in irregular expenditure of £58,750 being incurred in 2009-10, although no further expenditure was incurred in 2010-11.

(ii) Strategic Riverside Master plan for the River Foyle

In February 2009, the Board of Ilex approved a business case to develop a Master plan for the River Foyle with an estimated cost of £200,000 based on Ilex and another organisation contributing £100,000 each. On 2 April 2009, Ilex approved a revised contribution of £130,000 when it became clear that the other organisation would not be contributing to the project. Ilex did not inform the sponsor Departments or DFP of the original cost or the increased cost until May 2011. The contract was awarded to the successful bidder for £143,000 and was completed in 2009-10 at a cost of £123,362. As Departmental and DFP approval was not granted for this contract, this resulted in irregular

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expenditure of £123,362 being incurred during 2009-10.

Former Chief Executive receiving unapproved bonuses totalling £28,836

5.4.25 The former Chief Executive was appointed on 12 June 2006 on a salary of £110,000 per annum and resigned on 9 March 2009 having also received significant bonuses of £11,154 in 2007, £13,501 in 2008, and £4,181 in a 3 month period ending 6 March 2009. Ilex did not get approval from DFP for the bonuses paid to this Chief Executive and DFP has rejected Ilex's application for retrospective approval. As DFP approval was not granted for the award of these bonuses, irregular expenditure of £28,836 was incurred in the three years to 2008-09.

5.4.26 I asked Ilex why this situation had arisen and what lessons are to be learnt. Ilex stated that the Chief Executive contract had been approved by DFP and the Chief Executive bonuses were paid in line with those specified in the contract and the performance appraisal in place. Ilex has stated that no bonuses have been paid subsequently to staff by the company and that it fully complies with the guidance issued by DFP on bonus payments.

Director's starting salary not approved

5.4.27 A new Director was appointed in September 2010 on an arrangement in which the post was part funded by the Department of Arts, Heritage and the Gaeltacht of the Republic of Ireland. The salary for the post would normally have been expected to have been at the minimum of the equivalent salary range in the NICS which is approximately £57,000; however the Director was appointed on a salary of £80,000. Under the terms of its financial memorandum, Ilex should have submitted a business case for the increased salary level to its sponsor Departments and DFP. A business case was not submitted and I have asked Ilex to ensure that the necessary approvals are put in place as soon as possible and I shall review progress on this matter as part of my 2011-12 audit.

Tax and National Insurance contributions paid on behalf of the Chairman

5.4.28 The Chairman's contract of employment allows for travel expenses to be paid to him from his home to Ilex. These travel expenses were paid by Ilex from 2007-08 without any deduction of tax or national insurance contributions. In February 2011 HM Revenue and Customs determined that as the Chairman was deemed to be an employee paying tax under PAYE arrangements, his place of work was based in Ilex and therefore travel expenses from home to Ilex should have been subject to tax and national insurance contributions. Ilex subsequently paid £30,735 in respect of the taxes due on the Chairman's travel expenses from 2007-08 to 2010-11.

5.4.29 The Chairman's contract does not clearly state whether it is the responsibility of the company to pay these income tax and national insurance contributions or whether, in the absence of specific approval from DSD, OFMDFM and DFP, they should have been paid by the Chairman. I have asked Ilex to consider this matter further with DSD and DFP and I will review the outcome of this as part of my 2011-12 audit.

Post Project Evaluations

5.4.30 Public sector bodies are required to complete proportionate post project evaluations to improve decisions and learn lessons that can be applied to achieve best value for money on future projects. I note that as at 31 March 2011, 27 post project evaluations remain outstanding, including 14 with a value over £50,000 and two with a value over £1 million. Ilex has told me they expect to complete these evaluations by June 2012. I shall review progress on these evaluations as part of my 2011-12 audit.

Consultant's Review of Ilex

5.4.31 On the instructions of both sponsoring Departments, consultants were commissioned to review Ilex and their report in February 2011 raised a number of key recommendations including the need to improve financial management and the need to consider streamlining the sponsoring Department relationship to improve accountability arrangements. Ilex has told me that this Report is being considered by OFMDFM.

5.4.32 I note carefully the draft findings, conclusions and recommendations made in this Report and it is clear that there is much to be done by Ilex and its sponsoring Departments to address the issues identified. I concur with the finding in the report that a single sponsoring Department has advantages, particularly in relation to accountability. I will closely monitor how Ilex and its sponsoring Departments address the recommendations made.

Conclusion

5.4.33 The issues identified in this report have arisen from a systemic breakdown within Ilex in the application of important spending controls. It is essential that Ilex works with its sponsor departments to ensure that it establishes sufficient internal controls to prevent such lapses occurring again. I would expect to see considerable improvement in the application of spending controls in future and I will review progress on this as part of my 2011-12 audit.

5.4.34 In conclusion, my audit of Ilex's financial statements requires me to satisfy myself, in all material respects, that the expenditure and income shown in Ilex's accounts have been applied for the purposes intended by the Northern Ireland Assembly and that the financial transactions conform to the authorities which govern them, that is, that they are 'regular'. As Ilex did not obtain the

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necessary approvals for six projects, this has resulted in irregular expenditure of £404,687 being incurred in the year ending 31 March 2011 and I have decided to qualify my audit opinion on the regularity of this expenditure.

5.5 Belfast Metropolitan College 2010-11

Report on the College's financial challenges

Background

5.5.1 Belfast Metropolitan College (BMC) is primarily funded by the Department for Employment and Learning (the Department/DEL). In 2010-11 BMC had over 40,000 enrolments on full-time and part-time courses making it one of the largest colleges of Further and Higher Education in the UK. There are over 1,000 staff employed by BMC and its annual budget is some £58 million.

Financial challenges

5.5.2 In my previous reports on the 2007-08[15], 2008-09[16] and 2009-10[17] financial statements I commented on the challenges that BMC faced since its formation on 1 August 2007 and noted the outcome of an Efficiency Review[18], which the Department required to investigate its financial circumstances and governance arrangements.

5.5.3 The Efficiency Review findings published in January 2010 contained 72 recommendations, and key issues identified included:

- weaknesses in the performance of the senior management team;
- a significant number of weaknesses in financial controls;
- poor management information;
- little synergy within strategic planning, between corporate planning, curriculum, estate and financial planning, and there was no comprehensive estates strategy; and
- delays in implementing audit recommendations.

5.5.4 Prior to the outcome of the Efficiency Review the Public Accounts Committee[19] raised concerns that the Department was unable to provide it with information about the College's financial position, given its significant financial problems, or a basic explanation on what had gone

15 Financial Audit and Reporting: General Report by the Comptroller and Auditor General for Northern Ireland – 2009.
16 Report of the Comptroller and Auditor General Belfast Metropolitan College 2008-09: Qualification arising from irregular expenditure incurred and other areas of concern.
17 Report of the Comptroller and Auditor General Belfast Metropolitan College 2009-10: Report on the College's financial challenges and irregular expenditure incurred.
18 An Efficiency Review is undertaken in accordance with Article 18 of the Further Education (Northern Ireland) Order 1997 – "The Department may arrange for the carrying out (whether as part of an inspection under Article 102 of the 1986 Order or otherwise) by any person of studies designed to improve economy, efficiency and effectiveness in the management or operation of an institution of further education".
19 Report: 41/08/09R Public Accounts Committee – Review of Financial Management in the Further Education Sector in Northern Ireland and Governance Examination of Fermanagh FE College – Thirteenth Report, Session 2008-09, dated 18 June 2009.

wrong at the College. The Department advised me that following the Efficiency Review the College had completed in October 2010, a comprehensive College Improvement Plan (CIP) covering the areas of Finance, Estates, Curriculum and Staffing. This is aimed at addressing the findings of the Efficiency Review and bringing the College to financial balance. The Plan establishes a revised strategic and financial plan, setting out the range of actions required to stabilise the College's financial position and setting out appropriate targets and performance indicators against which processes can be assessed. The Department monitors the College's performance against the CIP.

5.5.5 The CIP pointed out that the BMC had incurred year on year unplanned trading deficits because it had:

- pursued a strategy of growth including an expansion in the curriculum and the associated staffing and infrastructure needed, despite falling student numbers and DEL funding;
- not reacted quickly or effectively enough to the changing external environment;
- significantly over recruited;
- committed to a number of large scale projects that had a direct impact on the financial stability of the College; and
- indicated some cost reduction activities but these had not translated into tangible outcomes at that time.

5.5.6 The CIP sets out a clear action plan for addressing the issues within the college over a three year period. An overview of these actions together with an update on implementation progress is provided below. These include:

- A comprehensive review and redesign of the Curriculum footprint to deliver an economically relevant and viable curriculum. This was completed in May 2010;
- Significant restructuring and right sizing activity to provide the optimum staffing structure to deliver the revised curriculum. This restructuring plan reviewed and considered staffing throughout the organisation – management, academic and administrative/support. Management and academic restructuring was largely completed by July 2011, resulting in a reduction of over 100 Full Time Equivalents and recruitment to fill vacancies in the management structure. Work is ongoing to restructure the administrative/support structures and it is anticipated that this will be completed within the 2011-12 academic year;
- Update and enhancement of the Management Information System. This was mainly completed in May 2010 but further enhancements are ongoing;

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- Review and revision of the overall college governance arrangements. The review was completed in May 2010 with new structures implemented from September 2010; and

- A detailed review and revision of Human Resources and Finance structures. New structures defined in the CIP are being refined and plans are in place to complete this restructuring during the 2011-12 academic year.

