Northern Ireland Audit Office

Financial Auditing and Reporting

General Report by the Comptroller and Auditor General for Northern Ireland – 2011

REPORT BY THE COMPTROLLER AND AUDITOR GENERAL
25 October 2011

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
25 October 2011

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

ABBACUS	Assessment Billing Benefit and Collection Update System
ALB	Arm's Length Body
AME	Annually Managed Expenditure
APP	Actual Penny Product
BCC	Belfast Central Library
BIFHE	Belfast Institute of Further and Higher Education
BMC	Belfast Metropolitan College
C&AG	Comptroller and Auditor General
CB	Conciliation Body
CCEA	NI Council for Curriculum, Examinations and Assessment
CCFHE	Castlereagh College of Further and Higher Education
CE	Customer Error
CIP	College Improvement Programme
CIS	Central Investigation Service
CMED	Child Maintenance and Enforcement Division
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
DEL	Departmental Expenditure Limit
DETI	Department of Enterprise, Trade and Investment
DFP	Department of Finance and Personnel
DLA	Disability Living Allowance
DRD	Department for Regional Development
DSD	Department for Social Development

DWP	Department of Work and Pensions
E3	Enterprise, Employability and Entrepreneurship
EAGF	European Agricultural Guarantee Fund
EAGGF	European Agricultural Guidance and Guarantee Fund
EAFRD	European Agricultural Fund for Regional Development
EJO	Enforcement of Judgements Office
ELBs	Education and Library Boards
EPP	Estimated Penny Product
ERINI	The Economic Research Institute for Northern Ireland Ltd
ESA	Employment and Support Allowance
EU	European Union
FM	Financial Memorandum
GoCo	Government-owned Company
HMRC	Her Majesty's Revenue and Customs
IAS	International Accounting Standard
IFRS	International Financial Reporting Standard
IT	Information Technology
JRC	EU Joint Research Council
LPIS	Land Parcel Identification System
LPS	Land and Property Service
MLA	Member of the Legislative Assembly
MPMNI	Managing Public Money Northern Ireland
MS	Management Statement
NAV	Net Annual Value
NDPB	Non-Departmental Public Body
NDVR	Non Domestic Vacant Rating
NFI	National Fraud Initiative
NI	Northern Ireland

Abbreviations

NIA	Northern Ireland Assembly
NIAO	Northern Ireland Audit Office
NICS	Northern Ireland Civil Service
NIHE	Northern Ireland Housing Executive
NILA	NI Libraries Authority
NILGOSC	NI Local Government Officers' Superannuation Committee
NIW	Northern Ireland Water
OCL	Order Charging Land
OCS	Operating Cost Statement
OFMDFM	Office of the First Minister and Deputy First Minister
OJEU	Official Journal of European Union
PAC	Public Accounts Committee
PCSPS(NI)	Principal Civil Service Pension Scheme Northern Ireland
PPP	Public Private Partnership
PRONI	Public Record Office of Northern Ireland
PRP	Performance Related Pay
PSNI	Police Service of Northern Ireland
QSM	Quarterly Shareholder Meetings
RfR	Request for Resources
SAB	Stop all Bills
SAU	Standards Assurance Unit
SNMA	Special Needs Management Allowance
SP	State Pension
SSA	Social Security Agency
UK	United Kingdom
USS	Universities Superannuation Scheme
VAT	Value Added Tax
YJANI	Youth Justice Agency of Northern Ireland

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 2010-11 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 prompts a timely focus on the qualified opinions and reports issued on departmental resource accounts and other accounts for 2010-11. 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, last year a higher number of accounts than usual received qualifications. This pattern has continued in 2010-11. Matters which prompted these qualifications included failures to obtain proper approval for expenditure and weaknesses in the control of bodies sponsored by departments.

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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October 2011

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

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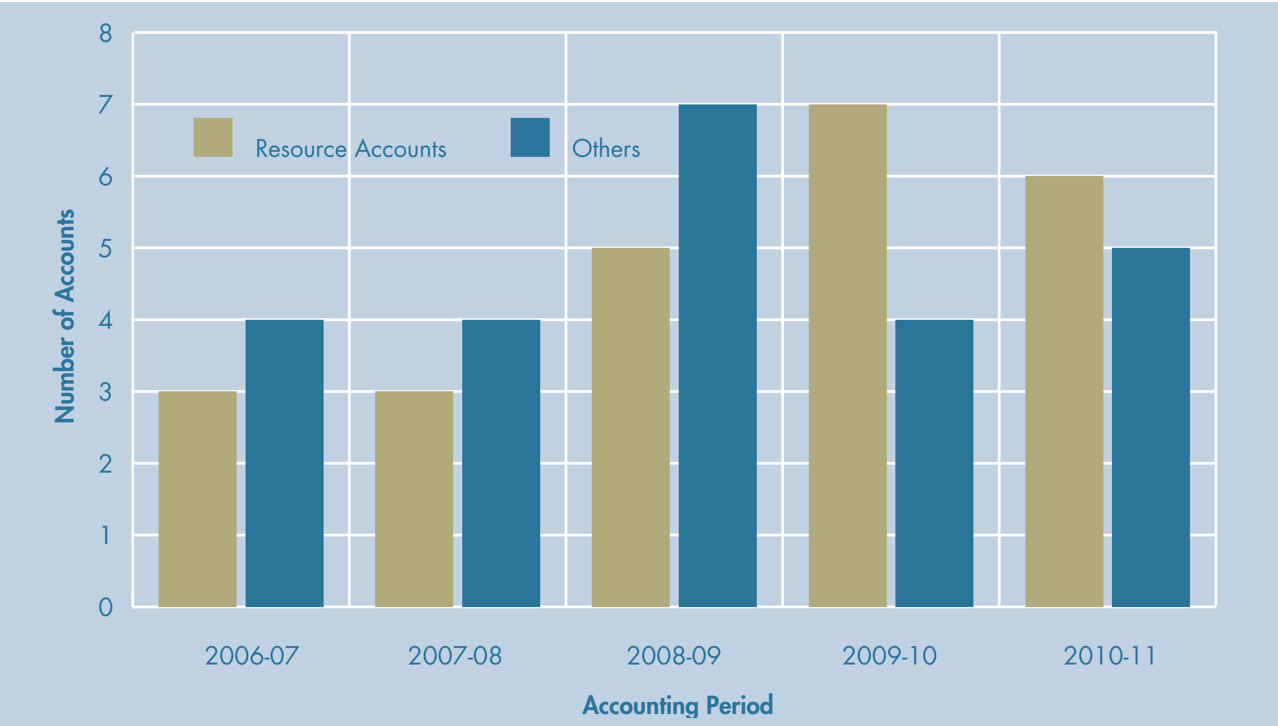
1.1 Qualified Opinions – Departmental Resource Accounts

1.1.1 The quality of resource accounts submitted for audit had significantly improved since the introduction of accrual based accounting in central government from 2000-01, when ten out of seventeen accounts were qualified. However, in the 2010-11 accounting period, six out of nineteen[1] resource accounts were qualified (32 per cent). In all six of the qualifications the regularity of expenditure was an issue. They included the failure of departments to obtain the necessary DFP approvals, the breach of spending limits approved by DFP and where EU fines had been incurred for failures to comply with EU regulations. **Figure 1** illustrates the number of qualifications on resource accounts and other accounts for a five year period 2006-07 to 2010-11.

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 six resource accounts which received qualified audit opinions for the 2010-11 financial year.

Figure 1: Number of Qualifications for Accounting Periods 2006-07 to 2010-11



1. 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 which arose from this were the Department of Justice and the Public Prosecution Service.

Figure 2

Department	Nature of the Qualification
Department for Social Development	The audit opinion was qualified on four issues: 1. I found that there continues to be a material level of fraud and error in benefit expenditure administered by the Department through the Social Security Agency (SSA) and the Northern Ireland Housing Executive (NIHE). The total amount of benefit expenditure (excluding state pension) paid in 2010-11 was £3,310 million and within this the Department estimated losses due to fraud and error of £66.2 million (2 per cent). In addition it estimated that a further £16.3 million (0.49 per cent) had been underpaid to customers as a result of errors made by staff within the SSA or the NIHE. 2. The Department exceeded the amount of resources that had been approved for its use by the Assembly and therefore incurred an excess vote. The Assembly had authorised it to spend up to £447.8 million of resources in one of the Department's areas of work but the Department actually spent £458.0 million resulting in an excess vote of £10.2 million. 3. The Department exceeded the amount approved by DFP for it to spend on a city centre regeneration project by £1.7million. DFP was not prepared to grant retrospective approval for this and therefore the final £0.3 million paid on the project during 2010-11 was deemed to be irregular. 4. An interim report of the Department's regulatory and inspection unit identified significant issues in relation to Helm Housing Association. I obtained a copy of this interim report and considered that the issues raised were potentially so serious that I could not satisfy myself as to the regularity of £12.1 million of grants issued to Helm during 2010-11 and therefore qualified my opinion in this respect. In addition, while not qualifying the audit opinion, significant concerns in relation to the Housing Association sector as a whole were noted. The

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Department	Nature of the Qualification
	Department pays grants, via NIHE, to the associations of £165 million and the work of the Department's inspection unit continued to find examples of poor and unacceptable management and governance practices in associations. These resulted in its inspections of four out of seven housing associations receiving no assurance in 2010-11.
Office of the First Minister and Deputy First Minister	This resource account was qualified on three grounds: • Inadequate controls over directly sponsored bodies. These were in the victims sector and they were funded to the value of £7.5 million in 2010-11. The Department is putting in place a range of corrective measures. • The necessary DFP approvals were not obtained for consultancy expenditure over £75,000 on three schemes. In 2010-2011 the Department paid out £143,000 in respect of one of these schemes. As the necessary approvals were not obtained this is considered irregular spend and I qualified the Department's Resource Account on this matter. • The necessary approval was not obtained from DFP when the Department entered into a £4.9 million contract for remedial works at Maze Long Kesh. Approval had been granted for expenditure up to £3.5 million. In view of the discrepancy between the amounts, DFP rescinded the approval for expenditure of up to £3.5 million. This made the actual expenditure of £3 million in the year irregular and my opinion was qualified in respect of this.
Department of Agriculture and Rural Development	The audit opinion on the Department's 2010-11 resource accounts was qualified on the grounds of regularity. During the 2010-11 financial year the Department included a further £19.4 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.

Department	Nature of the Qualification
Department of Culture, Arts and Leisure	The Department of Culture, Arts and Leisure (the Department) resource accounts for the financial year 2010-11 were qualified on four matters as follows: 1. The Department incurred expenditure of £3,488,000 for which it did not have the appropriate authority from DFP. The expenditure was therefore deemed irregular. 2. As a consequence of the irregular expenditure described above, the Department exceeded its spending limit by £2,794,000. This excess will have to be approved by the Assembly. 3. The Department has not yet formally established legal ownership for all of the assets on its asset register. The absence of evidence of ownership limited the scope of my audit. 4. As a result of expenditure on EU Projects, subsequently disallowed by the EU, £27,000 of EU Peace II grant funding had to be repaid to the EU. This represented a loss of UK Exchequer public funds which was outside the Assembly's intentions.
Department of Education	The audit opinion on the Department's accounts was qualified because their Arms Length Bodies and a number of schools had paid honoraria to teaching and non-teaching staff of £662,127 in 2010-11. These payments were made without proper approvals being in place from both the Department of Education and Department of Finance and Personnel. They are therefore irregular.
Department for Regional Development	The audit opinion on the 2010-11 DRD Resource Accounts was qualified due to irregular expenditure of £4.7 million incurred as a result of significant breaches in governance and controls over procurement in Northern Ireland Water Limited (NI Water). NI Water's 2010-11 accounts were qualified. The Department's Resource Accounts have also been qualified as DRD funded this spending. I similarly qualified the 2009-10 DRD Resource Account when irregular expenditure of £5.3 million was incurred in year.

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Department	Nature of the Qualification
	NI Water's 2009-10 accounts had not been qualified as external auditors were not required to provide an audit opinion on regularity at that time. Investigations by the company's internal auditors also found that there was also £9.2 million of irregular expenditure in 2008-09 and £6.5 million in 2007-08.

1.2 Qualified Opinions – Other Entities

1.2.1 Since the last General Report I qualified 11 sets of accounts of other entities. Details are outlined at **Figure 3** below. The full content of these qualifications can be found in Sections 4 and 5.

Figure 3

Name of Public Body	Nature of the Qualification
Youth Justice Agency of Northern Ireland 2010-11	The audit opinion on the Youth Justice Agency of Northern Ireland's (YJANI) financial statements was qualified because it was unclear whether the pension deficit relating to the Northern Ireland Local Government Officers' Superannuation Committee (NILGOSC) has been correctly reflected in the financial statements. The value of the pension deficit of £2.4 million reflected in YJANI's Statement of Financial Position is based on information previously provided by NILGOSC. However, NILGOSC subsequently advised YJANI of approximately 290 additional pensioners and deferred members relating to former employees of the Lisnevin Management Board and the Rathgael & Whiteabbey Training Schools that had not been included within previous NILGOSC returns to YJANI. These establishments were disbanded before the formation of YJANI and the Agency is seeking legal advice to determine where these pension liabilities should now lie. YJANI has therefore not included in the 2010-11 financial statements the pension liability of £1.1 million, an associated reduction in net operating cost of £0.7 million or an actuarial gain of £0.7 million in respect of these individuals.

Name of Public Body	Nature of the Qualification
Northern Ireland Social Security Agency 2010-11	The audit opinion on the Social Security Agency 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 2010-11 was £2,703 million and of this the Agency estimated losses due to fraud and error of £47.5 million (1.76 per cent). In addition it estimated that a further £13.7 million (0.51 per cent) had been underpaid to customers as a result of errors made by staff within the Agency.
Northern Ireland Housing Executive 2010-11	The audit opinion was qualified on three issues: 1. There continues to be a material level of fraud and error in housing benefit expenditure administered by the Northern Ireland Housing Executive. The total amount of housing benefit expenditure paid in 2010-11 was £568.7 million and within this there were estimated losses due to fraud and error of £14.7 million (2.6 per cent). In addition it estimated that a further £2.6 million (0.5 per cent) had been underpaid to customers. 2. Following internal and external investigative work, significant weaknesses in control have emerged in respect of response maintenance expenditure incurred by the Housing Executive. Based on these reports the C&AG was unable to gain sufficient evidence to confirm that payments totalling £48.9 million had been made for the purposes intended by the Northern Ireland Assembly. 3. An interim report of the Department for Social Development's regulatory and inspection unit identified significant issues in relation to Helm Housing Association. The C&AG obtained a copy of this interim report and considered that the issues raised were potentially so serious that he could not satisfy himself as to the regularity of £12.1 million of grants issued to Helm during 2010-11 and therefore qualified his opinion in this respect. The report also highlights the current investigations into specific contracts, including Red Sky. In view of the

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Name of Public Body	Nature of the Qualification
	seriousness of the issues raised and problems identified the C&AG has initiated a value for money review on contract management. There are also issues and ongoing investigations into land and property including the sale of land. Given that these investigations have or may identify potential fraud it was not possible for the C&AG to report on the detail. Nevertheless, given their extent and significance the C&AG is keeping this area under review and is to provide a detailed report to the Northern Ireland Assembly at the earliest opportunity.
General Consumer Council 2009-10 and 2010-11	During 2009-10 the Council's internal auditors identified overpayments to staff of approximately £66,000 in the year to 31 March 2010. Pay continued to be paid to the affected staff at the unapproved rates in 2010-11 while the Council and its sponsor Department (DETI) considered how to deal with the matter. Expenditure amounting to £50,565 was identified in that year for which the Council had not obtained the necessary Departmental approval. Both the 2009-10 and 2010-11 audit opinions were qualified because of this.
Economic Research Institute of Northern Ireland Limited 2009-10	This account was certified in May 2011. The company provided economic research services, with almost all of its business coming from the public sector. It was sponsored by OFMDFM. Following a review of the company Ministers decided to withdraw funding from it. The directors subsequently decided it was not a going concern and the decision was taken to close it. A provision for closure costs of £1.2 million was included in the 2009-2010 accounts – mostly for redundancy/early retirement and lease costs. Within this provision was an amount of £0.7 million which was an estimate of the amount due to seven members of the Universities Superannuation Scheme. There was uncertainty over the reliability of this estimate as the Institute was unable to provide the auditors with sufficient evidence to support the amount and therefore the qualification of the account related to this.

Name of Public Body	Nature of the Qualification
NI Social Fund 2006-07 and 2007-08	The audit opinion was qualified in both years on two areas: 1. On the regularity of Social Fund payments (except for Winter Fuel Payments and Cold Weather Payments) because there continues to be a material level of error in the calculation of these payments. Total Social Fund expenditure (excluding Winter Fuel Payments and Cold Weather Payments) paid by the Agency was £81.3 million in 2006-07 and £74.1 million in 2007-08. Of this amount the Social Security Agency has estimated that errors in calculations of certain Social Fund benefit awards resulted in overpayments of £0.9 million (1.1 per cent) in 2006-07 and £1.5 million (2.0 per cent) in 2007-08. In addition errors also led to underpayments of £0.7 million (0.8 per cent) in 2006-07 and £0.4 million (0.5 per cent in 2007-08). 2. Because the Social Security Agency was unable to provide sufficient evidence to satisfy the existence and valuation of the debtor balances reported in the notes to the accounts (£66.1 million in 2006-07 and £73.9 million in 2007-08).
Belfast Metropolitan College 2008-09	The audit opinion on regularity was qualified on two issues: 1. Public Private Partnership (PPP) consultancy costs amounting to £507,000 which did not receive the necessary DFP approval. This related to the procurement of premises replacing two of BMC's city centre buildings with a single building based at the Titanic Quarter. 2. Consultancy costs in respect of professional services in connection with BMC's rates appeal amounting to £79,000 was not approved by either the College's sponsoring Department (Department for Employment and Learning(DEL)) or DFP as required. The C&AG has decided to conduct a value for money investigation into the Titanic Quarter capital project and will report the findings in due course.

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<table>
<tr><th>Name of Public Body</th><th>Nature of the Qualification</th></tr>
<tr><td>NI Libraries Authority 2009-10</td><td>NILA was created to provide a public library service in Northern Ireland with responsibility for the service transferring from the five Education and Library Boards (ELBs) to NILA on 1 April 2009. NILA has faced considerable challenges in this first year of operation, which has had a significant impact on NILA's ability to produce its financial statements for its first year of operation. This task has been further complicated by the introduction of International Financial Reporting Standards which coincided with NILA's first year.

The audit opinion has been qualified on three separate matters:

• The Rare Book collections are valued by NILA at £12.8 million. The C&AG has concerns with inconsistencies between the valuation approaches inherited from the five ELBs.

• The absences of prior year comparative information, as required by accounting standards, for two material areas of the statement of financial position:
o Pension Liability
o VAT Debtor

The NILA element of these figures could not be identified by the five ELBs.</td></tr>
<tr><td>Child Maintenance and Enforcement Division – Client Funds 2010-11</td><td>The audit opinion was qualified in two areas:

1. As examination of maintenance assessments showed a number of cases in which assessments had been made incorrectly and were thereafter irregular; and

2. Because of an inadequate audit trail, the C&AG's examination of the maintenance arrears balance was severely limited and therefore was unable to obtain enough evidence to satisfy himself as to the accuracy and completeness of the outstanding maintenance arrears of £81.7 million.</td></tr>
</table>

1.3 Reports on Accounts by the C&AG

1.3.1 In the 2010-11 accounting period I also reported on issues in the accounts of the NI Council for the Curriculum, Examinations and Assessment 2009-10, The Belfast Metropolitan College 2009-10, the Northern Ireland Community Relations Council 2009-10 and the Roads Service Agency 2010-11. These Reports can be found at sections 5.5, 5.8, 5.11 and 5.12.

1.4 Outstanding Accounts

1.4.1 At this juncture there are a number of accounts which would be covered by the scope of this General Report which have not been certified yet due a number of technical and other practical issues. These are principally the 2009-10 and 2010-11 accounts of the five Education and Library Boards. It is anticipated that these will be certified soon and included in the next General Report.

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.

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Statement of Rate Levy & Collection 2009-10

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Statement of Rate Levy & Collection 2009-10

2.1 Statement of Rate Levy and Collection 2009-10

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

2.1.2 The Exchequer and Audit Act (Northern Ireland) 1921 requires the Comptroller and Auditor General (C&AG) to examine revenue accounts and 'ascertain that adequate regulations and procedure have been framed to secure effective check on assessment, collection and proper allocation of revenue'. This includes an examination of the Statement of Rate Levy and Collection.

2.1.3 This report brings the Northern Ireland Assembly's attention to significant matters arising from the examination of the 2009-10 Statement of Rate Levy and Collection. In addition it provides an update on progress made in addressing issues raised in previous years' reports and in the Public Accounts Committee's Report on the 2006-07 Statement of Rate Levy and Collection.[2]

2.1.4 A summary of rate levy and collection in the year is shown at **Figure 4**.

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

Figure 4: Statement of Rate Levy and Collection 2009-10

	2009-10 £million	2008-09 £million
Arrears at 1 April	138	124
Adjustment[3]	(2)	-
Net Assessments during the year[4]	1,147	1,088
Refunds	34	27
Credit carried forward to next period[5]	9	22
	1,326	**1,261**
Discharged during the year by:		
Credits brought forward from last period[5]	22	16
Adjustment[3]	(2)	-
Receipts	995	969
Vacancies and Vacant Rating Relief & Exemptions	67	60
Rebates and Discounts	39	36
Other Reliefs and Allowances[6]	38	36
Written-off as irrecoverable	10	6
Arrears at 31 March	157	138
	1,326	**1,261**

Source: Land & Property Services

Conclusion from the Examination of the 2009-10 Statement

2.1.5 There is no requirement for an audited Statement of Rate Levy and Collection to be laid before the Northern Ireland Assembly. However, in my 2008-09 Report[7] I advised that if I was required to provide an audit opinion on the 2008-09 Statement, the opinion would have been qualified[8] on the following grounds:

- concerns over completeness of the property listing upon which rates assessments are raised;

3 Adjustment made to bring the General Ledger into line with the Accounts Receivable Ledger
4 After deducting amounts for vacancies and de-rating from Gross Assessments
5 Credits carried forward to next period are amounts which have not yet been refunded. Credits brought forward from last period are the Credits carried forward figure on the previous year's Statement.
6 Comprising Allowances/Disabled Person's Allowance; Residential Home Relief; Rate/Education Relief; Transitional/Capping/Farm Diversification Relief; and Lone Pensioner Allowance.
7 Financial Auditing and Reporting, General Report by the Comptroller and Auditor General for Northern Ireland - 2009
8 In accordance with professional auditing practices adopted by all UK national audit agencies, a qualified opinion is appropriate when '*the auditor concludes that an unqualified opinion cannot be expressed but that the effect of any disagreement with management, or limitation on scope is not so material and pervasive as to require an adverse opinion or a disclaimer of opinion*' (International Standards on Auditing (UK and Ireland) 700, paragraph 37)

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- concerns over vacancy exemptions awarded; and
- significant control problems.

2.1.6 The Agency has made considerable progress in addressing the significant controls problems which contributed to the 2008-09 "qualification" (see paragraphs 2.1.23 to 2.1.30) but I was unable to obtain sufficient assurance on the other issues previously identified. Consequently, if I was required to provide an audit opinion on the 2009-10 Statement the opinion would be qualified in respect of the following:

- concerns over completeness and accuracy of the property listing upon which rates assessments are raised (see paragraphs 2.1.16 and 2.1.47 below); and
- concerns over vacancy exemptions awarded (see paragraphs 2.1.22 and 2.1.48 below).

Issues arising

Assessments

2.1.7 By law, rating assessments are based on the published Valuation Lists. The accuracy of assessments included in the Statement and provision of up to date rate bills to ratepayers are therefore dependent on the accuracy and completeness of the Capital Values (domestic properties) or Net Annual Values (non domestic properties) held in the Valuation Lists maintained by LPS.

2.1.8 In its March 2009 Report, Internal Audit provided limited[9] assurance over the maintenance of the Valuation Lists due to the heavy backlog of cases waiting to have Valuation Certificates issued. However, in its updated report issued in October 2010 Internal Audit provided satisfactory assurance as it considered that management had made considerable progress in addressing the backlogs.

2.1.9 Internal Audit found that at the end of February 2009 there had been a total of 44,859 new domestic properties and domestic alterations which still had to be valued. However, it advised that by July 2010 the total number of domestic valuations outstanding had reduced to 25,905 cases. LPS advised that the total number of domestic valuations outstanding at 31 March 2011 was 24,501 cases, while the number of non domestic valuations outstanding at 31 March 2011 was 3,031 cases.

2.1.10 Internal Audit also noted improvement in the time taken by the Agency to process domestic valuations (**Figure 5**).

9 In accordance with the HM Treasury Government Internal Audit Standards, the limited rating of internal audit assurance is defined as 'There is considerable risk that the system will fail to meet its objectives.'

Figure 5: Time taken to process domestic valuations

	New domestic property	Domestic alterations
March 2009	229 days	1040 days
January 2010	94 days	769 days
July 2010	58 days	813 days

Source: DFP Internal Audit

2.1.11 Internal Audit also noted that the number of new non-domestic properties to be valued reduced from 634 to 551 over the same period. The Agency advised that this improvement has been maintained with 525 cases in hand and a processing time of 116 days at the end of March 2011.

2.1.12 My own audit work has identified some instances where processing time has been prolonged. For example, post revaluation applications were received in respect of two retail units in mid 2003 and valuations for these properties were not agreed and revised until August 2009.

2.1.13 LPS advised that it has taken steps to address the potential loss of revenue as a result of delays in processing of Completion Notices[10] and the fact these cannot be back dated. During 2010-11 LPS entered into an arrangement with the Central Procurement Directorate (CPD) for them to serve Completion Notices. However, following the identification of other pressures in CPD, LPS has now agreed revised internal procedures whereby its own staff will serve Completion Notices.