5.5.7 I had raised concerns in my previous reports that senior finance posts were being undertaken by consultants and temporary staff, particularly since the Efficiency Review had noted skills gaps within the finance function, and concluded that the capacity constraints in that department must be addressed immediately. I note a Chief Operating Officer and a Head of Finance were appointed in February and June 2011 respectively. BMC told me that plans are well advanced with regard to the further restructuring of the finance function which is expected to commence in late 2011. In addition to this, detailed work was undertaken to review, revise and update finance policies and procedures. These have been reviewed by the College's Internal Auditors and deemed fit for purpose. A rolling training programme for all staff with budgetary responsibility is being organised to reinforce these revised policies and procedures to raise financial management awareness, with initial training completed in September and October 2011.

BMC made an operating deficit[20] of £6.3 million during 2010-11. The net cumulative operating deficit since its formation in 2007-08 is £14.8 million. The operating deficit for 2010-11 includes exceptional costs relating to redundancies of £3.2million and other one off costs relating to the Titanic Quarter project of £1.6million. The underlying deficit after these one off adjustments would therefore be £1.5million. In 2009-10, BMC made an operating surplus of £416,000 but this included a one-off technical accounting adjustment for pension liabilities of £2.8 million. Without this adjustment, the operating deficit would have been £2.4 million. BMC made an operating deficit of £2.6 million in 2008-09.

5.5.8 The CIP set out a number of efficiency measures that BMC proposes to implement, including changes to the curriculum in order that it may reduce operating deficits. In November 2010 the College announced that it expected redundancies of approximately 150 Full Time Equivalents (FTE's) to be necessary. By September 2011 in excess of 120 FTE's redundancies had occurred with work ongoing to complete the overall restructuring programme during 2011-12 as set out in the CIP.

5.5.9 The deficit for 2010-11, together with the current financial forecasts for the next

20 Operating surpluses/deficits represent the financial results for the year after account of all costs, including depreciation based on the revalued amount of fixed assets. The Department however currently monitors the financial performance of Further Education Colleges on the basis of Historical Cost surpluses/deficits which calculate depreciation costs based on historic cost rather than on the higher revalued amount of fixed assets used in establishing the operating surplus/deficit. The Historic Cost deficit in 2010-11 was £4.9 million and giving a cumulative Historical Cost deficit of £8.4 million since the College's formation in 2007-08.

3 years is in line with the CIP. BMC told me that this did not forecast a college surplus in the first 2 years. This is due to the time taken for the impact of the savings from the restructuring to be evident in the financial results (estimated to be in the range of £7 million per annum from 2012-14) coupled with the fact that the College also had to meet exceptional costs relating to redundancies and the procurement of equipment for its new premises in Titanic Quarter and E3 (enterprise, employability and entrepreneurship) project on the Springvale campus during the period 2010 to 2011.

5.5.10 I asked the College when it expected to reduce its underlying deficits to an acceptable level. BMC told me that it expects to achieve this by November 2013.

5.5.11 Actual performance is behind the CIP forecast due to a delay in finalising and agreeing the CIP which meant that the restructuring programme could not commence until February 2011 although it had originally been expected to commence in September 2010. This was further compounded by challenges in attracting and retaining full time students in some key areas. The College told me that action has been taken to address these challenges, as far as possible, with the restructuring programme expected to complete during 2011-12 and a revision of the College promotion and enrolment programme to facilitate meeting student numbers in future years.

Conclusion

5.5.12 The significant level of deficits incurred by BMC since its formation represents one of the most serious examples of financial difficulty I have found in the public sector. I note that the College is making progress in improving its financial position through the development and implementation of the College Improvement Plan. I will continue to monitor the progress of the College in implementing the College Improvement Plan which addresses the recommendations of the Efficiency Review, and in particular the progress made in seeking to achieve the financial stability of the College.

5.5.13 A value for money investigation into the Titanic Quarter capital project is underway and I will report my findings in due course.

5.6 Northern Ireland Library Authority 2010-11

5.6.1 Under the Libraries Act (Northern Ireland) 2008 I am required to examine, certify and report on the financial statements of the Northern Ireland Library Authority (NILA). I have qualified my audit opinion on the NILA financial statements for 2010-11 for the reasons set out below. I have also reported on Honoraria payments although I have not qualified my opinion in this respect.

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A. Stock Assets

Background

5.6.2 NILA has included in its financial statements Stock Assets (Note 15) with a Net Book Value (NBV) of £12.9 million to reflect a valuation by professional valuers in 2006. In 2010, these Assets were referred to as Valuable Books Collections and were also valued at £12.9 million. Stock Assets consist of collections of rare and/or fine books and pamphlets to be retained for use by future generations because of their cultural and/or historical associations. The Education and Library Boards (ELB's) were responsible for libraries prior to the formation of NILA on 1 April 2009 but Stock Assets were not considered a material item within the financial statements of ELB's. The valuation issues that are the subject of this report arise because the Stock Asset collections, transferred to NILA from the five ELB's, are considered a material asset within the NILA financial statements.

5.6.3 Prior to the formation of NILA there was no uniform definition of a Stock Asset or a consistent policy for the valuation of Stock Assets across Northern Ireland. The Belfast ELB valued books with a value of £250 or greater whereas the other ELB's included a category within their valuations for books valued at less than £250. The total value of books below £250, for the other ELB's is included in the financial statements at £2.6 million. NILA has been unable to determine an equivalent figure for Stock the Belfast ELB. The adoption of an appropriate accounting policy for Stock Assets (including a valuation approach) and its application across all libraries should have been considered during the formation of NILA.

5.6.4 In accordance with International Financial Reporting Standards (IFRS), and the Government Financial Reporting Manual (FReM), a valuation of Stock Assets should have been carried out in March 2011. This did not occur and the 2006 valuation has been rolled forward.

5.6.5 A Stock Assets working group has been established to address all the issues around Stock Assets, including an accounting policy, location and valuation of Stock Assets. NILA carried out a tendering exercise in July 2011 with the aim of appointing a contractor to perform the valuation of the Stock Assets. However this was unsuccessful and did not result in a contractor being appointed. NILA has informed me however, a tendering exercise, completed in September 2011, with a revised timescale will see the valuation available for March 2012.

5.6.6 In the Statement on Internal Control, the accounting officer has stated that a project has been established to develop coherent policies and procedures to underpin the Stock Asset collection prior to carrying out an up-to date valuation. I am satisfied that NILA is taking all reasonable steps to address this issue, however I expect the limitation in my audit opinion to remain until the valuation issue is resolved.

5.6.7 There were no procedures I could have undertaken as part of my audit to satisfy myself regarding completeness and accuracy of these assets. In the Statement on Internal Control, the Accounting Officer has referred to the incompleteness and inaccuracies in the valuation of the Stock Asset collections.

Conclusion

5.6.8 As there is significant doubt over the accuracy and completeness of the valuations of Stock Assets, I have qualified my audit opinion as a result of a limitation in the scope of my audit. I will keep NILA's actions and progress in resolving this matter under review.

B. Honoraria Payments

Background

5.6.9 Two staff members have been receiving an Honorarium in respect of acting up responsibilities due to the long term absence of a colleague in a higher grade. These Honoraria payments were first paid in October 1999 by the Southern Education and Library Board (SELB) and continued until March 2011 when they were stopped by NILA. The total amount paid is approximately £18,000, of which £2,000 was paid in the year to 31 March 2011.

5.6.10 Honoraria payments require the approval of sponsor departments and the Finance Minister. Although the staff involved transferred to NILA under a Transfer of Undertakings (Protection of Employment) Regulations (TUPE) arrangement, the continuation of the payments by NILA would still require DFP approval. These honoraria payments also breached NILA's guidance "Guidelines for the Payment of Temporary Allowance", which states that "honoraria payments should not exceed six months". DFP approval is currently being sought by NILA.

5.6.11 NILA identified the payments early in 2010 and a decision was taken in August 2010 to keep the current arrangements in place until a review had been carried out. Following this review, the honorarium payments stopped on the 31st March 2011. It is of concern that this review was not undertaken much earlier. NILA has confirmed there were no other such cases.

Conclusion

5.6.12 As DFP have not granted approval in respect of the Honorarium payments, there is currently no authority for this expenditure. I have not qualified my opinion on this matter as NILA is currently seeking retrospective approval for this expenditure, which, if granted, would regularise the expenditure.

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5.7 Report on Education and Library Board (ELB) Accounts 2009-10 and 2010-11

Introduction

5.7.1 I qualified my financial and regularity audit opinion on each of the Education and Library Board's 2009-10 and 2010-11 accounts for two reasons:

- the payment of honoraria to teaching and non-teaching staff totalling £576,000 in 2009-10 and £514,000 in 2010-11 without proper approvals from the Department of Education (the Department) and Department of Finance and Personnel; and
- a limitation of the scope on my work in relation to the comparative figures included in the accounts for the each of the Board's pension liabilities. This arose due to technical accounting issues following the transfer of staff from the ELBs into Libraries NI and does not suggest any irregularity or impropriety.