2.1.14 I also note that a supermarket chain was recently successful in its challenge of its NAV valuation for a warehouse after the 2003 Revaluation. This resulted in a reassessment of the rates liability over seven years and a refund to the ratepayer of approximately £0.8 million.

2.1.15 LPS has plans in place to review properties where industrial de-rating or exemption is currently in place. However, due to other work pressures this review will not now be undertaken until 2011-12.

2.1.16 **Conclusion** - Due to the concerns about the currency of the Valuation Lists I am unable to confirm the completeness of assessments. Whilst progress has been made in this area, more needs to be done to address the backlogs. These issues were first raised in my Report on the 2005-06 Statement.

Vacancies

2.1.17 Prior to 2005 the Agency aimed to carry out physical inspections twice per year for all properties recorded as vacant on the rating database. However, due to staff

10 If it appears to the Department that the work remaining to be done on a new or substantially altered building is such that the building can reasonably be expected to be completed within 3 months, the Department may serve a Completion Notice advising that the property will become liable for rates. New or substantially altered properties can only be valued and entered in the Valuation List if they are truly complete or a Completion Notice has been served and the completion day has passed.

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resource issues and competing priorities, this has not been achieved. Vacancy inspections have been sporadic and often with limited success: a postal exercise was undertaken in 2005; an exercise focussing on non domestic properties was undertaken in 2006; and an inspection exercise in partnership with 25 District Councils started in late 2008.

2.1.18 The 2008 exercise resulted in approximately 61,000 inspection sheets being returned by the Councils (**Figure 6**).

2.1.19 As a result of this exercise bills with a value of £24.5 million were issued for properties which had been incorrectly recorded as vacant on the system or where no bill had been issued. However, it is disappointing that over two years after these inspections were concluded, over 40 per cent of the properties have still to be followed up. LPS advised that for those cases where the inspections did not elicit the full information required for billing that it continues to pursue the necessary information, using a variety of methods as summarised in paragraph 2.1.21.

2.1.20 In August 2009 an inspection of non domestic properties commenced with 14 District Councils. This resulted in £13.5 million of bills being issued in 2009-10 in respect of properties which were previously recorded as vacant.

2.1.21 The Agency has sought alternative ways of establishing whether or not a property is vacant to supplement physical inspections:

- In July 2009 LPS developed a Vacancy Management Action Plan which sets out a number of recommendations on how to provide an acceptable level of assurance that a property is vacant, including the need for robust data sharing arrangements;
- A Central Investigation Team has been established and its duties include the confirmation of occupancy and vacancy records;
- In addition, a range of occupancy related work was completed in

Figure 6: Results of vacancy inspections of properties

Properties confirmed as vacant	21,000	34%
Properties for which bills have now been issued	14,000	23%
Properties requiring further billing information, valuation action or are under investigation to confirm their status	26,000	43%
Total	**61,000**	**100%**

Source: Land & Property Services

2010-11 under the auspices of the LPS Revenues & Benefits Debt Action Plan and in partnership working with District Councils and using an external tracing service.

- The Agency has commenced preparations for the implementation of the Rating of Empty Homes from 1 October 2011, which has included exercises to confirm Vacant Property Ownership details.

- Although there is a Vacancy Module within LPS's ABBACUS system it has never been used. This would provide a better opportunity to analyse and report on vacancy data going forward, although staff would require additional training to use it. LPS informed us that further consideration of the most appropriate system tools to use for monitoring and planning occupancy inspections is underway.

2.1.22 **Conclusion** – Limited physical inspections have been undertaken by LPS in prior years and where work has been undertaken, this has identified properties where vacancy exemptions have been awarded incorrectly. Data matching under the National Fraud Initiative also raised concerns regarding vacancy exemptions (see paragraphs 2.1.51 to 2.1.56). Consequently there was insufficient evidence to confirm entitlement to vacancy reliefs which totalled £67 million in 2009-10 and I am unable to confirm completeness, existence and accuracy of vacancies.

Control Problems identified in previous years

2.1.23 As noted at paragraph 2.1.5 any opinion on the 2008-09 Statement would have been qualified on the basis of significant control problems. These problems related to the IT system and those which gave rise to the limited assurance on the overall control environment from Internal Audit.

IT System

2.1.24 The current IT system, ABBACUS, was required to replace an obsolete IT system, improve services in rate collection and Housing Benefit and to meet the requirements of rating reform. Implementation of the system began in October 2006.

2.1.25 In previous years' reports I noted some of the problems arising from the introduction of this IT system, namely inadequate system functionality and specification and the lack of validation checks.

2.1.26 As part of a wider Financial Review project, the Agency is in the process of implementing a number of system and business process improvements to address the weaknesses identified. Funding constraints have meant that work on improving the IT system has had to be prioritised alongside further rating reform development work. Whilst it is disappointing that it is taking so long for all issues to be resolved, a system control was introduced in July 2009 whereby data input is checked against occupancy

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reference numbers. On this basis I am content that none of the significant IT weaknesses which led to the qualification remain outstanding.

Internal Controls

2.1.27 In my 2008-09 Report I noted that although considerable work had been undertaken by LPS to implement Internal Audit recommendations, a number of significant issues remained. Consequently, Internal Audit provided an overall limited assurance on internal control systems for 2008-09.

2.1.28 During 2009-10 Internal Audit conducted a number of assignments and follow-up reviews which indicated that there had been an improvement in the level of control throughout the Agency. However, limited assurance was given in two areas: Revenue and Benefits – Rates Recovery; and Information Governance.

- **Revenue and Benefits – Rates Recovery.** Several recommendations from the previous Internal Audit report were outstanding, including those related to: retention of documentary evidence; evidencing managerial checks performed; and actioning monthly supervisory reports.

- **Information Governance.** The main issues were the absence of a Corporate Business Continuity Plan and an Information Assurance Strategy. It should be noted however, that there was a Business Continuity Plan in respect of the ABBACUS system and that the Agency introduced a Corporate Business Continuity Plan in 2010-11.

2.1.29 Although some issues identified by Internal Audit in 2008-09 still have to be addressed, Internal Audit has concluded that as a result of the improvements made that they can provide a satisfactory level of assurance overall on the system of internal control in respect of 2009-10.

2.1.30 **Conclusion** – As a result of improvements made by LPS it would no longer be necessary to qualify any opinion in respect of the control environment.

Other significant issues arising from my audit work

Ratepayer Debt

Debt at 31 March 2010

2.1.31 In my 2008-09 Report I noted that despite concerted efforts by the Agency to target debt by allocating additional staff and increasing the number of ratepayers taken to court, the economic climate had a significant impact on ratepayers' ability to pay. Consequently debt had increased from £124 million at 31 March 2008 to £138 million at 31 March 2009.

2.1.32 While receipts increased from £969 million to £995 million (three per cent) during 2009-10, ratepayer debt continued to rise with £157 million of debt recorded in the Statement of Rate Levy and Collection at 31 March 2010;

£95 million of which arose from rates not paid in respect of 2009-10 assessments.

2.1.33 The use of a new debt analysis tool from January 2010 has enabled LPS to analyse and investigate debt further. Consequently the Agency was able to advise us that of the £95 million of debt arising during the 2009-10 year, it has been able to agree payment arrangements for £2.8 million of the debt and that £16.6 million of the debt was in the process of being recovered. In addition, £18.8 million of the year end debt was in respect of assessments billed in the last three months of the financial year. The Agency advised that the remaining £56.8 million of the £95 million debt arising during 2009-10 will be processed under LPS's debt recovery procedures.

2.1.34 Whilst rate collection and debt recovery has remained an extremely high priority for LPS, the Agency was unable to meet its key targets in 2009-10:

- To collect or discharge 98% of the collectable rate assessed at April 2009, by 31 March 2010 – 94.7% was achieved; and

- To secure or action through the court process 75% of 31 March 2009 debt by 31 March 2010 – 70.3% was achieved.

2.1.35 I again noted that a number of debtors at 31 March 2010 were public sector bodies and large companies. Two public sector bodies (Northern Ireland Water and Belfast Education and Library Board) and two private sector companies owed £1.5 million between them. These debts had arisen as the organisations had lodged valuation queries on a number of their properties with LPS. LPS informed us that whilst valuation queries are in progress the ratepayer is still legally required to pay the bill presented and that in such situations they will use their discretion as to whether to pursue recovery of outstanding rates. Whilst to date no legal action has been instigated for public body cases, it would be wholly unsatisfactory if one public sector body had to pursue another through the court system in order to ensure a payment which is legally due. LPS informed us that it has put in place an escalation process to address outstanding public body payments, and that by March 2011 this had successfully addressed all material outstanding public body rating debt.

2.1.36 One way in which LPS has endeavoured to tackle the growing debt problem is to identify and target the top 250 debtors, who at 17 May 2010 owed a total of £22.1 million (14 per cent of total year end debt). Steady progress has been made in recovering the debt on these accounts and by 31 March 2011 it had been reduced to £4.0 million. This targeting of the top 250 debtors has resulted in the recovery of £18.1 million. The Agency has also progressed recovery of the 'smaller' debtors which accounted for 86 per cent (£134.9 million) of the debt at 31st March 2010. LPS informed us that all debt over £100 is subject to

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the normal recovery process and will progress to court if payment is not made. It is not cost effective to pursue debt under £100 (total value at 31 March 2010: £1.16 million) through the legal recovery process and any outstanding amounts are automatically carried forward to the next rate bill. During 2010-11 the Agency applied a risk based approach, focusing on the value of debt and the resources available to contact ratepayers who had received a bill but where LPS would not have time to complete the legal recovery process before a new bill was issued. Lists were produced of debtors over and under £5,000 and a range of actions were taken to contact the ratepayer by means of strongly worded debt letters and where possible appropriate phone calls. LPS advised that the success of these measures is evidenced through significantly increased cash collection levels for the year ended March 2011 and that it will continue to build on this work in 2011-12.

2.1.37 I noted during my 2008-09 examination that approximately £15 million of ratepayer debt had not been processed for court action by the Belfast Regional Office, as the data which they extracted from ABBACUS was incomplete. I asked LPS how it has ensured that this issue has been addressed and recovery initiated. LPS advised that a new report was obtained from ABBACUS in December 2010 and issued to Regional Recovery Teams for investigation and recovery. This report showed that there were 1,642 cases (value £1.8 million) where no action had been taken in respect of recovery. Whilst it is pleasing to see that the value of unactioned cases has reduced, LPS should, as advised, continue to liaise with the IT provider to identify any cases not being processed for court action to ensure that the necessary steps are taken to recover amounts due.

Stop all Bills

2.1.38 The IT system allows LPS to stop the automatic issue of bills to ratepayers where, for example, there is an agreed payment arrangement. In my previous reports I expressed concern that the 'Stop all Bills' (SAB) status had been in place on individual ratepayers' accounts for a considerable period of time, with no evidence that LPS had ensured that the 'stop' was still valid, for example, ensured that the agreed payment arrangement had not failed.

2.1.39 In August 2008 the number of SABs stood at 7,163 cases (value £15.3 million). I am concerned to note that by February 2010 this had increased to 18,795 cases (value £46 million). LPS advised that at 31 March 2011 there were a total of 6,369 ratepayer accounts with SAB status (value £18.2 million) and that the post April 2010 cases (value £14.5 million) are actioned and followed up by staff in day-to-day operations. A small team is focussing on those prior to April 2010 (value £3.7 million). The Agency further advised that these figures exclude the SAB associated with the application of 2011-12 benefits to ratepayer accounts. SAB status is applied to these accounts for a short period around the year end. Given the value of cases with a SAB status it is important that LPS continues to review these cases and ensures that such 'stops' are removed at the point when they no longer apply.

Write-offs

2.1.40 Delay in recovery of rates debt increases the risk of a significant loss of public funds, particularly where amounts in arrears approach the Statute of Limitations deadline for recovery.

2.1.41 Full functionality for IT write-off of ratepayer debt was completed in February 2009. Consequently £10.2 million of debt was written off as irrecoverable during 2009-10 compared with £5.8 million in the previous financial year. The Agency has developed a Debt Action Plan for 2010-11 and indicated that the amount written-off in year could increase to around £20 million as a result of clearing write-off backlogs, including through insolvency and probate action.

2.1.42 Given the current economic environment it is likely that the amounts written off will increase further. These write-offs will ensure that LPS does not continue to devote resources to pursuing debts that would in all likelihood never be recovered and thus concentrate on recoverable debts.

Order Charging Land (OCL)

2.1.43 In my 2008-09 Report I noted that LPS has the power to secure a debt against a property by lodging an Order Charging Land (OCL) with the Enforcement of Judgements Office (EJO). This means that the owner cannot sell the property until the debt is paid. In addition, LPS has priority over other creditors such as banks or mortgage companies where the ratepayer is resident in the property on which the debt is owed. However, as ABBACUS was unable to register an OCL, local office staff, with the exception of the Omagh Office, were not registering OCLs during 2009-10. Consequently only six OCLs were registered in 2009-10.

2.1.44 LPS informed us that most of the difficulties have since been resolved and that local office teams are now progressing with EJO action. However, there is still a delay in lodging applications due to the legal requirement to confirm occupancy before doing so. This and a lack of resources had a significant impact on progress, but a focussed exercise by LPS staff in early 2011 resulted in 619 OCLs being registered in 2010-11.

2.1.45 Whilst acknowledging the problems facing many property owners in these tough economic times it is important given the increasing amount of ratepayer debt that LPS uses all legal means at its disposal to ensure recovery of amounts owed.

Non Domestic Vacant Rating

2.1.46 Since the introduction of Non Domestic Vacant Rating (NDVR) in April 2004 LPS have been unable to establish full ownership details of properties on which a charge should be made. However, considerable progress has been made since the C&AG first reported upon this issue in July 2007[11]. At 31 March

11 Financial Auditing and Reporting:2005-2006, General Report by the Comptroller and Auditor General for Northern Ireland, NIA 65/06-07

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Figure 7: Non Domestic Vacant Rating

	Number of Cases	Annual Rating Liability £million
Properties where ownership remains unknown	63	0.4
Closed cases[12]	393	0.4
Properties not assessed	167	Not known
Total	**623**	**Not known**

Source: Land & Property Services

2006, ownership details of some 2,433 properties had not been confirmed, resulting in unbilled rates of £6.8 million. At 31 March 2011 ownership still had to be confirmed in respect of 623 properties (**Figure 7**).

2.1.47 As there are 167 NDVR properties which have yet to be assessed for rates, the value of assessments and the NDVR exemption disclosed in the 2009-10 Statement of Rate Levy and Collection is understated by an unknown amount.

2.1.48 LPS procedures require a review of properties where a NDVR status is in place for more than one year in order to confirm the validity of reliefs and exemptions awarded. LPS initially advised us that reviews would commence in January 2010. However, it has decided that it will only inspect those properties where occupation is prohibited by law, for example, for health and safety reasons. This is on the basis that many of the exclusions, for instance for a listed building, do not change over time. Due to resourcing difficulties, even these limited reviews have yet to start. LPS also advised that given competing priorities, properties where ownership remains unknown have not yet been fully investigated.

Fraud Risk

Housing Benefit

2.1.49 LPS is responsible for assessing Housing Benefit for owner occupiers who need help to pay their rates. Housing Benefit awards increased to £35 million in 2009-10 from £32 million in 2008-09.

2.1.50 The Social Security Agency Resource Account for 2009-10 was qualified as a result of the level of fraud and error, including approximately £2.4 million (seven per cent) of overpaid Housing Benefit for owner occupiers. There is therefore, in my view, an inherent risk that Housing Benefit administered by LPS may be at risk of fraud and error.

12 Properties where the current ownership is known but where there was an earlier period where ownership details were unknown and therefore no payment was received.

National Fraud Initiative

2.1.51 During 2008-09 LPS participated in the National Fraud Initiative. This involved "matching" Rates data with Electoral Office data and Housing Benefit for owner occupiers data with a number of other sources of data, for example, pensions and housing rents.

2.1.52 With regards to Rates data, matches were generated where individuals were registered to vote at an address but the address was not registered for rates or was registered as void or unoccupied on the rates system. LPS identified 22,000 matches for investigation and estimate that a total of £11.6 million of non-payment fraud and error will be identified as a result of this work.

2.1.53 As at 31 March 2010, 296 investigations had detected and prevented £1 million in non-payment fraud and error. Further work on the investigations since 1 April identified 2,027 cases worth £7.4 million. A further 10,005 matches remain to be followed up and LPS estimates that the examination of these cases will identify a further 847 cases valued at £3.2 million. The Agency advised that the outstanding cases from the first NFI exercise were included in a new data match between the Rates data and the Electoral Office data which was carried out in March 2011. The target date for completion of this new data match is 31 December 2011.

2.1.54 With regards to Housing Benefit for owner occupiers data matches, 450 cases of suspected fraud and 399 other cases of overpayment totalling £0.9 million in housing benefit and rate relief to owner occupiers were identified.

2.1.55 Further details on these cases in the report "National Fraud Initiative 2008-09"[13]. The report also identifies the following opportunities for gaining greater benefit from the next NFI exercise for 2010-11, which is already underway:

- NFI should be embedded into the core business practices and counter fraud strategies of bodies;
- careful consideration should be given to the level of resources needed to follow up data matches;
- data matches should be prioritised and followed up promptly and rigorously; and
- bodies should consider whether they can improve the quality of their records.

2.1.56 It is important that LPS continues to use this new data matching tool and exploits the opportunities for greater benefit outlined in paragraph 2.1.55.

Interest Payments

2.1.57 The Rates (Payment of Interest) Regulations NI 2007 provided for the payment of interest on amounts received by LPS which are subsequently repaid or off-set against a rates bill. During 2009-10 LPS paid £0.7 million of such interest to ratepayers.

13 National Fraud Initiative 2008-09, Report by the Comptroller and Auditor General published on 16 February 2011

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2.1.58 Interest payments are system generated by the Rates IT system, ABBACUS. My review of the system and interest payments showed that ratepayers were underpaid interest as a result of a system error. The Agency asked the supplier to identify the number of Ratepayer Accounts affected by this error and the value of interest underpaid. LPS advised that the total underpaid was £1.9 million, of which £1.2 million relates to 2009-10 and previous years and that an action plan to resolve the issues and pay over any monies due to ratepayers has commenced.

Accountability Developments

2.1.59 As noted at paragraph 2.1.5 there is currently no statutory requirement for a published, audited Statement of Rate Levy and Collection to be laid before the Northern Ireland Assembly. In order to improve accountability and corporate governance of the significant amount of public funds recorded in this Statement, I recommended that the Agency prepares a full set of audited financial statements.

2.1.60 In response LPS set up a project team to deliver a fully auditable resource based collection account, which will include an annual report, by 2010-11. A shadow resource based account for 2008-09 was prepared by LPS and examined by NIAO. Issues arising from my work were brought to LPS's attention in August 2010. A second shadow resource based account for 2009-10 has been prepared.

The Penny Product

2.1.61 LPS uses data from the valuation lists, assumptions such as vacancy levels, allowances and write-offs, and the cost of collection and then estimates the income each Council could raise through one penny on the district rate. Councils then use this Estimated Penny Product (EPP) for financial planning and to strike the District Rate. DFP uses the EPP to pay monthly instalments of revenue to each council.

2.1.62 At the end of the rating year, LPS calculates the actual amount that has been collected in each council area. This calculation is known as the Actual Penny Product (APP). If the APP is higher than the EPP, that is, the amount collected is more than the amount paid over by DFP, the Council gets an additional payment. If the APP is lower than the EPP, that is, the amount collected is less than the amount paid over by DFP, the difference is 'clawed back' from the Council.

2.1.63 Although a Penny Product Working Group was established in July 2007 to discuss issues such as the methodology for calculating the EPP and APP and ways to improve these calculations, the economic downturn has led to a shortfall of income collected compared with that forecast. In addition to the loss of income due to bankruptcies and liquidations, the number of vacant non-domestic properties which are excluded from rates has increased. The number of properties demolished (and thus removed from the valuation list) has also increased reducing the amount billed. As a result of this, the forecast

APP for 2010-11 indicates that there will be a number of large claw backs from Councils, the most significant of which is expected to be in respect of Belfast City Council, estimated at £3.146 million at 13 May 2011.

2.1.64 Given the implications that these significant claw backs may have for Councils, namely the need to consider rate increases or cancel/postpone projects, it is important that LPS continues to work with affected parties to explore ways to improve the accuracy of the EPP calculation. LPS advised that it had developed a plan for a number of further improvements in early 2011 and that these have been agreed by the Penny Product Working Group.

Public Accounts Committee

2.1.65 In November 2008 the Northern Ireland Assembly's Public Accounts Committee (PAC) reported[14] on the financial and operational difficulties at LPS during 2006-07. PAC made a number of important recommendations and DFP set out an action plan to address these recommendations[15].

2.1.66 Progress on the 14 accepted recommendations which fall to LPS to implement are reported quarterly to the Assembly Finance & Personnel Committee (the Committee). At the October 2010 meeting the Committee was advised that LPS had completed actions against many of the PAC recommendations. For example:

- Progress had been made in improving accountability by the production of shadow accruals based accounts, together with an annual report and supporting notes, supported by the implementation of a new accruals based Chart of Accounts;
- Vacancy inspections were undertaken in conjunction with District Councils resulting in the issue of bills totalling more than £38 million;
- Increased co-operation with District Councils through the setting up of a LPS - Local Authority Strategic Steering Group, Penny Product Working Group and Property Services Liaison Group.
- A Memorandum of Understanding and a data sharing protocol between LPS and Belfast City Council has enabled benchmarking of performance and processes with other collection authorities;
- Following the approval of a Vacancy Management Action Plan in July 2009 and completion of an Occupancy Management Review in 2010, a Central Investigation Team has been established, which handles cases where information for billing is not readily available;
- The development and implementation of a Debt Action Plan in September 2010;

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

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- The delivery of a debt analysis tool in January 2010 which provides the ability to analyse and investigate ratepayer debt and business performance further; and
- Improvements to IT controls were introduced in July 2009 and March 2010.

2.1.67 NIAO's analysis of the report provided to the Committee shows that nine recommendations have been fully implemented and of the five partially implemented, work continues to:

- Cleanse data within the IT system;
- Refine system functionality and upgrade financial software within the rate collection IT system;
- Implement the new arrangements for vacancy and occupancy management introduced in April 2010;
- Focus action on the remaining backlogs of work which accumulated during the period of rating reforms and IT replacement work; and
- Improve rate collection and debt recovery.

Conclusion

2.1.68 Recovery of rates revenue is critical to the funding of public sector expenditure in Northern Ireland. Significant defaults or delays in payment of rates may reduce the amount available to the NI Block and result in the postponement or cancellation of projects. Although LPS has introduced a number of measures to improve rate collection and debt recovery, the failure to meet collection targets and the increasing level of ratepayer debt is extremely concerning. Whilst recognising that the current economic climate imposes a number of additional challenges for the Agency, it is important that LPS and DFP ensures that every step, including legal action, is taken to maximise rates income.

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3.1 Department for Social Development 2010-11

Part 1: Introduction

3.1.1 This report reviews the results of my audit of the Department for Social Development (the Department) and sets out the reasons for my qualified audit opinions. There are four qualifications of my regularity audit opinion in respect of:

- Fraud and error in benefit expenditure (Part 2);
- Excess vote caused by the net resource outturn being exceeded (Part 3);
- Expenditure without proper approval (Part 4); and
- Insufficient evidence for the regularity of expenditure to one housing association where the Department's own review has identified potentially serious issues (Part 5).

3.1.2 This report also highlights additional problems in the Housing Association sector generally (Part 6).

Part 2: Fraud and error in benefit expenditure

Introduction

3.1.3 The Department was responsible for the payment of £5 billion in benefits in 2010-11 of which £4.3 billion was paid by the Social Security Agency (SSA), £568 million was paid by the Northern Ireland Housing Executive (NIHE) and £38m was paid by Land and Property Services.

3.1.4 It is important to note that my audit opinions on the Departmental Resource Account, SSA and NIHE have been qualified for a considerable number of years because of significant levels of fraud and error in benefit expenditure, other than State Pension. This section of my report summarises the results of my audit of benefit expenditure in the Department, SSA and NIHE and sets out my qualified audit opinions from those audits.

3.1.5 My audit of the SSA 2010-11 accounts has now been completed and I considered the estimated levels of fraud and error in benefit expenditure to be material. Consequently, I qualified my audit opinion of SSA's accounts on the regularity of benefit expenditure (other than in relation to state pension benefits).

3.1.6 My audit of the NIHE 2010-11 accounts has also been completed and I considered the estimated levels of fraud and error in housing benefit expenditure to be material. Therefore, I also qualified my audit opinion of NIHE's accounts on the regularity of Housing Benefit expenditure.

3.1.7 Further details of both these qualifications are included in my reports attached to the 2010-11 accounts for SSA and NIHE. Each report details:

- SSA's and NIHE's response to the levels of benefit fraud and error;

- SSA's and NIHE's response to the increasing levels of benefit overpayments in recent years; and

- the number of ongoing programmes in place aimed at counteracting the levels of benefit fraud and error.

3.1.8 In addition, my audit opinion of NIHE 2010-11 accounts was also qualified in relation to the regularity of response maintenance expenditure because of control weaknesses and the regularity of payments made to a housing association. I also reported on significant concerns over contract management and land and property management.

Departmental arrangements for monitoring and reporting

3.1.9 The Department's Standards Assurance Unit (SAU) regularly monitors and measures the estimated 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 or 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 39 (entitled 'Payment Accuracy') to the annual accounts. 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 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.

3.1.10 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.

Qualified opinion due to irregular benefit payments

3.1.11 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.

3.1.12 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

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Figure 8: Estimated Overpayments and Underpayments due to fraud and error in benefit expenditure (2010) [16]

	Benefits (Other than State Pension) £million	State Pension £million	Total £million
Expenditure	3,309.7	1,649.3	4,959.0
Overpayments due to:			
Official error	31.7	0.7	32.4
Customer error	12.4	0	12.4
Customer fraud	22.1	0	22.1
Sub-total	**66.2**	**0.7**	**66.9**
Underpayments due to:			
Official error	16.3	1.4	17.7
Customer error	2.9	3.1	6.0
Sub-total	**19.2**	**4.5**	**23.7**

expenditure (other than state pension benefits which has a low incidence of error and no reported customer fraud).

3.1.13 **Figure 8** above shows the total benefit payments that were made during the calendar year of 2010 and the estimated amounts of error in relation to each benefit based on the work done by SAU. The table shows that total benefits (other than state pension) amounted to £3.3 billion and of this amount fraud and error gave rise to:

- overpayments of £66.2 million (2 per cent of related expenditure); and
- underpayments due to official error of £16.3 million (0.49 per cent of related expenditure).

3.1.14 All of the overpayments are irregular, whereas only underpayments made as a result of official error (£16.3 million or 0.49 per cent of related expenditure) are deemed irregular. Underpayments due to customer error are not deemed irregular.

3.1.15 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 8) within State Pension is not significant.

16 Estimates in this and the other tables 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.

Estimated levels of fraud and error

3.1.16 Fraud and error in benefit awards can arise because of internal Departmental error (official error), customer error or customer fraud. **Figure 9** shows the trends since 2006 in estimated levels of overpayments and underpayments due to each of these.

3.1.17 The Department estimates that in 2010 losses of £66.9 million have arisen through overpayment of benefits to claimants due to fraud and error, representing 1.35 per cent of total benefit expenditure. This compares with losses of £58.5 million in 2009 which equated to 1.24 per cent of total benefit expenditure. Total benefit expenditure increased by £244.1 million (or 5.2 per cent) in 2010 compared to 2009.

3.1.18 I note the increase in overpayments due to official error, from £21.1 million in 2009 to £32.4 million in 2010 and I am disappointed in this increase as it is my view that this is the area where the Department continues to have the most control. The increase is mainly due to an increase in official error in Housing

Figure 9: Trends in total estimated overpayments and underpayments due to fraud and error in benefit expenditure

	2010 £million	2009 £million	2008 £million	2007 £million	2006 £million
Total benefit expenditure	**4,959.0**	**4,714.9**	**4,256.7**	**4,071.8**	**3,939.9**
(1) Overpayments					
Official error	32.4	21.1	19.8	25.4	29.2
Customer error	12.4	15.2	21.7	19.1	18.8
Customer fraud	22.1	22.2	15.7	15.2	21.4
TOTAL	**66.9**	**58.5**	**57.2**	**59.7**	**69.4**
% of benefit expenditure	**1.35**	**1.24**	**1.34**	**1.47**	**1.76**
(2) Underpayments					
Official error	17.7	19.8	17.6	23.9	19.8
Customer error	6.0	6.0	3.2	3.2	2.7
TOTAL	**23.7**	**25.8**	**20.8**	**27.1**	**22.5**
% of benefit expenditure	**0.48**	**0.55**	**0.49**	**0.67**	**0.57**

Source: Department for Social Development Accounts 2006-07 to 2010-11

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Benefit (administered by NIHE) of £6.3 million, and also because error levels have been estimated in Employment and Support Allowance (ESA) for the first time in 2010 (there is no comparative figure in 2009). Official error for ESA in 2010 was £2.6 million. I asked the Department to comment on the increases in both benefits.

3.1.19 The Department told me with regard to Housing Benefit, it shares the concerns of the NIHE with the increase in the fraud and error figure which is mainly as a result of official error cases. There is a resolve to take appropriate action to drive forward improvements. As a first step the Department will be meeting with colleagues in NIHE, SAU and Analytical Services to ensure that there is a full understanding of the causes and what needs to be done to bring about improvement.

3.1.20 The Department told me that in relation ESA, this is a relatively new benefit and the delivery of high accuracy levels within new benefits creates a particular challenge. The Department has measures in place such as error analysis, accuracy improvement plans and targeted error reduction activity to build upon performance. The ESA Financial Accuracy target of 95% was achieved within statistical tolerance in 2010.

3.1.21 The estimated levels of fraud and error across different benefits vary significantly. The benefits system is complex and some benefits are easier to administer than others. Note 39 of the Department's annual accounts shows that levels of fraud and error continue to be lowest for those non-means tested benefits, such as State Pension, which are easier to claim, relatively easy to determine and largely unaffected by changes in circumstances. Fraud and error is more frequent in means tested benefits, where a claimant's financial circumstances are required to be taken into account.

3.1.22 I welcome the overall reduction in underpayments from £25.8 million in 2009 to £23.7 million in 2010. However I note that underpayments due to customer error have more than doubled from £2.7 million in 2006 to £6.0 million in 2010. I asked the Department to comment on this increase and the Department told me a Benefit Review was carried out on State Pension (SP) for the first time in 2009. The customer fraud and error estimates previously used for State Pension came from the results of the 2005 DWP National Benefit Review Pilot and there were no Customer Error (CE) underpayments recorded. Using the results of the 2009 SP Benefit Review, the SP CE underpayments estimate for 2010 was £3.1m and this makes up the majority of the increase in customer error underpayments from 2006. (The £3.1m estimate is made up of only four errors equating to 0.2% of the 2010 SP expenditure).

Summary

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

3.1.24 The Department has continued to address the matters which give rise to the longstanding qualification of the regularity audit opinion and I acknowledge the efforts being made to further improve the accuracy of benefit payments. I welcome that the Department's anti fraud initiatives, including the work of the customer compliance unit and its work associated with the National Fraud Initiative are identifying fraud. The Department has had to overcome continued challenges this year including efficiencies required as a result of the 2008-11 budget settlement, early preparations for welfare reform, the ongoing delivery of its modernisation programme and the impact of the economic downturn.

3.1.25 I recognise the difficulties faced by the Department 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 robust and evolving error reduction steps the Department 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.

Part 3: Excess Vote

Introduction

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

Qualified opinion due to excess vote

3.1.27 The Department's Statement of Parliamentary Supply for 2010-11 shows a Net Resource Outturn for Request for Resources B (RfR B) of £458.0 million. However, the limit on resource expenditure for RfR B set out in the main Supply Estimates as amended by the Spring Supplementary Estimates for 2010-11 was £447.8 million. As such, the Department has incurred an excess vote of £10.2 million.

3.1.28 This excess has meant that the Department breached the resource based limit the Assembly had authorised for RfR B. I have therefore qualified my regularity opinion on the Department's 2010-11 Resource Account in this respect. There was no breach of the cash based limit authorised by the Assembly.

How the Excess vote occurred

3.1.29 After the Spring Supplementary Estimates were approved, the Executive identified additional funding through easements declared during its February monitoring round which would have been lost to Northern Ireland if it had not been spent before the end of the financial year. DFP therefore sought the Departments' co-operation in spending these additional resources.

3.1.30 The Department was one of those that obtained additional resources and the Executive gave its approval to an increase in expenditure of up to £11.15 million for the Housing Programme (RfR B). However as the Spring Supplementary Estimate had already been approved it was not possible to change the Department's estimate. This has meant that even though the additional spending had been approved by the Executive through its budget procedures, the total spend on RfR B is greater than what was allowed in the Department's estimate and the Department has therefore incurred an excess vote.

3.1.31 The Department told me that they fully recognise the important responsibility to live within the limits and restrictions set by the Assembly through the Supply Estimates process. The circumstances in which the Department incurred the 'excess' were exceptional and arose from a request from DFP after the Spring Supplementary Estimate had been approved, to identify any opportunities for further spend during the year. This request was due to the removal of End Year Flexibility for the NI Block and the inability to carry forward under spends. The Department was able to recognise three opportunities for additional spend but were aware that their late bid, if successful, would result in an excess vote. The Department when making their bid highlighted the vital nature of ensuring that the Executive and Assembly were given full transparency on the situation to ensure that the Department was not deemed as deliberately flouting 'the intentions that the Assembly has set in statute'.

Summary

3.1.32 In forming my opinion on the Department's 2010-11 Resource Accounts, I am required to confirm whether, in all material aspects, the expenditure and income have been applied to the purposes intended by the Assembly and the financial statements conform to the authorities which govern them. On the basis of my findings above, I conclude that the net resource outturn for Request for Resources B of £458.0 million was in excess of the £447.8 million authorised by the Assembly. The resource excess of £10.2 million is therefore irregular and the Department will make a request to the Assembly to approve an `Excess Vote' at the time of the next Budget Act. My audit opinion has been qualified in respect of this excess vote.

Part 4: Expenditure without proper approval

Introduction

3.1.33 In accordance with the requirements of Managing Public Money Northern Ireland (MPMNI), the Department of Finance and Personnel (DFP) has delegated to Departments authority to enter into commitments and to spend within defined limits, subject to certain restrictions. For the Department, this limit was set at £1.5

million by DFP. DFP approval is therefore required for any projects budgeted at over £1.5 million.

3.1.34 In addition, if a Department wishes to make any significant change to a project or to its proposal for procurement, after approval has been granted, DFP agreement must be obtained before any expenditure is committed and before procurement is commenced.

Waterloo Place Public Realm Scheme

3.1.35 In this case, the Department wanted to undertake a city centre regeneration project. The Department submitted an economic appraisal to DFP in December 2006 for the project and obtained approval to spend £7.2 million. In the course of pre-construction site investigations, unforeseen ground conditions requiring attention were identified and a revised cost of £10.5 million was estimated to complete the project, an increase of £3.3 million on the amount originally approved by DFP.

3.1.36 As part of the approved planning permission for the project, the Department was required to deliver the project in two phases and a contractor was appointed in January 2009 at an agreed price of £7.6 million, which did not include the additional ground conditions work. The contractor commenced work on the project in March 2009.

3.1.37 In March 2009, the Department sought advice from DFP regarding the phasing of this project and DFP indicated that as the original business case was not presented as a phased project, they suggested that the Department give further consideration on how best to take the project forward. The Department decided not to submit a formal request for approval to re-phase the project to DFP. I asked the Department why approval for the second phase was not obtained before proceeding with phase one and the Department told me they believed that the project could be scaled back to within 10% of the original approved amount whilst still delivering against the original business case objectives and that this position was discussed with DFP. However this was not possible and the approval amount was exceeded by £1.7 million, when the project was finally completed. Consideration was also given to stopping the project but following consultation with CPD it was determined that to stop work after the contractor was appointed would expose the Department to significant compensatory costs together with costs incurred for all preparatory works completed.

3.1.38 The scheme was completed in November 2010 at a total cost of £8.9 million, exceeding the approved DFP expenditure of £7.2 million by £1.7 million. On 7 June 2011 the Department informed DFP that an overspend of £1.7 million had arisen and they were not seeking retrospective approval for this amount.

3.1.39 On 27 June 2011, DFP wrote to the Department outlining that because of the extent of the overspend, project approval was rescinded and therefore the total

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project spend of £8.9 million should be recorded as irregular expenditure. As only £0.3 million of the total spend was incurred in 2010-11, this is the amount on which I have qualified my opinion on this year's accounts.

3.1.40 I asked the Department what lessons have been learned to avoid such difficulties in the future and the Department told me that it had completed a detailed review of the circumstances which led to the overspend on the project, identified lessons learned and has taken steps to prevent any recurrence. The lessons learnt will be disseminated across the Department and to other areas of the Northern Ireland public sector as appropriate.

Summary

3.1.41 The Department recognises that the failure to obtain the necessary approvals is a significant breakdown in project management and resulted in the original DFP approval being exceeded. Of this exceeded amount, £0.3 million was incurred during 2010-11 and as this expenditure has been incurred without conforming to the authorities which govern it, I have qualified my audit opinion on regularity.

Part 5: Insufficient evidence for the regularity of expenditure to one housing association

Introduction

3.1.42 The Department provides funding via the Northern Ireland Housing Executive (NIHE) to the Housing Association sector each year and this amounted to £165 million during 2010-11. In order to satisfy itself that this money is being properly spent, the Department's Regulatory and Inspection Unit (the Unit) conducts regular reviews of all housing associations in Northern Ireland examining governance, finance, property management and property development.

3.1.43 The Unit has identified a number of housing associations that have failed to achieve a satisfactory assurance level and the concerns surrounding these associations are discussed in Part 6. However, the issues identified in relation to Helm Housing Association are potentially so significant that this has led me to qualify my audit opinion as discussed below.

Helm Housing Association

3.1.44 In the latter half of 2010, the Department became aware of a breakdown of governance and concerns regarding specific building schemes within Helm Housing Association, the largest housing association in Northern Ireland. The Department became aware of these issues through its inspection programme and also because of whistleblower disclosures to both the Department and to my office.

3.1.45 Helm has therefore been the subject of a detailed examination by the Unit and I have seen a draft copy of their interim report which raises some potentially very serious issues. The report is expected to be finalised over the next few months and I may report further in due course.

Summary

3.1.46 As a result, I have been unable to obtain all the information and explanations necessary for me to satisfy myself as to the regularity of the £12.1 million issued to Helm Housing Association in 2010-11 and I have therefore qualified my opinion in this respect.

Part 6: Housing Associations

Introduction

3.1.47 I have reported extensively in previous years on the governance arrangements of housing associations and have made a number of recommendations for improvement.

Key findings to date from Round 2 of the Unit's inspections

3.1.48 The first round of reviews by the Unit of all housing associations in Northern Ireland was completed in 2009-10 and I noted in my report last year that 14 out of 33 housing associations received an "unacceptable" rating.

3.1.49 The Unit began the second round of inspections in 2010 and to date has completed its review of seven housing associations. I am concerned to note that four of these housing associations received no assurance. In addition, reviews of a further six housing associations (including Helm) are nearly complete and significant concerns have been identified in five of these housing associations. Given the work that the Unit has done in promoting best practice, driving forward improvements, monitoring performance and acting as a deterrent to unacceptable practices, I am disappointed at the continuing number of housing associations which are failing to achieve a satisfactory assurance level. The Department told me that it is also concerned about the level of failure within the Housing Association movement. The Department considers the main cause of the failure is due to a lack of capacity in terms of skills/expertise at Board and/or management level. As a result the Department has supported a number of mergers or Group structure arrangements where failed Associations have been able to avail of the skills and expertise of better established Associations. In addition a number of Associations have changed their senior management and/or Board membership as a result of an adverse Inspection report.

3.1.50 The Department also indicated that where a failed Association can demonstrate that it has the commitment, capacity and ability to effectively address the inspection findings that it will work with them to ensure the effective implementation of the recommendations. As part of its ongoing review of the Governance and Inspection process, the Department is considering what further actions are required to help drive improvements forward more effectively. Three of the key areas under consideration are:

- increasing the Department's regulatory authority to deal more proactively with failing Associations;
- utilising the lessons learned from recent Inspections to build upon the current inspection and monitoring processes; and
- working with the sector to help improve capability and capacity.

3.1.51 I have also noted that the Unit was unable to carry out its full intended inspection programme in 2010-11 because it had to divert resources to its inspection of Helm Housing Association following the significant issues identified there. The Department has told me that the decision to reschedule the Inspection Programme was only made after careful consideration of all the issues. The Department believes that the issues initially identified within Helm were such that it was vital that any potential impact was assessed as a matter of highest importance. In re-allocating the resources the Department took into account the previous Inspection grading and access to Grant. In addition a more significantly strengthened monitoring system was in place (since April 2010) and was further enhanced by the request for all Internal Audit reports from the associations. In view of these factors the Department considered any risks involved with the re-scheduling of the inspection programme to be greatly reduced. Additional resources for the Inspection Team have been put in place and this will enable the Inspection Team to deliver the planned programme during 2011-12.

3.1.52 In addition, as a result of the work of the Unit to date that Boards and Management Teams within eight housing associations have been replaced or revised. I remain concerned that the Unit continues to find examples of poor and unacceptable management/governance practices in housing associations, such as:

- the commitment to purchase land in areas where no housing need has been identified;
- the purchase of properties for which Housing Association Grant has not been received and is unlikely to be received; and
- where housing associations had purchased or were committed to purchase a large number of properties without the knowledge or approval of either NIHE or the Department.

Summary

3.1.53 Other than in relation to Helm Housing Association as discussed in Part 5, I have not qualified my audit opinion on this area of expenditure but I am concerned that there continues to be significant problems within the registered housing association sector in Northern Ireland. Of particular concern is the high level of underachievement in obtaining a satisfactory assurance level through the Department's inspection programme and the fact that there are currently seven housing associations which have been suspended from building further houses by the Department.

3.1.54 I will continue to monitor this area and in particular the timely and full implementation of the recommendations arising from the work of the Unit and the implementation of the recommendations from my review of the governance arrangements.

Part 7: Conclusion

3.1.55 A number of issues have arisen during the year which has led me to qualify the Department's Resource Account. I have also highlighted significant issues surrounding Housing Associations and the Northern Ireland Housing Executive.

3.1.56 I welcome the fact that the Accounting Officer's Statement on Internal Control highlights the significant ongoing problems relating to benefit fraud and error and the other issues referred to above. I welcome the continuing efforts by the Department that aim to reduce the levels of fraud and error in benefit expenditure and I will continue to monitor the impact on performance in future years.

3.1.57 I note the circumstances surrounding the occurrence of the excess vote and the steps taken by the Department to prevent a recurrence. I also note the Department has completed a review of the circumstances which led to the overspend of the city centre regeneration project and has identified the key lessons learnt and steps taken to prevent any recurrence.

3.1.58 I am concerned about the potentially serious issues identified by the Department's review of Helm Housing Association and the generally poor performance achieved by several other housing associations in the Department's inspection programme. I will keep this area under review and may report further on this issue in due course.

3.2 Office of the First and Deputy First Minister, 2010-11 resource accounts

Introduction

3.2.1 The Office of the First Minister and Deputy First Minister (the Department) was established by the Departments (NI) Order 1999. It is one of eleven NI departments. The Department undertakes a wide range of functions including lead responsibility for programmes to advance anti-discrimination, equality and good relations. From time to time the Department also engages consultants and undertakes spending projects which involve expenditure in excess of the Department's delegated limits, and where the prior approval of the Department of Finance and Personnel is required.

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3.2.2 I am required by the Government Resources and Accounts Act (NI) 2001 to audit the Department'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.

3.2.3 This report explains the bases on which I qualified my audit opinion on the regularity of the Department's 2010-11 resource accounts.

Weaknesses in sponsor control arrangements for directly funded bodies

3.2.4 In the course of the audit of the Department's accounts, my staff found deficiencies and inconsistencies in its arrangements to fund certain directly funded groups and to verify their spending. In total, these directly funded bodies received £7,476,620 from the Department in 2010-11. Following a major restructuring within the Department I also noted a lack of clarity and communication between relevant staff involved in the grants process. Unless the directly funded groups' activities are subject to standard verification procedures applied in a consistent and rigorous manner the Department cannot be assured they have complied with letters of offer or that the money was spent for the intended purpose. It is for this reason that I qualified my regularity audit opinion on this expenditure in the Department's 2010-11 resource accounts.

3.2.5 I also note that, as part of a strategic review of sponsor controls within the Department, it commissioned its own internal audit service to conduct a study. This study concluded there is an unacceptable level of assurance over the Department's sponsor control arrangements for directly funded bodies. This means that Internal Audit concluded there is a considerable risk the system will not meet its objectives.

3.2.6 In particular, Internal Audit identified lack of evidence to support the approval of awards to bodies funded directly by the Department, weaknesses in the Letters of Offer issued to them, the absence of documentation to support requests for the drawdown of funding, and weaknesses in its verification and vouching of claims for funding.

3.2.7 The Department is taking forward a range of measures to address the weaknesses. These include:

- Addressing as a matter of priority recommendations by my staff and its own Internal Audit Service.
- Reviewing structures and deployment of relevant staff in terms of skills, resourcing, segregation, controls, roles and responsibilities.

- Clearly delineating roles and responsibilities including strengthening resource allocated to financial management and governance issues.

- Fully reviewing grant payment systems, procedures and guidance and with appropriate training for staff.

3.2.8 I welcome the measures taken by the Department. I will continue to keep this area under review.

Consultancy expenditure in 2010-11 not approved by the Department of Finance and Personnel

3.2.9 As disclosed by the Department in its Statement on Internal Control, consultancy contracts were identified for which the necessary approvals by the Department of Finance and Personnel (DFP) were not obtained. These related to a Victims Groups Governance Review (£110,875) undertaken by the Community Relations Council, the Development of a Play and Leisure Implementation Plan (£270,000) undertaken by the Department and the Sustainable Development Training Programme (£143,394). As the value of these consultancy contracts exceeded £75,000, DFP approvals were required for them but were not obtained by the Department.

3.2.10 An amount of £142,592 was paid in 2010-11 by the Department towards the Development of the Play and Leisure Policy. No amounts were paid in 2010-11 in connection with the other two assignments.

3.2.11 DFP has now reduced OFMDFM's consultancy delegations from £75,000 to £10,000.

3.2.12 As disclosed in its Statement on Internal Control, the Department has additionally reduced the delegated limit for consultancy spend by its Arms Length Bodies from £10,000 to £5,000. It has reissued revised procedures and guidelines to all its staff and to those in its Arm's Length Bodies. It also proposes to provide training on the procedures to be followed and to establish a committee to challenge, review and approve business cases before they are submitted to DFP.

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

3.2.13 In accordance with the requirements of Managing Public Money Northern Ireland (MPMNI), DFP has delegated to departments authority to enter into commitments and to spend within defined limits, subject to certain restrictions. The delegated limit set by DFP for the Department's expenditure on regeneration projects is £150,000. DFP approval is therefore required for any regeneration projects costing over £150,000.

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

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3.2.15 In the case of the Maze Long Kesh Remediation Phase II project, the Department had approval from DFP to spend up to £3.5 million. The contract was awarded by the Department in early 2010 for £4.9 million. The Department therefore had a contractual commitment which was £1.4 million (40 per cent) above the approval which was in place.

3.2.16 In May 2011, the Department requested retrospective approval from DFP for the increase in project costs from £3.5 million to £4.9 million. DFP refused to approve this because:

- It had not been notified of the cost escalation for a period of almost 18 months; and,
- When DFP had retrospectively approved Phase I of the project in 2008 it had been on the basis that the relevant OFMDFM team were made fully aware of the processes around business case approvals.

3.2.17 The amount of the contract entered into by the Department is so significantly different from the amount DFP had originally approved that DFP considers the contract is not covered by the original approval. This has resulted in approval for spending of £4.9 million on the project being rescinded by DFP for the reasons stated. Expenditure in the year on the project of £3,000,027 has therefore been incurred without conforming to the authorities that govern it and I have therefore qualified my audit opinion on the regularity of this spending.

3.2.18 I asked the Department why the lessons which should have been learned in 2008 to avoid such difficulties in the future had not been acted on.

3.2.19 The Department told me that at the time it had received professional advice on the procurement of the Phase II contract. The Department noted that the lowest tender it received exceeded the amount of the approval from DFP by about £1.2 million. The Department explained that professional procurement advice received was that as it is not permitted to negotiate a tender before awarding and there were two alternatives, one was to reduce the scope and start the tender process again from scratch which would take many months and lose the available funding in the 2009-10 budget or the other option was to accept the tender and vary out part of the work after award.

3.2.20 The Department preferred the latter course and it was agreed that the work would be varied to reduce the value of the contract to the approved level of spend from DFP and available budget. The Department told me that when further budget became available a Business Case was prepared to gain DFP approval for the full tender value, and a subsequent increase to the overall costs. The Department has stressed that it did not breach the approval levels in relation to actual expenditure before further approval was sought from DFP for the increase.

3.2.21 However, the Department told me it fully accepts that it should not have entered into a contract at a level above that for which approval had not been obtained from DFP.

3.2.22 Looking forward, DFP has approved a request by the Department for approval for an increase in the costs of the project from £4.9 million to £5.9 million due to a range of areas including delays caused by weather, additional asbestos and uncovering additional contamination.

Conclusion

3.2.23 In view of:

- the weaknesses in sponsor control arrangements for directly funded bodies; and
- payments of Consultancy expenditure not approved by DFP; and
- expenditure on the Maze Long Kesh Remediation Phase II project for which the Department has not obtained the necessary DFP approval

I could not be assured that expenditure of £7,476,620 on grants to directly funded bodies, payments to a consultant totalling £142,592 and spending of £3,000,027 on the Maze Long Kesh Remediation Phase II project had been applied to the purposes intended or that that the financial transactions conformed to the authorities which govern them.

3.2.24 I qualified my audit opinion on regularity in these respects accordingly.

3.2.25 I will report further in due course, if necessary.

3.3 Department of Agriculture and Rural Development Resource Account 2010-11

Introduction

3.3.1 This report explains the basis of my qualified audit opinion on the 2010-11 Resource Accounts for the Department of Agriculture and Rural Development (the Department).

3.3.2 My opinion is qualified due to the irregularity of amounts due to be paid to the European Union (EU) in respect of financial corrections. These 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 was qualified on a similar basis last year.

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

3.3.4 I have also included my views on the management and oversight of the Department's Central Investigation Services Branch, which has responsibility for the investigation of suspected fraud

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cases. This does not form part of my qualified opinion.

Qualification on the regularity of amounts due to be paid to the EU in respect of financial corrections

European Agricultural Fund – EU Financial Corrections

3.3.5 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 £305 million in 2010-11 (£331 million 2009-10). As part of the European Commission's (The Commission) control over the administration of funding, the Directorate General of Agriculture and Rural Development conducts periodic audits to ascertain whether the Paying Agency (in this case the Department) is complying with the European Commission regulations.

Financial Corrections

3.3.6 In 2009-10 the Department had advised me that since 2005 there had been no fewer than six audits on the Department as paying agency for community funding, five by the European Commission and one by the European Court of Auditors. The first audit in 2006 covered EAGGF, EAGF and EAFRD payments for the scheme years 2004, 2005 and 2006. Subsequent audits covered EAGF and EAFRD payments from 2007 onwards.