5.7.2 My opinion on the 2010-11 accounts of the ELBs was also qualified because of the implementation of an incremental pay award to non-teaching staff without proper approvals from the Department or DFP.

Regularity qualification arising from the payment of honoraria

5.7.3 In October 2010 the Department carried out detailed work to ensure that all payments made by it and its Arms Length Bodies (ALBs) had been appropriately approved and had DFP approval, if required. This work identified that Education and Library Boards and schools had recorded payments of honoraria to both teaching and non-teaching staff without obtaining the necessary prior approval of both the Department and DFP. In the absence of these approvals these payments were irregular and I therefore qualified my regularity opinion on each of the ELB accounts in this respect.

5.7.4 Two main types of honoraria were paid:

(i) Honoraria paid to non-teaching staff

As disclosed by each of the ELBs in their Statement on Internal Control, the administration of a vacancy control policy and the necessity to provide temporary cover for staff on sick leave, has meant that in a large number of cases non-teaching vacancies have been filled by arranging for staff to act up to a higher staff grade or take on additional responsibilities. The payments were considered to be necessary because the conditions of service of ELB staff require that consideration is given to making discretionary payments to officers performing additional duties to their substantive post. However as these payments were not approved in advance by the Department and DFP they were irregular. The total amounts paid by each of the ELBs are shown in **Figure 21**.

(ii) Honoraria paid to teaching staff

Honoraria were also paid to teachers to compensate them for additional duties, typically additional extra-curricular activities, which were deemed to fall outside their standard teaching allowance. As for the payments made to non-teaching staff, Departmental and DFP approval was not obtained before the payments were made and were irregular. The total honoraria paid to teaching staff is shown in **Figure 22**.

Figure 21: Honoraria paid by ELBs to non-teaching staff

Board	2009-10 Number of staff	2009-10 Amount paid (£)	2010-11 Number of staff	2010-11 Amount paid (£)
Belfast	22	50,860	27	63,782
North Eastern	42	78,767	31	59,098
South Eastern	36	107,883	35	101,694
Southern	26	73,473	28	91,229
Western	32	64,442	38	76,794
Total	**158**	**375,425**	**159**	**392,597**

Source: ELB accounts 2009-10 and 2010-11

Figure 22: Honoraria paid by ELBs to teaching staff

Board	2009-10 Number of staff	2009-10 Amount paid £	2010-11 Number of staff	2010-11 Amount paid £
Belfast	48	45,136	19	9,095
North Eastern	23	66,186	103	64,582
South Eastern	25	21,242	12	9,322
Southern	49	61,211	20	27,083
Western	7	6,582	9	11,107
Total	**152**	**200,357**	**163**	**121,189**

Source: ELB accounts 2009-10 and 2010-11

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5.7.5 The Department has now agreed a policy with DFP to oversee the administration of payments to non-teaching staff relating to temporary acting-up appointments or the undertaking of additional duties and responsibilities in each of its ALBs which is expected to regularise any such payments made in 2011-12, subject to the requirements of the policy being followed. The Department has also agreed a similar policy with DFP in respect of payments to teaching staff and this policy has been in place from September 2011.

5.7.6 I intend to closely examine the operation of these new policies during my audit of the 2011-12 accounts of the ELBs.

Regularity qualification arising from the implementation of an incremental pay award in 2010-11

5.7.7 A further issue on which I qualified my regularity opinion in 2010-11 was in relation to incremental salary increases which were paid to non-teaching staff from 1 April 2010 but were not approved by the Department and DFP as required by each of the ELB's financial memoranda.

5.7.8 The 2010-11 pay award was approved by DFP in December 2011 but did not provide retrospective approval for payments made prior to this date. Therefore payments of incremental salary increases in 2010-11 were considered to be irregular. The incremental salary increases have continued to be paid in 2011-12 and this may have a further impact on my regularity opinion in that year. The total amounts are shown in **Figure 23**.

Figure 23: Salary increments paid by ELBs to non-teaching staff

Board	Salary increment in 2010-11 £
Belfast	640,000
North Eastern	551,518
South Eastern	723,851
Southern	631,600
Western	295,664
Total	**2,842,633**

Source: ELB accounts 2010-11

Limitation of scope in relation to comparative pension liability figures

5.7.9 The creation of Libraries NI on 1 April 2009 meant that a number of staff transferred out of the ELBs into this new body. Under machinery of government accounting rules this meant that comparative figures in the accounts had to be restated to exclude the transferred staff.

5.7.10 In relation to the 2009-10 accounts the pension liability for the two comparative years of 2008 and 2009 had to be restated and the actuaries were asked to revisit their previous valuations and recalculate the pension liability excluding the staff that had transferred to Libraries NI. Unfortunately when the liability was recalculated the actuary also updated some of the assumptions that had been used in the original 2008 and 2009 valuations to bring them into line with the actual experience. This revision of assumptions relating to accounting years that have already been closed is not allowed under International Accounting Standards. Specifically IAS 8 paragraph 34 states that changes in accounting estimates (such as a pension liability) because of new information, more experience or subsequent developments should not result in adjustments to prior periods.

5.7.11 It was not possible, without further work being commissioned from the actuary, to revise the pension liabilities in 2008 and 2009 to the original assumptions and therefore I qualified my opinion in 2009-10 to reflect the fact that the scope of my work was limited by not being able to obtain appropriate audit evidence to correctly state the comparative figures associated with the 2008 and 2009 pension figures contained within each of the ELB financial statements.

5.7.12 My opinion on the 2010-11 accounts was also qualified because of this issue as the problem with the pension liability in 2009 had a knock on effect on comparative figures included in the statement of comprehensive net expenditure.

5.7.13 It is important to note this qualification only related to the comparative figures in prior years and that I was able to obtain appropriate evidence for all other figures in the accounts. In addition the qualification related to technical accounting issues and did not suggest any irregularity or impropriety.

5.8 Summary of our Review of Northern Ireland Transport Holding Company/Translink Corporate Governance Arrangements

Background

5.8.1 The Northern Ireland Transport Holding Company (NITHC) is a public corporation established under the Transport Act (NI) 1967 to oversee the provision of public transport in Northern Ireland. It took over the railway and bus activities of the former Ulster Transport Authority (UTA) in 1967 and in 1973 the bus services of the former Belfast Corporation Transport Department. Translink is the brand name for the corporate group, which includes NITHC and the three operating companies, Citybus (trading as Metro), Ulsterbus and Northern Ireland (NI) Railways. These companies operate scheduled bus and rail services in a co-ordinated way, and are managed by a single integrated Executive Team and a common board structure where Board members of NITHC are also Board members of the separate subsidiary companies.

5.8.2 The Board of NITHC is responsible to the Department for Regional

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Development (DRD) for the operation of its subsidiary companies, Citybus, Ulsterbus and NI Railways, which deliver most public transport services in Northern Ireland. Its role is set out in legislation and involves the setting and securing of the strategic direction and proper governance of these main subsidiary companies. It includes the holding and managing of the properties vested in it and any other properties acquired by it and the exercise of rights attached to such properties, including the group car parks and buildings.

5.8.3 As at November/December 2009, the NITHC Board consisted of a Non-Executive Chair, six Non-Executive Directors and two Executive Directors. The Non-Executives are appointed by Government for a renewable term of three years. The Executive Directors currently represented on the Board are the Chief Operating Officer and the Group Chief Executive. NITHC procure private sector firms to undertake its external and internal audit functions, with an element of the internal audit function being resourced by in-house staff.

Introduction

5.8.4 Changes to audit legislation in 2001 removed restrictions to the Comptroller and Auditor General's access to NITHC and in 2007 NIAO produced a report on the 'Upgrade of the Belfast to Bangor Railway Line' which raised a number of Corporate Governance issues with regards to NITHC/Translink.

5.8.5 In recent years, there has been an increasing focus on strengthening governance in the public sector as a means of improving the capability of public bodies to deliver high quality public services. These developments have been analogous to the developments in corporate governance in the Private Sector and there is significant overlap between the models used, particularly where a public sector body also has company status.

5.8.6 During November/December 2009, we carried out a review which involved an assessment of governance processes and supporting evidence. We did not conduct an audit of transactions but, where issues arose from our review of governance arrangements, for instance, from points raised in Board minutes, we reviewed supporting documentation.

5.8.7 This review was carried out some four years after the Belfast Bangor review, and in light of the renewed emphasis on this aspect of public sector accountability. It covered the following governance arrangements that were in place in November/December 2009:

- The oversight arrangement and monitoring by DRD
- The appointment of Board members
- Audit Committee and Internal Audit
- Risk Management

- Provision and acceptance of hospitality
- Procurement
- Staff Remuneration

5.8.8 The Department has notified us of changes to the NITHC governance arrangements since the 2009 review. These are detailed in the main report.

Summary of the Key Findings

5.8.9 The need to promote and encourage good corporate governance within public sector bodies in Northern Ireland has been underscored by several high profile cases at the Northern Ireland Tourist Board, Education and Library Boards, LEDU, the Northern Ireland Events Company, and, since the fieldwork for this review was conducted, at Northern Ireland Water.