3.3.7 My report on the Department's 2009-10 Resource Accounts detailed the extent of the financial corrections the EU Commission proposed as a consequence of the audits referred to in the previous paragraph. These covered the 2004-2006, 2007 and 2008 scheme years.

3.3.8 In my report on the Department's 2009-10 Resource Accounts I noted that , in applying the financial corrections the Commission advised the Department that the results of its audits 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,

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

3.3.9 My report on the Department's 2009-10 Resource Accounts indicated an overall liability of approximately €72 million (£64[17] million) due to be paid to the European Commission to cover scheme years up to 2008. This correction has not yet been paid and a liability is therefore included in the 2010-2011 Departmental Resource Accounts. My opinion on the 2009-10 Departmental Resource Accounts was qualified in respect of these amounts which had

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been included for the first time. I have included details of these amounts for information only as they do not form part of my qualified audit opinion this year.

Basis of my qualified audit opinion

3.3.10 My audit opinion is qualified in respect of two potential financial corrections which the Department has included within the 2010-2011 Resource Accounts for the first time as amounts due to be paid to the EU Commission. These are explained in the paragraphs below.

Scheme Year 2009

3.3.11 The Commission decision process for scheme year 2009 is less advanced that that for previous years, although the controls that existed in 2009 were not materially different than in previous years. The Commission's view remains that the weaknesses may once again have generated a risk to the European Agricultural Fund (the fund), and their letter to the Department said that the Commission may propose a financial correction for 2009. The letter did not propose an amount.

3.3.12 The Department met with the Commission in July 2010 to discuss the risk to the 2009 scheme year fund and the potential financial corrections. While the Commission has maintained its position it has invited the Department to provide clear evidence of the risk to the fund.

3.3.13 The Department calculated the risk to the fund by examining 1% of Single Farm Payment declarations. The Department submitted its report to the EU Commission indicating the calculated risk to the fund in the range £11.75 million to £18.38 million[18]. Further detail on how these amounts have been calculated by the Department is included in the Statement on Internal Control (pages 62 and 63 of the Annual Report and Accounts).

3.3.14 At this stage negotiations are still ongoing between the Department and the EU Commission. In light of this position the Department has accrued the maximum calculated risk to the 2009 scheme year EU Funding which would amount to a disallowance of £18.38 million.

3.3.15 For Scheme Year 2010, there has not yet been an EU Commission audit nor has the Department been asked to calculate the actual risk to the Fund. The Department does not know the Commission intentions for 2010 or 2011 scheme years and therefore has concluded that it would be premature to include any amounts due to the EU Commission. The Department has disclosed a contingent liability and a range of possible disallowances at Note 28 to the accounts.

Additional scheme with financial corrections

3.3.16 The Department has included another amount payable in respect of proposed EU financial corrections. This was the Ovine/Bovine premia scheme covering claim years 2003 and 2004. The Department were informed of potential financial corrections in respect of this

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scheme during 2010-2011. The potential financial correction is £1.01million which has been included within the 2010-2011 Resource Accounts as an amount payable.

3.3.17 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 European Commission. These include;

- Working with industry to improve farmer compliance with scheme conditions. The Department issued aerial photographs to farm businesses along with more 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.

- Equipping inspectors with 'state of the art' geospatial equipment to meet the standards required by the Commission. In addition the Department has provided enhanced training for inspectors to deliver the Commission's expectations for inspections

- The Department is working in partnership with Land and Property Services, an Agency of DFP, to revise all farm maps. This involves re mapping exercise of all 750,000 fields. They plan to revise as many farm maps (LPIS) as possible during 2011/early 2012 to provide an estimate, based on the best information available, of the maximum eligible area in each field that may be claimed by a farmer.

- 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. The Department has requested the NIAO to carry out this audit of the 2011 Single Farm Payment Scheme, subject to agreement between the Commission and the UK on the detailed arrangements. The re-performance checks which form part of this audit will consider a sample of 2011 claims identified from the random inspection selection and involve a re-examination of 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 DARD is addressing their concerns. As an example, they liaised with the Joint Research Council on technical issues to ensure that the final mapping protocol is appropriate.

- With regard to the potential financial correction concerning the Ovine/Bovine premia, this is a one off correction which will not be repeated as the Ovine/Bovine schemes ended in 2004. In February 2011 the Department presented a reasoned case to the Conciliation Body (CB) to reduce the quantum of the disallowance. The CB has since referred the matter back to the Commission and the Department is currently awaiting the Commission's response.

Summary and Conclusions

3.3.18 I have qualified my audit opinion on the Department's 2010-11 resource accounts on the grounds of regularity. During the 2010-11 financial year the Department included a further £19.4 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.

3.3.19 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.

Management and oversight of the Department's Central Investigation Services Branch

3.3.20 The Department's Central Investigation Service (CIS) has responsibility within the Department for the investigation of suspected fraud cases. The types of suspected frauds referred to the CIS for investigation include concerns raised by members of the public as well as cases brought by departmental staff involved in the administration of expenditure primarily grant payments. CIS also carry out fraud investigations on behalf of other public bodies through a number of service level agreements. I consider the investigation of suspected frauds as a matter of public interest as it is a reasonable expectation that when matters are brought to the attention of the relevant public body the proper procedures are followed to ensure a fully justified conclusion is reached.

3.3.21 In July 2010 consultants commissioned by the Department submitted a review of the work of CIS. The report's primary finding was that while there were some written procedures the CIS did not have a formal and comprehensive set of procedures in place covering all aspects of the investigation process and that these should be put in place to enhance the level of transparency and consistency of the processes followed. The Department has informed me it accepted the recommendations and has implemented the majority of the findings.

3.3.22 My auditors carried out a review of the case work and procedures followed

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within CIS. A request for full information on the activities of CIS found that the volume of reported suspected fraud cases referred to CIS is not high relative to the number of case referrals prior to the introduction of the Single Farm Payment scheme. However I am concerned that most of the suspected fraud cases referred to CIS during 2010-2011 had not been reported to me as required by Managing Public Money Northern Ireland. I note there is now an agreed process in place for the notification of suspected frauds to take place as required and I intend to monitor this to ensure it is operating appropriately.

3.3.23 The review carried out by my auditors identified shortcomings in the procedures followed within CIS as well as Department's management and oversight of its activities. These included;

- There was limited evidence of senior management review of decisions and conclusions reached in respect of individual cases.
- Senior management did not track the recommendations made by CIS to ensure these are implemented by the relevant operational branch.
- Investigation files did not always include sufficient detail of how judgements were made and conclusions reached.

3.3.24 In response to the issues I have raised in respect of CIS the Department told me that it takes fraud very seriously and aims to minimise the risk of fraud. The Department states that it strives to ensure that its anti-fraud work is as effective as possible and it welcomes my views which it will consider in detail. The Department noted that the scope of the C&AG's work focussed on CIS procedures and documentation and did not seek to test whether the correct decisions had been reached in individual investigations. The Department indicated it noted the C&AG's findings and will consider further in due course.

3.3.25 I intend to review this important area of the Department's work in future audits.

3.4 Department of Culture, Arts and Leisure Resource Account 2010-11

3.4.1 I have qualified my audit opinion on the Department of Culture, Arts and Leisure (the Department) accounts for 2010-11 in four respects, which I have detailed below:

Irregular Expenditure

3.4.2 As part of my audit of the Department's financial statements, 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 Assembly and conform to the authorities which govern them.

3.4.3 The Assembly authorises and sets limits on public expenditure on two bases, resources and cash. Such amounts are set out in the Supply Estimates for which the Assembly's approval and authority is given in the annual Budget Acts. Resource Expenditure includes expenditure classified as Departmental Expenditure (DEL), Annually Managed Expenditure (AME) and Non Budget. In certain circumstances, the Department of Finance and Personnel (DFP) may approve the use of underspends on one part of the estimate to cover overspends on another part of the estimate – this is referred to as virement approval.

3.4.4 The Department incurred an impairment charge of £3,392,000 on Land and Buildings which had not been anticipated, following a year end valuation of the Public Record Office of Northern Ireland's new premises. This was classified as AME expenditure. The valuation recorded £25,288,000 as against the Department's figure of £28,680,000. An impairment review was undertaken by the Department during the year of its Land and Buildings to identify cases where valuations in properties would be less than the figures recorded in the Department's asset register. The Public Record Office of Northern Ireland was omitted however, as at the time of the review it was classified as an asset under construction.

3.4.5 The Department's Supply Estimates included a provision for £270,000 of expenditure within AME. This provision, before taking account of the PRONI premises, was exceeded by £96,000. Adding this excess to the PRONI impairment charge of £3,392,000 resulted in a total AME excess of £3,488,000. DFP advised the Department that it could not provide virement approval for this excess AME expenditure as to do so would infringe the Assembly's control over such expenditure.

3.4.6 The Department's Statement of Parliamentary Supply for 2010-11 shows a Net Resource Outturn of £154,907,000. However the limit on resource expenditure set out in the Main Supply Estimates, as amended by the Spring Supplementary Estimates, for 2010-11 was £152,113,000. The excess AME expenditure of £3,488,000 is offset somewhat by cumulative underspends of £694,000 in other parts of the Estimate as Assembly approval is granted at the net resource expenditure level. As such, the Department has incurred an excess vote of £2,794,000.

3.4.7 This excess vote, which has been caused by the irregular expenditure, has meant that the Department breached the resource based limit the Assembly had authorised. There was no breach of the cash based limit authorised by the Assembly.

3.4.8 The Department has told me that it will seek approval, by way of an excess vote for the £2,794,000, from the Assembly in the next Budget Act and that in the future it will include assets under construction in all impairment reviews.

Conclusion

3.4.9 As DFP did not grant virement approval to cover the excess of £3,488,000 AME classified expenditure, there was

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no authority for this expenditure. 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 and qualified my audit opinion on regularity in this respect.

3.4.10 A consequence of the irregular expenditure incurred is that the Department has breached the Net Resource Outturn authorised by the Assembly, and in doing so incurred an excess vote of £2,794,000. I have therefore qualified my audit opinion on regularity in this respect.

Legal ownership of assets

3.4.11 In 2009-10 and 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 2010-11.

3.4.12 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.

3.4.13 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. The findings of this work were 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 are not included within property, plant and equipment. I note:

- The financial statements include non-current assets with a net book value of £34,828,000 at 31 March 2011. Included in this amount are land and buildings with a net book value of £33,140,000 of which the Department cannot prove legal ownership for £2,945,000 (down from £3,461,000 at 31 March 2010); and
- Approximately fifty assets have been identified at 31 March 2011 which may belong to the Department, but are not included in non-current assets (unchanged from the position at 31 March 2010). The value of these assets is not known.

3.4.14 I asked the Department why progress in resolving this matter since my last report is not more advanced. The Department advised me that it has entered into discussions with other departments and organisations that had previously owned these assets, with legal advice, in order to resolve these issues. As a result premises at Riversdale have been registered, and discussions are at an advanced stage to resolve Castlewellan and Movanagher premises. A ruling by the Land Registry is awaited in relation to the Bushmills Salmon Station. Lagan Canal Trust is mapping existing registrations along the Lagan Navigation to enable the Department to apply for cautionary registration of unregistered land along the Lagan Navigation. Whilst not yet fully resolved, significant progress has been made on the priority areas identified.

3.4.15 In my 2009-10 audit I noted that the Department could not provide evidence of ownership of sporting and fishing rights. This situation continues to exist in 2010-11. The Department has confirmed that the absence of ownership extends to assets currently valued at £456,000 (£438,000 at 31 March 2010). The Department is investigating this issue and is liaising with relevant departments and agencies to ascertain if Fishing Rights documentation currently exists. The Department told me that in 2010-11 it further investigated this issue and liaised with relevant departments and agencies to ascertain if Fishing Rights documentation currently existed. It will now develop an action plan which will identify gaps in documentation and map a way forward, giving also consideration to a risk analysis and potential future costs.

3.4.16 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

3.4.17 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 keep the Department's actions and progress in resolving this matter under review.

Disallowed European Union (EU) Expenditure

3.4.18 The Department administered an EU Peace II grant programme, the Water Based Tourism Programme, from 2001 to 2006. The strategic aim of the programme was to provide prime angling, and angling facilities, to attract angling tourists to Northern Ireland and to develop the inland waterway network and improve water recreation facilities for the benefit of both local and tourist users, thereby promoting economic and social regeneration.

3.4.19 Eligibility of claims for EU funds, comprising regularity of the underlying transaction and compliance with scheme rules, is subject to assessment by the EU. Assessment carried out by the EU at the end of a scheme may result in disallowance of amounts previously paid, or subject to final payment under the scheme.

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3.4.20 In 2008, DFP EU Verification Unit carried out an audit of the programme and recommended that the Department should undertake a review of all payments to ensure systemic weaknesses were not present. A review of 50 per cent of projects in receipt of funding, not previously subject to audit, was undertaken following consultation with DFP EU Verification Unit.

3.4.21 In my report on the Department's 2009-10 Accounts, I reported that the Department had determined an amount of £188,000 as representing disallowed EU expenditure under the Water Based Tourism Programme (requiring repayment to the EU) and qualified my audit opinion on regularity. This sum has been repaid to the EU.

3.4.22 The Department's Internal Audit was required to provide an EU Peace II grant programme closure report. The Report was completed and submitted to the EU in October 2010. However this Report identified financial irregularities in a further five projects totalling £27,000 in the Water Based Tourism Programme which would require repayment to the EU. These monies were additional to the £188,000 that I had reported on in 2009-10.

Conclusion

3.4.23 The additional disallowed expenditure of £27,000 represents a loss of public funds which falls outside the Assembly's intentions in relation to the proper administration of European 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 and qualified my audit opinion on regularity in this respect.

3.5 Department of Education Resource Account 2010-11

3.5.1 During my audit of the 2010-11 resource accounts of the Department of Education (the Department) it came to my attention that the Department's Arms Length Bodies (ALB) and a number of schools had paid honoraria to both teaching and non-teaching staff of £662,127 in 2010-11 (£745,459 in 2009-10). Payments of this nature must obtain the approval of both the Department and the Department of Finance and Personnel (DFP) before being undertaken. As no such approval was obtained from both Departments these payments are irregular and I have therefore qualified my regularity opinion on the Department's accounts in this respect.

Background

Honoraria paid to non-teaching staff

3.5.2 As disclosed in the Department's Statement on Internal Control, the administration of a vacancy control policy across its ALBs 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. During 2010-11, 151 staff employed by the

ALBs were paid an additional £392,605 (2009-10: 158 staff paid £375,425) under these arrangements. The payments were considered to be necessary as the ALB staff conditions of service require that consideration is given to making discretionary payments when officers are performing additional duties to their substantive post. However these payments should have been approved in advance by both Departments and as they were not they are irregular.

Honoraria paid to teaching staff

3.5.3 Honoraria have also been paid to teachers to remunerate them for performing additional duties outside their normal contractual roles and responsibilities. In 2010-11 honoraria were paid to teachers totalling £269,522 (2009-10: £370,034) under these arrangements. As for the payments made to non-teaching staff, approval from both Departments should have been obtained before the payments were made. As this was not sought in advance of the payments being made and retrospective approval is not being sought by the Department, these payments are irregular.

Why the irregular payments were not prevented

3.5.4 I asked the Department why it had not identified at an earlier stage that the ALBs and a number of schools were making these payments to both teaching and non-teaching staff and that approvals were required from both Departments. The Department has informed me that since 2006, all of the relevant guidance on the application of public sector pay policy was issued to the ALBs. This has also been supplemented over the past three years with dedicated seminars for ALB staff. Unfortunately however this guidance was not adhered to and it was not possible for the Department to discover this as honoraria payments were not separately identified within the annual pay remits.

3.5.5 When the Department was informed that payments were being made in one ALB, in the absence of the proper approvals, an exercise was undertaken to determine the situation in the rest of the ALBs and schools and to develop an appropriate solution. The Department has now amended the non-teaching pay remit templates to include a requirement for all ALBs to separately identify honoraria payments and these will be signed by the Chief Executives to confirm that all of the payments have received the appropriate approvals. In addition the pay remit template for teachers, which is compiled by the Department, now separately identifies honoraria payments. From 1 September 2011 all such payments and the reason for the payments must now be signed off by the school Principal, Chair of the Board of Governors and the relevant employing authority (the Department in the case of Voluntary Grammar and Grant Maintained Integrated schools) before formally being submitted to the Department for prior approval.

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Future payments

3.5.6 The Department has now developed a policy to oversee the administration of payments to non teaching staff in each of its ALBs. The 'Policy for DE Arms Length Bodies on Staff Temporarily Undertaking Acting-Up Appointments or Additional Duties and Responsibilities' received DFP approval on 4 March 2011. The policy extends delegated authority to ALBs for the award of Acting-Up Appointments and Responsibility Allowances for payments to individuals for up to 12 months.

3.5.7 In relation to teaching staff, the Department has developed a similar policy to oversee the payment of honoraria to teachers, which was approved by DFP on 26 July 2011. The Department has advised that the new policy will be implemented from September 2011, to coincide with the start of the new school year.

3.5.8 I will examine any payments made under both of the new policies closely in my 2011-12 audit to ensure that they comply with the new agreed rules.

Conclusion

3.5.9 I have qualified my opinion on regularity due to irregular expenditure by the Department of Education's ALBs of £662,127 on honoraria paid to teaching and non-teaching staff. I welcome the disclosure of this matter in the Accounting Officer's Statement on Internal Control and the action which is ongoing to ensure that robust and effective arrangements are put in place to guarantee that such a situation does not recur. Nonetheless, it is important going forward 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.

3.6 Department for Regional Development Resource Account 2010-11

Introduction

3.6.1 This report explains the basis of the qualified audit opinion I have placed on the 2010-11 Resource Accounts for the Department for Regional Development.

3.6.2 My opinion was qualified due to the irregular expenditure incurred as a result of breaches of financial delegations and procurement regulations in Northern Ireland Water Limited (NI Water). The resource accounts for the Department for Regional Development (DRD) include expenditure in respect of NI Water.

Background

3.6.3 NI Water was established on 1 April 2007 as a Government-owned Company ("GoCo") with DRD as the sole shareholder. The GoCo is subject to companies' legislation. NI Water was appointed under the Water and Sewerage Services (Northern Ireland) Order 2006 as the provider of water and sewerage services in Northern Ireland, operating under licence from the Northern Ireland Authority for Utility Regulation.

3.6.4 In addition to the requirements of companies' legislation, DRD established particular governance arrangements for the GoCo which allowed the Department to act in accordance with the Shareholder Executive[19] approach for public sector shareholdings. The DRD Accounting Officer holds ultimate responsibility for DRD's shareholding in NI Water. In meeting this responsibility, governance arrangements were agreed with NI Water setting out how DRD would act as shareholder. This included financial delegations where limits were set for certain transactions above which shareholder approval was required.

3.6.5 Funding from DRD to NI Water is in the form of revenue subsidy (NI Water's main source of income), some seventy-five per cent of its income; capital grant support and the issue of capital loan notes. In 2010-11 DRD's subsidy to NI Water was £263.1 million, capital loan notes of some £110 million were issued as well as capital grant support of some £2,000.

Irregular expenditure incurred in respect of NI Water contracts

3.6.6 In 2009-10, the DRD resource accounts were qualified as a result of irregular expenditure incurred by NI Water. 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 breaches.

In 2009-10 total expenditure relating to these instances of non-compliance amounted to £5.3 million. A further £9.2 million were also non-compliant in 2008-09 and £6.5 million in 2007-08. In total £21 million of expenditure did not conform to the relevant financial delegations and procurement regulations.

3.6.7 The Northern Ireland Assembly's Public Accounts Committee (PAC) took evidence on the governance of NI Water on 1 July 2010. On 2 September 2010, PAC requested NIAO to conduct a contract validation exercise on procurement and contract management issues at NI Water. The resulting report was provided to PAC on 15 December 2010. PAC issued their findings on 3 March 2011 in their report 'Procurement and Governance of NI Water' (reference NIA 40/10/11R). A Memorandum of Reply was prepared by DFP and presented to the Assembly on 15 June 2011.

3.6.8 I am not responsible for the external audit of NI Water, which is audited by a private sector firm of auditors. As a limited company, the auditors of NI Water were not required to provide an opinion on the regularity of its expenditure. However, as a result of recommendations made by the Northern Ireland Assembly's PAC in their report, DRD issued a direction to NI Water requesting a regularity opinion to be obtained for the 2010-11 financial

19 Shareholder Executive model aims to implement a systematic approach to the application of corporate governance best practice addressing the Shareholder Executive's four shareholding principles of clarity, value, transparency and professionalism.

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year. The audit opinion provided by NI Water's external auditors in respect of the 2010-11 statutory accounts was qualified due to irregular expenditure of £4.7 million

3.6.9 In their report, NI Water's external auditors stated that the instances of irregular expenditure related to the following areas:

- Single Tender Actions where DRD shareholder approval was not obtained, contrary to NI Water delegation limits;
- potential breaches of Utilities Contract Regulations 2006;
- breaches of internal delegation limits and procurement policies (set by DRD); and
- non-adherence to DFP/CPD procurement guidelines.

3.6.10 The exceptions in procurement and contract management control noted above are disclosed in NI Water's audited financial statements within the Statement on Internal Control and have been noted in DRD's own Statement on Internal Control (see page 55 of the financial statements). As I am not responsible for the external audit of NI Water, I am therefore reliant on the financial information contained in the audited accounts of NI Water in terms of the amounts disclosed in paragraphs 3.6.6 and 3.6.8 above.

3.6.11 DRD has informed me that a joint DRD/NI Water Action Plan has been implemented and this has significantly improved controls:

- A transparent 'end to end' governance system in relation to procurement processes which will provide a robust control framework in relation to business cases, tendering activity, financial delegations, payments and the collation of management information has been established in NI Water. This has since been reviewed by NIW Internal audit and overall the design of controls was found to be effective.
- Procurement compliance is now included as a standing item on the NIW Executive Committee & Board agendas. The Board has established a Procurement Committee. It meets at least four times a year and during 2010-11 met monthly from November 2010. The Committee was chaired by an Independent Non-Executive Director. The Committee makes recommendations to the Board concerning the tendering and award of contracts exceeding £1 million for operational costs and £2 million for capital works.
- A training programme for all NIW managers and officers involved in procurement covering the creation of business cases, tendering activity, financial delegations, payments and the collation of management information was delivered.

- A full time Procurement Compliance Officer was appointed. Shareholder Unit is updated on the Compliance Officer's work on a regular basis.

- A programme of work was developed to oversee the regularisation of contracts and Shareholder unit is provided with regular progress reports.

- The Director of the Shareholder Unit now attends the NIW Audit Committee.

- A new Governance Report has been developed for the Quarterly Shareholder Meetings (QSM) to highlight details of STA's awarded including those not requiring DRD Approval.

- The Board Appointments process has recently been completed and through discussion with the Minister and the QSM the new non-executive directors will be fully briefed on the Department's expectations of the Board in respect of procurement matters.

My audit has not included a validation of the actions above that have been taken by DRD and NI Water.

I will continue to monitor developments and the action taken to improve governance arrangements.

Conclusion

3.6.12 In forming my opinion on the DRD 2010-11 resource accounts, I am required to confirm whether, in all material aspects, the expenditure and income have been applied to the purposes intended by the Assembly and the financial statements conform to the authorities that govern them. On the basis of my findings above, expenditure of £4,710,180 incurred by NI Water in 2010-11 which failed to conform to the relevant financial delegations set by DRD and procurement regulations is irregular. My audit opinion has been qualified as a result.

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4.1 Youth Justice Agency of Northern Ireland 2010-11

Introduction

4.1.1 The Youth Justice Agency of Northern Ireland (YJANI) was formed on 1 April 2003 to take on a range of responsibilities previously undertaken by Juvenile Justice Board, and to introduce a Youth Conferencing Service. It was formerly an Executive Agency of the Northern Ireland Office, 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

4.1.2 Audit responsibilities for devolved policing and justice functions have also transferred and I was appointed as auditor of the YJANI under the Government Resources and Accounts Act (Northern Ireland) 2001 for the 2010-11 financial statements onwards.

4.1.3 The purpose of this report is to explain the background to my qualification of the YJANI financial statements for the year ended 31 March 2011. I have qualified my opinion on these financial statements because it is unclear whether the pension deficit relating to the Northern Ireland Local Government Officers' Superannuation Committee (NILGOSC) has been correctly reflected in the financial statements.

Background

4.1.4 Under International Accounting Standard (IAS) 19 financial statements are required to reflect the share of net pension surpluses or deficits which can be attributed to them by multi employer schemes such as NILGOSC. The value of the pension deficit of £2.4 million reflected in YJANI's Statement of Financial Position is based on information provided by NILGSOC on the number of pensioners, deferred and active members attributed in previous years to YJANI for IAS 19 purposes, adjusted for normal membership movements up to 31 March 2011. However I note that recent information indicates that approximately 290 additional pensioners and deferred members had not been included within the information passed by NILGOSC to YJANI's Actuary in previous years. The pension liabilities for these additional pensioners and deferred members have not been reflected in the 2010-11 YJANI financial statements.

4.1.5 The additional pensioners and deferred members were former employees of the Lisnevin Management Board and the Rathgael & Whiteabbey Training Schools. These establishments were disbanded before the formation of YJANI and these individuals had never been employed by YJANI.

Qualification

4.1.6 YJANI told me that it does not currently accept the liability for these additional pensioners because legal advice on the

Agency's position and a detailed analysis of the pensioner information is required to determine where these pension liabilities should lie. It therefore has not included the pension liability of £1.13 million, an associated reduction in net operating cost of £0.68 million or an actuarial gain of £0.69 million in respect of these individuals within its 2010-11 financial statements. In addition, associated adjustments to the 2009-10 comparatives for net expenditure and pension liabilities have not been made within the financial statements. Since it is still investigating this issue YJANI has not been able to provide me with sufficient and appropriate audit evidence to support its accounting treatment. There is therefore no clarity as to whether or not all or a portion of the deficit relating to the additional pensioners and deferred members rests with YJANI.