5.8.10 Both NITHC and the DRD Sponsor Branch have made a number of improvements to their governance arrangements in recent years. DRD representatives from the Sponsor branch now sit on some project boards, and also attend the Audit Committee. The Audit Committee has its own 'Terms of Reference', a review of the Management Statement/Financial Memorandum was undertaken by consultants and an assurance framework has also been set up to provide the NITHC Accounting Officer with assurance that the system of internal control is operating effectively.

5.8.11 Whilst acknowledging these improvements, our review in 2009 also identified some areas of weakness. In all, we made 28 recommendations following the review. Of these, 25 were accepted by DRD and, based on Department responses, most of these have now been implemented or partially implemented. A summary of the Key Findings that were accepted including their current position is:

i. We have recommended enhanced monitoring of NITHC by DRD through more timely reviews of Board, Audit Committee and internal audit documents. We have been informed by the Department that appropriate arrangements are now in place.

ii. DFP approval was not obtained on a significant capital project - Strabane Bus Depot. Work on this capital project was completed in May 2007 but at the time of our review, this had still not received DFP approval. The retrospective request, at the time of our review, was still with DFP awaiting approval. DRD have informed us that DFP have since advised that it is not its practice to issue retrospective approval in cases like this, but had the final business case been submitted in advance, it would have received approval as representing value for money. We were only made aware of this irregularity issue in November 2009 when conducting this review. The Department commented that it is not aware of any further

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examples of non compliance with the Management Statement and Financial Memorandum conditions since this occurred.

iii. In October 2008, as part of NITHC Board discussions of contingency plans to correct future deficits, consideration was given to standing down a specific category of train that was being refurbished, as they were expensive to run. At the time of its consideration, the Board was informed that, as capital expenditure had already been incurred and further expenditure was planned, there might be the possibility of nugatory expenditure. At this meeting, the Board acknowledged their full support for a range deficit reduction plans discussed, including this one. On 30th October 2008, the Department raised similar nugatory expenditure concerns with NITHC over the proposed course of action, citing "potential issue surrounding any previous departmental funding used to purchase and refurbish" this set of trains. At the NITHC Board meeting in November it was advised that the trains would not be stood down as it had been agreed to complete the refurbishment work on the trains to enable them to be deployed on a number of routes and be available as a back-up reserve. NITHC could not provide any documentation showing the decision making process that resulted in this change of position. Recommendation 13 of the 2007 PAC Report on 'The Upgrade of the Belfast to Bangor Railway Line', stated that NITHC should fully document the basis for all significant strategic decisions which are made by the Board to ensure an adequate decision trail is in place. NIAO have been told by the Department that NITHC has confirmed that appropriate actions have been taken since.

iv. We have made recommendations to improve processes for dealing with fraud, whistle-blowing, and conflicts of interest. The Department has told us that these have all been implemented.

v. At the time of our review in 2009, the audit certificate provided by the external auditors with the NITHC Annual Report and Accounts was in line with the private sector requirements. This type of certificate differs from a public sector certificate in that it does not give an opinion by the external auditor over the regularity of transactions. We recommended that the Sponsor Branch sets the addition of a regularity opinion to the external audit certificate as a requirement for NITHC. This has now been actioned and an unqualified regularity opinion was given for the NITHC financial statements in 2010-11 and 2011-12.

vi. Internal Audit Branch within DRD published a report, on 21st May

2009, entitled the "Review of Translink Internal Audit: - External Quality Assessment Framework Review". In this report, a number of areas for improvement were identified and recommendations provided. We have been informed by the Department that these recommendations have now been fully implemented.

vii. An independent report on the workings of the Group Remuneration and Pensions Committee highlighted that a contract with the committee's pension advisers had not been re-tendered for a number of years. Further investigation highlighted that the current providers have been in place for at least 20 years. We recommended that NITHC tender for this service as a matter of urgency and that the Board seek details of any other incidences of non-compliance with procurement policy. The Department informed us that this specific service was competitively tendered in September 2010 and that procurement action plans are currently being implemented.

viii. A number of separate economic appraisals were approved by NITHC and the Sponsor Branch between the period July 2008 to January 2009, which in turn led to sixteen contracts being awarded to five different suppliers for the supply and installation of CCTV at eight different NITHC depots. There was no evidence to suggest that a strategic view was taken by either NITHC or the Sponsor Branch to amalgamate these contracts into one tender and potentially obtain savings through economies of scale. We recommended that the Sponsor Branch assess economic appraisals on a strategic basis and consider how value for money can best be achieved across the whole of NITHC on contracts that have the same or similar requirements. The Department told us that Translink Internal Audit and procurement staff have reviewed procurement practices and developed an action plan to meet best practice standards.

ix. In the 2008-09 NITHC Annual Report and Accounts, the external auditors raised the issue of 'Going Concern' and suggested this as an area to be monitored. NIAO noted that this risk was not included on the DRD Sponsor Branch or Corporate Risk Registers. We recommended that this risk was included on the Sponsor Branch Risk Register and that the Departmental Board was formally made aware of the auditor's concerns and assessed the impact of any going concern risk to the Department.

5.8.12 There were three recommendations that were not fully accepted by the Department. These covered the areas of car park investments, hospitality and bonuses. We believe that further consideration should be given to the recommendations made.

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i. NITHC still owns and manages three multi-storey car parks in Belfast, two of which are associated with public transport facilities. This, in our view continues to present some conflict of interest for the company whose main objective should be the provision and promotion of public transport. The Department does not agree and told us that under the transport legislation which established NITHC, they are allowed to own car parks. We recognise that NITHC's legislative remit allows it to act as if the Holding Company were a company engaged in a commercial enterprise. We also note the contributions to NITHC from the city centre, multi-storey car parks. However, in our opinion, owning and managing multi-storey car parks in Belfast City centre conflicts with the promotion and use of public transport.

ii. In the area of hospitality, we have noted that retirement functions within NITHC, continued to be funded from the public purse, ceasing in 2009-10. This was contrary to DFP guidance on the issue, which itself arose from PAC recommendations after 'The Upgrade of the Belfast to Bangor Railway Line' NIAO report. Other hospitality issues were also noted.

iii. In 2008-09, NITHC made additional payments to 202 members of staff from the Managerial, Professional and Technical Grade (MPT) totalling £843,000. In the current economic climate where bonuses are coming under increasing scrutiny, both NITHC and DRD need to be aware of public perception. NITHC have stated that payments are part of salary however, in our opinion, as the receipt of this element is conditional on performance, it meets the definition of a bonus. The remuneration packages provided to MPT staff should be restructured by NITHC to provide greater clarity on this issue.

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6.1 Prompt Payment of Invoices Review

Introduction

6.1.1 Public Sector organisations are required to pay invoices promptly. They are bound by The Late Payment of Commercial Debts (Interest) Act 1988 (as amended by the Late Payment of Commercial Debt Regulations 2002 (SI 1674)). This provides suppliers with a statutory right to claim interest on late payments of commercial debt. Payment is regarded as late if made outside the agreed terms, or 30 days after receipt of a valid invoice where no terms are agreed.[21]

6.1.2 My review includes a comparison of Central Government Departments (including any executive agencies consolidated in the departmental accounts), Health and Social Care Trusts, and Education and Library Boards. I have included data relating to Local Councils for comparison purposes. The Chief Local Government Auditor will provide a more detailed analysis of Local Councils' performance in her Report which will be published later this year. It is my intention to review information relating to Northern Irelands' other Arms Length Bodies and Non-Departmental Public Bodies in future studies.

6.1.3 Central Government bodies have been required to disclose details of their payment practice policy and annual payment performance of paying invoices within 30 days of receipt since 1998. In addition to the 30 day target, a 10 day administrative target was introduced by the Finance Minister in 2008 as a commitment to speed up the payments process (Annex A). This requires all Central Government Departments, agencies and non-departmental public bodies to pay suppliers, where possible, within 10 working days of receiving a valid invoice. This target aims to encourage and promote best practice between organisations and their suppliers and to help the cash flow of businesses, especially in the current economic climate. Councils in Northern Ireland are not subject to this DFP guidance. Despite there being no requirement for Local Councils to disclose prompt payment performance, they agreed to include a prompt payment note in their accounts from 2009-10 onwards. In June 2012, the Local Government Policy division within the Department of the Environment (DoE) issued guidance[22] recommending that Local Councils work towards the DFP targets.

6.1.4 Northern Ireland has not followed the Budget 2010 announcement that all central government departments should aim to pay 80 per cent of all undisputed invoices within five days and to publish prompt payment performance data online and in their resource accounts[23].

21 In 2010-11, a total of £9,034 was paid by public sector organisations, including Local Councils, as a result of interest and fees charged under this legislation. This increased to £12,069 in 2011 -12. Given the number of invoices being paid late as outlined in this report it would appear that creditors are reluctant to pursue public sector organisations for interest on late payments of debt.