4.1.7 I have qualified my audit opinion on the YJANI financial statements due to the adjustments which may have been necessary had I been able to obtain sufficient and appropriate audit evidence concerning the extent of the Agency's pension liabilities and the resulting impact on the Statement of Comprehensive Expenditure.

4.1.8 I note from the Statement on Internal Control that the Agency continues to work with NILGOSC and Department of Justice to clarify the extent of its pension obligations. Once this issue has been resolved adjustments may be required in the 2011-12 financial statements.

4.2 Northern Ireland Social Security Agency 2010-11

Introduction

4.2.1 The Social Security Agency (the Agency) is an Executive Agency within the Department for Social Development (DSD), which in 2010-11 was responsible for the payment of £4.3 billion in benefits.

4.2.2 This report reviews the results of my audit of the Agency and sets out why I have decided to qualify my audit opinion. It is important to note that my audit opinion has been qualified for a considerable number of years because of significant levels of fraud and error in benefit expenditure, other than State Pension. I also provide an update on the issues I reported on last year.

Agency arrangements for monitoring and reporting

4.2.3 The Agency's Standards Assurance Unit (SAU) regularly monitors and measures the estimated 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 or 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 annual accounts. This note explains that the estimates of fraud and error are by

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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 is reasonable.

4.2.4 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 irregular benefit payments

4.2.5 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.

4.2.6 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 which has a low incidence of error and no reported customer fraud).

4.2.7 Figure 10 below shows the total benefit payments that were made during the calendar year of 2010 and the estimated amounts of error in relation to each benefit based on the work done by SAU. The table shows that total benefits (other than state pension) amounted to £2.7 billion and of this amount fraud and error gave rise to:

- overpayments of £47.5 million (1.76 per cent of related expenditure); and
- underpayments due to official error of £13.7 million (0.51 per cent of related expenditure).

All of the overpayments are irregular, whereas only underpayments made as a result of official error (£13.7 million or 0.51 per cent of related expenditure) are deemed irregular. Underpayments due to customer error are not deemed irregular.

4.2.8 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 10**) within State Pension is not significant.

Figure 10: Estimated Overpayments and Underpayments due to fraud and error in benefit expenditure (2010)[20]

	Benefits (other than State Pension) £million	State Pension £million	Total £million
Expenditure	2,702.8	1,649.3	4,352.1
Overpayments due to:			
Official error	20.5	0.7	21.2
Customer error	6.5	0	6.5
Customer fraud	20.5	0	20.5
Sub-total	47.5	0.7	48.2
Underpayments due to:			
Official error	13.7	1.4	15.1
Customer error	2.5	3.1	5.6
Sub-total	16.2	4.5	20.7

Estimated levels of fraud and error

4.2.9 Fraud and error in benefit awards can arise because of internal Agency error (official error), customer error or customer fraud. **Figure 11** shows the trends since 2006 in estimated levels of overpayments and underpayments due to each of these.

4.2.10 The Agency estimates that in 2010 losses of £48.2 million have arisen through overpayment of benefits to claimants due to fraud and error, representing 1.1 per cent of total benefit expenditure. This compares with losses of £46.8 million in 2009 which also equated to 1.1 per cent of total benefit expenditure. Total benefit expenditure increased by £175.7 million (or 4.2 per cent) in 2010 compared to 2009.

4.2.11 There is a general trend of an overall percentage reduction in total overpayments due to fraud and error year on year and in particular, I welcome the decrease in customer error from £12.9 million in 2009 to £6.5 million in 2010 (0.3 per cent to 0.2 per cent of total benefit expenditure) and hope that this decrease can be sustained in future years.

4.2.12 I am, however, concerned over the increase in overpayments due to both customer fraud and official error. Overpayments arising from customer fraud have increased from £17.2 million

20 Estimates in this and the other tables 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.

Figure 11: Trends in total estimated overpayments and underpayments due to fraud and error in benefit expenditure

	2010 £million	2009 £million	2008 £million	2007 £million	2006 £million
Total benefit expenditure	4,352.1	4,176.4	3,788.8	3,630.0	3,501.0
(1) Overpayments					
Official error	21.2	16.7	18.4	23.9	27.9
Customer error	6.5	12.9	13.4	11.3	14.0
Customer fraud	20.5	17.2	12.6	12.3	18.1
TOTAL	**48.2**	**46.8**	**44.4**	**47.5**	**60.0**
% of benefit expenditure	**1.1**	**1.1**	**1.2**	**1.3**	**1.7**
(2) Underpayments					
Official error	15.1	16.1	17.2	23.6	19.0
Customer error	5.6	5.4	2.5	2.5	2.7
TOTAL	**20.7**	**21.5**	**19.7**	**26.1**	**21.7**
% of benefit expenditure	**0.5**	**0.5**	**0.5**	**0.7**	**0.6**

Source: Social Security Agency Accounts 2006-07 to 2010-11

in 2009 to £20.5 million in 2010 (0.4 per cent to 0.5 per cent of total benefit expenditure) mainly due to an increase in estimated fraud levels in state pension credit and also because fraud levels have been estimated for Employment Support Allowance (ESA) for the first time in 2010 – there was no comparative figure in 2009. I asked the Agency to comment on this increase in fraud and the Agency told me that the majority of the increase in customer fraud is directly attributable to a rise in estimated fraud within State Pension Credit. The increase relates primarily to higher instances of cases detected where occupational pension has not been declared. The Agency devoted specific resources to this area during 2010-11 and will continue to do so in 2011-12, assisted through the continued activity arising from the National Fraud Initiative. While the customer fraud figure for ESA contributes to the remainder of the increase, (ESA estimates have been included within the Agency's fraud and error figures for the first time in 2010), this is an estimated figure based on the levels of fraud within the Incapacity and Income Support benefits. Formal sampling of the new ESA benefit in respect of its specific customer fraud and error is underway for the first time in 2011-12 and this will inform the Agency's future counter fraud activities in this area.

4.2.13 I note that overpayments due to official error have increased from £16.7 million in 2009 to £21.2 million in 2010 (0.4 per cent to 0.5 per cent of total benefit expenditure). I am disappointed in this increase as it is my view that this is the area where the Agency continues to have the most control.

4.2.14 The estimated levels of fraud and error across different benefits vary significantly. The benefits system is complex and some benefits are easier to administer than others. Note 26 of the Agency's annual accounts shows that levels of fraud and error continue to be lowest for those non-means tested benefits, such as State Pension, which are easier to claim, relatively easy to determine and largely unaffected by changes in circumstances. Fraud and error is more frequent in means tested benefits, where a claimant's financial circumstances are required to be taken into account.

4.2.15 I welcome the overall reduction in underpayments from £21.5 million in 2009 to £20.7 million in 2010. However I note that while underpayments due to official error have steadily declined each year since 2006, underpayments due to customer error have more than doubled to £5.6 million in the same period. The Agency told me a Benefit Review was carried out on State Pension (SP) for the first time in 2009. The customer fraud and error estimates previously used for State Pension came from the results of the 2005 DWP National Benefit Review Pilot and there were no Customer Error (CE) underpayments recorded. Using the results of the 2009 SP Benefit Review, the SP CE underpayments estimate for 2010 was £3.1 million and this makes up the majority of the increase in customer error underpayments from 2006. (The £3.1 million estimate is made up of only four errors equating to 0.2 per cent of the 2010 SP expenditure).

Other matters meriting comment

Social Fund

4.2.16 The Agency is responsible for social fund payments, which totalled £84.5 million in the calendar year 2010. The Financial Accuracy exercise completed by SAU and included within Note 26 estimated that official error overpayments and underpayments for social fund expenditure were £0.98 million and £0.77 million respectively, which represented a significant decrease compared to 2009. My regularity qualification includes these social fund official error overpayments and underpayments. SAU has never carried out a benefit review of social fund payments and in my 2009-10 report I recommended the Agency to carry out a benefit review to estimate the level of customer fraud and error for this benefit. This review has not yet been undertaken. I asked the Agency what progress has been made and the Agency told me that due to the complexity and expense associated with the measurement of benefit fraud and error consideration must be 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. This is partly because Social Fund payments are one-time payments and an error would not generate an ongoing loss, which is more often the position with other weekly/fortnightly paid benefits. Moreover, around three quarters of Social Fund expenditure is repayable (i.e. loans) which means that error is automatically recovered when the loan is repaid. The Agency also advised that some Social Fund payments are paid primarily because the recipient receives other social security benefits that are already subject to regular review and that the policy not to measure Customer Fraud and Error for Social Fund expenditure is consistent with the approach taken by the Department for Work and Pensions in GB. The Agency will however continue to monitor SAU data to ensure that this position does not adversely change.

4.2.17 The Agency also prepares a separate Social Fund White Paper Account and on 12 May 2011 I qualified my audit opinion for 2006-07 and 2007-08 due to:

- significant levels of error in social fund payments (except for winter fuel payments and cold weather payments); and
- a limitation of scope audit opinion as there was insufficient evidence to support the debt notes in the accounts – Notes 2, 3 and 4.

The completion of the accounts was delayed due to the time involved in agreeing the qualification issues. Now that these issues have been agreed, I will work with the Agency to bring these accounts up to date.

Disability Living Allowance - Changes in Circumstances

4.2.18 Note 26 of the Agency's annual accounts identifies cases where a 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, then 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. Therefore these cases are omitted from the estimated overpayments and underpayments reported by the Agency.

4.2.19 For 2010 the Agency estimates that customers are receiving in excess of £42.5 million above the DLA entitlement for these cases and £21.7 million below their DLA entitlement. Results from the most recent DLA benefit review (performed in 2008) show that almost one in five (18.2 per cent) cases reviewed contained a change in customer circumstances not reflected in the DLA benefit payment being made. I acknowledge that these cases are legally and procedurally correct, however identifying when customers' 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 cases. The Agency told me that in line with recommendations from the Northern Ireland Audit Office and the Public Accounts Committee (PAC), it continues to identify DLA cases that are likely to result in a change of circumstances. In addition, the Agency's Fraud and Error Reduction Board ring-fences specific funding year on year to target and correct these DLA claims.

Benefit overpayments to be recovered

4.2.20 Benefit overpayments arise whenever benefits are paid in error to customers. The gross benefit debt is the amount due to the Agency from customers and this amount is impaired to recognise that full repayment may not be received or may take a considerable number of years to repay.

4.2.21 **Figure 12** below shows the total value of benefit overpayments to be recovered by the Agency as at 31 March for each of the last four financial years. I am concerned that both the gross and net levels of benefit overpayments have increased considerably over the past three years.

4.2.22 I asked the Agency to comment on this increase. The Agency told me this is due to its increased effectiveness in recent years in both detecting overpayments arising from fraud and error and in referring the debt for registration and recovery. Almost 83,000 new debts were registered during 2010-11 (2009-10 – 84,000, 2008-09 – 68,000 and 2007-08 - 42,000). Recovery of benefit debt also increased each year (2010-11 - £11.74 million, 2009-10 - £11.48 million, 2008-09 - £9.2 million and 2007-08 - £7.9 million). However, there are statutory and other limitations in place regarding the amounts that can be recovered. For example, consideration must be given to the financial circumstances of individual customers to ensure benefit overpayment debts are repaid at an affordable rate and to protect debtors from undue hardship. As repayment is generally made over a period of time and can be prescribed, the Agency is therefore unable to recover debt at the same rate at which it is identified. In addition, the impairment amounts and the net value of benefit debt are calculated and presented purely for financial reporting purposes. The Agency's debt management policy is to recover the full amount of the benefit overpayment.

Benefit cases written off

4.2.23 I note that 53,296 benefit cases totalling £15 million were written off during 2010-11, compared with 54,343 cases totalling £17.1 million during 2009-10. This equates to an average write off per case of £282 (2009-10 - £315). I will continue to monitor the value of cases written off.

Figure 12: Trends in benefit debt to be recovered

	31/3/2011 £'000	31/3/2010 £'000	31/3/2009 £'000	31/3/2008 £'000
Total gross benefit debt	95,257	90,654	81,796	75,702
Impaired amount	56,280	51,816	51,267	47,546
Total net benefit debt	38,977	38,838	30,529	28,156

Source: Social Security Agency Accounts 2007-08 to 2010-11

Employment and Support Allowance

4.2.24 Employment and Support Allowance (ESA) replaced Incapacity Benefit and Income Support on the grounds of incapacity, for new claims following its introduction in October 2008. The Agency paid £4.6 million in respect of this new benefit in 2008, £39.4 million in 2009 and this has risen to £84.8 million in 2010.

4.2.25 The Agency introduced a formal financial accuracy target of 95 per cent in 2010 and the Agency's SAU completed a review of ESA for the calendar year 2010, concluding that estimated overpayments and underpayments in ESA due to official error totalled £2.6 million and £2.0 million respectively. This equates to a financial accuracy rate of 94.6 per cent, just below 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 a lower financial accuracy target for ESA has been set. The Agency told me that Employment and Support Allowance (ESA) is a relatively new benefit and that the delivery of high accuracy levels within new benefits creates a particular challenge which was recognised with the introduction of ESA. For this reason the 2010-11 target was set to provide an appropriate early benchmark upon which to build performance. The Agency has measures in place such as error analysis, accuracy improvement plans and targeted error reduction activity to achieve this aim. The ESA fraud and error estimates are included for the first time in the Agency's 2010 results and the ESA Financial Accuracy target of 95% was achieved within statistical tolerance.

Counteracting fraud and error

4.2.26 In general, I acknowledge the considerable effort and resources that the Agency has put into reducing the estimated levels of fraud and error. The Agency currently has a number of ongoing programmes in place aimed at counteracting the levels of benefit fraud and error.

4.2.27 As part of its efforts in this area, during 2010-11 the Agency published its error reduction strategy up to 2013-14. One element of this strategy was to establish a customer compliance unit to identify cases where customers have not reported changes in their circumstances. The Agency has told me that this new unit, which was only fully operational in the latter half of the year has already identified errors in 612 cases resulting in over £2 million of adjustments.

4.2.28 A key part of deterring fraud will be ensuring that an effective deterrent to fraud is available in the form of appropriate penalties. The Agency has told me that during 2010-11 it imposed 1,128 sanctions on customers who had made fraudulent claims for benefit. These included:

- 542 people were convicted in the courts for fraud totalling £4.6 million, with offenders receiving jail sentences, suspended jail sentences, community service orders, conditional discharges and fines; and
- 4 formal cautions and 582 administrative penalties imposed by the Agency.

4.2.29 The Agency has also told me that its financial investigation unit has brought about the recovery of £506,131 criminally obtained assets by way of confiscation orders obtained through the courts and additional voluntary payments and has also referred eight cases to the Police Service for Northern Ireland (PSNI). Some of these cases have the potential for recovering significant overpayments of social security benefits alongside other potential offences.

4.2.30 In relation to cross border benefit fraud, the Agency continues to work closely with the Department for Work and Pensions and the Department of Social Protection in the Republic of Ireland through the cross border forum. The Agency has told me that during 2010-11 a total of 13 cases of cross border benefit fraud were detected with overpayments amounting to a monetary value of £334,000.

National Fraud Initiative

4.2.31 The National Fraud Initiative is an exercise to conduct data matching scans to assist in the prevention and detection of fraud. A matching exercise was carried out in September 2008 which identified just over 13,700 cases which required further examination as occupational pension or income information potentially conflicted with that held on Social Security Agency or Housing Benefit records. To date, overpayments amounting to £1.2 million have been identified as part of this Initiative.

4.2.32 In February 2011 I published a separate report on the 2008-09 National Fraud Initiative for the whole of the Northern Ireland public sector. The 2010-11 National Fraud Initiative has recently commenced and I will report on this in due course.

International Financial Reporting Standards (IFRS)

4.2.33 I qualified my 2009-10 audit opinion with a limitation in scope on my audit of non-current IT and intangible assets and associated resource costs as I was unable to determine whether the Agency had applied the correct accounting treatment to the relevant expenditure and assets. In 2010-11, the Agency has provided sufficient documentation and explanations to support its accounting treatment of non-current IT and intangible assets and my audit opinion is no longer qualified on this matter.

Conclusion

4.2.34 I consider that the estimated levels of fraud and error reported are material and I have therefore qualified my opinion on the Social Security Accounts 2010-11 on the regularity of benefit expenditure (other than state pension benefits).

4.2.35 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 National Fraud Initiative are continuing to identify fraud. The Agency has had to overcome continued challenges this year including efficiencies required as a result of the 2008-11 budget settlement, the ongoing preparation and implementation activities for welfare reform, the ongoing delivery of its modernisation programme and the impact of the economic downturn.

4.2.36 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 robust and 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.

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5.1 Northern Ireland Housing Executive

Introduction

5.1.1 The Northern Ireland Housing Executive (the Housing Executive) is a Non-Departmental Public Body (NDPB) sponsored by the Department for Social Development (DSD). The Housing Executive is the regional housing authority for Northern Ireland with a wide range of housing responsibilities including acting as landlord for housing stock of approximately 90,000 dwellings.

5.1.2 This report reviews the results of my audit of the Housing Executive and sets out the reasons for my qualified audit opinions. For a considerable number of years I have qualified my audit opinion because of significant levels of fraud and error in housing benefit expenditure, and do so again this year. In addition I have qualified my audit opinion in relation to response maintenance expenditure and also to social housing development programme expenditure in so far as it relates to Helm Housing Association. The Housing Executive accounted for £568.7 million in housing benefit expenditure, £48.9 million in response maintenance expenditure and £12.1 million of Social Housing Development Programme expenditure to Helm Housing Association during 2010-11.

5.1.3 This report also comments on a number of other matters in relation to my audit of the accounts of the Housing Executive.

Arrangements for reporting and monitoring of housing benefit

5.1.4 The Housing Executive administers housing benefit on behalf of the Department for Social Development. The Department's Standards Assurance Unit regularly monitors and measures the estimated levels of fraud and error within the housing benefit system. In order to do this, the Standards Assurance Unit selects random samples of ongoing benefit claims and subjects them to detailed examination for evidence of official error or 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 31 (entitled 'Fraud and Error') to the annual accounts. 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, DSD'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.

5.1.5 I examined the work undertaken by DSD to assess the levels of fraud and error within the housing benefit system. My staff examined and re-performed a sample of DSD's case work during the year and also reviewed the methodologies applied by DSD 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.

National Fraud Initiative

5.1.6 In February 2011, I published a separate report on the 2008-09 National Fraud Initiative for the whole of the Northern Ireland public sector. The National Fraud Initiative is an exercise to conduct data matching scans to assist in the prevention and detection of fraud. A matching exercise was carried out in September 2008 which identified over 14,000 housing benefit matches. A number of matches were passed by the Housing Executive to the Social Security Agency's Benefit Investigation Service.

5.1.7 My report identified a number of examples where housing benefit overpayments had been identified as a result of the National Fraud Initiative. In one case the National Fraud Initiative identified a claimant who appeared to have been claiming weekly housing benefit in England since 2005 and in Northern Ireland since 2007. In another case a housing benefit claimant failed to properly declare a pension that had been in payment. When the housing benefit was recalculated back to 2003, which is as far back as the Housing Executive could check its records due to a system change, the overpayment totalled around £15,000.

5.1.8 To date, overpayments amounting to £1.7 million from 503 investigations by Housing Executive staff have been identified as part of this Initiative. Of the cases referred to the Benefit Investigation Service, fraud has been found in 48 cases. The 2010-11 National Fraud Initiative has recently commenced and I will report on this in due course.

Qualified opinion due to irregular housing benefit payments

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

5.1.10 The levels of fraud and error for housing benefit for the year 1 January 2010 to 31 December 2010, reported by the Standards Assurance Unit in March 2011 highlighted estimated levels of fraud and error of £14.7 million overpayments (customer fraud £0.9 million, customer error £4.0 million and official error £9.8 million) and £2.6 million underpayments (customer error £0.2 million and official error £2.4 million), in total representing some 3.1 per cent of housing benefit expenditure.

5.1.11 I have therefore qualified my opinion on the regularity of housing benefit expenditure because of the level of overpayments attributable to fraud and error which have not been applied to the purposes intended by the Northern Ireland Assembly; and because of the level of overpayments and underpayments due to official error in such benefit expenditure which are not in conformity with the relevant authorities.

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Level of housing benefit overpayments

5.1.12 The Housing Executive estimates that in 2010 losses of £14.7 million have arisen through the overpayment of housing benefit to claimants due to fraud and error, representing 2.6 per cent of housing benefit expenditure. This compares with losses of £9.3 million in 2009 which equates to 1.8 per cent of housing benefit expenditure. Housing benefit expenditure increased by £64.7 million (or 12.8 per cent) in 2010 compared to 2009.

5.1.13 I recognise the considerable efforts and resources committed by the Housing Executive to address housing benefit fraud and error. However I am concerned that the Housing Executive's performance in addressing the overall levels of overpayments appears to be inconsistent over the period, see Figure 13. I would encourage the Housing Executive to continue to focus on strategies to reduce the overall levels of loss.

5.1.14 I am also concerned that overpayments due to official error have increased from £3.6 million in 2009 to £9.8 million in 2010. In 2006 the level of official error stood at £0.5 million. I am disappointed in this increase as it is my view that this is the area where the Housing Executive continues to have the most control. I asked the Housing Executive to comment on this increase in official error and the Housing Executive told me that the figure of £9.8million is an estimate based on a statistical sampling methodology. Whilst acknowledging that the level of official error may have increased when compared to last year's estimate of £3.6 million, the Housing Executive would intend to explore with Standards Assurance Unit how they might further refine the estimate for the level of official error going forward as the error bands associated with these estimates overlap which means that definitive conclusions cannot be drawn. Having said that, the Housing Executive recognizes the importance of minimising levels of official error and measures have already been put in place to drive up the quality of assessments and reduce the level of error. A quality assurance process is in place which checks the accuracy of assessments both during the various assessment stages and at the end of the process. Results of these checks are recorded and used to identify any particular problem areas or training needs. The results of these checks are now being reported quarterly to the Housing Executive's Performance Review Group to ensure that improvements are being achieved. In addition an exercise has been launched to examine the causes of every official error raised over a three month period, again to identify common causes and ways to reduce these. This exercise is due for completion by September 2011.

5.1.15 I welcome the overall reduction in underpayments from £3.8 million in 2009 to £2.6 million in 2010. However, the level of underpayments due to official error has increased from £0.5 million in 2006 to £2.4 million in 2010, see **Figure 13**. The Housing Executive told me that the principles as described in paragraph 5.1.14 apply and this

Figure 13: Trends in estimated overpayments and underpayments due to fraud and error in housing benefit expenditure

	2010 £million	2009 £million	2007 £million	2006 £million
Total Housing Benefit Expenditure	**568.3**	**503.6**	**412.8**	**411.6**
Overpayments				
Official Error	9.8	3.6	1.2	0.5
Customer Error	4.0	1.2	6.7	4.1
Customer Fraud	0.9	4.5	2.8	3.3
Total	14.7	9.3	10.7	7.9
% of Housing Benefit Expenditure	**2.6**	**1.8**	**2.6**	**1.9**
Underpayments				
Official Error	2.4	3.4	0.3	0.5
Customer Error	0.2	0.4	0.7	0.2
Total	2.6	3.8	1.0	0.7
% of Housing Benefit Expenditure	**0.5**	**0.8**	**0.2**	**0.2**

Source: Standard Assurance Unit Reports (Standard Assurance Unit did not carry out an exercise covering 2008 due to resourcing issues on their part.)

area will also be addressed in further discussion and meetings with Standards Assurance Unit and DSD.

Recovery of housing benefit overpayments

5.1.16 At 31 March 2011, the levels of housing benefit overpayments owed by claimants have increased to £26.9 million (2009-10, £23.4 million). A provision of £13.2 million (2009-10, £12.1 million) has been set against this debt, resulting in a net figure of £13.7 million (2009-10, £11.3 million). Housing Benefit overpayments written off in 2010-11 amounted to £1.8 million (2009-10, £1.3 million).

5.1.17 I recognise that dealing with the recovery of housing benefit overpayments remains a priority for the Housing Executive. However I am concerned that the Housing Executive's performance in recovering the overall levels of overpayments has reduced over the period from 39.8 per cent in 2007 to 32.7 per cent in 2011, see **Figure 14**.

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Figure 14: Trends in the recovery of Housing Benefit Overpayments

Year	Total amount to be recovered after Write-Offs £million	Total Amount Recovered £million	Level of Recovery %
2011	40.0	13.1	32.7%
2010	36.2	12.8	35.3%
2009	30.8	10.5	34.0%
2008	28.8	10.2	35.4%
2007	27.7	11.0	39.8%

Source: Housing Benefit Overpayment Returns

5.1.18 A full review of the overpayments strategy has been undertaken and a plan drawn up addressing issues and actions to be taken to ensure the strategy remained focused and relevant in addressing this important issue. However these actions have not had the desired effect as the level of overpayments is still increasing and the rate at which overpayments are recovered has decreased. The Housing Executive told me that although the percentage recovery rate has dropped over the period, the actual amount recovered has increased by 28 per cent since 2007-08. The success of counter-fraud activities undertaken by the Housing Executive has an adverse effect on the percentage level of recovery as new overpayments created under these activities, at an average of £4,000 per debt, are four times larger than the overall average size of a housing benefit debt. As a consequence it takes longer to recover such overpayments considering that the clawback/recovery amounts are capped at a level prescribed by DSD annually. Furthermore, two new counter-fraud measures were introduced in the last two years (the National Fraud Initiative and the Housing Executive's own Case Compliance Programme) which have further added to the increase in the level of overpayments created and have also affected recovery rates. During 2010-11 approximately £5 million was raised in overpayments from all counter-fraud activities. This is a 60 per cent increase on the amount raised in 2007-08. The Housing Executive informed me that it has robust policies and procedures in place to ensure that appropriate and timely action is taken to recover all debts even though, due to the size of some debts, it may now take longer to do so. Performance measures are in place to monitor recovery action and outcomes are reported regularly to senior management and DSD. Steps are being taken to derive comparative housing benefit overpayment performance figures of local authorities within UK.