22 LG Circular LG 17/12

23 Paragraph 4.25 Budget 2010 (March 2010)

6.1.5 The measurement of prompt payment performance should be calculated as follows:

(a / b) x 100

Where:

a = Number of invoices for commercial goods and services paid within X days of receipt of a valid invoice (where X is 30 calendar days or 10 working days)

b = Total number of valid invoices paid

6.1.6 When carrying out this review I found that prompt payment information is not being calculated and reported on a consistent basis across the public sector. Some public sector bodies publish 30 day figures, others 10 day figures and some report on both. The majority of Local Councils report their performance in average payment days rather than stating the percentage of invoices paid within 30 or 10 days. Some Local Councils use the invoice date, rather than the date the invoice was received to calculate their figures. The calculation differs slightly for the Health and Social Care Trusts – see paragraphs 6.1.28 and 6.1.29.

6.1.7 There are also varying practices regarding where bodies report their prompt payment performance in their Annual Reports. Some bodies disclose the information within the Management Commentary section, others in notes to the financial statements.

Recommendation

It is important that prompt payment performance is calculated and reported on a consistent basis across the public sector.

6.1.8 Furthermore, given recent concerns, highlighted by the Finance Minister, regarding main contractors being paid promptly by public bodies but not passing payments on to subcontractors in good time, public bodies should encourage contractors to adopt the prompt payment principles throughout their own supply chains. In January 2012, the Finance Minister warned[24] that subcontracting firms may be under threat because of payments being "unreasonably withheld" by main contractors. He highlighted one case where payment to a subcontractor was delayed by 17 months, and emphasised the danger that this created for small to medium sized enterprises that are vulnerable to cash flow difficulties. In July 2012 the Central Procurement Directorate (CPD) issued a Procurement Guidance Note to advise the Northern Ireland Public Sector on the issue of "Helping Small and Medium-Sized Enterprises Benefit from Subcontracting Opportunities in Government Contracts". This guidance recommends that "Departments seek to ensure that contractors' supply chain partners are treated equitably and invoices paid promptly". It also advises that contract conditions should contain payment settlement terms of "not more than 30

24 'Government Contracts: Payment of Sub-Contractors', p16 Official Report (Hansard) 16th January 2012, Volume 71, No 1

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days, both for the contractor by the Department, and for subcontractors by the contractor". Public sector bodies should follow CPD guidance to ensure that smaller organisations working in a supply chain do not experience delays in payment of invoices.

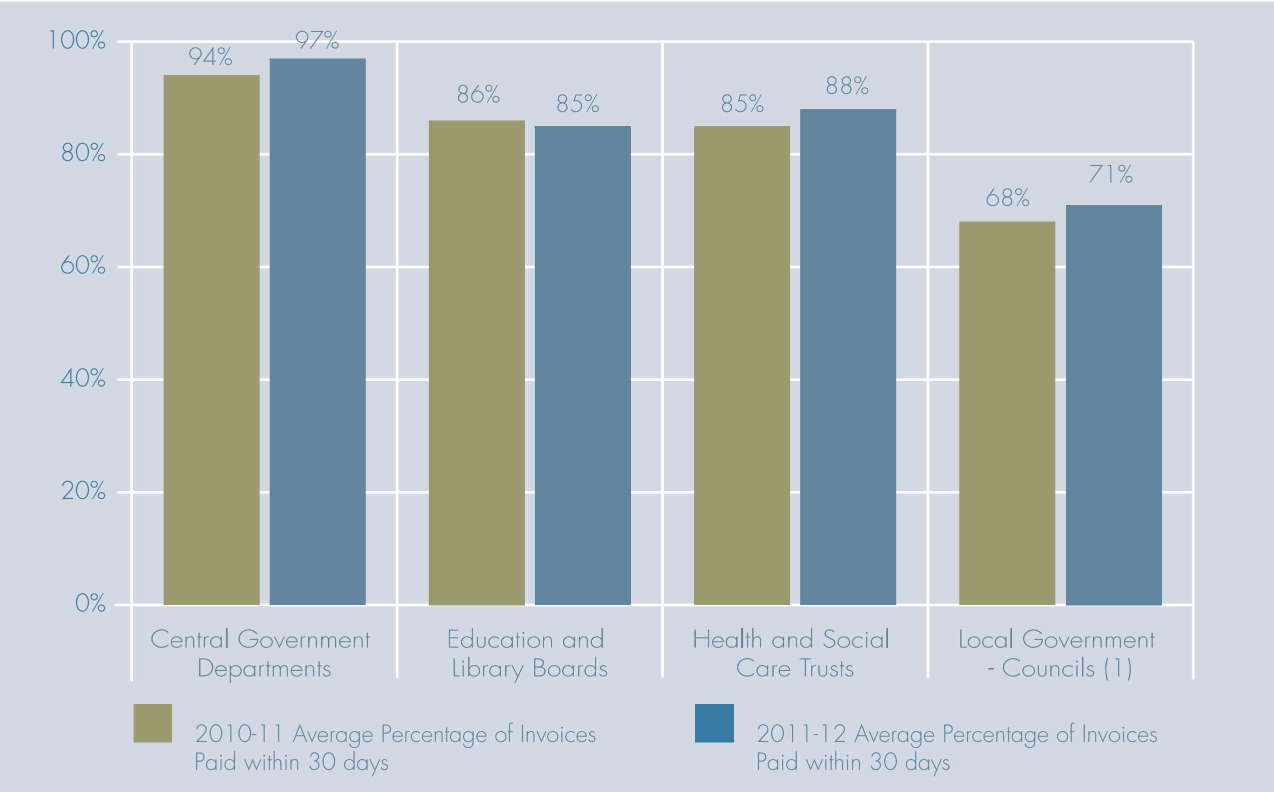
Comparison of Northern Ireland Sectors

6.1.9 The systems in place to collect prompt payment data vary across all sectors with some systems providing more complete and accurate information than others.

30 Day Target

6.1.10 The performance of the Central Government Departments, Health and Social Care Trusts, Education and Library Boards and Local Councils against the 30 day target is varied. The averages for each sector are set out in **Figure 24**.

Figure 24: Comparison of 30 day payment performance across the NI Public Sector



Source: Annual Reports and information obtained direct from bodies – See relevant section for each sector for further details.

1. 2010-11 data excludes four councils due to information not being available. 2011-12 data excludes two councils due to information not available.

6.1.11 Central Government Departments had the best prompt payment performance in both years, paying an average of 94 per cent of valid invoices within 30 days in 2010-11, and 97 per cent in 2011-12. Thus, in the last year Central Government Departments, as a whole, improved their prompt payment performance by 3 per cent.

6.1.12 The Education and Library Boards (ELBs) and Health and Social Care Trusts (HSC Trusts) reported similar achievements of the 30 day target, with their averages being 86 per cent and 85 per cent respectively in 2010-11. In 2011-12, the ELBs performance fell by 1 per cent to 85 per cent, whereas the HSC Trusts rose to 88 per cent in that year.

6.1.13 Collectively, Local Councils paid the lowest percentage of valid invoices within 30 days, averaging 68 per cent in 2010-11 and 71 per cent in 2011-12. This is well below the performance of the other public sector bodies in Northern Ireland. However, it is important to note that although Councils are bound by the Late Payment of Commercial Debt Act, guidance was not issued to Local Councils by DoE until 2012. This guidance recommended that bodies should ensure that all invoices are paid within 30 calendar days and encourages Councils, where possible, to pay invoices within 10 working days and report their performance on this going forward.

6.1.14 Internal ELB targets require at least 85 per cent of non-disputed invoices to be paid within 30 working days. Therefore, despite falling behind the performance reported by Central Government Departments, the ELBs, on average, met their internal target in 2010-11 and 2011-12.

6.1.15 I previously reported on prompt payment practice and performance in the Education Sector in my General Report published in May 2009. Although this sector still lags, I am pleased to note that performance in ELBs has improved since my report was published. Further details are provided in Section 6.1.38 to 6.1.46.

10 Day Target

6.1.16 The performance of each sector against the 10 day target is set out below in **Figure 25**.

6.1.17 The figures show a large gap in terms of performance in making payments within 10 days over the past two years, especially between Central Government Departments and Local Councils. For example in 2011-12, the Central Government Department average was 89 per cent, whereas Local Councils had an average of 28 per cent of valid invoices being paid within 10 days.

6.1.18 A comparison of the performance for 2010-11 and 2011-12 shows that Central Government Departments have improved in their achievement of the 10 day prompt payment target – moving

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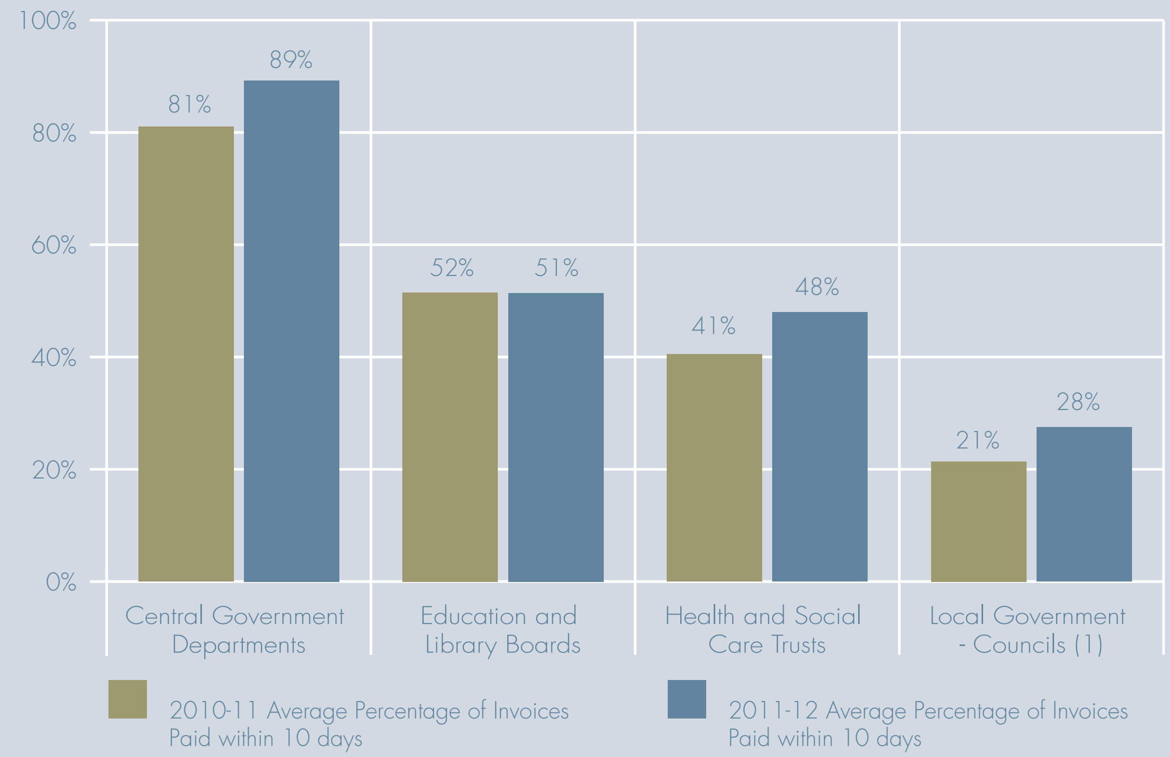
Figure 25: Comparison of 10 day payment performance across the NI Public Sector



Source: Annual Reports and information obtained direct from bodies – See relevant section for each sector for further details

1. 2010-11 data excludes four councils due to information not being available. 2011-12 data excludes two councils due to info not available. Local Government figures are slightly lower than actual due to a number of Councils calculating their 10 day Prompt Payment figures on a calendar day, rather than working day basis. It would be expected that if it were possible to recalculate their figures on the working day basis, the results would increase their percentages by a few percent.

from 81 per cent of valid invoices being paid within 10 days in 2010-11, to 89 per cent.

6.1.19 Disappointingly, the ELBs failed to improve their payment performance, not making any progress in enhancing their achievement of the 10 day target. ELBs have an internal target to pay 50 per cent of all non-disputed invoices within 10 working days which was achieved in both years. In my view, this target is not sufficiently challenging and is not in line with the 10 day target introduced by the Finance Minister in November 2008.

6.1.20 The HSC Trusts' performance improved by seven per cent between 2010-11 and 2011-12. However they are still significantly behind Central Government Departments performance levels, with only 48 per cent of valid invoices paid within the 10 day target compared to 89 per cent in Central Government.

6.1.21 As was the case with the 30 day payments, Local Councils achieved significantly lower percentages when compared to other public sector organisations in Northern Ireland with only 21 per cent of valid invoices being paid within 10 days in 2010-11. This increased to 28 per cent in 2011-12. Guidance issued by DoE in 2012, in addition to setting a 30 day target, encourages Councils, where possible, to pay invoices within 10 working days and report their performance on this going forward.

Average Number of Invoices Paid per Body

6.1.22 The number of invoices that an organisation pays annually may be a contributing factor in the achievement of the 10 and 30 day payment targets. **Figures 26** and **27** summarise the average number of invoices paid in 2010-11 and 2011-12, per body, in each sector. In both years the HSC Trusts and ELBs paid around 80-90 per cent more invoices on average, per body, than Central Government Departments and Local Councils. The Local Councils on average paid considerably fewer invoices, per body, than the other organisations, yet had the poorest performance for prompt payment of invoices.

Figure 26: Annual invoices paid on average per body in each sector 2010-11

	Average Annual Number of Invoices Paid per Body:
Central Government Departments	19,590
Health and Social Care Trusts	139,406
Education and Library Boards	122,901
Local Government - Councils	11,078

Source: Account NI data and direct from organisations

Figure 27: Annual invoices paid on average per body in each sector 2011-12

	Average Annual Number of Invoices Paid per Body:
Central Government Departments	19,452
Health and Social Care Trusts	146,750
Education and Library Boards	113,288
Local Government - Councils	11,096

Source: Account NI data and direct from organisations

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Central Government Departments

30 Day Target

6.1.23 The performance of Central Government Departments against the 30 day target is set out at **Figure 28**.

6.1.24 In 2010-11, every Department, apart from DHSSPS, paid at least 90 per cent of their invoices within the 30 day target. DCAL had the best performance, achieving an average of 96 per cent of valid invoices being paid within 30 days. DHSSPS marginally fell behind the other central government departments, paying 89 per cent of valid invoices within 30 days of receipt.

6.1.25 In 2011-12, almost all departments improved on their 2010-11 performance, all Departments paying at least 94 per cent of valid invoices within 30 days and six departments achieving 98 per cent – DETI, DSD, DCAL, DE, DRD and DOJ. It is also reassuring to note that DHSSPS made a significant improvement in 2011-12, paying 94 per cent of valid invoices within 30 days.

10 Day Target

6.1.26 As can be seen from **Figure 29**, there have been steady improvements made by departments since 2010-11 in meeting the 10 day target. Eight of the departments, DFP, DEL, DETI, DSD,

Figure 28: Percentage of Valid Invoices Paid within 30 Days by Central Government Departments

	Invoices Paid Within 30 Days (%) 2010-11	Invoices Paid Within 30 Days (%) 2011-12	Improvement (+/- %)
DFP	95	96	+1
OFMDFM	91	95	+4
DEL	93	96	+3
DETI	95	98	+3
DHSSPS	89	94	+5
DSD	95	98	+3
DARD	93	96	+3
DCAL	96	98	+2
DE	95	98	+3
DoE	94	96	+2
DRD	91	98	+7
DOJ[25]	99	98	- 1

Source: Annual Accounts for each department.

25 DOJ figures include figures from the NI Courts & Tribunals Service which have been calculated on a working day basis. The invoices affecting the calculation account for approximately one quarter of all DOJ invoices in 2011-12, and one fifth of all DOJ invoices in 2010-11. It was not feasible for these to be recalculated on a calendar day basis; therefore the reported figures for DOJ may be slightly higher than actual.

DCAL, DE, DoE and DOJ paid at least 80 per cent of valid invoices within the 10 day target in 2010-11. This increased to 11 departments in 2011-12, with only one department, DHSSPS, narrowly behind at 79 per cent. It is positive to note that DHSSPS improved its performance by 10 per cent in 2011-12 when compared to 2010-11. A number of other Departments made notable improvements between 2010-11 and 2011-12. For example, DRD paid 93 per cent of invoices within 10 days in 2011-12, 16 per cent more than in 2010-11. Also, DE paid 93 per cent of invoices within 10 days in 2011-12, 11 per cent more than the previous year.

6.1.27 For all Central Government Departments, except DOJ, invoices were processed by Account NI. Account NI is a financial processing centre which has been in full operational mode since November 2009. DFP indicated that Account NI systems were developed to avail of supplier payment terms, generally 30 days, in line with best practice and the statutory obligation. As a result of the introduction of a 10 day target,the IT system has been configured to override the payment terms so that payments are released once the relevant invoice approval has been completed. DFP has also indicated that it is more resource intensive to expedite payment in the shorter timeframe.[26]

Figure 29: Percentage of Valid Invoices Paid within 10 working days by Central Government Departments

	Invoices Paid within 10 working days (%) 2010-11	Invoices Paid within 10 working days (%) 2011-12	Improvement (+/- %)
DFP	84	90	+6
OFMDFM	78	83	+5
DEL	81	88	+7
DETI	84	92	+8
DHSSPS	69	79	+10
DSD	83	92	+9
DARD	79	86	+7
DCAL	85	92	+7
DE	82	93	+11
DoE	83	88	+5
DRD	77	93	+16
DOJ	91	93	+2

Source: Annual Accounts for each department.

26 Committee for Finance and Personnel – Official Report : Enterprise Shared Services: Account NI, 20th October 2010

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Health & Social Care Trusts

30 Day Target

6.1.28 The HSC Trusts (HSC Trusts) work towards an internal target of paying 95 per cent of invoices in accordance with 1996 guidance from DHSSPS on the prompt payment of invoices. Guidance issued by the Department in 2011 requires all ALBs to report prompt payment compliance on the basis of payment "within 30 days or other agreed terms" and also to use this basis to report payment performance in the annual accounts. The HSC Trusts operate a payment term of "end of month following", therefore when reporting their prompt payment figures for "30 days or other agreed terms", invoices can be included that were paid within 30 and 61 days.

6.1.29 This payment policy operated by the HSC Trusts is permitted by Managing Public Money Northern Ireland (Annex 4.6), and it is used as a basis for calculating the prompt payment performance levels which are reported in the HSC Trusts' Annual Accounts. However, despite being permitted by Managing Public Money, this policy is not in line with the spirit of the prompt payment initiative and the benefits it aims to achieve.