Qualified Opinion due to weaknesses in the control of expenditure on response maintenance

5.1.19 I have also qualified my opinion on the regularity of response maintenance expenditure because I was unable to gain sufficient evidence to enable me to confirm that the payments had been made for the purposes intended by the Northern Ireland Assembly. Response maintenance repair contracts are in place across each district to deal with requests from tenants for emergency, urgent and routine repairs. The total expenditure on response maintenance during 2010-11 was £48.9 million.

5.1.20 Following internal and external investigative work, significant weaknesses in control have emerged in respect of response maintenance expenditure incurred by the Housing Executive.

5.1.21 The Repairs Inspection Unit carries out technical and management inspections of each district maintenance section on an annual basis. The results are measured and presented in a summary report listing scores for four specific areas: Contract Management; Probity; Inspection (on site); and Procedures. Districts are rated according to their compliance within four bands namely, unacceptable, limited, satisfactory and substantial.

5.1.22 During 2010-11 each of the 35 districts were inspected by the Repairs Inspection Unit. Three districts were deemed to be unacceptable, eleven were rated limited, sixteen received a satisfactory rating and five received a substantial rating. In addition, a total of six re-visits were carried out on those districts that had previously received the lowest scores. Of the three that had previously received an unacceptable rating, one remained unacceptable while the other two were uplifted to a limited rating. Of the three districts that had previously received a limited rating, one remained limited, one received a satisfactory rating and the other received an unacceptable rating,

5.1.23 Prior to May 2010 the Repairs Inspection Unit fell within the remit of the Housing and Regeneration Division and was therefore not independent of the division on which it reported on. I am concerned that the results of the annual inspections were, for a number of years, not disclosed to the Housing Executive Board or to its Audit Committee. However I note that reports from the Repairs Inspection Unit are now reported to the Housing Executive's Audit Committee. It is intended that the Unit will form part of the new independent Compliance Unit which has been set up by the Housing Executive.

5.1.24 In addition, the Housing Executive Board terminated all of its contracts with a contractor, Red Sky, who are providing response maintenance services across a number of districts. This decision was based upon information contained within an external review of a sample of the work carried out by the contractor and the results of a number of maintenance inspection reports prepared by the Executive's Repairs Inspection Unit. I also had received complaints from MLAs and

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members of the public about the quality of this company's workmanship and had drawn these to the attention of the Chief Executive for investigation.

5.1.25 Based upon the external review, the Housing Executive identified overpayments totalling £386,108. Additional work undertaken by the Repairs Inspection Unit on more recent response maintenance work identified further overpayments totalling £110,791. The Housing Executive has so far recovered £262,560 and hopes to recoup the balance outstanding by the end of the contract.

5.1.26 The weaknesses outlined above are disclosed in the Housing Executive's financial statements within the Statement on Internal Control. The Housing Executive has stated that "as a result of serious issues identified during the reviews of response maintenance work carried out by the Repairs Inspection Unit of the Housing Executive, an internal report was passed to the Personnel department to consider whether or not disciplinary action is merited. An investigation is currently underway in line with the Disciplinary Procedures to examine the conduct of the maintenance officers involved".

5.1.27 I have qualified my opinion on the regularity of response maintenance expenditure because I was unable to obtain sufficient assurance that the Housing Executive's control of response maintenance expenditure of £48.9 million was adequate to ensure the payments had been applied for the purposes intended by the Northern Ireland Assembly. Because of the lack of evidence described above I was unable to form an opinion whether the expenditure of £48.9 million on response maintenance had been applied for the purposes intended by the Northern Ireland Assembly.

Further issues in relation to contract management

5.1.28 The Statement on Internal Control draws attention to the Housing Executive's investigation into alleged overcharging by certain contractors. This investigation relates to major adaptations to the Housing Executive properties carried out over the period 1999-2010. To date the Housing Executive has identified overpayments amounting to £133,000. However, it estimates that the total amount involved, based on a sample review of work completed and billed, could be up to £524,250, excluding legal and professional fees estimated at £200,000. It is currently in discussions with the appointed project manager who was responsible for overseeing this work, their insurers and related contractors regarding recovery. I have not qualified my opinion on this matter in 2010-11.

5.1.29 In view of the seriousness of the issues raised and problems identified in the management of these specific contracts, I have initiated a value for money review of contract management in the Housing Executive. The scope of the review includes:

- the range of the Housing Executive contracts and extent of expenditure;

- an overview of the findings from recent external and internal reviews and investigations within the Housing Executive;

- how response maintenance and major adaptations work is contracted; and

- the management of response maintenance and major adaptations contracts, including monitoring of contractor performance, inspection of repairs and adaptations carried out, reporting arrangements for contract management within the Housing Executive.

5.1.30 In addition, my review will also examine and report on the Housing Executive's re-negotiation of its heating contracts following an internal review. Concerns about these contracts were also raised with me by a whistleblower. I intend to publish my findings in a report to the Northern Ireland Assembly later this year.

Qualified Opinion on the regularity of payments made to Helm Housing Association

5.1.31 DSD provides funding to the Housing Association sector which is distributed by the Housing Executive each year and this amounted to £165 million during 2010-11. In order to satisfy itself that this money is being spent correctly , DSD's Regulatory and Inspection Unit conducts regular reviews of all Housing Associations in Northern Ireland examining governance, finance, property management and property development. Whilst I have not qualified my opinion on the serious issues identified by the Regulatory Inspection Unit across a number of Housing Associations I have reported on these matters more fully in my report on the Department's 2010-11 resource account.

5.1.32 In addition, in the latter half of 2010, DSD became aware of the breakdown of governance within Helm, the largest Housing Association in Northern Ireland, and had concerns regarding specific building schemes. The Department became aware of these issues through its inspection programme and also as a result of whistleblower disclosures to both DSD and to my Office.

5.1.33 Helm has therefore been the subject of a detailed examination by the Regulatory and Inspection Unit and I have seen a draft copy of their interim report which raises some potentially very serious issues. The report is expected to be finalised over the next few months and I may report further in due course.

5.1.34 At this point in time I have been unable to obtain all the information and explanations necessary for me to satisfy myself as to the regularity of the £12.1 million paid to Helm Housing Association in 2010-11 and I have therefore qualified my opinion in this matter.

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Other matters

Land and Property Management

5.1.35 The Statement on Internal Control identifies the Housing Executive's management of its land and property as an area of significant risk. It also draws attention to concerns expressed by Internal Audit in 2009-10 and 2010-11 in relation to the adequacy of the Executive's Land Terrier, undeveloped land schedules and land acquisition issues. In addition, the Accounting Officer has, through the Statement on Internal Control, provided updates on a number of ongoing investigations. These include;

- a site zoned for social housing in North Belfast (with PSNI);
- the sale of land by the Housing Executive to a community group and subsequently sold to a third party (discussions with PSNI ongoing);
- the sale of land in Belfast to a developer; this investigation follows a finding of maladministration by the Northern Ireland Ombudsman against the Housing Executive and is intended to establish if fraud is present; and
- a review of a number of land and property transactions to determine whether they were managed in line with agreed policy/procedure and to highlight any cases of non-compliance.

5.1.36 Given that these investigations have or may identify potential fraud it is not possible for me to report on the detail at this time. Nevertheless, given their extent and significance I intend to keep this area under review and to provide a detailed report to the Northern Ireland Assembly at the earliest opportunity.

Supporting People

5.1.37 In last year's report I qualified my opinion on the regularity of grant payments in respect of £2.2 million paid as Special Needs Management Allowance (SNMA) to 34 registered Care Homes from the supporting people budget. These payments had not been appropriately monitored by either DSD or the Housing Executive since 1 April 2003 when the scheme was transferred to the Housing Executive under transitional arrangements. The Department has now put in place monitoring and control procedures during 2010-11. An extensive desktop exercise was carried out by DSD followed by a number of site visits to the providers of this service. On the basis of this new evidence I have not qualified my opinion on this matter in 2010-11.

5.2 General Consumer Council for Northern Ireland 2009-10

Irregular payments arising from unapproved salary increases

5.2.1 In auditing the accounts of the General Consumer Council (the Council) under the General Consumer Council (Northern

Ireland) Order 1984, I am required to form opinions on whether in all material respects the Council's expenditure and income have been applied to the purposes intended by the NI Assembly and whether the financial statements conform to the authorities which govern them. This report explains why I qualified my opinions on these matters in the Council's 2009-10 accounts.

5.2.2 The Statement on Internal Control prepared by the Accounting Officer discloses details of payroll overpayments made to employees of the General Consumer Council.

5.2.3 The relationship between the Council and its sponsor Department – the Department of Enterprise, Trade and Investment (the Department), together with details of financial arrangements is formally set out in a Management Statement and Financial Memorandum (MS/FM). The Council's employees are not civil servants, however under the terms of its MS/FM with the Department, "*the staff of the Consumer Council, whether on permanent or temporary contract, shall be subject to the levels of remuneration and terms and conditions of service (including superannuation) within the general Northern Ireland Civil Service (NICS) pay structure. The Consumer Council has no delegated power to amend these terms and conditions.*"

5.2.4 A key function of any Department's responsibilities is the effective stewardship of its NDPBs. In this case the Department played a key role in identifying salary overpayments to some of the Council's staff. It asked its own Internal Auditors to conduct a payroll compliance review on a sample of employees within the Council. Upon completion of the review the Internal Auditors gave a "Limited[21]" opinion with regard to the Council's compliance with the NICS rules.

5.2.5 A further review on all employees was subsequently undertaken by the Council's Internal Auditors which covered the period from 1 April 2008 to 28 February 2010 (23 months). They found that a net overpayment of approximately £40,000 to a number of members of staff had been made in this period of which approximately £22,000 relates to payments made in 2009-10. Following these findings the Council asked its Internal Auditors to extend their detailed review to examine compliance with NICS pay policy from 1 April 2004 to 31 March 2010 for all 48 staff employed by the Council at 31 March 2010. Taking into account additional overpayments which originated in the earlier period, they found the net cumulative overpayment increased to approximately £231,000 of which the amount paid in 2009-10 was approximately £66,000. The overpayments related to incidences of non-compliance with NICS payroll practices that did not have the approvals required by statute and the MS/FM. As a result, I have qualified my opinion on the regularity of these transactions in the Council's financial statements for 2009-10.

5.2.6 As these salary overpayments are unapproved but are still being made to

21 A "Limited" opinion is given where the Internal Auditor considers that there is considerable risk that the system in place will fail to meet its objectives. Prompt action is required to improve the adequacy and effectiveness of risk management, control and governance.

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the staff of the Council, it is important that the situation is fully addressed as soon as possible. The additional cost to the Council of salary overpayments going forward will be approximately £71,000 per annum. The new Chief Executive has assured me that she is committed to resolving the issue.

5.2.7 As disclosed at note 12 to the accounts, the amount of the cumulative net overpayment found by Internal Audit (£231,000) is included within debtors, but has been fully provided for. The Council has sought approval from the Department for this provision and the Department is considering this matter, including its own legal advice. I am unable to form an opinion on the adequacy or excessiveness of the provision and I also qualified my opinion on the accounts in this respect.

5.2.8 I am concerned that the Council paid these additional amounts to its staff and in doing so did not comply with its MS/FM. It is important that all NDPBs adhere to the terms of their respective MS/FMs and that any proposed transactions for which they do not have delegated authority are duly approved by the sponsor Department prior to the commitment of public funds. The Council advised the Department in November 2010 of its intention to undertake a review to address how its processes failed the organisation and make recommendations as to what controls need to be strengthened and how the risk can be managed going forward.

5.2.9 The Department asked the Council to consider investigating how this situation arose, to determine any associated responsibility on the part of the Council's officers and, if appropriate, what action might be taken. The Council is taking further advice on these matters with a view to progressing them with the Department. I will keep progress under review.

5.3 General Consumer Council for Northern Ireland 2010-11

5.3.1 The purpose of this report is to provide an update on matters which I reported on relating to the 2009-10 accounts of the General Consumer Council (the Council). It also sets out why I have qualified my audit opinion on the 2010-11 accounts on the equivalent issues.

5.3.2 In auditing the accounts of the General Consumer Council under the General Consumer Council (Northern Ireland) Order 1984, I am required to form opinions on whether in all material respects the Council's expenditure and income have been applied to the purposes intended by the NI Assembly and whether the financial statements conform to the authorities which govern them.

5.3.3 I have qualified my audit opinion on the General Consumer Council account for the 2010-11 year in two respects, which I have set out below.

A. Irregular payments - Unapproved salary increases

5.3.4 The relationship between the Council and its sponsor Department – the Department of Enterprise, Trade and Investment (the Department) - together with details of financial arrangements is formally set out in a Management Statement and Financial Memorandum (MS/FM). The Council's employees are not civil servants, however under the terms of its MS/FM with the Department, 'the staff of the Consumer Council, whether on permanent or temporary contract, shall be subject to the levels of remuneration and terms and conditions of service (including superannuation) within the general Northern Ireland Civil Service (NICS) pay structure. The Consumer Council has no delegated power to amend these terms and conditions.'

5.3.5 In 2009-10 I reported that the Council had increased the salary of some staff beyond the levels permitted within the NICS pay structure with which it is required to comply under the MS/FM.

5.3.6 Payroll reviews carried out by the Council's Internal Auditors during 2009-10 covering the period 1 April 2004 to 31 March 2010, identified overpayments of £230,737 which are considered to be irregular. These irregular payments continued to be made during the 2010-11 year while the Council and Department were considering how to resolve the situation.

5.3.7 Phase 3 of the payroll review which was carried out in 2010-11 extended the period of review by one year to cover the seven year period ended 31 March 2011. The review identified total salary overpayments amounting to £273,723 arising over the period 1 April 2004 to 31 March 2011. This increase includes overpayments of £50,565 made during the 2010-11 financial year and a downward adjustment of £7,579 to the prior year figure relating to back dated salary changes such as pay awards and the equal pay settlement. The overpayments made relate to incidences of non-compliance with NICS payroll practices that did not have the approvals required by statute and the MS/FM. It is for this reason that I qualified my opinion on the regularity of such payments made during the year.

B. Limitation of Scope - Recoverability of overpaid salaries

5.3.8 As disclosed at note 12 to the accounts, the amount of the cumulative net overpayment found by Internal Audit (£273,723) is included within Receivables. However the Council considered various options including whether to recover the overpayment and has submitted a business case to the Department of Enterprise, Trade and Investment and the Department of Finance and Personnel. As the overpayment ultimately may not be recoverable a provision for the full amount has also been included in the accounts. Until consideration of the business case is concluded I cannot form a view on the adequacy or excessiveness of this provision.

5.3.9 There were no other procedures I could have undertaken as part of my audit to satisfy myself regarding the accuracy of this amount.

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Conclusion

5.3.10 Expenditure amounting to £50,565 has been identified for which the Council has not obtained the necessary Departmental approval. As this expenditure has not been applied to the purposes intended by the Assembly I have qualified my opinion on regularity.

5.3.11 As I have been unable to obtain sufficient audit evidence to form an opinion on the adequacy or excessiveness of the provision included in note 12, I have qualified my opinion due to this limitation in the scope of my audit.

5.3.12 As these salary irregular payments are still being made to the staff of the Council, it is important that the situation is fully addressed as soon as possible.

5.3.13 I will keep progress with these issues under review and report further in due course if necessary.

5.4 The Economic Research Institute of Northern Ireland Limited (ERINI) 2009-2010

5.4.1 Under the Companies (Public Sector Audit) Order (Northern Ireland) 2008 I am required to audit the financial statements of the Economic Research Institute of Northern Ireland Limited. I have qualified my audit opinion on the ERINI financial statements for 2009-10 in respect of the value of the redundancy compensation provision for Universities Superannuation Scheme (USS) staff disclosed in note 17 of the financial statements.

Background

5.4.2 ERINI is a non-departmental public body sponsored and grant-aided by the Office of the First and deputy First Minister (OFMDFM). Plans are in place for the sponsor department to withdraw funding and as this is the major source of financial support for ERINI the consequence is that the Institute will be wound up within the foreseeable future.

5.4.3 ERINI has therefore made provision for £1.161 million in note 17 of the financial statements for costs associated with the closure. This consists of redundancy compensation costs of £0.337 million for staff members of the Principal Civil Service Pension Scheme (NI) (PCSPS (NI)), redundancy compensation costs of £0.687 million for staff members of the USS, and buy-out of the USS pension scheme costs of £0.137 million. Five members of ERINI staff are in the PCSPS (NI) and seven members of staff are in the USS.

5.4.4 ERINI has provided sufficient audit evidence to support the figures for the PCSPS (NI) redundancy compensation costs and costs associated with the buy-out for the USS pension scheme.

5.4.5 The USS does not provide for redundancy compensation costs. The financial statements include a provision (£0.687 million) for the seven members of this scheme which has been based on the PCSPS (NI) arrangements; this figure is included to provide an indication of the potential costs of payments to USS staff.

5.4.6 A business case has been submitted to OFMDFM in December 2010 setting out the options for redundancy compensation payments for the USS members. Department of Finance and Personnel approval for the chosen option will also be required.

5.4.7 As a result there were no procedures I could have undertaken as part of my audit to satisfy myself regarding completeness and accuracy of this provision for the redundancy compensation costs for USS staff members included in the financial statements.

5.4.8 The Accounting Officer has referred to the uncertainty in providing for expenses expected to arise in connection with the winding up of the organisation.

Conclusion

5.4.9 As there is significant doubt over the accuracy of the valuation of the redundancy compensation payments to USS staff, I have qualified my audit opinion as a result of a limitation in the scope of my audit. I will keep under review the amount of payments and whether the necessary approvals are obtained and report further in due course, if necessary.

5.5 Northern Ireland Council for the Curriculum, Examinations and Assessment Accounts 2009-10

5.5.1 During the audit of the 2009-10 CCEA accounts it came to my attention that issues relating to pay have led to irregular expenditure being incurred in the financial years 2008-09 and 2009-10. These issues have arisen because the CCEA made a number of payments to staff in each of these years that did not have the required written approval of the Department of Education (the Department) and the Department of Finance and Personnel.

5.5.2 It is a condition of the CCEA's funding under its Management Statement and Financial Memorandum that all pay awards must have the prior written approval of the Department before being either made or notified to Staff. This approval was not obtained in each of the cases below and therefore the expenditure is irregular.

Irregular amounts incurred in 2008-09

5.5.3 In May 2009 £25,679 was paid to 29 IT staff in non-management grades in payments ranging from £400 to £1,922. These payments related to the CCEA's PRP scheme in the 2008-09 financial year. No approval for these payments was sought until after the payment was made and the Department was not prepared to retrospectively approve the payment.

5.5.4 Also relating to the 2008-09 year, an amount of £84,358 was incurred for PRP payments due to 24 middle management

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staff ranging from £1,315 to £6,749. In February 2010 letters were issued to these staff confirming that payments were due, despite the fact that no approval had been received from the Department. When the Department did not approve the payments the CCEA received legal advice that the payments still had to be made as the letters had created a contractual obligation and the payments were made in December 2010.

5.5.5 Finally in 2008-09 an honorarium of £2,658 was paid to a member of staff in middle management to reflect the fact that he had taken on extra duties during the year. No approval of this arrangement was sought by the CCEA prior to the payment being made and the Department was not prepared to retrospectively approve the payment.

Irregular amounts incurred in 2009-10

5.5.6 In 2009-10, a further honorarium of £2,986 was paid to the same member of staff as above who continued to take on extra duties. Again this was not approved by the Department and as a result the payment is irregular.

Conclusion

5.5.7 It is important that in future the CCEA obtains formal written approval on all issues relating to pay before any payment is made or any commitment made to staff.

5.5.8 I welcome the disclosure of these matters in the Chief Executive's Statement on Internal Control and the action that has now been taken to ensure that robust and effective arrangements now exist to ensure that such a situation does not recur.

5.6 Northern Ireland Social Fund Accounts 2006-07 and 2007-08

Introduction

5.6.1 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.

5.6.2 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.

5.6.3 In 2006-07 the Agency made Social Fund benefit payments totalling £131.7 million comprising £74.3 million in discretionary payments and £57.4 million in regulated payments. In 2007-08 the Agency made Social Fund benefit payments totalling £126.1 million comprising £67.1 million in discretionary payments and £59.0 million in regulated payments. **Figure 15** below sets out the level of payments by type for each year.

5.6.4 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

5.6.5 In 2006-07 and 2007-08 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 Parliament/ Northern Ireland Assembly[22]; 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**).

5.6.6 In addition, I have concerns around the adequacy of the evidence to support the debt balance disclosed within notes 2 to 4 to the 2006-07 and 2007-08 accounts. Due to these problems, I have found it necessary to limit the scope of my opinion on the debt notes within the 2006-07 and 2007-08 accounts (**Qualified opinion due to limitation in audit scope**).

Qualified opinion due to irregular benefit payments

5.6.7 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

Figure 15: Social Fund payments by type 2007-08 and 2006-07

Payment Type	2007-08 £000	2006-07 £000
Discretionary Payments		
Budgeting Loans	44,886	51,683
Community care Grants	13,637	13,632
Crisis Loans	8,595	9,023
Regulated Payments		
Funeral Expenses	2,380	2,511
Maternity Expenses	4,556	4,436
Cold Weather Payments	0	1
Winter Fuel Payments	52,049	50,433
Total	**126,103**	**131,719**

22 For the financial year 2006-07 the Northern Ireland estimates were approved by Parliament as the Northern Ireland Assembly was in suspension at that time.

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also required to report my opinion on regularity, that is, whether in all material respects the payments and receipts have been applied to the purposes intended by Parliament/the Northern Ireland Assembly and conform to the authorities which govern them.

5.6.8 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 Parliament/ 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.

5.6.9 The principle applied in forming my audit opinions on these accounts is in line with the approach introduced for the Agency's Annual Accounts in 2007-08. It is my view therefore that underpayments due to official error are irregular.

5.6.10 I have qualified my opinion on the regularity of Social Fund payments in 2006-07 and 2007-08 (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 Parliament/the Northern Ireland Assembly[23]; 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

5.6.11 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 the work undertaken is of a good standard and the results produced are reliable and complete.

5.6.12 The Agency has estimated that in 2006 losses of £0.9 million arose through overpayments of Social Fund payments to claimants, representing 1.1% of the total payment for categories that were subject to SAU testing (relevant payments). In 2007

23 For the financial year 2006-07 the Northern Ireland estimates were approved by Parliament as the Northern Ireland Assembly was in suspension at that time.

overpayments were estimated to be £1.5 million (2.0 per cent of relevant payments).

5.6.13 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 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 £0.9 million in 2006 and £1.5 million in 2007, the true levels of overpayments could lie in a range from £0.5 million to £3.0 million for 2006; and from £0.7 million to £2.5 million in 2007.

5.6.14 In addition the Agency has estimated that underpayments of Social Fund payments amount to £0.7 million (0.8 per cent of relevant payments) in 2006 and £0.4 million (0.5 per cent of relevant payments) in 2007. These are also subject to the statistical uncertainty referred to above, the range of error in underpayments being from £0.1 million to £2.5 million in 2006 and from £0.1 million to £0.7 million in 2007.

5.6.15 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.

5.6.16 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

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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.

5.6.17 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.

5.6.18 **Figure 16** shows the estimated value and relevant percentage of over and underpayment errors due to official error for 2007 and 2006, and earlier years.

Qualified Opinion arising from limitation in audit scope

5.6.19 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.

Figure 16: Estimated levels of official error in Social Fund payments

	2007* £million	2006 £million	2005 £million	2004-05 £million
Overpayments	**1.5**	**0.9**	**1.0**	**1.2**
% of relevant payments	2.0	1.1	1.4	1.8
% of total payments	1.2	0.7	0.8	1.0
Underpayments	**0.4**	**0.7**	**0.6**	**0.3**
% of relevant payments	0.5	0.8	0.9	0.5
% of total payments	0.3	0.5	0.5	0.3
Total payments	126.1	131.7	118.9	114.8
Total relevant payments	**74.1**	**81.3**	**68.7**	**65.1**

Footnotes:
1 As indicated in the Agency Annual Accounts, the estimates in both tables 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 in the above tables contain individual parts that have been rounded to the nearest £0.1 million for presentational purposes only.

* 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.

5.6.20 The debt balance reported in the NI Social Fund Accounts for 2006-07 £66.13 million and 2007-08 £73.868 million (the reported debt balance) 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 2006-07 was £67.573 million and for 2007-08 was £75.894 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 (2006-07 £1,443,410; 2007-08 £2,025,397). 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.

5.6.21 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.

5.6.22 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 2007 and 31 March 2008 and the statement of balances as both dates.

5.6.23 The Agency acknowledges the concerns I have raised 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

5.6.24 Whilst the level of estimated official error has reduced over the three year period to 2006, I am concerned that there has been a substantial increase in estimated errors due to overpayments in 2007. Furthermore the results published in the 2008-09 Agency Annual Accounts indicate a continued rise in the estimated level of errors reported for Social Fund in 2008. In my opinion the error rates are too high and can be reduced, especially

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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 2006-07 and 2007-08. 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.

5.6.25 I consider that the reported levels of estimated errors in Social Fund payments for 2006 and 2007 are material and consequently I have qualified my regularity opinion on the Social Fund accounts for 2006-07 and 2007-08.

5.6.26 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 2006-07 and 2007-08 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.

5.7 Belfast Metropolitan College 2008-09

Qualification arising from irregular expenditure incurred and other areas of concern

Introduction

5.7.1 I was appointed as auditor of Belfast Metropolitan College (BMC) under the Institutions of Further Education (Public Sector Audit) Order (Northern Ireland) 2008 and am required to examine, certify and report upon each statement of accounts prepared by the College.

5.7.2 The purpose of this report is to explain the background to my qualification of BMC's financial statements for 2008-09, and to comment on the delay in producing the Annual Report and Accounts and other areas of concern.