6.1.30 As a result of the DHSSPS guidance the figures incorporated in this report, relating to HSC Trusts, differ to those reported in the HSC Trusts' Annual Accounts, as "30 Day Only" statistics have been obtained directly from DHSSPS in order to allow comparison across Northern Ireland public bodies. I have included both sets of data in the table below to allow a comparison to be made.

Figure 30: Percentage of invoices paid within 30 calendar days by Health and Social Care Trusts[27]

	Health & Social Care Trust	Invoices Paid in 30 days or within agreed terms (%) 2010-11	Invoices Paid in 30 days only (%) 2010-11	Invoices Paid in 30 days or within agreed terms (%) 2011-12	Invoices Paid in 30 days only (%) 2011-12
1	NI Ambulance Service	98	93	98	92
2	Northern	96	91	94	88
3	Western	95	90	96	93
4	South Eastern	92	86	93	86
5	Southern	90	78	91	82
6	Belfast	90	84	92	87

Source: DHSSPS Financial Management Team

27 Data shows percentage of *non-HSC invoices* paid within 30 days, therefore inter-health trust invoices are not included in the statistics. Invoices paid in 30 days or within agreed terms are included for information.

6.1.31 Three of the six HSC Trusts improved their 30 day only prompt payment figures between 2010-11 and 2011-12, with one Trust, the South Eastern HSC Trust, maintaining its performance. It is disappointing that the Northern HSC Trust and the NI Ambulance Service experienced a decrease in the percentage of valid invoices paid within 30 days between 2010-11 and 2011-12.

10 Day Target

6.1.32 The percentage of valid invoices paid within 10 days by HSC Trusts is low in comparison to Central Government Departments. Four of the HSC Trusts, the Belfast, Southern, Northern and NI Ambulance Service paid less than 40 per cent of valid invoices within 10 days in 2010-11. Although three of these HSC Trusts improved their performance in 2011-12, the figures remained low.

6.1.33 Despite paying the least number of invoices in 2010-11 (**Figure 32**), the NI Ambulance Service had the poorest performance at meeting the 10 day target, falling marginally behind other Trusts, at 37 per cent. This is in contrast to its 30 day performance, where it was the best performing Health Trust in that year (**Figure 30**).

6.1.34 All but one of the HSC Trusts made improvements to their 10 day performance between 2010-11 and 2011-12, with only the Northern Trust experiencing a decline from 38 per cent in 2010-11 to 36 per cent in 2011-12.

Figure 31: HSC Trust 10 day performance 2010-11 and 2011-12[28]

Health & Social Care Trust	Invoices paid within 10 working days (%) 2010-11	Invoices paid within 10 working days (%) 2011-12
Western	55	65
South Eastern	42	44
Belfast	38	51
Southern	38	44
Northern	38	36
NI Ambulance Service	37	43

Source: DHSSPS Financial Management Team

28 Outlines the percentage of non-HSC invoices paid within 10 days, therefore inter-health trust invoices are not included in the statistics.

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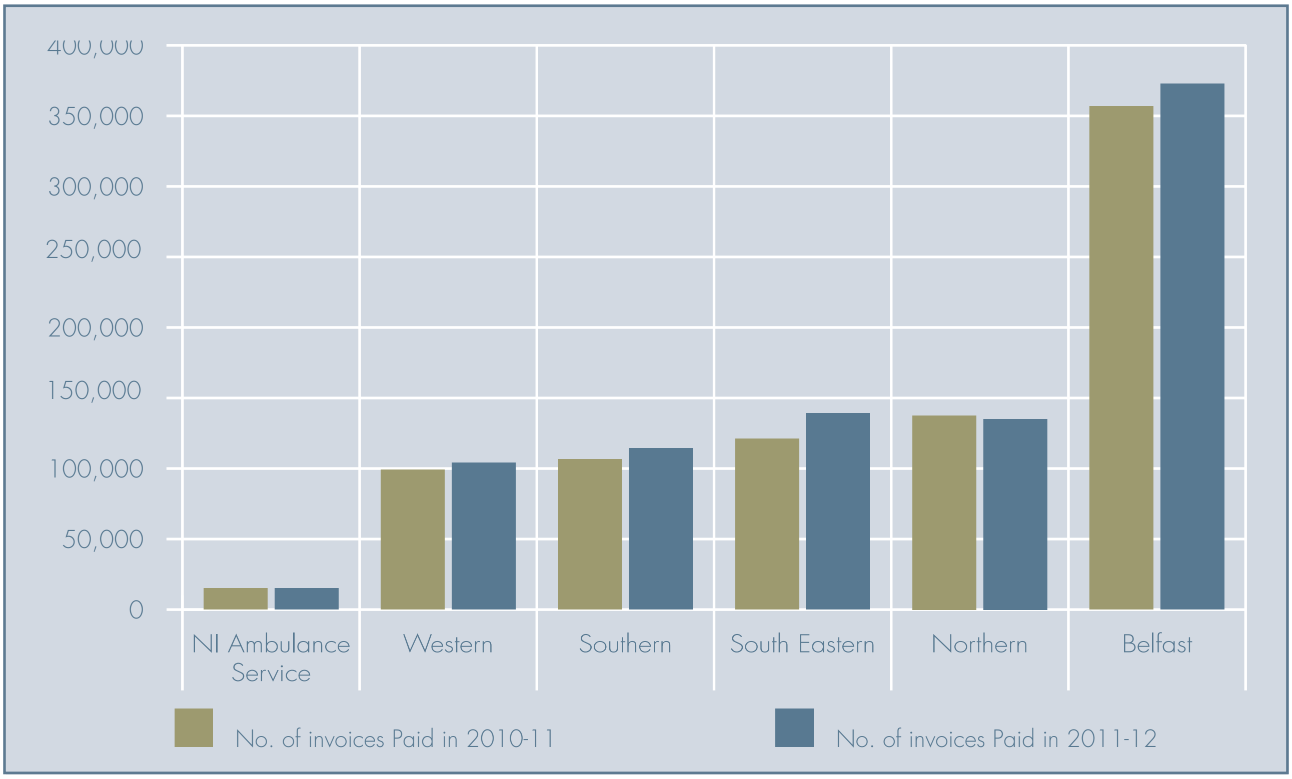
Number of Invoices Paid by HSC Trusts

6.1.35 The table and graph below, at **Figure 32**, show the number of invoices paid by each HSC Trust in 2010-11 and 2011-12.

Figure 32: Total number of invoices paid by HSC Trusts in 2010-11 and 2011-12[29]

	HSC Trust	Number of Invoices Paid in 2010-11	Number of Invoices Paid in 2011-12
1	NI Ambulance Service	15,115	15,081
2	Western	99,141	104,032
3	Southern	106,568	114,327
4	South Eastern	121,123	139,258
5	Northern	137,577	135,096
6	Belfast	356,909	372,709

Source: DHSSPS Financial Management Team



29 Data relates to non-HSC invoices paid, therefore inter-health trust invoices are not included in the statistics.

6.1.36 The Belfast HSC Trust paid significantly more invoices than any other HSC Trust but its prompt payment performance was only marginally below the other HSC Trusts when comparing the 30 day target and ahead of others when measuring the 10 day target. It should also be noted that the NI Ambulance Service, which had the best 30 day performance paying 93 per cent of valid invoices in 2010-11 and 92 per cent in 2011-12, transacted only 15,115 invoices in 2010-11 and 15,081 in 2011-12. By comparison, the Northern HSC Trust had the second highest number of invoices to process in 2010-11 and performed second highest in terms of performance against the 30 day target.

6.1.37 In response to an Assembly Question[30], the Minister of Health, Social Services and Public Safety, Mr Poots outlined reasons as to why his Department's arms length bodies – the HSC Trusts, paid 110,346 invoices outside the agreed terms between 1st April 2011 and 30th November 2011. The main reasons provided were:

- The constraints of the current IT systems on which the HSC Trusts payment function depends;
- The wide geographical spread of sites within the organisations and the impact of this on payment procedures; and
- Delays in receiving appropriate or complete information from suppliers.

He also reported that new financial systems are scheduled to be rolled out across the HSC sector in the latter half of 2012-13 financial year as part of the Business Services Transformation Programme. It is anticipated that this will improve delivery of the prompt payment targets.[30]

Recommendations

The Department of Health, Social Services and Public Safety should ensure that any new financial systems introduced within the HSC Trusts are capable of making payments in line with the government prompt payment targets. The system should also be capable of providing prompt payment data for regular monitoring and reporting.

The Department should review its internal prompt payment target for HSC Trusts to ensure that it is in line with best practice and consistent with other parts of government.

The Department should also review the terms of contracts set by HSC Trusts that currently allow payments to be made up to 61 days after receipt of a valid invoice.

6.1.38 The Department has informed me that the Health and Social Care Regional Procurement Board, at its June 2012 meeting, agreed that payment terms would move to standard terms of 30

30 http://aims.niassembly.gov.uk/questions/printquestionsummary.aspx?docid=124391

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days payment with effect from September 2013. The timeframe is to allow the new systems to be fully implemented and embedded. This will mean that the Department will be measuring Trust compliance in terms of 30 days only as there will no longer be payments made "under other agreed terms".