Background

5.7.3 BMC is primarily funded by the Department for Employment and Learning (the Department) and was created on 1 August 2007 from a merger of the Belfast Institute of Further and Higher Education (BIFHE) and Castlereagh College of Further and Higher Education (CCFHE). In 2008-09 BMC had over 48,000 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 full-time and 800 part-time staff employed in the College and its annual budget is some £54 million.

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

5.7.5 I had previously qualified my audit opinion on the College's 2007-08 financial statements and in my accompanying report noted a number of challenges facing the College since its formation on 1 August 2007, including:

- a number of staff changes have been experienced at a senior level within the College, including the use of temporary staff for senior finance posts; and

- the College had experienced financial difficulties which led the Department in September 2008 to commission consultants to carry out an Efficiency Review[24] of the College. The financial difficulties that had concerned the Department included a lack of clarity over the precise financial position of the College, significant projected deficits in financial forecasts and concerns about the adequacy and effectiveness of controls within the finance department.

Efficiency Review

5.7.6 The Efficiency Review was completed in April 2009 and its findings were first shared with the College in May 2009. A final report was issued to the College in November 2009 and this was subsequently published in January 2010. Issues noted by the report included:

- weaknesses in the performance of the senior management team;

- a significant number of weaknesses in financial controls;

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

- 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.

5.7.7 In the Memorandum of Response to a Public Accounts Committee report on financial management in the further education sector in Northern Ireland[25] the Department told the Committee that it was working with the Governing Body and senior management to compile and implement a College Improvement Plan

24 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."

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

(CIP) by December 2009 to address the findings of the Efficiency Review. The plan would establish a revised strategic and financial plan setting out the actions required to stabilise the College's position, and appropriate targets and performance indicators against which processes can be assessed. Following receipt of the final version of the Efficiency Review report in November 2009, the College appointed consultants in January 2010 to assist them in producing the CIP.

5.7.8 I note that the College has incurred an operating deficit[26] of £2.6m during 2008-09, bringing the cumulative operating deficit since the College's formation in 2007-08 to £8.8m. A number of significant challenges lie ahead for the College, including:

- continued deficits predicted for 2009-10 and 2010-11;
- resolving issues identified in the Efficiency Review;
- operating in the current difficult economic environment; and
- added pressures from two major capital projects underway for premises in Titanic Quarter and the E3 (enterprise, employability and entrepreneurship) project on the Springvale campus.

5.7.9 I asked the College what progress had been made on both producing and implementing a detailed plan to address the Efficiency Review findings. It told me that when the Efficiency Review was completed in November 2009 the College immediately set up a task group with DEL to take all of the 72 recommendations forward. The College noted that the task group met from January 2010 to June 2010 and addressed these recommendations and in that period it also produced its first draft of the CIP. The 72 recommendations of the Efficiency Review were either addressed directly through the task team or, where larger considerations emerged as a result of producing a recovery plan, were incorporated in the CIP.

5.7.10 The Efficiency Review regarded "the early appointment of a permanent Director for BMC as critical to its future success". This post was subsequently filled in November 2009. However the Efficiency Review also referred to skills gaps within the finance function, and concluded that the capacity constraints in that department "must be addressed immediately". In my report on the College's 2007-08 financial statements I noted my concern that the post of Deputy Director of Business Services was being undertaken by a consultant. Whilst a permanent appointment for this post was made in July 2010 the Deputy Director is only able to take up her new post in February 2011 due to maternity leave. This key role is currently being fulfilled by another consultant but only on a part time basis (a three day week). The College told me that this temporary arrangement is on a managed service contract basis by a very

26 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 2008-09 was £1.0m and giving a cumulative Historical Cost deficit of £5.5m since the College's formation in 2007-08.

experienced, qualified individual who has been given the remit to concentrate on strategic and operational matters and it concludes that in absolute terms finance is receiving more attention than would be the normal case. I also note that the post of Head of Finance has not yet been filled on a permanent basis although the College advises me that an appointment is imminent, and that work is still needed to address the capacity constraints and skills gaps of the finance function noted by the Efficiency Review. I am particularly concerned, given the significant financial challenges facing the College, that key finance posts are still being undertaken by consultants and temporary staff.

5.7.11 I asked the College whether it believed it was managing the financial risks faced by the College with the current finance staff. It told me that:

- it has taken steps to manage financial risks and it was aware of the need to significantly improve its financial functionings;
- as part of the Recovery Plan it has designed a new organisational structure for the College, including the post of Chief Operating Officer (which includes Finance within its remit) and a new structure for its finance function; and
- it has taken steps to improve its financial controls; this included the reimplementation of delegated budgeting for the 2010-11 year.

5.7.12 The College noted that implementation of the structures outlined in the Recovery Plan requires the College to discharge its legal obligations for consultation with the recognised trade unions. The College told me that following final approval of the College Improvement Plan in October 2010 by DEL, BMC commenced a 90 day consultation period with recognised trade unions. Initial consultation on the structure of the finance department was completed in November 2010 and the College subsequently advertised the post of Head of Finance, and appointment is anticipated in January 2011. Implementation of the remainder of the finance department structure is currently being considered as part of the 90 day process and will be implemented once this period completes.

Timeliness and quality of the Annual Report and Accounts presented for audit

5.7.13 In my report on the College's 2007-08 Annual Report and Accounts I commented that the quality of the draft financial statements presented to me for audit and the number of drafts required to eventually bring them up to an acceptable quality over a significant period of time was unacceptable. Whilst I noted a marked improvement in the quality of the draft 2008-09 financial statements presented for audit, it is disappointing that they could not be finalised more promptly. Good quality, timely reporting is at the heart of good accountability and I would emphasise the importance of the College prioritising this work in future years.

Qualification arising from irregular expenditure incurred

PPP consultancy costs

5.7.14 I previously qualified my audit opinion on the College's 2007-08 financial statements in respect of £668,988 of costs incurred in that year which had not received appropriate approval from the Department of Finance and Personnel (DFP). These costs related to a team of technical, legal and financial advisors assisting in a procurement process for premises. The project was initiated in 2001 by one of the legacy further education colleges[27] which now forms part of BMC to replace two of its city centre buildings with a single building based at the Titanic Quarter under a Public Private Partnership (PPP). Costs had also been incurred in earlier years and therefore cumulative costs for this work up to 31 July 2008 totalled £1,268,988 in contrast to a limit of £600,000 which had been approved by DFP. From £896,489 of costs incurred during 2007-08 on this work, I had therefore qualified my audit opinion on £668,988 of costs which did not have appropriate DFP approval.

5.7.15 DFP declined the Department's request for retrospective approval for costs incurred above the original approved limit since a revised business case had not been submitted to support the approval request. The Department acknowledged the obligation of the College to pay the advisory team for all services legitimately delivered in support of the PPP procurement activity and confirmed that it would uphold the agreement with the legacy College to reimburse 90% of the advisory fees incurred. Further details are available in my report on the College's 2007-08 financial statements.

5.7.16 Additional unauthorised expenditure of £507,075 on this consultancy contract was incurred in 2008-09 which I also consider to be irregular. This brought total costs for this work to £1,776,063, of which £1,176,063 was above the limit authorised by DFP and was therefore irregular.

Consultancy costs incurred on a rates appeal

5.7.17 During 2008-09 £78,947 (including VAT) was paid to consultants in respect of professional services in connection with the College's rates appeal. The Financial Memorandum[28] requires that for all consultancy assignments in excess of £50,000, colleges must submit for approval an economic appraisal and business plan to the Department in advance of the appointment of consultants and notes that all assignments in excess of £75,000 will also require DFP approval as outlined in DFP guidance. The College was unable to provide me with any evidence that a business case had ever been prepared in respect of the expenditure and could also not demonstrate that either Departmental or DFP approval had been obtained either in advance or in retrospect.

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

28 The Financial Memorandum governs the relationship between the Department and the College. It provides guidance for managing the college's finances and sets out the terms and conditions for the payment of grants by the Department to the Governing Body.

5.7.18 Irrespective of value, the Financial Memorandum also sets out requirements for approval of any novel, contentious or repercussive expenditure. DFP guidance also indicates that DFP approval should always be obtained for unusual transactions. It gives an example of tax advice or avoidance schemes, since any apparent savings are at the expense of other parts of the public sector and are therefore not good value for money to the public sector as a whole.

5.7.19 Since the College has been unable to provide me with evidence that this expenditure had DFP approval, I have therefore considered £78,712, being the amount paid less recoverable VAT, to be irregular.

Re-employment of redundant staff

5.7.20 When the College merged on 1 August 2007 it had to restructure all core operations within the combined entity. By November 2007 a business plan was drafted in response to the merger, detailing a new staffing structure to deliver the College's objectives at that time. The plan was approved by the Governing Body of BMC and submitted to the Department. The new structure mainly foresaw the removal of academic managers and 'sub sectional' lecturers (staff with dual roles of manager and lecturer).

5.7.21 In December 2007 the College, with approval from the Department, notified several academic managers that their posts were redundant from the start of April 2008. In mid June 2008 the Department approved the business plan and the College proceeded to implement this plan. Before any posts within the new structure were filled all staff were given an option to accept voluntary redundancy. Once all posts had been filled from existing staff, those not filled were publicly advertised, and any remaining staff members unsuccessful in applying for posts were then made compulsorily redundant.

5.7.22 I noted that of the 56 employees made redundant in 2007-08, the College re-employed 19 again in part time roles during 2008-09. The College's reasons for this were:

- a number of lecturers, including senior lecturers, were among those who accepted offers of redundancy and there was insufficient time to recruit staff to take over the teaching that many of these senior lecturers had undertaken; and

- the project coordinator for a major capital project opted for voluntary redundancy but was subsequently re-engaged as a consultant under a single tender action because this person had the specific skill set required for this role and the College needed this person to be in a position to proceed with the project.

5.7.23 I note that full redundancy packages had been made for vacating posts which individuals resumed, albeit on a part-time basis, within one year. The College told me that the time for completion of

Enhanced Disclosure checks for new employees was around eight weeks at the time of the re-engagements, and could have hampered delivery of the College's services had former employees not been re-employed.

5.7.24 During the course of my audit I found that BMC had paid Employer's National Insurance Contributions and provided paid leave for the redundant member of staff who was re-engaged as a consultant. This seems to indicate that there is confusion whether the person's status is that of a self employed consultant or whether the person is in fact an employee. It is unusual for a consultant to receive paid leave.

5.7.25 Elsewhere in the education sector I had previously highlighted concerns about the re-employment of prematurely retired teachers from my May 2010 report "The Management of Substitution Cover for Teachers: Follow Up".[29]

Interim Director

5.7.26 The College was led by an Interim Director between August 2008 and October 2009. The Interim Director was paid as an employee up until 9 January 2009, when he resigned to avoid exceeding pension scheme earnings limits. From 14 January 2009 he was appointed as Interim Director on a consultancy basis for £75,200 for six months up to 13 July 2009. This was subsequently extended on a pro-rata basis beyond the College's financial year end, until a permanent Director was appointed in November 2009.

5.7.27 During 2008-09 the Interim Director earned remuneration for this post of £50,430 as an employee and remuneration of £84,598 as a consultant. In a standard month his gross pay as an employee was £9,331 compared to the charge of £12,533 by the same individual as a consultant. Over the course of his consultancy in 2008-09 this equates to additional gross earnings of £23,055, or an increase of 37.5 per cent.

5.7.28 The additional cost to the College in 2008-09 when the role of the Interim Director was undertaken on a consultancy basis was £15,465 or a 22.4 per cent increase. This takes into account the fact that the College paid National Insurance contributions for him as an employee when no such payment was required during his period of consultancy.

5.7.29 In approving these arrangements the Department informed the Governing Body that it should ensure that there was clarity and transparency in relation to his roles and responsibilities, both as Director and as designated Accounting Officer, and that the appointment represented value for money. However BMC has not been able to show how it ensured value for money in this arrangement, nor whether the Governing Body had challenged the rate proposed by the Interim Director, who had been appointed as a consultant under a single tender action. I asked BMC how it justified the increased amount paid and

29 NIAO Report "The Management of Substitution Cover for Teachers: Follow Up" published 26 May 2010.

I asked the Department why it had not challenged the College on this.

5.7.30 BMC told me that the business case for the provision of consultancy expertise at Director level was made on appraisal of the risks and uncertainties. The College advised me that the recommendation was made in the best interest of BMC, DEL and the Further Education sector against a background of the exceptional circumstances which faced the College.

5.7.31 The Department told me that, at the time the Interim Director was appointed on a consultancy basis, the College's Governing Body was still going through the process of recruiting a permanent Director and the Governing Body had approached the Department to appoint the Interim Director on a short-term consultancy basis whilst its recruitment process was completed to ensure continuity. The Department noted that it viewed this appointment as unusual but acknowledged that the College had already endured considerable disruption and required continuity in direction and leadership from an experienced individual. The Department told me that given the critical need for stability and leadership, and the relatively short period of the appointment, the Department was content with the Governing Body's proposal to appoint the Interim Director as a consultant through a single tender procedure. The Department understands that this was the only basis upon which he was prepared to remain in this vital strategic interim role. The Department noted that the fees paid to the Interim Director as a consultant were negotiated by the College, subject to the Department's regularity framework. The Department advised me that the College had confirmed that the fees payable reflected the prevailing, local market rate for such services taking into account the salary and associated benefits payable to a permanent post-holder.

5.7.32 Since the Director of the College is normally designated as its Accounting Officer, the Department told me that it had some concerns whether his status as a consultant would allow him to carry out this role. The Department confirmed that it had obtained advice from DFP that this was permissible.

5.7.33 I also noted that as a consultant, the Interim Director appears to have received paid leave, and would therefore appear to have been treated as a de facto employee. BMC told me that during his period of consultancy he took 16 days paid leave, seven of which related to days on which the College had closed. The consultancy agreement does not appear to address whether paid leave is permitted, nor what would be allowed and I am concerned at the general lack of clarity in this arrangement, and in particular why a consultant could be paid when not acting on behalf of the College. The College told me that it had honoured commitments by the consultant, made both prior to his taking up the consultancy and in light of the expected original length of his consultancy, on the basis that the time lost was made up. The College noted that these commitments included duties arising from public appointments. BMC pointed out that the level of leave taken by the Interim Director was more than compensated for by additional time spent on the College's behalf during "unsocial" hours, and at all times the Interim Director remained Accounting Officer and "bore the responsibility and the answerability 24/7".

5.7.34 In my opinion both the College and the Department should have given more consideration to whether this arrangement provided value for money. I also note that when the Interim Director was first appointed on a consultancy basis this was seen as a short term measure by the Department, however this arrangement was in place for some 15 months.

Conclusion

5.7.35 As part of my audit of BMC's financial statements, I am required to satisfy myself, in all material respects, that the expenditure and income shown in BMC's accounts have been applied to the purposes intended by the Northern Ireland Assembly and that the financial transactions conform to the authorities[30] which govern them, that is, that they are "regular". Since DFP approval had not been obtained for PPP consultancy costs of £507,075 incurred during 2008-09 and for £78,712 of consultancy costs incurred on a rates appeal, I have decided to qualify my audit opinion on the regularity of this expenditure, totalling £585,787.

5.7.36 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. I will also continue to monitor the Titanic Quarter capital project and may, if appropriate, report on any further matters of importance.

5.8 Belfast Metropolitan College 2009-10

Report on the College's financial challenges and irregular expenditure incurred

Background

5.8.1 Belfast Metropolitan College (BMC) is primarily funded by the Department for Employment and Learning (the Department or DEL). In 2009-10 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 730 full-time and 690 part-time staff employed by BMC and its annual budget is some £57 million.

Financial challenges

5.8.2 In my previous reports on the 2007-08[31] and 2008-09 financial statements I commented on the challenges that

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

31 Financial Auditing and Reporting: General Report by the Comptroller and Auditor General for Northern Ireland - 2009

BMC faced since its formation on 1 August 2007 and noted the outcome of an Efficiency Review[32], which the Department required to investigate its financial circumstances and governance arrangements.

5.8.3 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.

5.8.4 Prior to the outcome of the Efficiency Review the Public Accounts Committee[33] 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 wrong at the College. The Department advised me that following the Efficiency Review the College had completed 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 Plan.

5.8.5 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.

32 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."

33 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.

5.8.6 I asked BMC in my report on the 2008-09 financial statements what progress had been made on both producing and implementing a detailed plan to address the Efficiency Review findings. It told me that a task group had been established with DEL officials to monitor the implementation of the review's findings and that the College had also produced a first draft of its CIP.

5.8.7 BMC told me that the CIP, developed in the period February – April 2010, set out a clear plan for addressing the issues within the College. BMC told me that actions required included:

- Comprehensive review and redesign of the Curriculum footprint to deliver an economically relevant and viable curriculum (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 (progress on this is ongoing following approval of the CIP in October 2010 and completion of the statutory 90 day consultation);
- Update and enhancement of the Management Information System (completed in May 2010 with further enhancements ongoing);
- Review and revision of the overall college governance arrangements (the review was completed in May 2010 with new structures implemented from August 2010); and
- Detailed review and revision of Human Resources and Finance structures (new structures were defined in the CIP and work is ongoing as part of wider restructuring to implement recommendations).

5.8.8 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 is now in post and a Head of Finance has recently been appointed. I asked BMC what progress it has made in addressing other skills gaps identified within the finance function. It told me that detailed work is underway to review, revise and update finance policies and procedures and this will be followed up by a significant training programme for all staff to raise financial management awareness. In addition to this the College informed me that the CIP set out a revised structure and staffing model to support and supplement the finance function, and that implementation of this is underway as part of the wider college restructuring programme.

5.8.9 BMC made an operating surplus[34] of £116,000 during 2009-10, compared to an operating deficit of £2.6 million in 2008-09. The net cumulative operating deficit since its formation in 2007-08 is £8.8 million. It is important to note that the operating surplus for 2009-10 resulted from a technical accounting adjustment to reflect a decrease of £2.8 million in pension liabilities following the change in pension indexing, from the Retail Price Index to the Consumer Price Index, that was announced in the June 2010 Budget. Without this adjustment the operating deficit for 2009-10 would have been £2.7 million and the cumulative deficit would have been £11.6 million.

5.8.10 The CIP set out a number of efficiency measures that BMC proposes to implement, including changes to the curriculum. In November 2010 the College announced that it expected redundancies of approximately 120 Full Time Equivalents to be necessary. Even with these actions BMC has predicted a deficit of £6.5 million for 2010-11. The Department told me that the Plan, if implemented effectively, aims to achieve significant financial stability by the end of 2012-13 and will, by then, have achieved annual cost savings of over £7 million compared to 2009-10, mainly as a result of efficiencies within staff costs. BMC must meet the challenges from the difficult economic environment to student numbers and from two major capital projects underway for new premises in Titanic Quarter and the E3 (enterprise, employability and entrepreneurship) project on the Springvale campus.

5.8.11 BMC told me that the forecast deficit for 2010-11 was in line with the CIP which did not forecast a college surplus in the first two years. This is due to the time it would take for the impact of the restructuring to be evident in the financial results 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. 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. 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. The College believes that the opening of the Titanic Quarter and E3 premises will enhance the attractiveness of the College, thus supporting recruitment and that these actions will support a return to financial stability for the college within the next two years.

34 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 surplus in 2009-10 was £1.7 million and giving a cumulative Historical Cost deficit of £3.8 million since the College's formation in 2007-08.

Consultancy and staff substitution

5.8.12 I qualified my audit opinions on BMC's 2007-08 and 2008-09 financial statements in respect of consultancy costs which had not received appropriate approval from DFP.

5.8.13 In 2009-10 I found that appropriate Departmental and Department of Finance and Personnel (DFP) approvals were not obtained on another consultancy project. BMC undertook a limited competition to procure consultancy expertise for the development of the CIP and for staff substitution for a senior finance role. The successful contractor quoted £75,000 plus VAT for the consultancy element and £35,000 plus VAT for the staff substitution element. In total this was below the £156,000 threshold above which the services being procured must be advertised in the Official Journal of the European Union (OJEU) in accordance with EU procurement requirements. I noted however that the outturn cost of this work was £195,003 plus VAT in 2009-10 and £30,400 in 2010-11. The increase in cost was due to a change in the scope of the services obtained and an increase in the rates charged for the additional work. The College does not appear to have been aware when originally procuring these services of the extent of the financial challenges it faced and the amount of work required to develop the CIP. I am not of the view that EU procurement requirements have been breached because the College used its best estimate at that time in determining whether advertisement in the OJEU was necessary.

5.8.14 The Department had approached DFP for approval for the consultancy work to be undertaken on the CIP and approval for costs of £75,000 was granted. When BMC realised that additional work would be needed to complete the plan, it forwarded a business case to the Department in April 2010 seeking approval for an extension to the original consultancy contract. However the consultants commenced this additional work in March 2010 before BMC sought approval from DEL. The Department responded in June 2010 that it was unable to support the request and would recommend that the additional work be subject to a further and formal tender exercise. BMC did not notify the Department that additional consultancy costs had been incurred although approval had been refused.

5.8.15 Outturn costs for the consultancy element of this contract totalled £143,102 including irrecoverable VAT, meaning that £54,630 incurred in 2009-10 and £13,472 incurred in 2010-11 was above the level approved by the Department and by DFP and was therefore irregular. Whilst the level of irregularity in 2009-10 has not led me to qualify my audit opinion I am concerned that this is a further example of BMC failing to obtain appropriate approvals for consultancy costs. The College should have identified, much earlier than it did, the risk that extending the contract for the additional consultancy would not be approved and should not have incurred additional expenditure without approval. The size of extension of this contract (105% in total for both consultancy and staff substitution) leads to concerns over value for money in that the additional expenditure was not subject to a competitive tendering process and previous discounted rates were not offered by the contractor.

5.8.16 In my Use of External Consultants by Northern Ireland Departments: Follow Up Report[35], I identified similar examples of consultancy work undertaken where final consultancy costs has significantly exceeded the original costings.

Conclusion

5.8.17 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. I have also decided to conduct a value for money investigation into the Titanic Quarter capital project and will report my findings in due course.

5.9 Northern Ireland Library Authority 2009-2010

5.9.1 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 NILA financial statements for 2009-10 in three respects, which I have set out below.

Heritage Assets: Valuable Books Collections

Background

5.9.2 NILA has included in its financial statements Heritage Assets with a Net Book Value (NBV) of £12.8 million to reflect a valuation by professional valuers in 2006. Heritage assets consist of collections of rare and/or fine books of significant value ('Valuable Books'). Valuable books are not recorded on NILA asset register but are included on a separate system used for recording library book stock (Galaxy). The Education and Library Boards (ELB's) were responsible for libraries prior to the formation of NILA on 1 April 2009 but valuable books 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 Valuable Books collections, transferred to NILA from the five ELB's, are considered a material asset within NILA financial statements.

5.9.3 Prior to the formation of NILA there was no uniform definition of a valuable book or a consistent policy for the valuation of Valuable Books across Northern Ireland. The Belfast ELB only valued books with a value of £250 or greater whereas the other ELB's included a category within their valuations of books valued at less than £250. The total value of those 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 Valuable Books transferred from the Belfast ELB.

35 NIAO Report "Use of External Consultants by Northern Ireland Departments: Follow up Report published 15 June 2011.

5.9.4 NILA provided me with a catalogue report of the items in the Fine Book Room in Belfast Central Library (BCL). This included approximately 11,600 records, which is significantly higher than the number of records included in the 2006 valuation report by Sotheby's. NILA is currently unable to reconcile the two reports. NILA has advised that the room 'contains much more than the valuable books listed on the valuation' and that 'there are many reasons for this including the secure storage of books/pamphlets which are not classified as valuable but may be rare or attractive and require secure storage'. I was unable to determine from the Galaxy report which of the items in the Fine Books Room can be classified as 'valuable', 'rare' or 'attractive' and which ones where include in the 2006 valuation. NILA has confirmed there have been no additions to the Valuable Books collections since 1 April 2009 but is unable to confirm if there had been additions to the collection between the date of the 2006 valuation and the 31 March 2009 transfer to NILA.

5.9.5 The valuation carried out on the BCL valuable books appears to have been a desktop exercise as NILA told me the valuation was 'based solely on descriptions contained in previous valuations dated April 01 and July 2004.' From the records made available to me I was unable to confirm if there have been any additions to the Belfast ELB valuable books collection between 2004 and 2006.

5.9.6 The adoption of an appropriate accounting policy for Valuable Books and its application across all libraries should have been considered during the formation of NILA. In accordance with International Financial Reporting Standards (IFRS) and the Government Financial Reporting Manual (FReM) the next full valuation of Valuable Books is required for 31 March 2011. NILA have however indicated their intention to delay this valuation until March 2012 to allow time to establish a uniform Valuable Books policy across the organisation. I expect the limitation in my audit opinion to remain until the valuation issue is resolved.

5.9.7 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 Valuable Books collections.

Conclusion

5.9.8 As there is significant doubt over the accuracy and completeness of the valuations of valuable books, 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.

Prior year Comparative Information: Vat Debtor and Pension Liability figures

Background

5.9.9 In the 2008 budget statement, the Chancellor of the Exchequer announced the application of IFRS in central government accounts in 2009-10. The Department of Finance & Personnel (DFP) issued guidance requiring Departments and other bodies implementing IFRS in 2009-10 to restate their 2008-09 financial statements onto the revised IFRS basis.

5.9.10 Although established on 1 April 2009, the implementation of IFRS meant that NILA was required to include in its financial statements comparatives figures for all items as at 1 April 2008.

5.9.11 NILA has advised me that the ELB's are unable to identify the VAT Debtor that related to NILA for 1 April 2008 and 31 March 2009 without incurring significant costs. The VAT Debtor at 31 March 2010 was £0.7million.

5.9.12 In addition, with the transfer of the library function from ELB's it was expected that the appropriate portion of the pension liability would be removed from the ELB's' accounts and transferred to NILA in accordance with Machinery of Government guidance. However I was advised by NILA that the Actuary responsible for valuing the pension scheme was unable to provide the necessary comparative information which consists of the value of the liability at 1 April 2008 and the charge to the Operating Cost Statement in 2008-09. The actuary was able to provide a valuation for 1 April 2009 and 31 March 2010. The valuation of the pension liability at 31 March 2010 is £60.9 million and the charge to the OCS in 2009-10 was £2.0 million.