Education and Library Boards

30 Day Target

6.1.39 2010-11 and 2011-12 performance figures for prompt payment were obtained for the ELBs and are summarised below.

6.1.40 Of all the ELBs the Belfast ELB had the poorest performance in terms of percentage of valid invoices paid within 30 days between 2010-11 and 2011-12. Only 84 per cent of valid invoices were paid within 30 working days in 2010-11 and this declined further to 81per cent in 2011-12. This was despite the Belfast ELB paying the least number of invoices of all ELBs in both years (**Figure 35**).

6.1.41 The ELBs' internal target for paying valid invoices is 85 per cent within 30 days. All but one of the ELBs met the target in 2010-11. In 2010-11 the average percentage of valid invoices paid within 30 days for ELBs was 86 per cent. This meant that 14 per cent of valid invoices were paid after 30 days, resulting in approximately 86,000 invoices being paid outside the target period. Despite meeting their internal target, it is disappointing to note that the ELBs are not achieving better results when compared to Central Government Departments.

6.1.42 I previously reviewed the 2007-08 prompt payment performance of the

Figure 33: ELBs - Percentage of valid invoices paid within 30 days

ELB	Invoices paid within 30 days (%) 2010-11	Invoices paid within 30 days (%) 2011-12	Movement (+/- %)
Southern	88	89	+1
North Eastern	88	83	-5
Western	86	85	-1
South Eastern	86	90	+4
Belfast	84	81	-3

Source: 2010-11: www.deni.gov.uk/prompt_payment_tables_2010-2011.pdf
2011-12: www.deni.gov.uk/prompt_payment_tables_2011-2012.pdf

Figure 34: ELBs - Ranked by percentage valid invoices paid within 10 working days

ELB	Invoices Paid within 10 Days (%) 2010-11	Invoices Paid within 10 Days (%) 2011-12	Movement (+/- %)
North Eastern	66	58	-8
South Eastern	49	60	+11
Southern	48	48	0
Western	48	49	+1
Belfast	46	42	-4

Source: 2010-11: www.deni.gov.uk/prompt_payment_tables_2010-2011.pdf
2011-12: www.deni.gov.uk/prompt_payment_tables_2011-2012.pdf

ELBs in my General Report published in 2009. In 2007-08 the BELB recorded the best performance, paying 80 per cent of valid invoices within 30 days. The Western, Southern and North Eastern ELBs all reported similar levels, paying an average of 75 per cent of valid invoices within 30 days. The South Eastern ELB had the poorest performance of 55 per cent of valid invoices being paid within 30 days. It is reassuring to note that all ELBs, and most notably the South Eastern ELB, have improved their prompt payment performance since 2007-08.

10 Day Target

6.1.43 The performance of the ELBs paying valid invoices within 10 working days is disappointing. The ELBs' internal target is to pay 50 per cent of non-disputed invoices within 10 working days. The average percentage of invoices paid within 10 days for all ELBs in 2010-11 and 2011-12 was 52 per cent and 51 per cent, respectively (**Figure 25**). This means that approximately half of all invoices received by ELBs from suppliers were not paid within the government's target period of 10 days. This equates to around 572,500 valid invoices being paid later than 10 working days from receipt of invoice over the two year period.

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Figure 35: ELBs - Total number of invoices paid during 2010-11 and 2011-12

ELB	Number of Invoices Paid 2010-11	Number of Invoices Paid 2011-12
Southern	168,962	143,395
North Eastern	131,017	123,894
Western	124,553	122,162
South Eastern	111,512	98,014
Belfast	78,463	78,977

Source: 2010-11: www.deni.gov.uk/prompt_payment_tables_2010-2011.pdf
2011-12: www.deni.gov.uk/prompt_payment_tables_2011-2012.pdf

Number of Invoices Paid by ELBs

6.1.44 The total number of invoices paid by each ELB in 2010-11 and 2011-12 have been summarised in **Figure 35**.

6.1.45 The Belfast ELB paid the fewest invoices in 2010-11, however it also had the lowest percentage of valid invoices paid within 10 days (46 per cent). This is significantly below the Central Government Departments performance. The Belfast ELB's performance is in contrast with the North Eastern ELB, which despite paying the second highest number of invoices in the year had the best performance with 66 per cent of invoices being paid within 10 days.

6.1.46 The Department told me that there are inherent issues faced by ELBs and schools in terms of prompt payment performance compared to other public bodies. In particular these are:

- Small schools often have teaching Principals and generally close during school holiday periods, whereas larger schools have some capacity to maintain administrative cover during school holidays. The smaller the school the greater the difficulty during periods of closure and absence;

- Lack of adequate clerical resources to carry out administrative tasks in term time. Staff are often employed on a part-time basis and activities such as pupil attendance registers, school meals, ordering classroom materials and providing administrative support to teachers often takes priority over invoice processing;

- Large schools often have a number of authorising signatories to ensure adequate segregation of duties. Delays in submission of invoices can occur because deliveries and invoices are checked within the individual department before being forwarded to the main office for input; and

- Due to resource implications, most ELBs operate one payment run per week.

6.1.47 The Minister of Education has acknowledged delays in the ELBs meeting the prompt payment targets[31]. A number of steps have been taken to speed up the process. These include:

- Revised internal targets for the ELBs from 2012-13 to ensure that 97 per cent of all non-disputed invoices are paid within 30 days and to maximise the payment of all non-disputed invoices within 10 working days;
- Establishment of a Departmental led working group to investigate ways of improving performance;
- Issue of date stamps to all locations to record received dates on invoices to ensure accurate reporting;
- Guidance has been issued to schools asking invoice authorisation procedures to be treated as a priority and the need to speed up the arrangements for passing invoices to the Board for payment;
- Some training and workshops have provided an opportunity to reiterate the requirements of prompt payment;
- Individual cases of late payment are investigated with the relevant school with a view to improving performance; and
- Invoices that are larger in value are often received centrally in the ELBs rather than going to schools, which speeds up the payment cycle.

It is important that these actions are continued to be taken, to encourage schools to enhance their payment processes.

Recommendation

The Department of Education should consider further how it can improve ELB prompt payment performance, ensuring that ELBs are capable of making payments in line with the government prompt payment targets.

Conclusion

6.1.48 Although prompt payment performance has improved over the last two years across all sectors of government there are still areas where performance is far from satisfactory. Given the Assembly's commitment to prompt payment, in particular the 10 day target, it is essential that public bodies review their processes and procedures to increase the speed at which payments are made. Given the considerable variation of performance across each of the sectors examined I intend to keep these issues under review and may report further next year.

31 http://aims.niassembly.gov.uk/terms/printquestionsummary.aspx?docid=118802

Appendices

Annex A

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Department of Finance and Personnel
www.dfpni.gov.uk

DAO (DFP) 12/08
27 November 2008

Dear Accounting Officer

SUPPORTING BUSINESSES: PROMPT PAYMENT OF INVOICES

Purpose of this letter

1. The purpose of this letter is to draw to Accounting Officers' attention the need to ensure that all possible steps are taken by NICS departments and their agencies and their public bodies to pay suppliers in respect of valid invoices or from the receipt of goods/services (which ever is the later) as promptly as possible.

Background

2. The NICS is committed to the Better Payments Practice Code, as set out in Annex 4.6 of Managing Public Money, and is subject to the Late Payment of Commercial Debt Regulations 2002. Payment is regarded as late if it is made outside the agreed terms, or 30 days after receipt of a valid invoice where no terms are agreed.

3. In response to the current economic position the Department for Business Enterprise and Regulatory Reform(BERR) announced on 21 October 2008 that

   "central Government has committed to paying businesses within 10 days - and we're urgently speaking to the wider public sector to extend this commitment."

4. This commitment to a prompt payment within 10 days is one that NICS should seek to support and therefore Accounting Officers' are asked to ensure that all appropriate steps are taken within their Department and Agencies to support it.

5. In seeking to meet this objective Accounting Officers are asked to note that, whilst DFP has received confirmation from all financial system operators (Account NI, DE, DARD and DRD) that approved invoices are being released for payment without unnecessary delay, invoices may have been in a process, and taken a considerable period of time to reach the point of approval.

6. Departments must ensure that all invoice validation and checking has been completed correctly before invoices are authorised for payment. However, if the commitment to prompt payment is to be delivered, departmental staff need to ensure that all necessary actions within the approval process, whether online in the case of Account NI or otherwise, are addressed without delay and, where invoices require clarification, appropriate action is taken quickly.

7. Departments, their agencies and NDPBs are required to report annually on performance against prompt payment. In order to demonstrate that they are meeting the commitment to prompt payment, reporting performance against the 10 day payment commitment should be on a more frequent basis (the regularity depending on the systems and processes in place).

Applicability

8. This DAO is applicable to all NICS departments, their Agencies and Non-Departmental Public Bodies (NDPBs).

Action

9. Departments should draw this letter to the attention of their Agencies and NDPBs.

Queries

10. Any enquires regarding this letter should be addressed to Fiona Hamill, Deputy Treasury Officer of Accounts, Tel 028 91858128 (network 68128) email: fiona.hamill@dfpni.gov.uk.

Yours sincerely
DAVID THOMSON
3 DF1/08

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