5.9.13 It is my view that these figures would have been available had they been requested from the relevant parties at an early stage in the process of establishing those balances to transfer from ELB's to NILA and in particular recognising the impact of the introduction of IFRS. However, with the availability of complete information for 2009-10 there are no residual issues for 2010-11 with the VAT Debtor and Pension Liability figures and my qualification in this regard would no longer be necessary.

5.9.14 There were no procedures I could have undertaken as part of my audit to satisfy myself regarding absence of:

- the VAT Debtor balances at 1 April 2008 and 31 March 2009; and
- the Pension Liability balance at 1 April 2008 and the charge to the Operating Cost Statement in 2008-09.

In the Statement on Internal Control, the Accounting Officer has referred to the absence of these balances.

Conclusion

5.9.15 I have concluded that financial statements are materially misstated as it is not possible to identify the:

- the VAT Debtor balances at 1 April 2008 and 31 March 2009; and

- the Pension Liability balance at 1 April 2008 and the charge to the Operating Cost Statement in 2008-09.

I have therefore qualified my audit opinion as a result of a limitation in the scope of my audit.

5.10 Child Maintenance and Enforcement Division Client Funds Account 2010-11

Introduction

5.10.1 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.

5.10.2 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 amounts received from non-resident parents and payments made to persons with care together with a statement of cash balances held. 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.

5.10.3 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.

Qualified Audit Opinions

5.10.4 I have qualified my opinion on the following areas:

- on regularity because my examination of maintenance assessments identified cases that have been calculated incorrectly; and

- on the accuracy of the outstanding maintenance arrears at 31 March 2011 as shown in note 6.1. In this case because 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 £81.7 million.

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

Regularity of maintenance assessments

5.10.6 The accuracy of the calculation of maintenance assessments for child support is very important as it forms the basis of the payments made by the non-resident parent to persons with care and also the calculation of amounts due where maintenance arrears build up. In each of the audits by my staff since 1993 of the outstanding maintenance arrears balances and maintenance assessments a significant number of errors have been identified. This year my staff examined 30 cases and of these 13 cases (43 per cent) were found to have errors (2009-10: 70 per cent) due to errors in maintenance calculations, errors in records caused by IT issues and missing case papers. The number of cases my staff examined were not large enough to apply the same level of error to the whole population, but I am satisfied that these errors, in combination with the errors identified in prior years, force me to conclude that the level of error within maintenance assessments is still material.

5.10.7 Examples from the 13 cases found to have errors include:

- In one case which commenced in 1994, I noted that maintenance arrears were overstated by £25,000 as CMED had not implemented an assessment to close a case when the Qualifying Child left the household in 2003; and

- In eight cases which commenced between 1995 and 2003, documentation to support the level of the maintenance assessments was not available. Arrears on these cases ranged from £78 to £58,859 over the period 1994 to 2009.

5.10.8 Of the 13 errors found in the 30 cases examined by my staff, 10 related to the last, i.e. most recent, assessment. In **Figure 17** below I have noted the financial year in which those assessments were carried out.

Figure 17: Errors found in testing

Financial year of most recent assessment	Number of errors
1996-97	2
1998-99	2
2001-02	1
2003-04	1
2004-05	1
2007-08	1
2009-10	2
2010-11	0

5.10.9 It is therefore my opinion that the level of error within the assessments continues to be unacceptable. I asked the Department to comment on these levels of error and the Department told me that it was notable that no errors had been found in respect of assessments relating to the current year 2010-11. The Department said that it was also notable that the majority of errors found related to Old Scheme cases. The Old Scheme was replaced in 2003 primarily because of its complexity and the well recognised fact that this complexity increased the likelihood of error.

5.10.10 CMED carry out their own testing which focuses on the most recent assessment where that occurs in the current year in order to provide an estimate of cash value accuracy in the current year. Their testing carried out in 2010-11 indicated a cash value accuracy level in relation to assessments made in 2010-11 of 96 per cent against a target of 97 per cent (97 per cent in 2009-10). The Department told me that it continues to focus on the accuracy of current work in order to provide management with timely, relevant and independent feedback so that learning and improvement can be progressed. The Department also explained that at key stages of a case, for example prior to referral for enforcement action, a full review of the maintenance assessment and arrears balance is undertaken. The Department also told me that changes to assessments are driven, in the main, by client contact and without notification of a change in circumstances, an assessment may remain at its current level for as long as the case remains open. Where client contact is made, relevant elements of the assessment are brought fully up to date.

Accuracy of maintenance arrears

5.10.11 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 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, disclosed in Note 6.1 of the Account, is therefore derived from the total outstanding maintenance arrears balances recorded on these two systems, in conjunction with a series of complex manual workarounds.

5.10.12 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 I therefore concluded that there is significant uncertainty over the accuracy and completeness of the outstanding maintenance arrears balance of £81.7 million reported in the Account. Consequently I have qualified my audit opinion on the basis that the scope of my audit was limited in this regard. The Department told me that it is currently exploring the potential use of a case by case listing to support the closing maintenance arrears balance in future accounts and will liaise with my staff on progression of this during 2011-12.

Other issues

Statement of Balances

5.10.13 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. The total balance at 31

March 2011 was £854,000. Included within this balance is an amount of £333,000 relating to receipts and payments over a number of years, which, because of inherent system weaknesses, the Department is currently unable to determine who it has been received from or is due to be paid to. It is therefore possible that non-resident parents may have made payments in the past for maintenance which has not yet been paid over to the person with care.

5.10.14 The Department has assured me that there is work ongoing to investigate the issues surrounding the Statement of Balances with the aim of resolving the issue before the end of the current financial year. Whilst I acknowledge that the Department has already made some progress towards providing a full breakdown of the amounts in the Statement of Balances, I am concerned that this issue has still not been resolved. I asked the Department how it intends to ensure that this issue will be satisfactorily resolved and the Department told me that it would be undertaking a further investigation of the issues surrounding the Statement of Balances during 2011-12. Once this work is complete the Department told me that it would then consider whether the remaining balance should be transferred to the consolidated fund.

The level of maintenance arrears and its collectability

5.10.15 The Department is required to disclose the balances outstanding from non-resident parents in respect of maintenance assessments. Where a non-resident parent does not make payments in accordance with the maintenance assessment and 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.

5.10.16 Maintenance arrears outstanding have been accumulating since the inception of child support in 1993 and I note from **Figure 18** below that the level of gross and net maintenance arrears outstanding have continued to increase over the last 4 years. A key recommendation made by the Public Accounts Committee when it examined this area in 2007-08 was for the Department to make more extensive use of the enforcement powers it holds to reduce the levels of outstanding maintenance arrears. I asked the Department what action it has taken in making more use of its enforcement powers and the Department told me that it actively utilises all enforcement powers available to it. During 2010-11 the controlled implementation of Lump Sum Deduction Orders and Regular Deduction Orders continued. The Department also secured improvements in the provision and timing of information available from HMRC leading to an increased number of Deduction from Earnings Orders being issued to employers. The Department told me that it had also progressed improvements in

Figure 18: Levels of outstanding maintenance arrears

	2011 £million	2010 £million	2009 £million	2008 £million	2007 £million
Gross Outstanding maintenance arrears	81.7	80.7	80.9	77.2	71.0
Amounts probably and possibly uncollectable	45.8	45.7	47.6	42.3	41.0
Net Outstanding maintenance arrears likely to be collectable	35.9	35.0	33.3	34.9	30.0

the services provided through Experian for case surveillance and tracewatch and would continue to work closely with the Great Britain Commission to secure additional enforcement powers and improve existing powers in practice.

5.10.17 The outstanding maintenance arrears balance comprises 30,700 individual cases, some dating back to 1993. The Department has estimated that in 2010-11 £45.8 million (2009-10 £45.7 million) is deemed probably and possibly uncollectable. I have asked the Department for their comments on this and they told me that while it continues to attempt to secure all maintenance arrears due, the current reality is that for a large number of cases the Non Resident Parent's financial situation has changed significantly as a result of the current economic environment. In these cases, while the current maintenance assessment reflects the present financial position the options available to the Department for collection of past periods of unpaid maintenance are extremely limited. These limitations have a direct impact on the collectability of maintenance arrears.

5.10.18 In my report last year I expressed disappointment at the low collection target (£2.8 million) stating that the target level continues to fall well short of that which I would consider to be challenging. For 2010-11, the target was also set at £2.8 million, however, this target was not met, with the amount of maintenance arrears collected totalling £2.64 million. With this target it will take the Department over 12 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 has told me that the arrears target for 2010-11 was both realistic and challenging and took into account the removal of compulsion for benefit recipients to use the statutory scheme and the reality of the current economic situation, particularly the impact of short-time working, job losses and lower average salaries. The Department also highlighted the fact that the outstanding maintenance arrears balance represents payments that non resident parents have failed to make for their children and stressed the importance of getting the message across that non payment of Child Maintenance is not acceptable.

Cost of Collection

5.10.19 I have continued to monitor the cost of collection for every £1 collected for Northern Ireland Client Funds because of concerns raised by the Public Accounts Committee in 2007-08. The Department has told me that although the cost of collection has increased from 60 pence in 2009-10 to 65 pence in 2010-11, it was still within its target of 70 pence for 2010-11. I asked the Department why the cost of collection had increased in the year; why a target of 70 pence was set in 2010-11 which had already been achieved in 2009-10; and to benchmark cost of collection performance against other similar organisations. The Department told me that in setting the cost of collection target for 2010-11 it had taken into account the impact of the economic downturn, the increase in the number of non resident parents in receipt of benefit and increased salary costs across the Northern Ireland Civil Service. The Department was therefore pleased that in spite of these conditions a cost of collection of 65 pence against the target of 70 pence had been achieved. The Department also referred to its enhanced remit of promoting financial responsibility and providing information and support which sat outside the statutory maintenance service. The Department also stressed the fact that value for money and efficiency would continue to be a key consideration for the Statutory Service and the potential for benchmarking would be reviewed in this context.

IT Systems

5.10.20 The IT system used by the Department is part of a larger IT system used by the Great Britain child maintenance body and therefore the Department is wholly dependent on improvements initiated there. I note that the child maintenance body in Great Britain has recorded a limited assurance rating against these IT systems in its annual assurance report. The CMED Accounting Officer has drawn attention to this report and assurance rating in her Statement on Internal Control.

Future Developments

5.10.21 The Child Maintenance Act (Northern Ireland) 2008 provides for the introduction of simplified rules for the calculation of maintenance. The new rules will require the development of a new IT system to support them and I note that the Department is working closely with its GB counterparts in developing the new IT system. It is likely that this new system will not be in place until 2012 at the earliest.

5.10.22 The Department for Work and Pensions has recently published a green paper "Strengthening families, promoting personal responsibility: the future of child maintenance". This paper outlines a radical re-shaping of the statutory child maintenance system to better support families going through separation.

Conclusion

5.10.23 I have qualified my audit opinion in respect of my work relating to the outstanding maintenance arrears balance of £81.7 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. I have also qualified my opinion on the regularity of receipts and payments because my examination of maintenance assessments has identified cases that have been calculated incorrectly and therefore do not conform to the authorities which govern them.

5.10.24 The area of Child Support was last examined by the Public Accounts Committee (PAC) in 2007-08 and a number of recommendations were made. The Department has told me that all recommendations have now been implemented. I intend to further examine the Department's success in achieving these recommendations during my audit in 2011-12.

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

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

I welcome the continuing efforts by the Department to address the long-standing problems and I will continue to monitor the impact on performance in future years.

5.11 Northern Ireland Community Relations Council 2009-10

5.11.1 As disclosed more fully in the notes to the financial statements, in July and August 2010 the Northern Ireland Community Relations Council (the Council) was made aware of alleged financial irregularities in two groups which receive public funding.

5.11.2 In relation to the first group, the Council was contacted regarding allegations about the group's financial affairs. The Council commissioned an independent firm of accountants to investigate and report on the allegations. The accountants' findings have been passed to the Police Service of Northern Ireland. The Council has suspended all funding to the group.

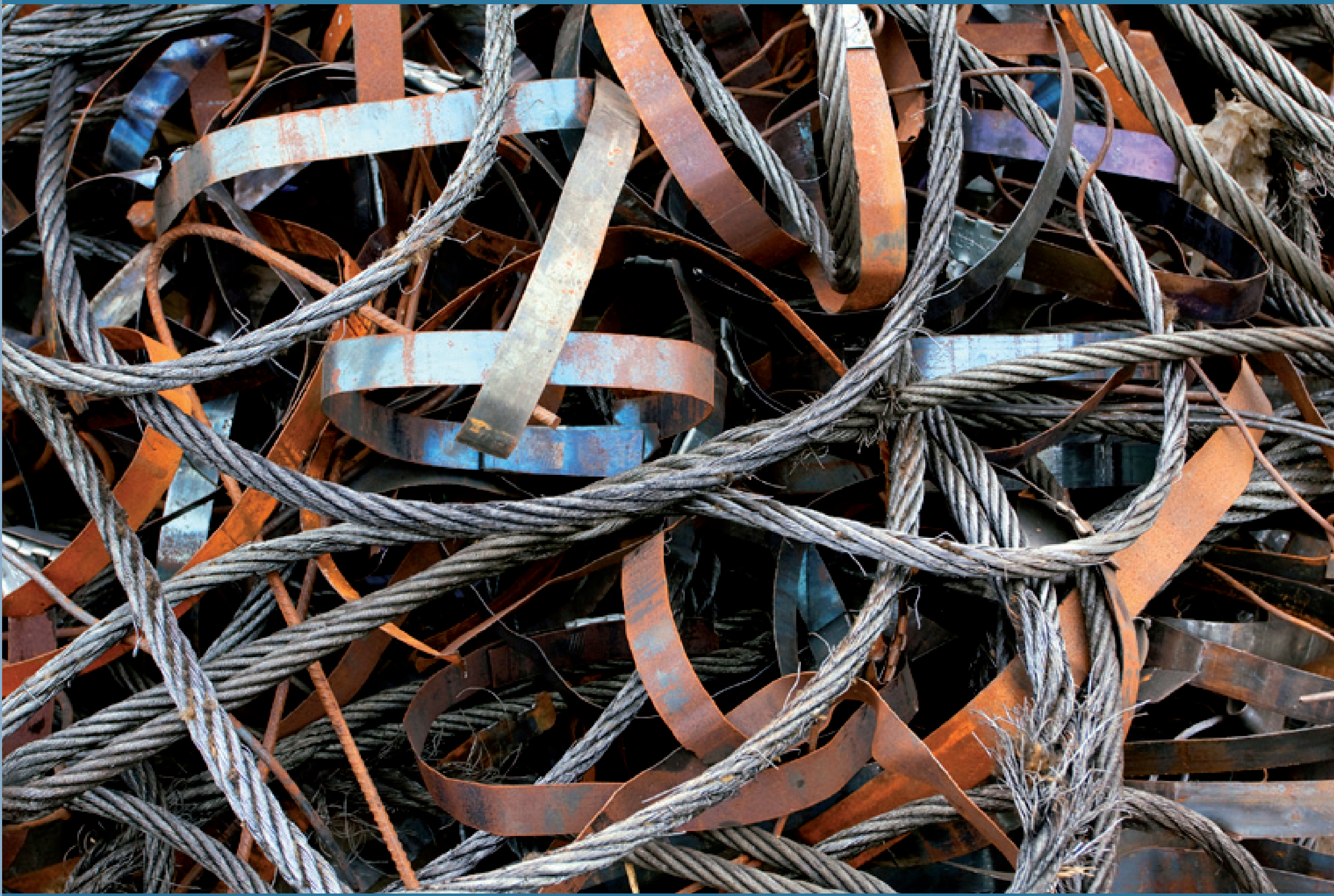
5.11.3 In the case of the second group, the Council is considering legal advice in relation to funding for the group pending the conclusion of an investigation into the allegations made.

5.11.4 If the ongoing investigations into these cases conclude there were financial irregularities this may impact on my audit opinions in future years. I am reporting on these matters at this time as I consider they are of public interest and to ensure transparency to the Northern Ireland Assembly. I will report further in due course, if necessary.

5.12 Roads Service Agency 2010-11

5.12.1 In the Accounting Officer's Statement on Internal Control on page 55 of the financial statements, one of the significant internal control issues noted was that there were two separate land sales made in previous years by the Agency which gave rise to a compensation payment of £170,000 during the year in one case due to a mapping error, and a significant legal claim received in the other case on lands sold that had already been disposed of. I will be monitoring the outcome of this significant legal claim and any potential further loss of public funds. I may report on this matter at a later date.

Section Six:
Other matters



Section Six:
Other matters

6.1 Theft of Fuel, Oil and Metals

Background

6.1.1 Under Managing Public Money Northern Ireland, NICS Departments must report all frauds (proven, suspected and attempted) to both the Department of Finance and Personnel (DFP) and the Northern Ireland Audit Office (NIAO). Frauds reported must include those from agencies and non-departmental public bodies, and those affecting public funds disbursed by voluntary and third party organisations.

Reason for report

6.1.2 DFP's Annual Theft and Fraud Reports have shown a significant increase in the number of frauds categorised as "Theft" in recent years. Between 2007-08 and 2009-10, there was a 36 per cent increase in the number of theft cases notified to, and reported by, DFP. In both its 2008-09 and 2009-10 Annual Theft and Fraud Reports, DFP highlighted the risk of fuel thefts and the need for robust physical controls over fuel stores and oil tanks. DFP has also raised this issue at the NICS Fraud Forum.

6.1.3 More than half of fraud cases reported to NIAO during 2010-11 related to "Theft". Specifically, 37 cases were thefts of fuel or oil, and metals such as roof lead and copper piping.

6.1.4 This short report sets out the volume, value and location of such thefts, the possible reasons for this trend and highlights good practice guidance that can be adopted to minimise the risk of such thefts.

Findings

6.1.5 **Figure 19** summarises the 37 incidents of metal and fuel thefts reported to NIAO during 2010-11. The loss attributed to these thefts is estimated at approximately £63,000, although this is likely to be an under-estimate as in four cases the amount of loss was not quantified. The notifications affect a range of bodies and include repeat losses of fuel from a small number of premises, which may indicate that inadequate follow-up measures have been taken to prevent further thefts.

6.1.6 It is also worth noting that the figures for estimated loss include only the value of the fuel, oil or metal stolen and do not include the cost of repairs to damaged property, replacement of locks, and other repairs or measures required as a result of the thefts.

6.1.7 The theft of fuel, oil and metals has continued in 2011-12, with 12 incidents reported in the first quarter. Half of these incidents, with an estimated total value of £3,677, related to the theft of roofing lead and occurred within one organisation.

Reasons for trend

6.1.8 Generally, as the price of a commodity increases, so its attractiveness to criminals also increases, and this has been one of the main reasons for the growing trend in fuel, oil and metal

Figure 19: Summary of notified fuel/metal thefts 2010-11

Type of theft	Number of incidents	Estimated Value £	Bodies affected	Type of location
Heating Oil	12	19,557	Education, Health	Schools/hospital
Vehicle Fuel	6	438	Education, Health, Regional Development	Vehicle depot/hospitals
Sub-total fuel/oil	***18***	***19,995***		
Roofing Lead	3	13,500	Education, Health, NI Water	Works depot/office buildings
Copper	12	27,650	NI Water, Health	Transport depot/hospital/radio mast sites
Other Metals	4	2,080	Health, NI Water, Translink	Ambulance station/water treatment works/railway
Sub-total metal	***19***	***43,230***		
Total	**37**	**63,225**		

Source: Departments

thefts. International metal prices have been driven up by demand from fast growing economies such as China and India. As a result, scrap metal is also becoming more valuable.

6.1.9 Recent figures from the Police Service of Northern Ireland (PSNI) show that during 2010-11, 158 burglary, robbery or theft offences involving lead were recorded, with a total estimated value of over £53,000. This was more than double the number of similar offences recorded in 2009-10 (74).

6.1.10 Another possible factor in these thefts is the tight economic climate. For example, people may not be able to afford heating oil at market prices and may seek a supply from other sources, which encourages criminals to seek to satisfy this demand, or criminals may keep the stolen oil for their own use. PSNI figures show that Northern Ireland, which has the highest prevalence of oil heating in the UK, experienced 727 occurrences of heating oil theft during 2010, an increase of 11 per cent on the previous year compared with a four per cent increase for the UK as a whole.

Section Six:
Other matters

Figure 20 – Trends in fuel and scrap metal prices

	March 2009	March 2010	March 2011	% increase
Heating oil (900 litres)	£308	£414	£547	+77.6
Fuel oil (per litre)	97p	119p	137p	+41.2
Lead scrap (per tonne)	£500	£900	£1,050	+110
Heavy copper (per tonne)	£1,900	£3,800	£4,800	+153
Copper cable (per tonne)	£700	£1,200	£1,400	+100

Sources: NI Consumer Council price archive for heating/fuel oil prices; Letsrecycle.com for metal prices (recycling and waste management information site for councils and businesses)

6.1.11 **Figure 20** demonstrates the very significant increases in oil and scrap metal prices in recent years.

Good Practice Guidance

6.1.12 In its Annual Theft and Fraud Report, DFP gives guidance on minimising the risk of theft of assets, and highlights the need for measures such as: appropriate physical security e.g. fences, locks, and access controls such as key pads; asset registers; tagging or security marking of items; and regular stock checks/verification.

6.1.13 In relation to thefts of fuel or oil, the most appropriate measures will include physical security of the oil tank or other fuel and oil storage facilities, and regular stock checks. In addition, usage records will help indicate unusual patterns which might indicate that oil or fuel has been stolen. In relation to thefts of metals, a range of measures may be appropriate depending on the nature of the asset in question.

6.1.14 Given the UK-wide proliferation of these types of thefts, a range of bodies, such as insurance companies and police forces, have compiled good practice guidance aimed at addressing the growing risk. **Figures 21** and **22** summarise the main measures that can be taken. All public sector bodies should consider how they might adopt these measures in order to combat this growing area of crime.

Conclusion

6.1.15 It is clear that the theft of fuel, oil and metals is a growing problem which affects bodies across the public sector. It is disappointing that the notifications highlight a number of instances of repeat thefts from the same premises, which indicates a need for more to be done to counteract the risk of these thefts. A range of measures, some with little or no cost implications, can be employed to reduce the risk. I would encourage bodies to consider the measures outlined above. I will continue to monitor these thefts.

Figure 21: Measures to combat theft of metals

- Remove any easy access onto roofs, such as wheelie bins, ladders, nearby trees.
- Keep gates locked and restrict vehicle access.
- Consider removing bushes and other hiding places.
- Maximise surveillance by installing floodlighting and/or CCTV.
- Encourage members of the community to keep a watchful eye and report suspicious activity.
- Apply anti-climb paint to drain pipes and roof guttering.
- Protect the lower section of lightning conductor ribbons using a metal cage or sheath securely fixed to the building fabric.
- Consider the use of chemical DNA products on any exposed metal and erect deterrent warning signs to indicate that everything is DNA marked.

Figure 22: Measures to combat theft of fuel/oil

- Monitor the level of fuel regularly.
- Fit a close shackle padlock to the filler cap and drain cap.
- Install security lights.
- Install an oil tank alarm that alerts when oil is being lost at a faster rate than would otherwise be expected.
- Consider having an infra-red alarm fitted.
- Consider installing CCTV
- Conceal the location of the tank by using fencing, or walling.
- Ensure access gates are locked.
- Be vigilant and report any suspicious activity.

NIAO Reports 2010-2011

Title	Date Published
2010	
Campsie Office Accommodation and Synergy e-Business Incubator (SeBI)	24 March 2010
Organised Crime: developments since the Northern Ireland Affairs Committee Report 2006	1 April 2010
Memorandum to the Committee of Public Accounts from the Comptroller and Auditor General for Northern Ireland: Combating organised crime	1 April 2010
Improving public sector efficiency - Good practice checklist for public bodies	19 May 2010
The Management of Substitution Cover for Teachers: Follow-up Report	26 May 2010
Measuring the Performance of NI Water	16 June 2010
Schools' Views of their Education and Library Board 2009	28 June 2010
General Report on the Health and Social Care Sector by the Comptroller and Auditor General for Northern Ireland – 2009	30 June 2010
Financial Auditing and Reporting - Report to the Northern Ireland Assembly by the Comptroller and Auditor General 2009	7 July 2010
School Design and Delivery	25 August 2010
Report on the Quality of School Design for NI Audit Office	6 September 2010
Review of the Health and Safety Executive for Northern Ireland	8 September 2010
Creating Effective Partnerships between Government and the Voluntary and Community Sector	15 September 2010
CORE: A case study in the management and control of a local economic development initiative	27 October 2010
Arrangements for Ensuring the Quality of Care in Homes for Older People	8 December 2010
Examination of Procurement Breaches in Northern Ireland Water	14 December 2010
General Report by the Comptroller and Auditor General for Northern Ireland - 2010	22 December 2010

Title	Date Published
2011	
Compensation Recovery Unit – Maximising the Recovery of Social Security Benefits and Health Service Costs from Compensators	26 January 2011
National Fraud Initiative 2008 - 09	16 February 2011
Uptake of Benefits by Pensioners	23 February 2011
Safeguarding Northern Ireland's Listed Buildings	2 March 2011
Reducing Water Pollution from Agricultural Sources: The Farm Nutrient Management Scheme	9 March 2011
Promoting Good Nutrition through Healthy School Meals	16 March 2011
Continuous improvement arrangements in the Northern Ireland Policing Board	25 May 2011
Good practice in risk management	8 June 2011
Use of External Consultants by Northern Ireland Departments: Follow-up Report	15 June 2011
Managing Criminal Legal Aid	29 June 2011
The Use of locum doctors by Northern Ireland Hospitals	1 July 2011

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